奧威控股有限公司
AOWEI HOLDING LIMITED

(Incorporated in the British Virgin Islands and continued in the Cayman Islands with limited liability)
(formerly known as Hengshi Mining Investments Limited 恒實礦業投資有限公司)
Stock Code: 1370

ANNUAL REPORT
2018

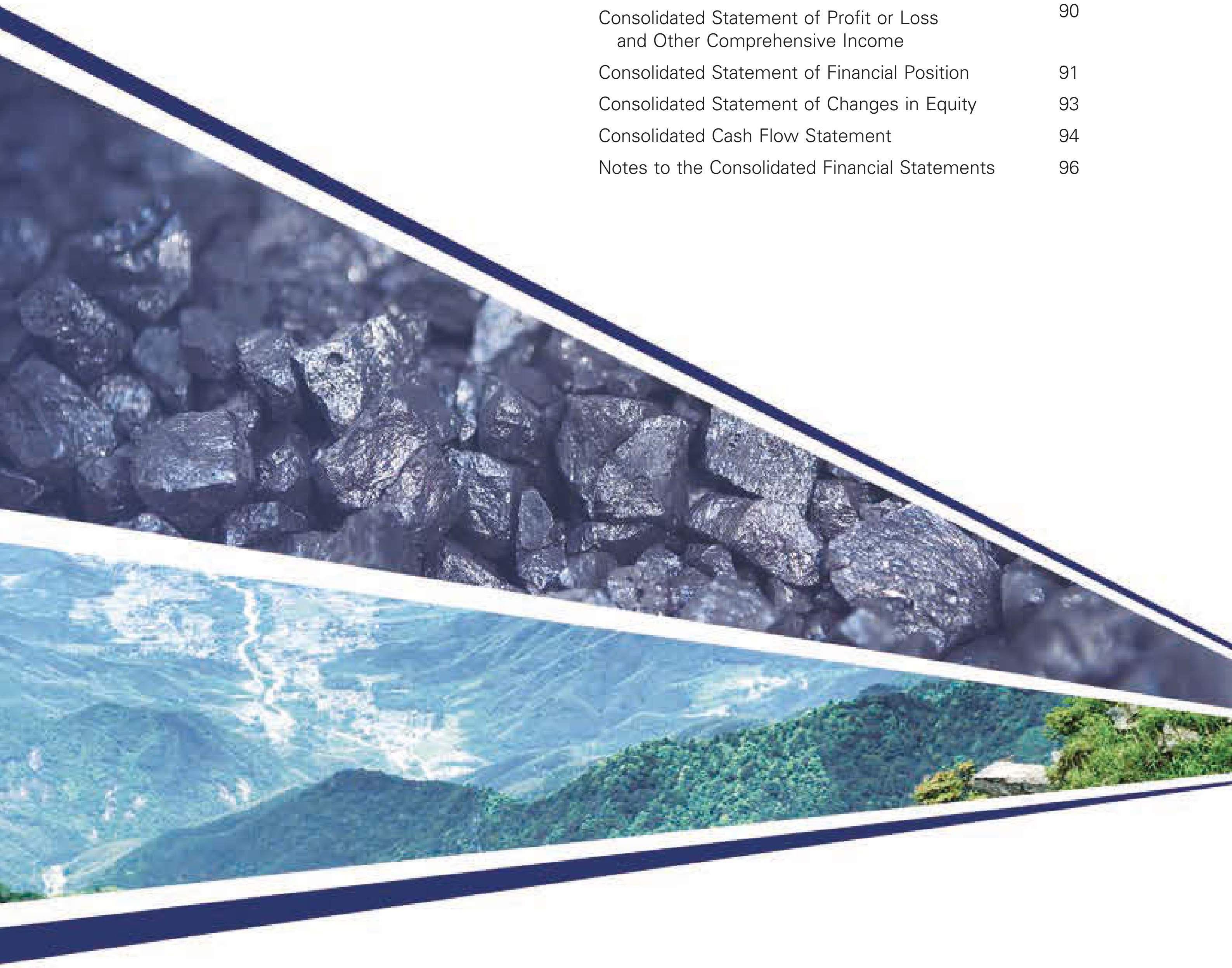
CORE VALUE

CREATE Wealth for the Society

CREATE Value for Our Shareholders

CREATE Prospects for Our Employees

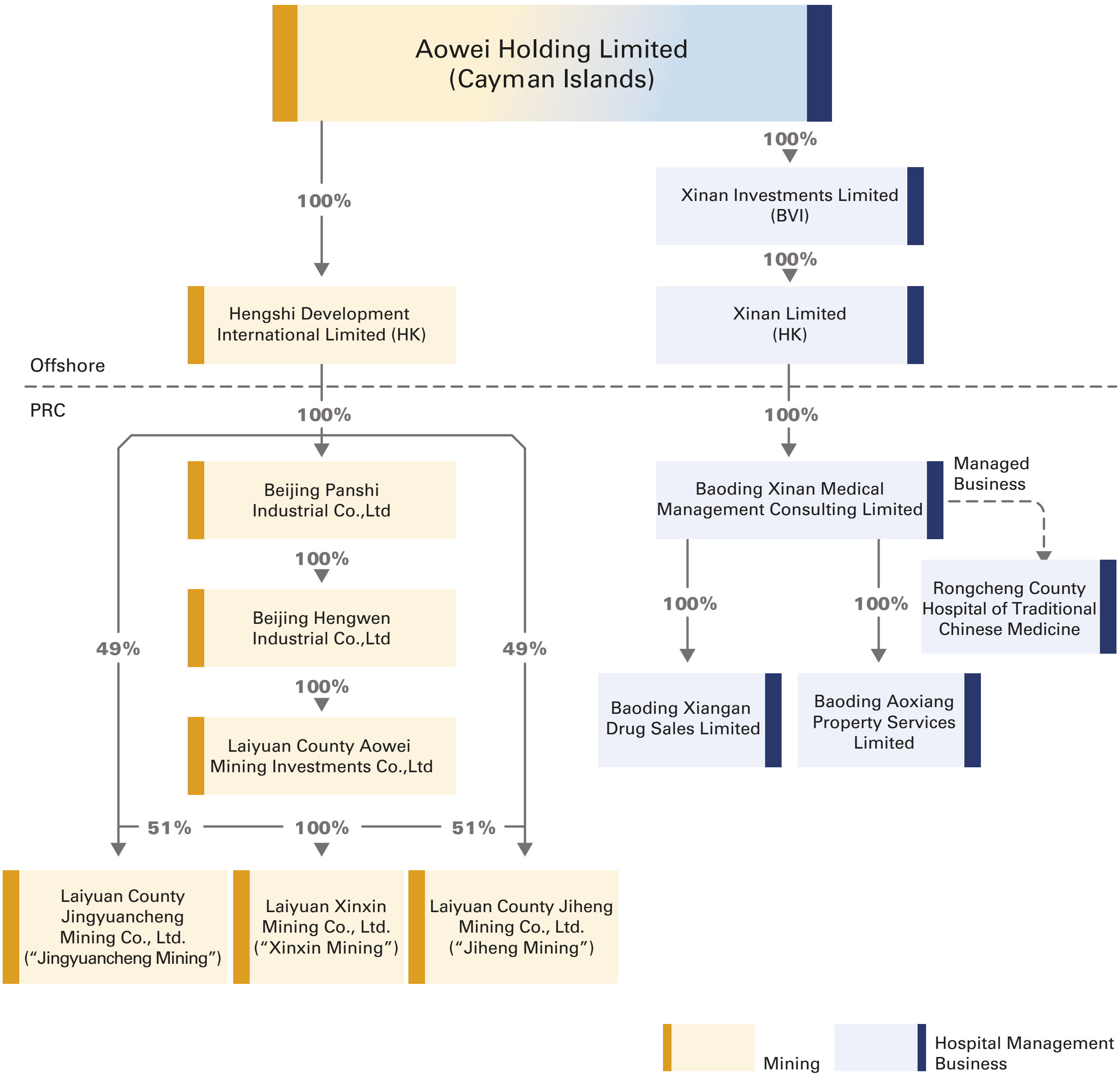
CONTENTS



CORPORATE INFORMATION

Aowei Holding Limited (formerly known as 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: 01370). On 28 November 2017, the name of the Company was changed from Hengshi Mining Investments Limited to Aowei Holding Limited.

The Company and its subsidiaries (collectively, the "**Group**" or "**we**" or "**our**") are principally engaged in two major businesses, namely (i) the exploration, mining, processing and trading of iron ore products and major products including iron ores, preliminary concentrates and iron ore concentrates, and (ii) the provision of hospital management services. 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**").



COMPANY'S STATUTORY CHINESE NAME

奧威控股有限公司

COMPANY'S STATUTORY ENGLISH NAME

Aowei Holding Limited

STOCK CODE

1370

REGISTERED OFFICE

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Hebei Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower
No. 248 Queen's Road East
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Hong Kong

AUTHORIZED REPRESENTATIVES

Mr. Li Yanjun
Ms. Kwong Yin Ping, Yvonne

COMPANY SECRETARIES

Ms. Kwong Yin Ping, Yvonne
Mr. Meng Ziheng (resigned as joint company secretary on 28 September 2018)

AUDITOR

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Certified Public Accountants
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HONG KONG SHARE REGISTRAR

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INVESTOR INQUIRES

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DIRECTORS

Executive Directors

Mr. Li Yanjun *(Chairman)*
Mr. Li Ziwei *(CEO)* (resigned as Vice Chairman and appointed as the Chief Executive Officer on 23 August 2018)
Mr. Huang Kai *(CEO)* (resigned as executive director and CEO on 23 August 2018)
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. Li Ziwei
Mr. Ge Xinjian

NOMINATION COMMITTEE

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

FIVE-YEAR FINANCIAL SUMMARY

SUMMARY DATA OF CONDENSED CONSOLIDATED INCOME STATEMENTS

	For the year ended 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	**854,783**	869,122	757,137	753,663	1,108,143
