恒實礦業
HENGSHI MINING

恒實礦業投資有限公司
HENGSHI MINING INVESTMENTS LIMITED

(Incorporated in the British Virgin Islands and continued in the Cayman Islands with limited liability)

Stock Code: 1370

INTERIM REPORT 2017

CORE VALUE

- Create Wealth for the Society
- Create Value for our Shareholders
- Create Prospects for our Employees

CONTENT

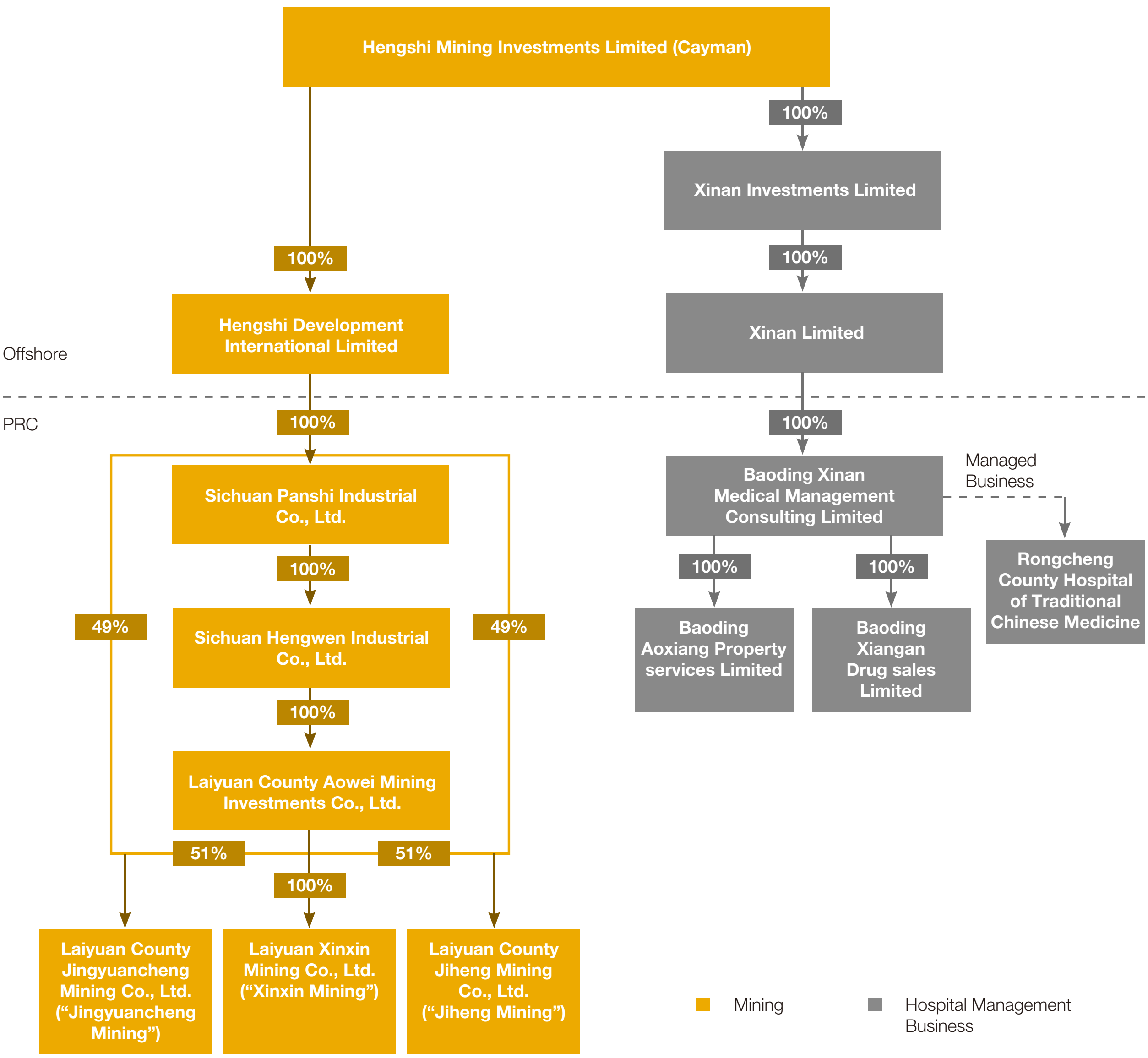
CORPORATE INFORMATION

Hengshi Mining Investments Limited (the "Company") was initially incorporated in the British Virgin Islands under the laws of the British Virgin Islands on 14 January 2011 and redomiciled to the Cayman Islands on 23 May 2013. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 November 2013 (stock code: 1370).

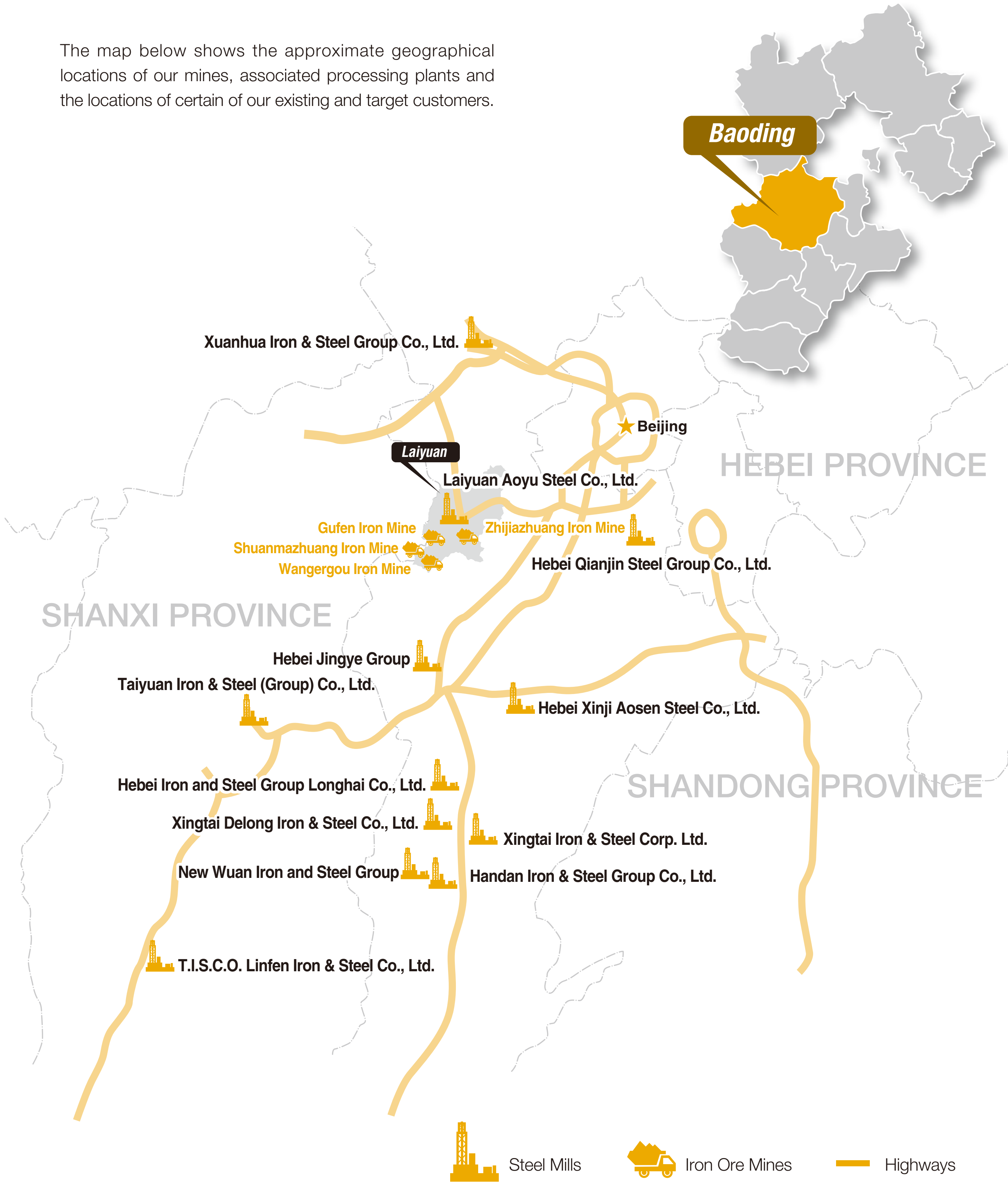
The Company and its subsidiaries (collectively, the "Group" or "we" or "our") are principally engaged in the exploration, mining, processing and trading of iron ore products and major products include iron ores, preliminary concentrates and iron ore concentrates. The Group owns and operates four mines in Hebei Province, which has the largest steel production and iron ore consumption volumes in the People's Republic of China (the "PRC" or "China").

The Company completed the acquisition of the entire issued share capital of Xinan Investments Limited (the"Acquisition") on 13 July 2016. Xinan Investments Limited and its subsidiary (collectively, the "Target Group") are principally engaged in hospital management business.

After the completion of the Acquisition, the Group principally engaged in two major business, namely mining, processing and trading iron ore products and provision of hospital management service.



The map below shows the approximate geographical locations of our mines, associated processing plants and the locations of certain of our existing and target customers.



Corporate Information

COMPANY'S STATUTORY CHINESE NAME
恒實礦業投資有限公司

COMPANY'S STATUTORY ENGLISH NAME
Hengshi Mining Investments Limited

STOCK CODE
01370

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Hong Kong

AUTHORIZED REPRESENTATIVES
Mr. Li Yanjun
Ms. Kwong Yin Ping, Yvonne

JOINT COMPANY SECRETARIES
Mr. Meng Ziheng
Ms. Kwong Yin Ping, Yvonne

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HONG KONG LEGAL ADVISOR
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HONG KONG SHARE REGISTRAR
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Hong Kong

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DIRECTORS
Executive Directors
Mr. Li Yanjun (Chairman)
Mr. Leung Hongying Li Ziwei (also known as Li Ziwei) (Vice Chairman)
Mr. Huang Kai (CEO)
Mr. Sun Jianhua (CFO)
Mr. Li Jinsheng
Mr. Tu Quanping

Independent Non-executive Directors
Mr. Ge Xinjian
Mr. Meng Likun
Mr. Kong Chi Mo

AUDIT COMMITTEE
Mr. Ge Xinjian (Chairman)
Mr. Meng Likun
Mr. Kong Chi Mo

REMUNERATION COMMITTEE
Mr. Meng Likun (Chairman)
Mr. Leung Hongying Li Ziwei (also known as Li Ziwei)
Mr. Ge Xinjian

NOMINATION COMMITTEE
Mr. Li Yanjun (Chairman)
Mr. Meng Likun
Mr. Kong Chi Mo

FINANCIAL HIGHLIGHTS

The revenue of the Group in the first half of 2017 (the "Reporting Period") was approximately RMB396.2 million, representing an increase of approximately RMB70.6 million or 21.7% as compared with the corresponding period last year.