Cost of sales	**(562,525)**	(594,757)	(488,291)	(487,343)	(553,055)
Gross Profit	**292,258**	274,365	268,846	266,320	555,088
Distribution costs	**(21,093)**	(10,731)	(13,144)	(19,989)	(16,575)
Administrative expenses	**(91,779)**	(74,056)	(97,240)	(115,183)	(142,313)
Impairment losses	**(55,876)**	(499,055)	–	(393,637)	
Profit/(loss) from operations	**123,510**	(259,477)	158,462	(262,489)	396,200
Finance income	**7,674**	3,871	4,065	3,466	10,594
Finance costs	**(38,269)**	(45,574)	(43,577)	(27,248)	(40,026)
Net finance costs	**(30,595)**	(41,703)	(39,512)	(23,782)	(29,432)
Profit/(loss) before taxation	**92,915**	(301,180)	118,950	(286,271)	366,768
Income tax	**(51,373)**	(55,828)	(33,284)	51,190	(96,206)
Profit/(loss) for the year	**41,542**	(357,088)	85,666	(235,081)	270,562
Attributable to:					
Equity shareholders of the Company	**41,542**	(357,088)	85,666	(235,081)	263,000
Non-controlling interests	**–**	–	–	–	7,562
Basic and diluted earnings/(loss) per share	**0.03**	(0.22)	0.05	(0.16)	0.17

SUMMARY DATA OF CONDENSED CONSOLIDATED BALANCE SHEETS

	As at 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Assets and liabilities					
Non-current assets	**1,598,499**	1,483,069	1,977,855	1,680,776	1,904,946
Current assets	**623,256**	795,749	622,460	384,067	457,050
Non-current liabilities	**(223,696)**	(259,119)	(299,463)	(278,971)	(331,240)
Current liabilities	**(578,085)**	(642,511)	(569,625)	(351,868)	(373,495)
Total equity	**1,419,974**	1,377,188	1,731,287	1,434,004	1,657,261
Non-controlling interests	**–**	–	–	–	–
Equity attributable to equity shareholders of the Company	**1,419,974**	1,377,188	1,731,287	1,434,004	1,657,261

CHAIRMAN'S STATEMENT

The year of 2018 marks the continuous improvement in overall operating conditions of steel and iron ore industry and more significant recovery of the steel industry benefited from the achievements of reform on the supply side of the Chinese steel industry. The Group kept stable profitability through effective cost control, active sales and collection strategy. While maintaining stable operation of current iron ore business, the Group also kept a close eye on the development of Xiong'an New Area, in expectation of stable and diversified development opportunities in the Xiong'an New Area.

Dear shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Aowei Holding Limited (the "**Company**"), I hereby present the report of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 (the "**Year**" or the "**Reporting Period**") and extend our gratitude to the shareholders of the Company (the "**Shareholders**").

ANNUAL REVIEW

During the Year, the global economy slowed its momentum of growth. Meanwhile, the economy in the People's Republic of China (the "**PRC**") remained stable with good momentum. As shown by data of National Bureau of Statistics, in 2018, GDP of PRC reached RMB90.03 trillion, representing a year-on-year growth of 6.6%, and further promoted the shift of economic growth to consumer-driven high-quality growth. In recent years, the economic benefit of steel industry continued to be improved attributing to the continuous structural reform on the supply side in PRC. The goal of 30 million tons in cutting steel overcapacity for 2018 was completed in advance and comprehensive utilization rate of iron and steel production capacity had been recovered to a reasonable range of about 80%; the average index for supply of steel in PRC in the fourth quarter was 127.60, representing a year-on-year growth of 11.75%, and an annual index price of the year showed a rising trend; steel industry realized the profit of RMB402.93 billion, representing a year-on-year growth of 37.8%. On the whole, the overcapacity of the steel industry was obviously improved. Price fluctuation range of iron ore in PRC was narrowed, and overall operation of iron ore was stable attributing to the benefits of the steel industry in 2018.

Confronted with the complex and fickle business environment and increasingly severe environmental policy, the Group kept a close eye on the market development, strictly abided by the requirement of the environmental policy and enhanced its competitiveness of the Group in the mining market with effective cost control and proactive sales and collection policies. During the Reporting Period, the Group recorded a revenue of RMB854.8 million and a gross profit of RMB292.3 million representing an increase of RMB17.9 million compared with the corresponding period of last year.

FUTURE OUTLOOK

Looking forward to 2019, the Group is of the view that the Chinese steel and mining industry is still facing a complex and volatile operation environment. On the one hand, capacity release pressure faced by the supply side of the industry has been greatly relieved compared with the history. Besides, downward pressure of partial steel prices can be slowly released because of the continuous environmental protection and production limitation, possible year-on-year shrinkage of the output of electric furnace, and low inventory and other proactive factors. On the other hand, costs for transformation and operation of ultra-low emission facilities are increased to strongly support the steel market with overall costs. In general, frequent shocks will continue in the steel and mining industry.

In 2019, the Group will continue to improve the refined management level, and enhance its core competitiveness in the market through effective cost control, and active sales and collection strategies. Meanwhile, the Group will also strictly abide by the requirements of PRC's environmental protection policies and regulations, and reduce the negative impact of external factors on the company's operations. Furthermore, the Group will continue to promote the diversified development strategy, seize the infrastructure development opportunities brought by the development of the Xiong'an New Area, and actively promote the production and sales of the construction sand and gravel materials processed by solid waste of the Group's Yanheng Mining, providing the Group with new performance growth drivers. With the promotion of Beijing's non-capital function orderly undertaken in Xiong'an New Area, the Group will also actively promote the development of medical services by means of this opportunity to expand the medical business.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to express my sincere gratitude to all the Directors, management and the staff for their unremitting efforts and collaboration to realize the development strategy of the Group in a challenging business environment. I also would like to give my sincere thanks to the shareholders, customers, suppliers, banks and business partners for their great support this year.

The Group is taking a series of strategic measures to look for the best strategy to achieve the business objectives and sustainable development. I look forward to the unwavering support of all Shareholders.

Li Yanjun
Chairman of the Board

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

MINING BUSINESS

Market review

During the year under review, the global economy continued to grow at a moderate rate. Confronted with the complex international economic situation, PRC's economy continued to rise steadily in 2018 with GDP amounting to RMB90.03 trillion, representing a year-on-year growth of 6.6%. The steel industry made sustained efforts to promote the supply-side structural reform during the year under review. As a result, the industry structure constantly improved, the market order saw a noticeable improvement, and the economic benefits of the industry marked the highest in history.

In 2018, the target task of the steel industry to cut overcapacity was 30 million tons. It completed the ceiling target to cut overcapacity of 150 million tons two years ahead of time and achieved initial success. Benefiting from the further standardized market order, the enthusiasm of the compliance enterprises for production continued to improve. Significant progress was made in the capacity utilization rate of the steel industry, with the continued rise of the steel output in the Year. In 2018, the output of cast iron, crude steel and rolled steel (including duplicate steel) in PRC was 771 million tons, 928 million tons and 1.106 billion tons, representing a year-on-year increase of 3.0%, 6.6% and 8.5% respectively. The output of crude steel hit a record high. Domestic consumption of crude steel was 870 million tons, representing a year-on-year increase of 14.8%, reaching a record high in 2018. And the domestic self- sufficiency rate was above 98%. The steel price remained high in PRC for the Year. Trade frictions of the steel industry have increased. The steel exports in PRC have somewhat dropped as compared with last year, but the drop apparently slowed down. The steel composite price index was averagely 115.8 points, with a year-on-year increase of 7.6%.

Besides, according to the statistics of General Administration of Customs, in 2018, PRC totally exported 69.34 million tons of steel with a year-on-year decrease of 8.1%; steel export amount was RMB398.5 billion with a year-on-year increase of 7.7%; the average export price was RMB5,747/ton with a year- on-year increase of 17.2%. A total of 13.17 million tons of steel was imported with a year-on-year decrease of 1.0%; steel import amount was RMB108.3 billion with a year-on-year increase of 5.5%; the average export price was RMB8,225/ton, with a year-on-year increase of 6.5%. PRC totally imported iron ores and concentrates of 1,064 million tons, with a year-on-year drop of 1.02%, the first decrease of the import volume for iron ores and concentrates in eight years.

The drop of import volume for iron ores and concentrates is mainly affected by both the demand and the supply. In terms of demand, foreign mines are still in a cycle of increasing production. But due to environmental protection and production restriction in PRC, the operation rate of steel factories was negative, thus leading to an adverse effect on the entire demand of iron ore. Some enterprises began to increase the demand for steel scrap. Meantime, in order to increase production efficiency and reduce the coking ratio, steel factories had more demand for medium and high-grade ore and moderate demand for low-grade ore. Therefore, imported ores are mainly high-grade ores from Australia and Brazil, which increased the average price of imported ores.

The above situation makes the overall operation of the iron ore industry in PRC stable, and the financial performance of the Group continued to improve during the Year. Meantime, due to the reduction of assets impairment, the Group turned loss into gain in the annual results of 2018.