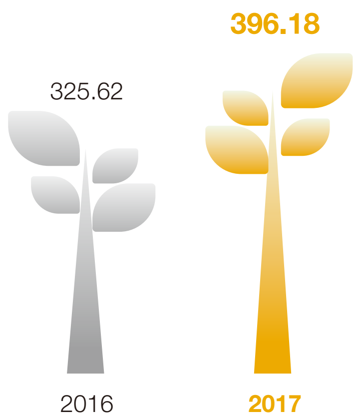
The Group's gross profit was approximately RMB117.2 million in the first half of 2017, representing an increase of approximately RMB19.7 million or 20.2% as compared with the corresponding period last year; the Group's gross profit margin in the first half of 2017 was approximately 29.6% remains stable as compared with the corresponding period last year.

The Group's profit for the period in the first half of 2017 amounted to approximately RMB12.1 million, representing an increase of approximately RMB5.1 million or 72.8% as compared with the corresponding period last year.

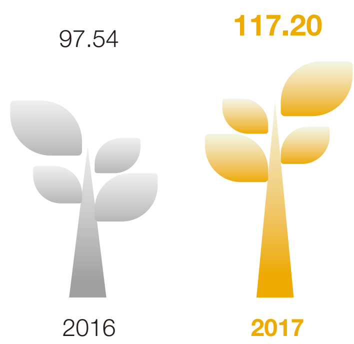
The basic earnings per share attributable to equity holders of the Company's ordinary shares were RMB0.74 cents per share, representing an increase of RMB0.28 cents per share as compared with the corresponding period last year.

The board (the "Board") of directors (the "Directors") of the Company does not recommend the payment of any interim dividend for the Reporting Period.

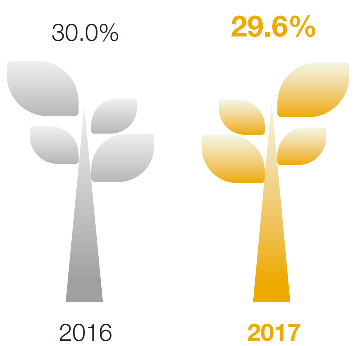
REVENUE (RMB million)
for the six months ended 30 June



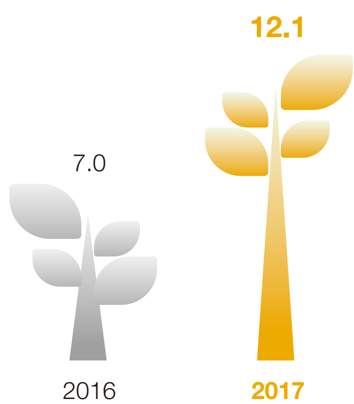
GROSS PROFIT (RMB million)
for the six months ended 30 June



GROSS PROFIT MARGIN
for the six months ended 30 June



PROFIT FOR THE PERIOD (RMB million)
for the six months ended 30 June



MANAGEMENT DISCUSSION AND ANALYSIS

MINING SERVICE

Market Review

In the first half of 2017, with the implementation of the supply side reform of the steel industry and reduction of excess production capacity, the operation environment of the steel industry has experienced an evident improvement. In 2017, the target crude steel productivity to be shut down is 50 million tons, and the “ground steel” has been fully banned before 30 June 2017. As at the end of May 2017, 42.39 million tons of crude steel capacity has been shut down in the whole country, amounting to 84.8% of the year’s target. Over 600 “ground steel” enterprises have been checked out, which amounted to a capacity of 120 million tons. These “ground steel” enterprises have discontinued production and electricity and water supply of these enterprises have been cut off according to the requirements of “four complete dismantle”.

The improvement of operation environment has brought a significant growth to the profitability of steel enterprises of PRC. According to National Bureau of Statistics, the revenue of black metals smelting and rolling processing industry amounted to approximately RMB3025.84 billion, representing a year-on-year growth of approximately 23.3% for the period from January to May 2017, and the total net profit amounted to approximately RMB105.31 billion, a year-on-year growth of approximately 93.5%.

Meanwhile, steel output from PRC has been rising. According to the National Bureau of Statistics, in the first half of 2017, Chinese crude steel output from PRC has amounted to 419.75 million tons in total, representing a year-on-year growth of 4.6%; total output of steel has amounted to 551.55 million tons, representing a year-on-year growth of 1.1%, which demonstrates that during the process of production capacity reduction and ban on “ground steel”, the steel industry is gradually moving towards to regular production. In addition, stimulated by improving profitability, the productive efficiency of steel enterprises is also rising.

The continuous recovery from the downstream steel industry and steady increase of steel output have brought an escalation of the price of iron ore. However, the sustained expansion of production of overseas iron ore enterprises has made the global iron market’s supply excessing the demand, which led the iron ore price fluctuate significantly in the first half of 2017. The Platts 62% index rose from US$78/ton early this year to US$95/ton in March 2017, and then went down to the low point of US$55/ton in June 2017. Meanwhile, the stock storage of iron ore in China’s ports has also reached a historical high of 142 million tons.

In conclusion, though there are some positive signs in the market, the management of the Group is still cautiously optimistic about the iron ore markets.

Business Review

In the first half of 2017, the Group's revenue has recorded a period-on-period growth of approximately 21.7% to approximately RMB396.2 million, mainly attributable to the significant rise of the average selling price of iron ore concentrates. The gross profit was approximately RMB117.2 million, representing an increase of approximately RMB19.7 million as compared with the corresponding period last year, and the gross profit margin was 29.6%. After comprehensive consideration of the sustainable mining and safety factors, Jiheng Mining and Jingyuancheng Mining adjusted production plan which had increased the stripping ratio and decreased the grade of the produced iron ores, resulting in the rise of per unit cash cost.

In the first half of 2017, production of iron ore concentrates amounted to approximately 749.6 thousand tons (corresponding period last year: approximately 836.5 thousand tons), representing a period-on-period decrease of approximately 10.4%; sales of iron ore concentrates amounted to approximately 765.3 thousand tons (corresponding period last year: approximately 891.6 thousand tons), representing a period-on-period decrease of approximately 14.2%. The average unit cash operating cost was approximately RMB310.2/ton (corresponding period last year: approximately RMB210.4/ton), representing a period-on-period increase of approximately 47.4%. The average unit cash operating cost of Jiheng Mining was approximately RMB219.6/ton, and that of Jingyuancheng Mining was approximately RMB420.6/ton.

The following table sets forth a breakdown of the production and sales volume of each of the operating subsidiaries of the Group:

	For the 6 months ended 30 June			For the 6 months ended 30 June			For the 6 months ended 30 June		
	Output (Kt)			Sales Volume (Kt)			Average Sales Price (RMB)		
The Group	2017	2016	% change	2017	2016	% change	2017	2016	% change
Jiheng Mining[1]	411.72	543.89	–24.30%	413.83	553.12	–25.18%	483.73	329.88	46.64%
Jingyuancheng Mining[2]	337.85	292.65	15.45%	351.47	330.29	6.41%	557.34	388.79	43.35%
Xinxin Mining	–	–	N/A	N/A	8.18	N/A	N/A	320.00	N/A
Total Iron ore concentrates	749.57	836.54	–10.40%	765.30	891.59	–14.16%	517.54	353.47	46.42%

Notes:

(1) The TFe grade of iron ore concentrates sold by Jiheng Mining was 63%.

(2) The TFe grade of iron ore concentrates sold by Jingyuancheng Mining was 66%.

MINES IN OPERATION

Zhijiazhuang Mine

Zhijiazhuang Mine, which is wholly owned and operated by the Group's wholly owned subsidiary, Jiheng Mining, is located in Yangjiazhuang Village, Laiyuan County, the PRC. It has an area of 0.3337 sq.km. covered by its mining permit and has comprehensive basic infrastructures such as water, electricity, highway and railway, etc. The annual mining capacity of Zhijiazhuang Mine was 3.3 Mtpa, and the dry processing capacity and the wet processing capacity were 4.2 Mtpa and 1.8 Mtpa respectively, as at 30 June 2017.

Zhijiazhuang Mine had not conducted new exploration activities during the Reporting Period, and had no exploration expenses.

The following table sets forth a breakdown of production of Zhijiazhuang Mine:

		For the six months ended 30 June		
Item	**Unit**	**2017**	2016	% change
Mine				
Of which: (≥8%) raw ores	Kt	**1,494.59**	2,015.92	–25.86%
Stripping in production	Kt	**1,073.88**	1,338.70	–19.78%
Stripping ratio in production	t/t	**0.72**	0.66	9.09%
Dry processing				
Raw ore feed	Kt	**1,924.37**	2,091.19	–7.98%
Preliminary concentrates output	Kt	**810.53**	1,234.80	–34.36%
By-product feed/preliminary concentrates output	t/t	**2.37**	1.69	40.24%
Wet processing				
Preliminary concentrates feed	Kt	**833.00**	952.39	–12.54%
Iron ore concentrates output	Kt	**411.72**	543.89	–24.30%
Preliminary concentrates feed/iron ore concentrates output	t/t	**2.02**	1.75	15.43%

The following table sets forth a breakdown of the cash operating costs of the products of Zhijiazhuang Mine:

Iron ore concentrates

	For the six months ended 30 June		
Unit: RMB per ton	**2017**	2016	% Change
Mining costs	**98.70**	49.09	101.06%
Dry processing costs	**20.43**	13.85	47.51%
Wet processing costs	**56.80**	45.51	24.81%
Administrative expenses	**24.75**	23.32	6.13%
Distribution costs	**–**	2.87	–100.00%
Taxation	**18.90**	11.94	58.29%
In total	**219.58**	146.58	49.80%

The increase in the cash operating cost of the iron ore concentrates was mainly due to the adjustment of the production plan according to the mine's field conditions by Jiheng Mining, which decreased the production and reduced mining grade iron ores produced, and increased the stripping ratio.

Wang'ergou Mine and Shuanmazhuang Mine

Wang'ergou Mine and Shuanmazhuang Mine, which are both wholly owned and operated by our wholly owned subsidiary, Jingyuancheng Mining, are located in Zoumayi Village, Laiyuan County, the PRC. The areas covered by the mining licenses for Wang'ergou Mine and Shuanmazhuang Mine are 1.5287 sq.km. and 2.1871 sq.km. respectively. Wang'ergou and Shuanmazhuang have comprehensive basic infrastructures such as water, electricity and highway. As at 30 June 2017, the aggregate annual mining capacity of Wang'ergou Mine and Shuanmazhuang Mine was 14.0 Mtpa, and the dry processing capacity and wet processing capacity were 17.6 Mtpa and 3.5 Mtpa, respectively.

Wang'ergou Mine and Shuanmazhuang Mine had not conducted new exploration activities during the Reporting Period, and had no exploration expenses.

The following table sets forth a breakdown of the production of Wang'ergou Mine and Shuanmazhuang Mine:

		For the six months ended 30 June		
Item	**Unit**	**2017**	2016	% change
Mine				
Ore production	Kt	**6,400.16**	4,192.27	52.67%
Stripping in production	Kt	**2,473.74**	1,440.65	71.71%
Stripping ratio in production	t/t	**0.39**	0.34	14.71%
Dry processing				
Raw ore feed	Kt	**6,470.45**	4,463.27	44.97%
Preliminary concentrates output	Kt	**1,117.68**	822.35	35.91%
By-product feed/preliminary concentrates output	t/t	**5.79**	5.43	6.63%
Wet processing				
Preliminary concentrates feed	Kt	**1,101.38**	834.85	31.93%
Iron ore concentrates output	Kt	**337.85**	292.65	15.45%
Preliminary concentrates feed/iron ore concentrates output	t/t	**3.26**	2.85	14.39%

The following table sets forth a breakdown of the cash operating costs of the products of Wang'ergou Mine and Shuanmazhuang Mine:

Iron ore concentrates

	For the six months ended 30 June		
Unit: RMB per ton	**2017**	2016	% Change
Mining costs	**204.46**	142.57	43.41%
Dry processing costs	**101.00**	69.04	46.29%
Wet processing costs	**59.78**	50.69	17.93%
Administrative expenses	**24.10**	41.32	–41.67%
Distribution costs	**9.82**	8.98	9.35%
Taxation	**21.37**	16.54	29.20%
In total	**420.53**	329.14	27.78%

The increase in the cash operating cost of the iron ore concentrates was mainly due to the adjustment of the production plan by Jingyuancheng Mining, which reduced the mining grade of the iron ores produced, and increased the stripping ratio.

Gufen Mine

Gufen Mine, which is operated by our wholly owned subsidiary, Xinxin Mining, is located in Shuibao Village, Laiyuan County, the PRC and the area covered by the mining right for Gufen Mine is 1.3821 sq.km. Gufen Mine has comprehensive basic infrastructures such as water, electricity and highway, etc. As at 30 June 2017, Gufen Mine's annual mining capacity was 3.90 Mtpa, and the dry processing capacity and the wet processing capacity was 5.75 Mtpa and 1.60 Mtpa, respectively.

At the end of 2015, since the domestic and global price of iron ore remained low, the management of the Group decided to temporarily suspend the production of Xinxin Mining after considering the market outlook, the production and operation of Xinxin Mining, especially the relationship between the mining, processing costs and the expected selling price and its percentage in the whole business.

In the first half of 2017, although there was a significant increase of the average selling price of the iron ore, the price level remained fluctuating and unstable, with the Platts 62% index decreased from US$95/ton in March 2017 to US$55/ton in June 2017. Based on the factors set out above, and upon consideration of the profit and risk of the resumption plan of the relatively small-scale Xinxin Mining's production, the Group decided to let the mining and processing activities of Xinxin Mining remain suspended. The Group will make prudent arrangement in accordance with the market change and business development.

MEDICAL SERVICE

Market Review

The year of 2017 is an important year to implement the deep reform of the medical and healthcare system in the 13th Five-year Plan. The Chinese government has announced series of healthcare reform policies in an effort accelerating the pace of reform of healthcare system. For instance, on 21 February 2017, the National Health and Family Planning Commission announced the "Decisions to Revise the Implementing Rules of Healthcare Institutions" (No. 12 Order of the National Health and Family Planning Commission); on 25 April 2017, General Office of the State Council announced the "Key Tasks to Deepen the Reform of Healthcare System, 2017". These new policies have effectively supported the doctor's multi-point practice and free practice, brought initiative of the doctors in providing healthcare service, encouraged private capital to invest in healthcare industry, which accelerated the development of healthcare services to accommodate the diversified, multi-level need of healthcare and aroused the initiative and innovation of the social forces to participated in the healthcare services. Meanwhile, thanks to increasing consumption, aging population and full implementation of the two-child policy, it is expected that the demand for healthcare services will continue to increase. We believe this will be an important development opportunity for the healthcare industry.

Business Review

After the completion of the acquisition on 13 July 2016 (the particulars of which are set out more clearly in the announcement dated 5 and 13 July 2016), the Group possessed hospital management business. The hospital management business is mainly operated by the Group's subsidiary Baoding Xinan Medical Management Consulting Limited (Baoding Xinan).

Baoding Xinan was incorporated in Hebei province, China on 20 June 2016 with limited liability and is principally engaged in medical management consulting (excluding medical diagnosis) and corporate management consulting (excluding intermediary services).

On 21 June 2016, Baoding Xinan has entered into the Agreement on Management of Rongcheng County Hospital of Traditional Chinese Medicine ("Entrusted Hospital") (《托管經營容城縣中醫醫院的合作協議書》) with the Healthcare and Family Planning Bureau of Rongcheng County, Baoding, Hebei Province relating to the management of the Rongcheng County Hospital of Traditional Chinese Medicine and the Management Agreement with Rongcheng County Hospital of Traditional Chinese Medicine (《托管協議書》) relating to the management. The Entrusted Hospital was established in 1987. In 1994, the Entrusted Hospital set up a 120 Emergency Call Center in Rongcheng County. The Entrusted Hospital has a total area of approximately 9,000 square meters, of which approximately 8,550 square meters are floor area. The Entrusted Hospital has 192 employees in total, among which 156 employees are healthcare personnel. The Entrusted Hospital has 150 beds in total and 13 first-level clinical departments.

In the first half of 2017, the Group was committed to establishing a medical management team, and at the same time, it continued to employ teams of experts for the Entrusted Hospital, in order to strengthen the management and operation capabilities of the medical institution, enhance the overall medical technology level of the Entrusted Hospital and provide better and quality services to the patients, so as to create long-term stable return for the Shareholders.

In the first half of 2017, the number of patient consultation visits of the Entrusted Hospital was approximately 43,007 times, which increased by approximately 7,219 times compared to the corresponding period of the last year; incomes from clinic and hospital fees were approximately RMB14.6 million, which increased by approximately RMB1.3 million compared to the corresponding period last year.

The following table sets forth the specific operating data of our medical institutions managed by the Group:

Rongcheng County Hospital of Traditional Chinese Medicine

		For the six months ended 30 June		
Item	**Unit**	**2017**	2016	% change
Patient visits	times	**43,007**	35,788	20.17%
Inpatient visits	times	**1,494**	1,501	–0.47%
Outpatient visits	times	**41,513**	34,287	21.08%
Average spending per inpatient visit	RMB	**4,804.5**	4,712.7	1.95%
Average spending per outpatient visit	RMB	**177.0**	172.8	2.43%
Average length of stay	day	**6.6**	6.5	1.54%
Number of beds in operation	bed	**150**	150	–

SAFETY AND ENVIRONMENTAL PROTECTION

The Group established a production safety management department specifically responsible for production safety and management. This department has been consistently promoting safety standards and strengthening environmental protection policies so as to develop the Group into a socially responsible enterprise with high safety awareness. During the first half of 2017, the Group recorded no significant safety accident. Owing to the deteriorating air quality in Mainland China, especially in Hebei Province, it is anticipated that the Chinese government will inevitably tighten the relevant environmental policies over steelmaking, cement production and other high-pollution industries. To mitigate the potential impact of the policies to our business, the Group will closely monitor the latest regulatory requirements and introduce appropriate environmental measures to our operation and production from time to time.

FINANCIAL REVIEW

Revenue

The revenue of the Group in the first half of 2017 was approximately RMB396.2 million, representing an increase of approximately RMB70.6 million or 21.7% as compared with the corresponding period last year. The main reason for the increase was the significant increase of the average selling price of the iron ore concentrates during the Reporting Period, which representing an increase of approximately 46.4% as compared with the corresponding period last year, and the effect had been partially offset by a decrease of approximately 126.3 kt or 14.2% of the iron ore concentrates' sales volume.

Cost of sales

The Group's cost of sales in the first half of 2017 was approximately RMB279.0 million, representing an increase of approximately RMB50.9 million or 22.3% as compared with the corresponding period last year, which was mainly due to the adjustment of the mines production plan that increased the stripping ratio, resulting in the rise of the unit cost of iron ore concentrates.

Gross profit and gross profit margin

The Group's gross profit was approximately RMB117.2 million in the first half of 2017, representing an increase of approximately RMB19.7 million or 20.2% as compared with the corresponding period last year, mainly due to the increase in the average unit selling price of the Group's iron ore concentrates; The Group's gross profit margin in the first half of 2017 was approximately 29.6%, which remains stable as compared to the corresponding period last year.

Distribution costs

The Group's distribution costs in the first half of 2017 was approximately RMB3.3 million, representing a decrease of approximately RMB1.0 million or 23.6% as compared with the corresponding period last year, which was mainly due to the decrease of the total volume of the products that the Group was responsible for the delivery costs.

Administrative expenses

The Group's administrative expenses were approximately RMB38.1 million in the first half of 2017, representing a decrease of approximately RMB12.5 million or 24.7% as compared with the corresponding period last year. Administrative expenses include salaries paid to the management and administrative staff of the Group, depreciation and amortization, rental and office expenses, business development expenses, professional consulting and services expenses, taxation expenses, bank commissions, provision for impairment of inventories, the provision for bad debts and other expenses.

Impairment losses

The Group recorded an impairment loss of approximately RMB24.5 million in the first half of 2017, which was based on the recoverable amount as at of 30 June 2017 of the related assets valued at the end of the Reporting Period. Since Xinxin Mining postponed the mining plan in the first half of 2017, the Group recognized the losses of approximately RMB9.6 million and approximately RMB4.4 million for its property, plants and equipment and intangible assets respectively. As to the hospital management business of Xinan Investments Limited and its subsidiaries, an impairment loss of approximately RMB10.5 million was recognized in the first half of 2017 according to its recoverable amount which was determined based on the calculation of its value in use.

Finance costs

The Group's finance costs in the first half of 2017 were approximately RMB25.9 million, representing an increase of approximately RMB1.6 million or 6.7% as compared with the corresponding period last year. The increase is mainly due to the increase of the Group's bank borrowings during the Reporting Period. Finance costs include interest expenses of bank borrowings, discounted expenses, other finance expenses and amortization of discounted expenses of long-term payables.