MAJOR BUSINESS RISKS

In the policy context of prevention of major risks and structural de-leveraging, the monetary policy of People's Bank of China in PRC has tightened to some extent. With the strengthening of financial supervision, the overall domestic financing environment and lending policy have also tightened. In particular, banks and financial institutions are likely to take more stringent credit measures to raise the cost and difficulty of financing so as to prevent and control credit risks, particularly in sectors with bleak economic prospects and overcapacity and high-risk sectors affected by environmental policies. The Group operates the business in an industry which is deeply affected by such prudent banking practices. The Group is aware of the difficulties and uncertainties in obtaining long-term bank financing and the cost of funds may also rise. Nevertheless, the Group will keep a close watch on the national dividend policy, maintain good communication and cooperation with banks and financial institutions, and maximize financial support from banks and financial institutions. As of 31 December 2018, the bank loans of the Group were not significantly affected.

In view of the market environment and uncertainties in the industry in which the Group operates the business, the Group has adopted prudent strategies in respect of trade and other receivables to conduct an overall evaluation of the customer's financial reimbursement and sustainability of the customers. These evaluations focus on the customer's records of making payments for due and current liability and the ability to make current payment and take into account of the information specific to the customer as well as the economic environment in which the customer operates. The Group generally delivers goods to its customers after receiving full payments in advance. Under certain circumstances, a credit period of up to 180 days is granted to customers that have a good track record with the Group and in good credit condition. The management of the Group also monitors the balances on a regular basis and takes appropriate actions against overdue balances. During the Year, several customers of the Group failed to repay the balance during the payment period, and in light of the current debt-paying ability of the customer, the Group made a provision of bad debt reserve of approximately RMB12.5 million for the trade receivables in a prudent manner. Notwithstanding the Group's provision of such expenses to the bad debt reserve, the Group still takes appropriate action to recover some or all of the relevant receivables so as to minimize the loss as far as possible.

As stated in previous annual reports of the Company, the production of Xinxin Mining has been suspended as from the end of 2015 due to the impact of the market environment and production costs. Although PRC has continued to promote supply-side structural reforms in recent years and the steel and iron ore industry has been significantly improved, the management of the Group has decided to continue to suspend the mining of Xinxin Mining after comprehensively considering the increasing tightening of domestic environmental policies and the scale and risk and return of Xinxin Mining. As at December 31, 2018, Xinxin Mining has been affected by the continuous suspension of production, relevant provision of impairment losses have been made by impairment test, and the benchmark data for evaluation of impairment test are shown in "Financial Review – Impairment Loss" in this section. In view of the assets impairment losses and various expenses incurred by the continuous suspension of production of Xinxin Mining, the Group plans to seek suitable buyers to sell all shares of Xinxin Mining in the future to improve the financial performance and realize certain capital inflow, so as to increase the efficiency of funds, which should be used for the future business development of the Group.

Due to uncertainties in the industry and price fluctuation, the Group has been proactively seeking for diversified development in order to prevent the performance fluctuation brought forth by the periodicity of the steel and mining industry. The Group finished the acquisition of Xinan Investment Limited and its subsidiary (the "**Target Group**") in July 2016, beginning its engagement in hospital management business. The construction and renovation projects of the entrusted hospital in the planning area were not carried out as scheduled in the absence of the planning of Xiong'an New Area during the Reporting Period. The management of the Group will also pay close attention to the policy developments of Xiong'an New Area. When the policy is clear, the Group will actively promote the construction and renovation projects of the entrusted hospital.

BUSINESS REVIEW

In 2018, the overall operation of the domestic iron ore industry has been stable benefiting from the continuous progress of the supply-side structural reform of the iron and steel industry by the government in PRC. As at 31 December 2018, the Group recorded the revenue of about RMB854.8 million, with a decrease of about RMB14.3 million or 1.6% compared with RMB869.1 million for the corresponding period of last year. As of 31 December 2018, the gross profit of the Group was approximately RMB292.3 million and the gross profit margin was approximately 34.2%, with an increase of 2.6% compared to the corresponding period of last year, which was attributable to 5.4% lower operating cost compared with the same period last year under the slight decrease in income while maintaining stability. As at 31 December 2018, the impairment losses amounted to approximately RMB55.9 million, which was mainly attributable to the decline in the long-term operating assets and the value in use of intangible assets due to the long-term suspension of production of Xinxin Mining, and the impairment provision on trade receivables of Jiheng Mining and expected credit loss of the Group. The total amount of distribution costs and administrative expenses was approximately RMB112.9 million, with an increase of approximately RMB28.1 million compared to the same period of the last year. As at 31 December 2018, the Group had net profit after tax of about RMB41.5 million, with an increase compared to the same period of the last year mainly because we did not record similar level of impairment losses in the Reporting Period as compared to last year.

During the Reporting Period, the production and sales of iron ore concentrates of the Group remain overall stable compared to the corresponding period of last year. For the year ended 31 December 2018, the Group's output of iron ore concentrates amounted to approximately 1,649.1kt, representing a decrease of approximately 1.9% compared to the corresponding period of last year, while the sales of iron ore concentrates was approximately 1,630.2kt, representing a decrease of approximately 4.0% compared to the corresponding period of last year. The average unit cash operating cost for iron ore concentrates was approximately RMB298.1 per ton, increased by about 2.4% compared to the corresponding period of last year.

The table below sets out the breakdown of output and sales volume for each operating subsidiary of the Group:

The Group	As at 31 December Output (Kt)			As at 31 December Sales volume (Kt)			As at 31 December Average sales price (RMB)			As at 31 December Cash operating costs (RMB)		
	2018	2017	% of change	2018	2017	% of change	2018	2017	% of change	2018	2017	% of change
Jiheng Mining												
Iron ore concentrates	**1,019.9**	970.2	5.1%	**1,001.0**	968.3	3.4%	**495.3**	482.7	2.6%	**161.1**	191.9	-16.1%
Jingyuancheng Mining												
Iron ore concentrates	**629.2**	710.4	-11.4%	**629.2**	729.9	-13.8%	**569.3**	550.1	3.5%	**520.2**	426.7	21.9%
Xinxin Mining												
Iron ore concentrate	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–
Total												
Iron ore concentrates	**1,649.1**	1,680.6	-1.9%	**1,630.2**	1,698.2	-4.0%	**523.9**	511.7	2.4%	**298.1**	291.2	2.4%

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 and Xinxin Mining was 66%.

Resources and Reserves

During the Reporting Period, the Group did not incur any new exploration expenses as no exploration was conducted.

In view of the fact that there were exploitation on the inferred resources of Zhijiazhuang Mine, Wang'ergou Mine and Shuanmazhuang Mine during the previous years of mining, it has been customary not to deduct the part of the inferred resources during the course of past calculations on reserves and resources, instead the amount of control resources and reserves were deducted directly, resulting in the difference in the amount of reserves and resources at the Reporting Period.

In addition, since there were weakly mineralised wall rocks during the exploration process of iron ores in Wang'ergou Mine and Shuanmazhuang Mine leading to a higher waste rate and causing difficulties in separate exploration, the actual exploited ores had a grade lower than the designed grade of 13.5% in the feasibility study report.

In view of the above, this report has been amended in accordance with the actual exploration by making use of the estimation for mineral ore reserves from the Competent Person's Report issued by SRK in November 2013, and has made re-assessment of reserve resources based on the topographical information as of 31 December 2018 and the original geological model to re-estimate the reserve resources.

The results of the ore reserves and resources in report are calculated by deducting the consumption estimated amount from 1 July 2013 to 31 December 2018 from the estimated amount of ore reserves and resources stated in the SRK's Competent Person Report in November 2013. The estimation assumptions contained in the SRK's Competent Person Report in 2013 were not changed and the figures were reviewed by internal experts of the Group.

The iron ore reserves which complied with JORC Code (2004 Edition) in respect of each mine of the Group as at 31 December 2018 are shown in the following table:

Company	Mine	Exploration approach	Reserve category	Ore reserves		
				(Kt)	TFe (%)	mFe (%)
Jiheng Mining	Zhijiazhuang	Open-pit	Probable	3,512	24.24	17.99
Jingyuancheng Mining	Wang'ergou	Open-pit	Probable	7,561	12.84	8.47
		Underground	Probable (graded above 12%)	18,077	15.87	8.50
	Shuanmazhuang	Open-pit	Probable	85,312	13.57	5.54
		Underground	Probable (graded above 12%)	35,723	16.00	7.11
Xinxin Mining	Gufen	Open-pit	Probable	50,672	12.74	6.23
		Underground	Probable (graded above 12%)	58,750	15.35	8.50
Total		Open-pit	Probable	147,057	13.50	6.23
		Underground	Probable (graded above 12%)	112,550	15.64	8.06
		Total	Probable	259,607	14.43	7.02

As at 31 December 2018, the iron ore resources which complied with JORC Code (2004 Edition) in respect of each mine of the Group are as follows:

Company	Mine	Controlled resource			Inferred resource		
		(kt)	TFe(%)	MFe(%)	(kt)	TFe(%)	MFe(%)
Jiheng Mining	Zhijiazhuang	3,512	25.52	18.94	2,827	29.42	25.06
Jingyuancheng Mining	Wang'ergou	51,856	13.96	6.71	26,630	12.81	5.88
	Shuanmazhuang	150,009	14.00	5.73	71,417	12.79	4.89
Xinxin Mining	Gufen	153,413	13.21	6.50	101,100	12.44	6.03
Total		358,790	13.77	6.33	201,974	12.85	5.87

Mines in Operation

The Group has finished the building infrastructure and stripping projects of all the iron ore mines in 2015. As a result, the Group had no additional expenditure on building infrastructure and stripping projects during the Reporting Period. Furthermore, since the average stripping ratio of the operating entities in PRC was lower than their respective remaining mines during the Reporting Period, no production and stripping costs were capitalised.

Zhijiazhuang Mine

Zhijiazhuang Mine, which is wholly owned and operated by Jiheng Mining, is located in Yangjiazhuang Village, Laiyuan County. The area covered by the mining license for Zhijiazhuang Mine is 0.3337 sq.km. Zhijiazhuang Mine has comprehensive basic infrastructures such as water, electricity, highway and railway. The annual mining capacity of Zhijiazhuang Mine was 2.4 Mtpa, and the dry processing capacity and the wet processing capacity were 4.20 Mtpa and 1.80 Mtpa, respectively, as at 31 December 2018.

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

Iron ore concentrates

Unit: RMB per tonne	For the year ended 31 December		% of
of iron ore concentrates	2018	2017	Change
Mining costs	**54.7**	79.3	-31.0%
Dry-processing costs	**18.4**	22.2	-17.1%
Wet-processing costs	**51.3**	51.1	0.4%
Administrative expenses	**19.5**	22.0	-11.4%
Distribution costs	**2.2**	–	–
Taxation	**15.0**	17.3	-13.3%
Total	**161.1**	191.9	-16.1%

During the Reporting Period, compared with the same period last year, the cash operation cost per unit of iron ore concentrates in Zhijiazhuang Mine is reduced, which mainly benefits from the reduction in mining costs, dry-processing costs, administrative expenses and taxation. The reduction of mining cost is mainly due to the reduction of stripping amount resulting from reduction of stripping ratio. The reduction of dry-processing costs is mainly due to the improvement of ore grade. The reduction of administrative expenses over the same period last year mainly benefits from the improvement of fine management and the reduction of various administrative expenses paid to the government. Compared with the same period last year, the reduction of taxation is mainly due to the reduction in the resource tax rate and value-added tax rate.

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 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 of 31 December 2018, 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.

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

Iron ore concentrates

Unit: RMB per tonne	For the year ended 31 December		% of
of iron ore concentrates	2018	2017	Change
Mining costs	**262.1**	210.9	24.3%
Dry-processing costs	**111.2**	98.2	13.2%
Wet-processing costs	**62.1**	57.1	8.8%
Administrative expenses	**33.6**	23.9	40.6%
Distribution costs	**30.1**	15.1	99.3%
Taxation	**21.1**	21.5	1.9%
Total	**520.2**	426.7	21.9%

During the reporting period, the cash operating costs of iron ore concentrates for Wang'ergou Mine and Shuanmazhuang Mine increased compared to the corresponding period of last year, which was mainly due to the increase of stripping ratio from mining; the lower grade of ore and concentrates from dry water selection, as well as increased fee in product delivery and environmental protection and safety born by the Jingyuancheng Mining.

Gufen Mine

Gufen Mine, which is owned and operated by our wholly-owned subsidiary, Xinxin Mining, is located in Shuibao Village, Laiyuan County 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. As of 31 December 2018, Gufen Mine's annual mining capacity was 3.90 Mtpa, and the dry processing capacity and the wet processing capacity were 5.75 Mtpa and 1.60 Mtpa, respectively.