Income tax expenses

The Group's income tax expenses in the first half of 2017 were approximately RMB15.8 million, while the income tax expenses for the corresponding period last year were approximately RMB14.2 million. Income tax comprises current tax payable and deferred tax, including (1) current tax payable of approximately RMB27.9 million; (2) in the first half of 2017, the deferred tax credits of approximately RMB12.1 million which arose from the provision of impairment of long-term assets including property, plant and equipment, and intangible assets of Xinxin Mining for the period.

Profit for the Reporting Period, total comprehensive income of the Group for the Reporting Period

Based on the above reasons, the Group's profit for the period in the first half of 2017 amounted to approximately RMB12.1 million, representing an increase of approximately RMB5.1 million or 72.8% as compared with the corresponding period last year. The Group's net profit ratio was approximately 3.1% for the first half year of 2017, while that of the corresponding period last year was approximately 2.2%.

Properties, plants and equipment

The net value of the Group's property, plant and equipment amounted to approximately RMB802.8 million as at 30 June 2017, representing a decrease of approximately RMB35.8 million or 4.3% as compared with the end of last year, which was mainly due to (1) the accrued depreciation of the plant and equipment of the Group, and (2) the provision of impairment of property, plant and equipment of Xinxin Mining.

Intangible assets and goodwill

Intangible assets of the Group mainly include mining rights and related premium paid to obtain the mining rights, and the hospital management right newly acquired. As at 30 June 2017, the net intangible assets of the Group were approximately RMB731.6 million. Goodwill was approximately RMB62.9 million.

Inventories

Inventories of the Group amounted to approximately RMB93.6 million as at 30 June 2017, representing a decrease of approximately RMB12.6 million or 11.9% as compared with the end of last year. The decrease was mainly due to the adjustment of the production plan of Jiheng Mining of the Group, which decreased the inventory of weakly mineralized wall rocks.

Trade and other receivables

The Group's trade and bills receivables amounted to approximately RMB116.9 million as at 30 June 2017, representing an increase of approximately RMB48.6 million as compared with the end of last year, which was mainly due to the grant of credit period of 180 days to 270 days to the customers with good credit record. The Group's other receivables amounted to approximately RMB22.1 million as at 30 June 2017, representing a decrease of approximately RMB33.3 million as compared with the end of last year, which was mainly due to the decease of the Group's prepayment to third-party contractors.

Trade and other payables

The Group's trade payables amounted to approximately RMB204.8 million as at 30 June 2017, representing an increase of approximately RMB98.1 million as compared with the end of last year, which was mainly due to the increase of trade payables to main suppliers. The Group's other payables amounted to approximately RMB60.7 million as at 30 June 2017, representing a decrease of approximately RMB13.0 million as compared with the end of last year.

Cash usage analysis

Summary of the Group's consolidated cash flow statement in the first half of 2017 is set out as follows.

	For the six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Net cash flow generated from operating activities	**142,502**	175,900
Net cash flow used in investing activities	**(96,058)**	(188,403)
Net cash flow generated from financing activities	**22,259**	94,261
Net increase in cash and cash equivalents	**68,703**	81,758
Cash and cash equivalents at the beginning of the period	**46,577**	59,495
Effect of foreign exchange rate changes on cash and cash equivalents	**(556)**	444
Cash and cash equivalents at the end of the period	**114,724**	141,697

Net cash flow generated from operating activities

The Group's net cash generated from operating activities in the first half of 2017 amounted to approximately RMB142.5 million, which mainly included the operating profit of approximately RMB27.9 million of the Group in the first half of 2017, the depreciation and amortization of approximately RMB63.7 million, the increase of finance cost of approximately RMB23.4 million, the increase of impairment losses of approximately RMB24.5 million, the decrease of inventory of approximately RMB12.6 million and the increase of trade payables and other payables of approximately RMB28.6 million, and was offset by the increase of trade receivables and other receivables of approximately of RMB17.3 million and the payment of income tax of approximately RMB 20.9 million.

Net cash flow used in investment activities

The Group's net cash outflow from investing activities in the first half of 2017 was approximately RMB96.1 million, which primarily represented payment of approximately RMB16.0 million for purchase of property, plant and equipment and construction in progress due to expansion of productivity improvement, technology transformation and construction of tailings reservoir, and restricted bank deposits of RMB130.6 million used as pledge of note payable, the above expenditure partially was offset by due return of the purchase of short-term wealth management products.

Net cash flow generated from/(used in) financing activities

The Group's net cash flow generated from financing activities in the first half of 2017 was approximately RMB22.3 million, which was mainly due to increase of bank loans of RMB240.0 million, repayment of bank loans of RMB200.0 million and bank interests of RMB17.7 million.

Cash and borrowings

As at 30 June 2017, cash balance of the Group amounted to approximately RMB114.7 million, representing an increase of approximately RMB68.1 million or approximately 146.3% as compared with the end of last year.

As at 30 June 2017, bank borrowings balance of the Group was RMB350.0 million, representing an increase of RMB40.0 million or 12.9% as compared with the end of last year. The annual interest rates of the borrowings as at 30 June 2017 ranged from 4.35% to 6.53% per annum. All of the borrowings was accounted for as current liabilities of the Group. The above borrowings were denominated in RMB.

Save as disclosed above, the Group has no outstanding mortgages, pledges, bonds or other loan capital (whether issued or agreed to be issued), bank overdrafts, borrowings, acceptance liabilities or other similar liabilities, hire purchase and finance lease commitments, or any guarantees or other material contingent liabilities. The Directors have confirmed that there had been no material change in the liabilities and contingent liabilities of the Group since 30 June 2017 and up to the date of this report.

As at 30 June 2017, the overall financial status of the Group is sound and stable.

Gearing ratio

The gearing ratio of the Group increase from approximately 33.4% on 31 December 2016 to approximately 36.7% on 30 June 2017, which is calculated by dividing the total debts by total assets.

Interest rate risk and foreign currency risk

The fair value interest rate risk of the Group is primarily related to the bank borrowings. Most of the bank borrowings of the Group expire within one year, therefore the fair value interest rate risk was low. The Company currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate risk and will consider to hedge significant interest rate risk when necessary.

The principal business of the Group is located in the PRC and the principal operation and transactions are carried out in RMB. Substantially all of the assets and liabilities of the Group are denominated in RMB. Since RMB is not freely convertible, there is a risk that Chinese government may take actions to affect the exchange rate exposure, which may affect the Group's net assets, earnings and any dividends it declares if such dividends are translated into foreign currency. The Group had no hedging in respect of the exchange rate risk.

Significant acquisitions and disposals of subsidiaries, affiliated companies and joint ventures

The Group did not have any significant acquisition and disposal of subsidiaries, affiliated companies and joint ventures for the first half of 2017.

Pledge of assets, contingent liabilities

The Group's bank loans were secured by the mining rights, land-use rights and properties, and the aggregate net book value of the pledged mining rights, land-use rights and properties of the Group amounted to approximately RMB47.5 million, 11.1 million and 48.2 million respectively as at 30 June 2017.

Save as disclosed above and this report, the Group had no material contingent liabilities as at 30 June 2017.

Future plan and outlook

Looking forward to the second half of 2017, the policy to resolve surplus of production capacity of the steel industry will continue, and in the context that the "ground steel" production has all been shut down compulsorily, the infrastructure construction will remain stable and real estate market will continue to prosper, steel price is expected to remain flat in the second half of 2017, which will help the steel enterprises' profit recovery, bringing a stable price trend for the iron ore products.

In the meantime, the domestic import of iron ore will likely to continue to rise, mainly attributable to the Australian and Brazilian large mine enterprises' continuous expansion of production capacity and decrease of cost, coupled with the exit of the domestic high-cost mine enterprises.

The Group also needs to fully leverage on its advantage of low unit cash cost to stabilize the current business and find new development opportunities positively. The Plan for Coordinated Development of Beijing, Tianjin and Hebei as well as the newly implemented Xiongan New District will also bring more development opportunities in the future. The Group will take a restricted diversification strategy by focusing on the national policies above to seek the maximization of the shareholders' benefit.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2017, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Interests in the Shares of the Company:

Name of Directors and Senior Management	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding
Mr. Leung Hongying Li Ziwei (also known as Li Ziwei)	Founder of a discretionary trust(2)	1,221,877,000(L)	74.72%
Mr. Li Yanjun	Interests held jointly with another person(2)	1,221,877,000(L)	74.72%

Notes:

1. The letter "L" denotes long position in the Shares.

2. Mr. Leung Hongying Li Ziwei is the settler, protector and a beneficiary of the Chak Trust with Credit Suisse Trust Limited as the trustee which holds the entire issued share capital of Hengshi Holdings Limited (holding 100% issued share capital of Hengshi International Investments Limited) through Chak Limited and is the settler, protector and a beneficiary of the Seven Trust with Credit Suisse Trust Limited as the trustee which holds the entire issued share capital of Aowei International Developments Limited through Seven Limited. Pursuant to the Confirmation Letters, Mr. Leung Hongying Li Ziwei and Mr. Li Yanjun acted and will continue to act in concert to make decisions and exercise discretions in respect of the matters of the Chak Trust and the Seven Trust and exercise all voting rights attached to the shares of Hengshi International Investments Limited and Aowei International Developments Limited, respectively. Therefore, Mr. Leung Hongying Li Ziwei and Mr. Li Yanjun are deemed to be interested in the 1,188,127,000 Shares held by Hengshi International Investments Limited (which is 100% owned by Hengshi Holdings Limited) as disclosed above and the 33,750,000 Shares held by Aowei International Developments Limited.

SUBSTANTIAL SHAREHOLDERS' INTERESTS OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2017, the following persons (not being a Director or chief executive of the Company) had interests or short positions in Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO or, as otherwise notified to Company and the Hong Kong Stock Exchange:

Name of Shareholders	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding
Aowei International Developments Limited	Beneficial owner(2)	1,221,877,000(L)	74.72%
Chak Limited	Interest in controlled corporation(2)	1,221,877,000(L)	74.72%
Credit Suisse Trust Limited	Trustee(2)	1,221,877,000(L)	74.72%
Hengshi Holdings Limited	Interest in controlled corporation(2)	1,221,877,000(L)	74.72%
Hengshi International Investments Limited	Beneficial owner(2)	1,221,877,000(L)	74.72%
Seven Limited	Interest in controlled corporation(2)	1,221,877,000(L)	74.72%
Jovial Link Investments Limited	Interests held jointly with another person(3)	129,391,892(L)	7.91%
Lee Sam Mui	Beneficial owner Interests held jointly with another person	129,391,892(L)	7.91%
Li Chung Tai	Beneficial owner Interests held jointly with another person	129,391,892(L)	7.91%
Li Shunfa	Beneficial owner Interests held jointly with another person	129,391,892(L)	7.91%

Notes:

(1) The letter "L" denotes long position in the Shares.