After considering the market outlook for iron ore, the production and operation of Xinxin Mining, especially comprehensively estimating the mining, processing costs and the risk and return of the recovery of the Xinxin Mining with smaller scale, suspension on production of Xinxin Mining since the end of 2015 has been carried out so far. In light of Xinxin Mining continued to suspend production during the Reporting Period resulting the postponement of mine field development plan, the Group confirmed indications of further impairment of Xinxin Mining. In light of the asset impairment loss due to the ongoing suspension on production of Xinxin Mining as well as various charges incurred during the suspension, the Group is considering the disposal of Xinxin Mining to improve its financial performance and ensure the stability of its cash flow, so as to provide adequate financial resources for the future business development of the Group.

MEDICAL SERVICE

Business Review

After the completion of the acquisition on 13 July 2016 (for details, please see the announcements of the Company dated 5 and 13 July 2016), the Group possessed hospital entrustment management business. Currently, the hospital entrustment management business is mainly operated by the Group's subsidiary Baoding Xi'nan Medical Management Consulting Company Limited ("**Baoding Xinan**").

Baoding Xinan is principally engaged in the hospital entrustment management business of Rongcheng County Hospital of Traditional Chinese Medicine (容城縣中醫醫院) (the "**Entrusted Hospital**") in Baoding, Heibei Province. 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 existing employees in total, among which 156 employees are healthcare personnel. The Entrusted Hospital has 150 beds in total and 13 first-level clinical departments.

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.

The above-mentioned Entrusted Hospital is located in the new administrative district of the Xiong'an New Area. Before implementation of the planning for the Xiong'an New Area, the local government prohibited the approval and construction of non-relevant projects. As a result, the renovation and expansion of the Entrusted Hospital have not been proceeded so far. During the Reporting Period, the entrustment fee of the Group is about RMB0.8 million, which is confirmed based on the income generated by the above-mentioned Entrusted Hospital in the same period of 2015, that's, about RMB12.7 million. 6% of the increased income of the income generated by the Entrusted Hospital during the Reporting Period compared to the same period of 2015 is counted as the entrustment fee. During the Reporting Period, the number of patient consultation visits of the Entrusted Hospital was approximately 90,034 times, which increased by approximately 4,354 times compared to the corresponding period of the last year; incomes from clinic and hospital fees were approximately RMB38.3 million, which increased by approximately RMB7.5 million compared to the corresponding period of the 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 year ended 31 December		Rate of
	Unit	**2018**	2017	increase
Patient visits	times	**90,034**	85,680	5.1%
Inpatient visits	times	**3,616**	3,073	17.7%
Outpatient visits	times	**86,418**	82,607	4.6%
Average spending per inpatient visit	RMB	**5,609**	5,272	6.4%
Average spending per outpatient visit	RMB	**209**	177	17.8%
Average length of stay	day	**7**	7	1.3%
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 had 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 Reporting Period, the Group recorded no major safety accident.

Owing to the deteriorating air quality in Mainland China, especially in Beijing and Hebei Province, it is anticipated that the Chinese government will inevitably tighten the relevant environmental policies over resource mining, steelmaking, cement production and other heavily polluting 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. Meanwhile, we will evaluate the impact from updated regulatory requirements on Company's operation and the measures to respond from time to time.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had 830 full-time employees in total (31 December 2017: 888 employees). For the year ended 31 December 2018, expenses of employees' benefit (including salaries, wages, pension plan contributions and other benefits) were approximately RMB75.2 million (2017: RMB75.5 million). Details are set out in Note 5(b) to the financial statements of this annual report.

Remuneration policy of the Group is determined based on performance, experience, competence and the level of comparable companies in the market. Remuneration packages generally include salaries, housing allowances, pension plan contributions and discretionary bonuses which are in relation to the performance of the Group.

FINANCIAL REVIEW

Revenue

The revenue of our Group during the Reporting Period was approximately RMB854.8 million, representing a decrease of approximately RMB14.3 million as compared to the corresponding period of last year, which was mainly attributable to the decrease of sales volume of iron ore concentrates of the Group during the Reporting Period over the corresponding period last year.

Cost of sales

The Group's cost of sales for the Reporting Period was approximately RMB562.5 million, representing a decrease of approximately RMB32.3 million as compared to the corresponding period of last year, which was mainly attributable to combined influence of the decrease of sales volume of iron ore concentrates and the decrease of unit operating cost.

Gross profit and gross profit margin

The gross profit of the Group for the Reporting Period was approximately RMB292.3 million, representing an increase of approximately RMB17.9 million or 6.5% as compared to the corresponding period of last year, which was mainly attributable to a decrease of 5.4% of operating cost as compared to the corresponding period of last year in the condition that revenue remained stable with a slight decrease; the Group's gross profit margin increased slightly during the Reporting Period from 31.6% to 34.2% as compared to the corresponding period of last year.

Sales and distribution expenses

The Group's sales and distribution expenses for the Reporting Period were approximately RMB21.1 million, representing an increase of approximately RMB10.4 million or 96.6% as compared to the corresponding period of last year, which was mainly due to the increase of the total sales volume of the products which the Group were responsible for the delivery to customers and the related transportation cost. Sales and distribution expenses included transportation expenses, labour cost and other expenses.

Administrative expenses

The Group's administrative expenses for the Reporting Period were approximately RMB91.8 million, representing an increase of approximately RMB17.7 million or 23.9% as compared to RMB74.1 million in the corresponding period of last year. The increase of administrative expenses was mainly attributable to that administrative expenses were offset by margin guarantee of RMB8.5 million obtained by the Group according to profit guarantee terms in the share purchase agreement signed by the Group and Jovial Link Investments Limited (the "**Guarantor**") in 2017. The Guarantor has no profit guarantee obligation in favour of the Group for the 2018 financial year.

Impairment losses

The Group recorded an impairment loss of approximately RMB55.9 million during the Reporting Period, the calculation of which was based on the valuation at the end of the Reporting Period of the recoverable amount of the related assets for the Reporting Period. Among the above mentioned impairment loss, the impairment loss of approximately RMB29.5 million was recorded for property, plant and equipment of Xinxin Mining, and the impairment loss of approximately RMB13.9 million from intangible assets. In addition, the bad debt provision for trade receivables of Jiheng Mining was approximately RMB11.7 million, and the matrix provision of bad debts for expected credit loss of the Group was approximately RMB0.8 million. Set out below are the reasons, details of events and standard data for evaluating impairment test leading to the recognition of impairment loss during the Reporting Period:

Xinxin Mining

The impairment loss of Xinxin Mining was first recognised by the Company at the end of 2015. The impairment loss of Xinxin Mining in 2015 was mainly due to the significant drop of iron ore price. The Group engaged an independent valuer to conduct the valuation (the "**2015 Xinxin Valuation**") on the value of the long-term assets, including property, plant and equipment, construction in progress, intangible assets of Xinxin Mining at the valuation benchmark date, i.e. 31 December 2015. According to the 2015 Xinxin Valuation, the impairment loss of Xinxin Mining in 2015 amounted to approximately RMB59.9 million.

In 2016, although the iron ore price experienced a significant increase, 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 and a comprehensive consideration of the relatively small scale and the benefits and risks of the resumption of production of Xinxin Mining, the management of the Group decided to continue the suspension of production of Xinxin Mining's mining and processing activities. As the iron ore price increased continuously at the end of 2016, no impairment loss in respect of the assets in relation to Xinxin Mining was recognized for the year ended 31 December 2016.

At the end of 2017, due to two-year suspension of production of Xinxin Mining, the Group considered that there may be further indication of impairment loss. The Group engaged an independent valuer to conduct valuation (the "**2017 Xinxin Valuation**") on the long term assets of Xinxin Mining such as property, plant and equipment, construction in progress and intangible assets using as of 31 December 2017 as the valuation benchmark date to calculate the new use value of Xinxin Mining. Based on the 2017 Xinxin Valuation, the Group recognised an impairment loss amounted to approximately RMB37.3 million in respect of property, plant and equipment and approximately RMB17.4 million in respect of intangible assets.

At the end of 2018, due to three-year suspension of production of Xinxin Mining and production is predicted not to be recovered in the next year, the Group engaged an independent valuer to conduct valuation (the "**2018 Xinxin Valuation**") on the long term assets of Xinxin Mining such as property, plant and equipment, and intangible assets using 31 December 2018 as the valuation benchmark date to calculate the new use value of Xinxin Mining. Based on the 2018 Xinxin Valuation, the Group recognised an impairment loss amounted to approximately RMB29.5 million in respect of property, plant and equipment and approximately RMB13.9 million in respect of intangible assets.

Details in relation to independent valuation of asset impairment on Xinxin Mining:

(a) Basis and assumptions adopted in 2018 Xinxin Valuation:

1. Transaction assumption
   Transaction assumption assumes that all assets to be valued are in the course of transactions such that the valuer values the assets by simulating a market based on their transaction conditions. The transaction assumption is the most basic prerequisite assumption in an asset valuation.

2. Open market assumption
   Open market assumption assumes that for assets traded or proposed to be traded in the market, both trading parties are in equal status and have opportunities and time to obtain sufficient market information so as to make rational judgments on the functions, usage and trading prices of the assets. The open market assumption is based on the situation where the assets can be traded in the open market.

3. Assumption on continuing operation of the assets
   Under the assumption on continuing operation of the assets, the appraisal approach, parameters and basis of the appraisal are determined on the basis that the assets will continue to be used under their current usage, methods, scale, frequency and in the same environment or will be used subject to changes thereto.

4. No material change of external environment
   The valuation assumed that the external economic environment remains unchanged and there are no material changes in the current macroeconomic conditions in the PRC as at the valuation benchmark date.

5. No material change in social-economic environment
   There are no material changes in either the social-economic environment where the enterprise operates or the tax policy and tax rates enacted.

6. Valuation based on actual amount of stocks and prevailing market prices
   The valuation was based on the actual amount of stocks of all assets as at the valuation benchmark date, and the prevailing market prices of relevant assets are based on the effective domestic prices at the valuation benchmark date.

7. Accuracy and completeness of information
   The valuation assumed that the basic information and financial information provided by the instructing party and the entity being appraised were true, accurate and complete.

8. Scope of valuation
   The scope of the valuation was based only on the valuation reporting forms provided by the entrusting party and the holder of property rights, without taking into account the contingent assets or contingent liabilities which may have existed but were not listed by the entrusting party and the holder of property rights.

9. Exclusion of inflation factors
   Inflation was not considered in the estimation of parameters in the valuation.

(b) The valuation method used in 2018 Xinxin Valuation was as follows:

The valuation methods conducted generally include market method, discounted cash flow method and cost method. According to Appraisal Guide for Financial Reporting issued by the China Appraisal Society, the cost method does not apply to the asset impairment testing under the accounting standards.

The assessment conducted in relation to Xinxin Mining is to serve the impairment test of the fixed assets group and mining rights of Xinxin Mining. From the specific purpose of the assessment and the relevant provisions of the Accounting Standards for Business Enterprises, the market method is usually adopted for the net amount of the fair value of the assets minus the disposal expenses. However, due to the limited transaction cases of mines under construction, it is difficult to collect fair trading data. Therefore, it is not appropriate to adopt the market method to determine the recoverable amount of assets under the current valuation. The discounted cash flow method is a method of assessing the value of assets by estimating the present value of the future expected returns of the assets being assessed. The present value of the estimated future cash flow of assets is the discounted value of expected future cash flows of assets that an enterprise holds through production and operation or holds under liabilities with normal operating conditions. As both the cost method and market method are not appropriate for the impairment assessment of Xinxin Mining, the 2018 Xinxin Valuation has adopted the discounted cash flow method. Taking into consideration of the risk-free return, the market's expected return, Beta values and risk adjustment coefficients, the pre-tax discount rate was determined as 11.40%. In the valuation model, reasonable prediction was made based on the reasonable life of mine, recoverable reserves of mines, production capacity of mines, and waste rate. The production period for the 2018 Valuation Report is from 2020 to 2038.

There was no material changes in the relevant basis, assumptions and valuation techniques adopted by Xinxing Mining in 2018 as compared with historical periods.

Trade receivables and expected credit loss

The main reason for the impairment loss of trade receivables is due to the default of Laiyuan County Xiongxin Mining Co., Ltd. ("**Xiongxin Mining**") on the trade receivables generated by Jiheng Mining for its supply of preliminary concentrates. As at 31 December 2016, Xiongxin Mining owed about RMB27.3 million in arrears to Jiheng Mining on preliminary concentrates and as at 31 December 2017 the default balance was about RMB17.3 million. During the period, the Group has reclaimed the relevant arrears in various ways, and as at 31 December 2018, RMB11.7 million has not been recovered. In view of the current solvency of Xiongxin Mining, the Group has calculated and withdrawn the trade receivable to bad debt reserve in a prudent manner. Although such expenses have been withdrawn to bad debt reserve, the Group will still try to recover the relevant arrears with greater efforts, including but not limited to the legal actions.