(2) Hengshi Holdings Limited holds 100% issued share capital of Hengshi International Investments Limited, thus Hengshi Holdings Limited is deemed to be interested in the 1,188,127,000 Shares held by Hengshi International Investments Limited. Chak Limited holds 100% issued share capital of Hengshi Holdings Limited, thus Chak Limited is deemed to be interested in the 1,188,127,000 Shares held by Hengshi International Investments Limited. Seven Limited holds 100% issued share capital of Aowei International Developments Limited, thus Seven Limited is deemed to be interested in the 33,750,000 Shares held by Aowei International Developments Limited.

Mr. Leung Hongying Li Ziwei and Mr. Li Yanjun are the ultimate controlling shareholders of Chak Limited, Hengshi Holdings Limited, Hengshi International Investments Limited, Seven Limited and Aowei International Developments Limited. Therefore, Chak Limited, Hengshi Holdings Limited, Hengshi International Investments Limited, Seven Limited and Aowei International Developments Limited are deemed to be interested in all the 1,221,877,000 shares. Pursuant to the Confirmation Letters, Mr. Leung Hongying Li Ziwei and Mr. Li Yanjun acted and will continue to act in concert to make decisions and exercise discretions in respect of the matters of the Chak Trust and the Seven Trust and exercise all voting rights attached to the shares of Hengshi International Investments Limited and Aowei International Developments Limited, respectively.

(3) Jovial Link was the entity entitled to receive an aggregate of 127,486,892 Consideration Shares in consideration of its sale of the entire issued share capital of the Xinan Investments Limited to the Company. Mr. Li Chung Tai, Mr. Li Shunfa and Ms. Lee Sam Mui were nominated by Jovial Link to receive the Consideration Shares. Therefore, Mr. Li Chung Tai, Mr. Li Shunfa and Ms. Lee Sam Mui are deemed to be jointly interested in the Shares. Prior to receiving the Consideration Shares, Mr. Li Chung Tai holds 1,905,000 Shares as beneficial owner. Upon allotment and issue of the Consideration Shares, Mr. Li Chung Tai, Mr. Li Shunfa and Ms. Lee Sam Mui holds 52,763,756 Shares,38,246,068 Shares and 38,382,068 Shares as beneficial owner, respectively.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the shares or underlying shares representing 5% or more of the issued share capital of the Company as at 30 June 2017.

SHARE OPTION SCHEME

As at the date of this report, the Company did not adopt any share option scheme.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of conduct regarding the dealings in the Company's securities by the Directors. Specific enquiry has been made to all Directors and all Directors confirmed that they have complied with the code of conduct and the required standard set out in the Model Code regarding directors' securities transactions for the six months ended 30 June 2017.

CHANGES OF DIRECTORS AND DIRECTOR'S INFORMATION

There are no changes of Directors or information of the Directors during the Reporting Period.

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

As at 30 June 2017, none of the Directors, controlling shareholders or substantial shareholders of the Company or any of their respective close associates (as defined under the Listing Rules) is engaged in any business which competes or is likely to compete with the business of the Group, and none of them has any other conflicts of interests with the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

In the first half of 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2017, the Group had 911 employees in total (862 employees in total as at 30 June 2016). The total remuneration expenses and the amounts of other employees' benefit were approximately RMB37.5million (the corresponding period in 2016: approximately RMB30.6 million). Employee costs include basic remuneration, incentive salary, social pension insurance, medical insurance, work-related injury insurance and other insurances required by the PRC government. According to the Group's remuneration policy, the employees' income is linked to the performance of individual employee and the operation performance of the Group.

The employees of the Group have to participate in the pension scheme managed and operated by local municipal government. Subject to the approval of the local municipal government, the Company has to make a 12% contribution to the pension scheme according to the average salary of Hebei Province, so as to provide funding to their pension.

STAFF TRAINING SCHEME

Our employees enroll in regular training courses to improve their skills and professional knowledge and are regularly updated on new developments. We also develop our own employee training programs tailored specifically to iron ore mining and processing operations. We employ dedicated trainers to provide the training programs at our mining sites. To leverage on accumulated operational expertise and special knowledge in our network, we frequently guide new recruits at our mining exploration sites.

CORPORATE GOVERNANCE

Our Directors consider that good corporate governance is important in achieving effective and integrity in management and internal procedures. We have complied with the code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules for the first half of 2017.

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") with terms of reference aligned with the code provisions as set out in Appendix 14 to the Listing Rules for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Audit Committee consists of three independent non-executive Directors, namely Mr. Ge Xinjian (Chairman), Mr. Meng Likun and Mr. Kong Chi Mo.

The interim financial results of the Group for the six months ended 30 June 2017 is unaudited but has been reviewed by the Audit Committee, which was of the opinion that the results were prepared in accordance with and complied with the applicable accounting standards and requirements as well as the Listing Rules and that adequate disclosures have been made.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information to the Company and within the knowledge of the Directors as at date of this report, the Company has maintained the prescribed public float required by the Listing Rules for the first half of 2017 and up to the date of this report.

INTERIM DIVIDEND

The Board has resolved not to distribute any interim dividend for the six months ended 30 June 2017.

MAJOR LEGAL PROCEEDING

During the six months ended 30 June 2017, the Group was not involved in any major legal proceedings or arbitrations. To the best knowledge of the Directors, there is no pending or potential major legal proceeding or claim as at the date of this report.

INDEPENDENT REVIEW REPORT

KPMG

To the board of directors of Hengshi Mining Investments Limited
(Incorporated in the British Virgin Islands and continued in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 23 to 52 which comprises the consolidated statement of financial position of Hengshi Mining Investments Limited (the "Company") as at 30 June 2017 and the related consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, Interim financial reporting, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim financial reporting.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 August 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2017 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000
Revenue	4	**396,183**	325,616
Cost of sales		**(278,979)**	(228,078)
Gross profit		**117,204**	97,538
Distribution costs		**(3,318)**	(4,342)
Administrative expenses		**(38,082)**	(50,601)
Impairment losses	5(c)	**(24,500)**	–
Profit from operations		**51,304**	42,595
Finance income	5(a)	**2,468**	2,870
Finance costs	5(a)	**(25,899)**	(24,283)
Net finance costs	5(a)	**(23,431)**	(21,413)
Profit before taxation	5	**27,873**	21,182
Income tax	6	**(15,758)**	(14,171)
Profit attributable to equity shareholders of the Company for the period		**12,115**	7,011
Other comprehensive income for the period	7		
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(557)**	460
Total comprehensive income attributable to equity shareholders of the Company for the period		**11,558**	7,471
Earnings per share			
Basic and diluted (RMB cents)	8	**0.74**	0.46

The notes on pages 29 to 52 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 23(a).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2017 – unaudited
(Expressed in Renminbi)

	Note	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Non-current assets			
Property, plant and equipment, net	*9*	**802,784**	838,579
Construction in progress	*10*	**6,119**	5,374
Lease prepayments	*11*	**119,722**	127,035
Intangible assets	*12*	**731,611**	753,758
Goodwill	*13*	**62,910**	73,410
Long-term receivables	*14*	**55,760**	53,960
Prepayments		**669**	3,576
Deferred tax assets		**133,511**	122,163
Total non-current assets		**1,913,086**	1,977,855
Current assets			
Inventories	*15*	**93,561**	106,147
Trade and other receivables	*16*	**138,985**	123,688
Other financial assets		**–**	48,000
Restricted bank deposits	*17*	**490,667**	298,048
Cash and cash equivalents	*18*	**114,724**	46,577
Total current assets		**837,937**	622,460
Current liabilities			
Short-term borrowings	*19*	**350,000**	310,000
Trade and other payables	*20*	**265,496**	180,410
Current taxation		**35,005**	27,994
Current portion of long-term payables	*21*	**46,759**	45,501
Current portion of accrued reclamation obligations	*22*	**6,347**	5,720
Total current liabilities		**703,607**	569,625
Net current assets		**134,330**	52,835
Total assets less current liabilities		**2,047,416**	2,030,690

The notes on pages 29 to 52 form part of this interim financial report.

	Note	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Non-current liabilities			
Long-term payables, less current portion	*21*	**203,167**	197,707
Accrued reclamation obligations, less current portion	*22*	**52,092**	51,606
Deferred tax liabilities		**50,546**	50,090
Total non-current liabilities		**305,805**	299,403
NET ASSETS		**1,741,611**	1,731,287
CAPITAL AND RESERVES			
Share capital	*23*	**131**	131
Reserves	*23*	**1,741,480**	1,731,156
TOTAL EQUITY		**1,741,611**	1,731,287

The notes on pages 29 to 52 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2017 – unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company							
	Share capital RMB'000 *Note 23(b)*	Share premium RMB'000 *Note 23(c)*	Statutory surplus reserve RMB'000 *Note 23(c)*	Specific reserve RMB'000 *Note 23(c)*	Exchange reserve RMB'000 *Note 23(c)*	Other reserve RMB'000 *Note 23(c)*	Retained earnings RMB'000	Total equity RMB'000
At 1 January 2016	120	928,309	84,556	65,543	(1,847)	(126,229)	483,552	1,434,004
Changes in equity for the six months ended 30 June 2016								
Profit for the period	–	–	–	–	–	–	7,011	7,011
Other comprehensive income	–	–	–	–	460	–	–	460
Total comprehensive income	–	–	–	–	460	–	7,011	7,471
Transfer to specific reserve, net of utilisation	–	–	–	(2,211)	–	–	2,211	–
Deferred tax liabilities arising from undistributed profit of subsidiaries in Mainland China	–	–	–	–	–	–	(61)	(61)
At 30 June 2016 and 1 July 2016	120	928,309	84,556	63,332	(1,387)	(126,229)	492,713	1,441,414
Changes in equity for the six months ended 31 December 2016								
Profit for the year	–	–	–	–	–	–	78,655	78,655
Other comprehensive income	–	–	–	–	935	–	–	935
Total comprehensive income	–	–	–	–	935	–	78,655	79,590
Shares issued for acquisition of business	11	214,331	–	–	–	–	–	214,342
Transfer to specific reserve, net of utilisation	–	–	–	(3,409)	–	–	3,409	–
Deferred tax liabilities arising from undistributed profits of subsidiaries in Mainland China	–	–	–	–	–	–	(4,059)	(4,059)
Balance at 31 December 2016	131	1,142,640	84,556	59,923	(452)	(126,229)	570,718	1,731,287

	Attributable to equity shareholders of the Company							
	Share capital RMB'000 *Note 23(b)*	Share premium RMB'000 *Note 23(c)*	Statutory surplus reserve RMB'000 *Note 23(c)*	Specific reserve RMB'000 *Note 23(c)*	Exchange reserve RMB'000 *Note 23(c)*	Other reserve RMB'000 *Note 23d(c)*	Retained earnings RMB'000	Total equity RMB'000
At 1 January 2017	131	1,142,640	84,556	59,923	(452)	(126,229)	570,718	1,731,287
Changes in equity for the six months ended 30 June 2017								
Profit for the period	–	–	–	–	–	–	12,115	12,115
Other comprehensive income	–	–	–	–	(557)	–	–	(557)
Total comprehensive income	–	–	–	–	(557)	–	12,115	11,558
Transfer to specific reserve, net of utilisation	–	–	–	(1,872)	–	–	1,872	–
Deferred tax liabilities arising from undistributed profit of subsidiaries in Mainland China	–	–	–	–	–	–	(1,234)	(1,234)
At 30 June 2017	131	1,142,640	84,556	58,051	(1,009)	(126,229)	583,471	1,741,611

The notes on pages 29 to 52 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2017 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June 2017 RMB'000	 2016 RMB'000
Operating activities			
Cash generated from operations		**163,375**	186,516
Income tax paid		**(20,873)**	(10,616)
Net cash generated from operating activities		**142,502**	175,900
Investing activities			
Payments for the purchase of property, plant and equipment and other non-current assets		**(15,953)**	(80,245)
Placement of restricted deposits for investing purpose		**(130,616)**	(111,028)
Other cash flows arising from investing activities	*18*	**50,511**	2,870
Net cash used in investing activities		**(96,058)**	(188,403)
Financing activities			
Proceeds from borrowings		**240,000**	310,000
Repayments of borrowings		**(200,000)**	(200,000)
Other cash flows arising from financing activities		**(17,741)**	(15,739)
Net cash generated from financing activities		**22,259**	94,261
Net increase in cash and cash equivalents		**68,703**	81,758
Cash and cash equivalents at 1 January		**46,577**	59,495
Effect of foreign exchange rate changes		**(556)**	444
Cash and cash equivalents at 30 June	*18*	**114,724**	141,697

The notes on pages 29 to 52 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

1 CORPORATE INFORMATION

Hengshi Mining Investments Limited (the "Company") was incorporated in the British Virgin Islands on 14 January 2011 and redomiciled to the Cayman Islands on 23 May 2013 as an exempted company with limited liability under the Companies Law, Chapter 22 (2012 Revision, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (together the "Group") are principally engaged in the mining, processing and sale of iron ore products and the provision of hospital management service in the People's Republic of China ("PRC").

Pursuant to a group reorganisation (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the Reorganisation are set out in the prospectus of the Company dated 18 November 2013. The Company's shares were listed on the Stock Exchange on 28 November 2013.

On 13 July 2016, the Company acquired the 100% issued share capital of Xinan Investments Limited.

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 22 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the board of directors is included on page 22.

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. The Company's auditor has reported on those financial statements. The auditor's report was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report dated 16 March 2017.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 REVENUE AND OPERATING SEGMENTS

(a) Revenue

The Group is principally engaged in the mining, processing and sale of iron ores, preliminary concentrates and iron ore concentrates and the provision of hospital management service. Revenue mainly represents the sales value of goods sold to customers and the service income from hospital management exclusive of value added tax. The amount of each significant category of revenue recognised is as follows:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Mining Segment		
Iron ore concentrates	**396,070**	313,496
Preliminary concentrates	**–**	11,068
Iron ores	**–**	1,049
Others	**–**	3
Medical Segment		
Hospital management service	**113**	–
	396,183	325,616

During the six months ended 30 June 2017, there were four customers with whom transactions have exceeded 10% of the Group's revenue (six months ended 30 June 2016: three customers) and revenue from sale of iron ore concentrates to these customers amounted to RMB302,987,000 (six months ended 30 June 2016: RMB292,820,000).

4 REVENUE AND OPERATING SEGMENTS *(continued)*

(b) Operating Segments

The Group manages its businesses based on its business line, which are divided into mining, processing and sale of iron ore products and the provision of hospital management service. During the six months ended 30 June 2016, the Group only had one business line, the mining, processing and sale of iron ore products. Operation of hospital management business was acquired by the Group in July 2016 (for detailed information, please refer to note 13); therefore, no segment reporting was presented in the six months ended 30 June 2016.

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker ("CODM") for the purposes of resources allocation and performance assessment, the Group has identified and presented the following two reportable segments in accordance with IFRS 8. No operating segments have been aggregated to form the following reportable segments:

- the mining, processing and sale of iron ore products; and
- the provision of hospital management, establishment of specialist clinics, supply of medical consumables and nursing service.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets and liabilities include all non-current assets and liabilities and current assets and liabilities with the exception of unallocated head office and corporate assets and liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments. Head office and corporate expenses are not allocated to individual segments.

Segment profit represents the profit after taxation generated by individual segments.

Segment assets and liabilities of the Group are not reported to the Group's CODM regularly. As a result, reportable segment assets and liabilities have not been presented in the financial statements.

4 REVENUE AND OPERATING SEGMENTS *(continued)*

(b) Operating Segments *(continued)*

(i) Segment results, assets and liabilities (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2017 is set out below.

	Six months ended 30 June 2017		
	Mining, processing and sale of iron ore segment RMB'000	Provision of hospital management, establishment of specialist clinics, supply of consumables and nursing service RMB'000	Total RMB'000
Reportable segment revenue	396,070	113	396,183
Cost of sales	(275,862)	(3,117)	(278,979)
Reportable segment gross profit	120,208	(3,004)	117,204
Distribution costs	(3,318)	–	(3,318)
Administrative expenses	(36,293)	(680)	(36,973)
Impairment losses *(note 5(c))**	(14,000)	–	(14,000)
Net finance costs	(23,438)	7	(23,431)
Reportable segment profit/(loss) before taxation	43,159	(3,677)	39,482
Income tax	(16,306)	779	(15,527)
Reportable segment profit/(loss)	26,853	(2,898)	23,955

4 REVENUE AND OPERATING SEGMENTS *(continued)*

(b) Operating Segments *(continued)*

(ii) ***Reconciliations of reportable segment revenue and profit or loss:***

	Six months ended 30 June 2017 RMB'000
Revenue	
Reportable segment revenue	**396,183**
Consolidated revenue *(note 4(a))*	**396,183**
Profit	
Reportable segment profit	**23,955**
Impairment losses on goodwill *(note 5(c))**	**(10,500)**
Unallocated head office and corporate expenses	**(1,340)**
Consolidated profit	**12,115**

* During the six months ended 30 June 2017, impairment losses amounted to RMB24,500,000 (see note 5(c)(ii)).

(iii) All of the Group's operations are located in the PRC, therefore no geographical segment reporting is presented.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Net finance costs:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Interest income	**(2,468)**	(2,870)
Finance income	**(2,468)**	(2,870)
Interest on interest-bearing borrowings	**17,776**	16,135
Unwinding interest on		
– long-term payables	**6,718**	6,521
– accrued reclamation obligations *(note 22)*	**1,404**	1,359
Foreign exchange loss, net	**1**	268
Finance costs	**25,899**	24,283
Net finance costs	**23,431**	21,413

During the six months ended 30 June 2017, no borrowing costs were capitalised in relation to construction in progress (six months ended 30 June 2016: RMB nil).

(b) Staff costs:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Salaries, wages and other benefits	**35,083**	28,852
Retirement scheme contributions	**2,433**	1,698
	37,516	30,550

Employees of the Group are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group contributes funds at a rate of 12% of the bases determined by referencing to the prevailing average salary of Hebei Province and as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other obligations for payment of retirement and other post-retirement benefits of employees other than the contribution described above.

5 PROFIT BEFORE TAXATION *(continued)*

(c) Other items:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Cost of inventories *(i)*	**275,862**	228,078
Depreciation and amortisation	**63,732**	55,341
Operating lease charges	**2,857**	1,855
Allowance for doubtful debts	**–**	4,786
Impairment losses *(ii)*	**24,500**	–

Notes:

(i) During the six months ended 30 June 2017, production stripping costs recognised in profit or loss as part of cost of inventories amounted to RMB136,224,000 (six months ended 30 June 2016: RMB96,373,000).

(ii) As part of the review of carrying value of the Group's cash-generating units ("CGUs"), impairment charges of RMB14,000,000 and RMB10,500,000 on other long-term assets (note 9) and goodwill (note 13) respectively were recognised in the consolidated statement of profit or loss and other comprehensive income as a separate line item within operating profit for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB nil).

6 INCOME TAX

(a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current tax		
Provision for PRC enterprise income tax	**27,884**	14,705
Deferred tax		
Origination and reversal of temporary differences	**(12,126)**	(534)
	15,758	14,171

6 INCOME TAX *(continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rate:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Profit before taxation	**27,873**	21,182
Notional tax on profit before taxation, calculated at tax rate of 25% *(note (i))*	**6,968**	5,296
Differential tax rates on subsidiaries' income *(note (iii))*	**(811)**	(1,728)
Tax effect of non-deductible items	**2,973**	258
Tax effect of unused tax losses not recognised	**3,894**	10,345
Tax provision for prior years	**2,734**	–
Actual tax expense	**15,758**	14,171

Notes:

(i) The PRC enterprise income tax rate is adopted as the Group's operations are mainly conducted in the PRC. Pursuant to the prevailing income tax rules and regulations of the PRC, the applicable enterprise income tax is at a rate of 25%.

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

(iii) The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits. According to the PRC Enterprise Income Tax Law and its implementation rules, interests receivable by non-PRC-resident corporate investors from PRC-resident enterprises are subject to withholding income tax at a rate of 7%.

(iv) According to the PRC Enterprise Income Tax Law and its implementation rules, dividends (for profit earned since 1 January 2008) and interest income receivable by non-PRC-resident corporate investors from PRC-resident enterprises are subject to withholding income tax at a rate of 10% each, unless reduced by tax treaties or arrangements. Undistributed profit earned prior to 1 January 2008 are exempted from such withholding income tax.

7 OTHER COMPREHENSIVE INCOME

The component of other comprehensive income does not have any significant tax effect for the periods presented.

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the six months ended 30 June 2017 of RMB12,115,000 (six months ended 30 June 2016: RMB7,011,000) and the weighted average number of shares in issue during the six months ended 30 June 2017 of 1,635,330,000 shares (six months ended 30 June 2016: 1,507,843,000 shares).

The Company does not have any potential dilutive shares for the periods presented. Accordingly, diluted earnings per share is the same as basic earnings per share.

9 PROPERTY, PLANT AND EQUIPMENT, NET

(a) During the six months ended 30 June 2017, additions of property, plant and equipment of the Group, representing mainly processing plant and mining related buildings, machinery and equipment amounted to RMB12,237,000 (six months ended 30 June 2016: RMB900,000). As at 30 June 2017, mine properties include capitalised stripping activity asset with a carrying amount of RMB197,544,000 (31 December 2016: RMB213,992,000).

The Group's property, plant and equipment are substantially located in the PRC. As of 30 June 2017, the Group had not obtained title certificates of certain of its buildings and plants with an aggregate carrying amount of RMB50,585,000 (31 December 2016: RMB52,248,000). The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use of the above-mentioned properties.

As of 30 June 2017, certain of the Group's borrowings were secured by the Group's property, plant and equipment (see note 19(c)) with a carrying amount of RMB48,198,000 (31 December 2016: RMB49,913,000).

(b) The Group recognised RMB393,637,000 impairment losses on non-financial assets as at 31 December 2015 with reference to an independent valuation report. Since then the directors have been closely monitoring the market situation and the indication of variance to those key assumptions used in the estimation of carrying amounts of related CGUs.

As a result of deferral of mine development plan during the six months ended 30 June 2017, the Group identified indications of further impairment in relation to Laiyuan Xinxin Mining Co., Ltd. ("Xinxin Mining"). For the purpose of the impairment testing, Xinxin Mining is regarded as a CGU and a calculation of the recoverable amounts of the CGU was performed.

The recoverable amount of the CGU was determined based on value in use ("VIU"), which is the present value of the estimated future cash flows to be derived from the continuing use of the CGU and from its ultimate disposal. These cash flows were discounted using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the CGU. The carrying amount of the CGU is compared with its carrying amount and as a result impairment losses of RMB9,587,000 and RMB4,413,000 were recognised on its property, plant and equipment and intangible assets (note 13) respectively for the six months ended 30 June 2017.

The determination of VIU was most sensitive to iron ore concentrate prices, sales and production volumes and discount rate, among which the estimation on prices and discount rate were in line with those estimated as at 31 December 2015 for improving market condition and relatively stable weighted average cost of capital of this CGU.

10 CONSTRUCTION IN PROGRESS

Construction in progress is mainly related to processing plant and mining related machinery and equipment under construction and/or installation.

11 LEASE PREPAYMENTS

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in the PRC, with original lease periods from 5 to 50 years.

As of 30 June 2017, certain of the Group's borrowings were secured by the Group's land use rights (see note 19(c)) with a carrying amount of RMB11,082,000 (31 December 2016: RMB11,301,000).

12 INTANGIBLE ASSETS

Intangible assets represent the mining rights acquired and related acquisition premium paid in relation to obtaining the mining rights, and the hospital management right acquired.

In August and December 2014, the Group acquired two mining rights with an aggregate carrying amount of approximately RMB321,000,000 from two third parties. These two mining rights fall within the local government's resources integration plan. In accordance with the plan, the local government intends to grant one mining right certificate in replace of a few separate mining right certificates. As at 30 June 2017, the Group is in process of negotiating with the local government to renew title certificates of these two mining rights. Given the related policies and regulations are not certain, the progress is expected to keep slow. As consulted and confirmed with the Company's external legal counsel, the directors are of the opinion that the Group is entitled to lawfully and validly occupy or use of the above-mentioned mining rights.

In connection with the acquisition completed in July 2016, the Group obtained hospital management right through the related hospital management agreements. The management right was recognised at its fair value amounting to RMB187,000,000, and is amortised on a straight-line basis over 30 years as agreed in the hospital management agreements.

As of 30 June 2017, certain of the Group's borrowings were secured by the Group's mining right (see note 19(c)) with a carrying amount of RMB47,503,000 (31 December 2016: RMB57,065,000).

13 GOODWILL

Goodwill relates to the acquisition of Xinan Investments Limited, the business of which is identified to be a CGU. The recoverable amount of this CGU to which goodwill is allocated is determined based on VIU calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a six-year period. Cash flows beyond the six-year period are extrapolated using an estimated weighted average growth rate of 3% which is consistent with the forecasts included in industry reports. The cash flows are discounted using a discount rate of 15.0%. The discount rate used is after-tax and reflect specific risks relating to the business.

The determination of VIU was most sensitive to number of patient and average income earned from each patient, gross margin on supply chain business and discount rate.

Impairment loss of RMB10,500,000 was recognised during the six months ended 30 June 2017, as the CGU has been reduced to its recoverable amount of RMB201,977,000 and any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

14 LONG-TERM RECEIVABLES

Long-term receivables represent a five-year loan to the Rongcheng County Hospital of Traditional Chinese Medicine maturing in year 2021, which is unsecured and interest-free, and the environmental reclamation deposits placed with relevant government authorities in respect of the Group's reclamation obligations for mine closures. All of the balances are not expected to be refunded within the next 12 months.

15 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Weakly mineralised wall rock#	–	11,861
Iron ores	20,820	22,949
Preliminary concentrates	45,830	40,687
Iron ore concentrates	4,748	9,339
	71,398	84,836
Consumables and supplies	22,163	21,311
	93,561	106,147

Weakly mineralised wall rock represents sub-graded mineral materials.

(b) The analysis of the amount of inventories recognised as an expense and included in the consolidated statement of profit or loss and other comprehensive income is as follows:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Carrying amount of inventories sold	275,862	228,078

16 TRADE AND OTHER RECEIVABLES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Accounts receivable	**89,826**	64,652
Bills receivable	**27,381**	4,000
	117,207	68,652
Less: allowance for doubtful debts	**286**	286
Trade receivables *(note 16(a))*	**116,921**	68,366
Other receivables *(note 16(b))*	**22,064**	55,322
	138,985	123,688

(a) Ageing analysis

At the end of the reporting period, the ageing analysis of trade receivables based on the invoice date (net of allowance for doubtful debts, if any) is as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 6 months	**74,377**	54,057
Over 6 months but less than 1 year	**42,465**	14,230
Over 1 year	**79**	79
	116,921	68,366

The Group generally delivers goods to its customers after receiving full payments in advance. Under certain circumstances, credit periods from 180 to 270 days are granted to customers that have good track record with Group and in good credit condition.

16 TRADE AND OTHER RECEIVABLES *(continued)*

(b) Other receivables

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Prepayments and deposits#	**19,898**	49,532
Value added tax recoverable	**1,142**	1,152
Amounts due from related parties *(note 26(b))*	**375**	422
Others	**649**	4,216
	22,064	55,322

\# Prepayments and deposits mainly represent advance payments made to the Group's contractors of mining operations, which are independent third parties. Based on agreements with the respective contractors of mining operations, the prepaid amounts are interest-free and the Group anticipates the amounts to be subsequently utilised along with the provision of related services within one year.

As at 30 June 2017, other than deposits amounted to RMB2,685,000 (31 December 2016: RMB2,685,000), which are included in prepayments and deposits, all other receivables were aged within one year and were expected to be recovered or expensed off within one year.

17 RESTRICTED BANK DEPOSITS

Restricted bank deposits mainly represent six-month bank deposits, deposits pledged as guarantee for bills payable and other deposits.

18 CASH AND CASH EQUIVALENTS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Cash in hand	**79**	117
Cash at bank	**114,645**	46,460
	114,724	46,577

Note: Other cash flows arising from investing activities mainly represent redemption of other financial assets, amounted to RMB48,000,000.

19 BORROWINGS

(a) The Group's interest-bearing borrowings comprise:

	At 30 June 2017		At 31 December 2016	
	Interest rate per annum %	**RMB'000**	Interest rate per annum %	RMB'000
Renminbi denominated				
Short-term borrowings:				
– secured bank loans *(note 19(c))*#	**4.35~6.53**	**350,000**	4.35~6.53	310,000

As at 30 June 2017, the Group's bank loans of RMB200,000,000 and RMB150,000,000 (31 December 2016: RMB200,000,000 and RMB110,000,000) were secured by the Group's mining right, land use rights and properties (see notes 9, 11, and 12) and by the land use rights and properties of a related party of the Group (see note 26(b)(iii)), respectively.

(b) The Group's borrowings were repayable as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year	**350,000**	310,000

(c) The Group's banking facilities comprise:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Secured by:		
Mining right, land use rights and properties of the Group *(notes 9, 11 and 12)*	**243,000**	243,000
Land use rights and properties of a related party *(note 26(b)(iii))*	**160,000**	160,000
	403,000	403,000

As at 30 June 2017, the above banking facilities of the Group were utilised to the extent of RMB350,000,000, all of which are bank loan facilities of RMB350,000,000 (31 December 2016: RMB350,000,000), including bank loan facilities of RMB310,000,000 and bank acceptance bill facilities of RMB40,000,000, respectively.

The Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's financial statement ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As of the end of the reporting period, none of the covenants relating to drawn down facilities had been breached.

20 TRADE AND OTHER PAYABLES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Trade payables	104,794	66,713
Bills payable	100,000	40,000
Receipts in advance	3,790	18,267
Payables for construction work, equipment purchases	4,768	8,263
Other taxes payable	19,622	21,431
Amounts due to related parties *(note 26(b))*	200	–
Interest payables	475	440
Others#	31,847	25,296
	265,496	180,410

Others mainly represent accrued expenses, payables for staff related costs and other deposits.

As at 30 June 2017, all trade payables were due and payable on presentation or within one year. All of the other payables were expected to be settled within one year or repayable on demand.

21 LONG-TERM PAYABLES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Consideration payables for the acquisition of mining rights	249,926	243,208
Less: Current portion of long-term payables	46,759	45,501
	203,167	197,707

In March 2012 and January 2013, the Group acquired the Gufen Mine, Wang'ergou Shuanmazhuang Mine and Zhijiazhuang Mine from Hebei Provincial Department of Land and Resources for considerations of RMB365,545,000 in aggregate and repayable by annual instalments with original payment periods over five to seven years.

In accordance with Ji Guo Tu Zi Han No. [2015]1011 issued on 11 November 2015, Hebei Provincial Department of Land and Resources approved a revised annual instalment schedule in relation to the remaining parts of the above mining right consideration payables and the payment periods were extended to 2022.

21 LONG-TERM PAYABLES *(continued)*

The Group's long-term payables were repayable as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year	**46,759**	45,501
After 1 year but within 2 years	**46,449**	45,624
After 2 years but within 5 years	**134,065**	130,043
After 5 years	**22,653**	22,040
	249,926	243,208

22 ACCRUED RECLAMATION OBLIGATIONS

	2017 RMB'000	2016 RMB'000
At 1 January	**57,326**	55,485
Accretion expenses *(note 5(a))*	**1,404**	2,719
Utilised during the period/year	**(291)**	(878)
At 30 June/31 December	**58,439**	57,326
Less: current portion of accrued reclamation obligations	**6,347**	5,720
	52,092	51,606

The accrual for reclamation costs has been determined based on management's best estimates. The estimate of related costs may be subject to change in the near term when the reclamation on the land from current mining activities becomes apparent in future periods. The Group's management believes that the accrued reclamation obligations at the end of the reporting period are adequate and appropriate. The accrual is based on estimates and therefore, the ultimate liability may exceed or be less than such estimates.

23 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The board of directors of the Company does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

(b) Share capital

As of the end of the reporting period, the Company's share capital was as follows:

	Number of shares '000	RMB'000 (equivalent)
Ordinary shares, issued and fully paid:		
At 1 January 2016	1,507,843	120
Shares issued for acquisition of business	127,487	11
At 31 December 2016 and 30 June 2017	1,635,330	131

On 13 July 2016, 127,486,892 shares with par value of HKD0.0001 per share were issued and allotted to Jovial Link Investment Limited as the consideration for acquisition of business.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(c) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary courses of business.

23 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Nature and purpose of reserves *(continued)*

(ii) Statutory surplus reserve

In accordance with the relevant PRC laws and regulations and the respective articles of association of the PRC subsidiaries, the PRC subsidiaries are required to appropriate 10% of their profit after taxation reported in their financial statements prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises established in the PRC to the statutory surplus reserve. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the registered capital of the relevant PRC subsidiaries.

The statutory surplus reserves can be utilised to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue. However, when converting the statutory surplus reserve of the PRC subsidiaries into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital of the relevant PRC subsidiaries.

(iii) Specific reserve

Pursuant to the relevant PRC regulations, appropriation for safety production and other related expenditures are accrued by the Group at fixed rates based on production volume (the "safety production fund"). The Group is required to make a transfer for the appropriation of safety production fund from retained earnings to a specific reserve. The appropriation for safety production fund may cease if the balance of the specific reserve at the beginning of the year has reached 5% of the revenue of the relevant PRC subsidiaries in the previous year. The safety production fund could be utilised when expenses or capital expenditures on safety production measures are incurred. The amount of safety production fund utilised would be transferred from specific reserve back to retained earnings.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange adjustments arising from the translation of the Hong Kong dollars denominated financial statements to the Group's presentation currency.

(v) Other reserve

The other reserve comprises the following:

- the difference between the net assets of subsidiaries acquired and the consideration paid by the Group in exchange;
- the changes in equity arisen from the acquisition of non-controlling interests; and
- the shareholder's loans waived by the ultimate controlling party.

24 FAIR VALUE MEASUREMENT

(a) Financial assets and liabilities measured at fair value

Fair value hierarchy

The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.

- Level 2: valuation is based on inputs (other than quoted prices included within Level 1) that are observable for the financial asset or liability, either directly or indirectly.

- Level 3: valuation is based on unobservable inputs.

At 30 June 2017, none of the Group's financial assets or liabilities were measured at fair value (on a recurring or non-recurring basis) in the consolidated statement of financial position across the three levels of the fair value hierarchy as defined in IFRS 13, Fair value measurement. At 31 December 2016, unlisted debt securities of RMB48,000,000 were measured at fair value and classified into Level 3.

There were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 during the six months ended 30 June 2017 (six months ended 30 June 2016: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(b) Fair value of financial assets and liabilities carried at other than fair value

Apart from the debt securities measured at fair value which has been redeemed on 3 January 2017, all of the Group's other financial assets and liabilities are initially recognised at the fair value of consideration paid or received and subsequently carried at amortised costs or fair value, as appropriate.

24 FAIR VALUE MEASUREMENT *(continued)*

(b) Fair value of financial assets and liabilities carried at other than fair value *(continued)*

The financial assets and liabilities are presented by class in the tables below at their carrying amounts, which generally approximate to fair values except for long-term receivables and borrowings as indicated below.

	At 30 June 2017			At 31 December 2016		
	Loans and receivables RMB'000	Other financial assets and liabilities at amortised costs RMB'000	Total RMB'000	Loans and receivables RMB'000	Other financial assets and liabilities at amortised costs RMB'000	Total RMB'000
Cash and cash equivalents *(note (i))*	**114,724**	**–**	**114,724**	46,577	–	46,577
Restricted bank deposits *(note (i))*	**490,667**	**–**	**490,667**	298,048	–	298,048
Trade and other receivables *(note (ii))*	**138,985**	**–**	**138,985**	123,688	–	123,688
Long-term receivables *(note (i))*	**55,760**	**–**	**55,760**	53,960	–	53,960
Trade and other payables *(note (ii))*	**–**	**(265,496)**	**(265,496)**	–	(180,410)	(180,410)
Borrowings *(note (i))*	**–**	**(350,000)**	**(350,000)**	–	(310,000)	(310,000)
Total financial assets/(liabilities) carried at amortised costs	**800,136**	**(615,496)**	**184,640**	522,273	(490,410)	31,863
Total financial assets carried at fair value	**–**	**–**	**–**	48,000	–	48,000
Non-financial assets/(liabilities)	**1,950,887**	**(393,916)**	**1,556,971**	2,030,042	(378,618)	1,651,424
Total assets/(liabilities)	**2,751,023**	**(1,009,412)**	**1,741,611**	2,600,315	(869,028)	1,731,287

Notes:

(i) The fair values of the Group's cash and cash equivalents, restricted bank deposits, long-term receivables and borrowings approximates carrying amounts as a result of their short maturity or because they carry floating rates of interest.

(ii) The carrying amounts of trade and other receivables and trade and other payables are reasonable approximation of their fair values.

25 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments outstanding not provided for in the interim financial report:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Contracted for		
– property, plant and equipment	**4,800**	3,982

(b) The total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year	**4,600**	4,463
After 1 year but within 5 years	**6,708**	9,008
	11,308	13,471

The Group leases certain buildings through operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the agreements contain escalation provisions that may require higher future rental payments.

(c) Environmental contingencies

To date, the Group has not incurred any significant expenditure and/or has not accrued any amounts for environment remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Laws and regulations protecting the environment have generally become more stringent in recent years and could become more stringent in the future. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include:

(i) the exact nature and extent of the contamination at the mines and processing plants;

(ii) the extent of required clean-up efforts;

(iii) varying costs of alternative remediation strategies;

(iv) changes in environmental remediation requirements; and

(v) the identification of new remediation sites.

25 COMMITMENTS AND CONTINGENCIES *(continued)*

(c) Environmental contingencies *(continued)*

The amount of such future cost is not determinable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed for future environmental legislation cannot be reasonably estimated at present and could be material.

(d) Governmental and regulatory levies

The Group is subject to certain levies (mineral resources compensation, water and soil loss compensation, pollutant discharge fee and etc.) imposed by relevant government authorities in accordance with relevant PRC laws and regulations. Under such laws and regulations, the Group has fully fulfilled their responsibilities in paying the respective levies during the periods presented. The directors are of the opinion that the Group had no other material obligations or liabilities of such levies at the end of the reporting period.

26 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors. Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Basic salaries, allowances and benefits in kind	**3,244**	3,263
Retirement scheme contributions	**44**	39
	3,288	3,302

(b) Other related party transactions

During the periods presented, the Group entered into transactions with the following related parties.

Name of party	Relationship
Mr. Li Yanjun and Mr. Leung Hongying Li Ziwei	The ultimate controller
Hebei Aowei Industrial Group Co., Ltd. ("Hebei Aowei")	A company ultimately owned by Mr. Li Yanjun
Beijing Tong Da Guang Yue Trading Co., Ltd.	A company jointly owned by Mr. Li Yanjun

26 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Other related party transactions *(continued)*

Particulars of significant transactions between the Group and the above related parties during the periods presented are as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Property leasing charges *(note (i))*	**2,135**	915
Advances from related party *(note (ii))*	**250**	–
Advances to related parties *(note (ii))*	**448**	647

The outstanding balances arising from the above transactions at the end of the reporting period are as follows:

	At 30 June	At 31 December
	2017	2016
	RMB'000	RMB'000
Amounts prepaid to a related party *(note (i))*	**2,135**	–
Amounts due to related parties *(note (ii))*	**200**	–
Amounts due from related parties *(note (ii))*	**375**	422

Notes:

(i) Property leasing charges represent office rental paid and payable to Hebei Aowei.

(ii) Advances from a related party represent payments made by Mr. Leung Hongying Li ziwei on behalf of the Group. Advances to related parties represent payments made on behalf of Hengshi Holdings Limited, Aowei International Developments Limited, Hengshi International Investments Limited, and Mr. Li Yanjun. The amounts are unsecured, interest-free and have no fixed terms of repayment.

(iii) On 15 December 2015, the Group entered into a banking facility agreement with the aggregate amount of RMB160,000,000, including bank loan facilities of RMB110,000,000 and bank acceptance bill facilities of RMB50,000,000, respectively. The banking facility agreement has a term of 13 months from the date of signing and is collectively guaranteed by Laiyuan County Aowei Mining Investments Co., Ltd., Laiyuan County Jingyuancheng Mining Co., Ltd. and Laiyuan Xinxin Mining Co., Ltd., as well as the land use rights and properties of Beijing Tong Da Guang Yue Trading Co., Ltd., a company jointly owned by Mr. Li Yanjun.

The directors of the Company are of the opinion that the above transactions between the Group and the related parties were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

26 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Commitments with related parties

Pursuant to the property leasing agreement entered into by the Company and Hebei Aowei, the Company rents properties from Hebei Aowei as office premises.

The estimated total future minimum lease payments to Hebei Aowei under non-cancellable operating leases were payable as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year	**4,270**	4,270
After 1 year but within 5 years	**6,405**	8,540
	10,675	12,810

27 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2017

A number of amendments and new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted any new or amended standards in preparing this interim financial report. The Group has the following updates to the information provided in the last annual financial statements about the possible impacts of the new standards issued but not yet effective which may have a significant impact on the Group's consolidated financial statements.

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, *Financial instruments: Recognition and measurement*.

The Group has decided not to adopt IFRS 9 until it becomes mandatory on 1 January 2018.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting IFRS 15 on its financial statements.

IFRS 16, Leases

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee. IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group has decided not to early adopt IFRS 16 in its 2018 consolidated financial statements.