In addition, as a result of the changes in international accounting standards, the Group, in accordance with the new International Financial Reporting Standards No. 9 – Financial Instruments, provides for its expected credit loss matrix to bad debt reserve of about RMB0.8 million.

Hospital management business after acquisition of Xinan Investments Limited ("Xinan")

In the first half of 2017, due to the announcement of the establishment of Xiong'an New Area, the new construction and renovation projects of the entrusted hospital in the planning area were postponed. The management of the Group believed that there were signs of impairment loss in relation to Xinan and the recognition of the impairment loss was based on the assessment of the recoverable amount of the relevant assets as at 30 June 2017 at the end of the relevant reporting period. The goodwill impairment loss of Xinan amounted to RMB10.5 million.

At the end of 2017, as the planning of Xiong'an New Area had not yet been implemented, the newly constructed and renovated projects of the entrusted hospital in the planning area cannot be launched on schedule. The business of Xinan did not achieve the Group's expectation at the time of acquisition. The Group instructed an independent valuer to conduct valuation (the "**2017 Xinan Valuation**") in respect of Xinan using 31 December 2017 as the valuation benchmark date. Based on the 2017 Xinan Valuation, the Group recognized a goodwill impairment loss amounted to approximately RMB73.4million. For details of the valuation of Xinan, please refer to the 2017 Annual Report of the Company.

At the end of 2018, as the planning of Xiong'an New Area had been implemented, the management of the Group believed that the newly constructed and renovated projects of the entrusted hospital can be implemented and promoted according to the plan. Nevertheless, the Group engaged an independent valuer to conduct valuation (the "**2018 Xinan Valuation**") in respect of Xinan using 31 December 2018 as the valuation benchmark date after prudent consideration. Based on the 2018 Xinan Valuation, the Group did not recognize its impairment loss.

Finance costs

The Group's finance cost for the Reporting Period was approximately RMB38.3 million, representing a decrease of approximately RMB7.3 million or 16.0% as compared to the corresponding period of last year. Finance cost included interest expenses of bank borrowings, discounted expenses, other finance expenses and the amortization of discounted expenses of long-term payables.

Income tax expenses

The Group's income tax expenses for the Reporting Period were approximately RMB51.4 million, while the income tax expenses for the corresponding period of last year were approximately RMB55.8 million. Income tax expenses comprise the sum of current tax payable and deferred tax, among which current tax payable was approximately RMB69.5 million.

Profit (loss) for the year and total comprehensive income for the year

The Group recorded the net profit after tax during the Reporting Period of approximately RMB41.5 million, representing an increase compared to the corresponding period of last year, which was mainly due to sharp decrease of recorded impairment loss of asset of the Group during the Reporting Period.

Property, plant and equipment

The property, plant and equipment, net of the Group as of 31 December 2018 were approximately RMB663.5 million, representing a decrease of approximately RMB92.0 million or 12.2% as compared to the corresponding period of last year. The change was mainly due to the impairment provision made for depreciation by the Group, the continuous production suspension of Xinxin Mining, and the provision for impairment and depreciation of property, plant and equipment.

Intangible assets

Intangible assets of the Group mainly include mining rights and related premium paid to obtain the mining rights, and the hospital entrustment management right newly acquired. As of 31 December 2018, the net intangible assets of the Group were approximately RMB312.7 million, representing a decrease of approximately RMB57.0 million compared to the corresponding period of last year, which was mainly due to the amortisation of intangible assets of the Group and continuous production suspension of Xinxin Mining, leading to an impairment provision made for its mining right.

Inventories

As of 31 December 2018, inventories of the Group amounted to approximately RMB121.0 million, representing an increase of approximately RMB29.4 million or 32.1% as compared to the corresponding period of last year. It was mainly attributable to a slowdown in downstream demand at the end of the Reporting Period, a decrease of the price of iron ore, and implementation of careful sales strategy by the Group.

Trade and other receivables

As of 31 December 2018, trade receivables of the Group amounted to approximately RMB60.3 million, representing a decrease of approximately RMB29.3 million as compared to that of the corresponding period of last year. The decrease was mainly attributable to the implementation of active sales and payment by the Group according to market conditions. As of 31 December 2018, other receivables of the Group amounted to approximately RMB375.9 million, representing an increase of approximately RMB169.9 million as compared to that of the corresponding period of last year. The increase was mainly due to an increase in the Group's prepayments to third party contractors.

Trade and other payables

As of 31 December 2018, trade payables of the Group amounted to approximately RMB43.7 million, representing a decrease of approximately RMB66.7 million as compared to that of corresponding period of last year. The decrease was mainly attributable to settlement of trade funds to major suppliers.

As of 31 December 2018, other payables of the Group amounted to approximately RMB68.6 million, representing a decrease of approximately RMB9.1 million as compared to that of corresponding period of last year. The decrease was mainly attributable to a decrease in turnover tax and resource tax payable.

Analysis of cash usage

The summary of our Group consolidated cash flow statement for 2018 is set out as follows

	As of 31 December	
	2018	2017
	RMB'000	RMB'000
Net cash flows (used in)/generated from operating activities	**(182,538)**	60,480
Net cash flows generated from/(used in) investing activities	**244,990**	(21,049)
Net cash flows used in financing activities	**(63,296)**	(19,027)
Net (decrease)/increase in cash and cash equivalents	**(844)**	20,404
Cash and cash equivalents at the beginning of the period	**65,745**	46,577
Effect of foreign exchange rate changes to cash and cash equivalents	**1,083**	(1,236)
Cash and cash equivalents at the end of the period	**65,984**	65,745

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

The Group's net cash flow used in operating activities for the Reporting Period amounted to approximately RMB182.5 million, which mainly included profit before income tax amounting to RMB92.9 million, together with certain non-cash expense (such as depreciation amortization, impairment loss, net loss from asset disposed of) totaling approximately RMB197.5 million and net interest expense amounting to approximately RMB30.6 million, net of the increased inventory of RMB29.5 million, increased trade and other receivables of approximately RMB412.8 million, decreased trade and other payables of RMB12.2 million and net of income tax paid amounting to approximately RMB49.2 million.

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

Net cash flow from the investment activities of the Group during the Reporting Period was approximately RMB245.0 million. The above mentioned figure was arrived by the recovery of term deposits and interest income which amounted to approximately RMB287.7 million deducting the payment of RMB42.7 million for the ore prices of Jiheng Mining, the fee for plant and equipment technical transformation project of Jingyuancheng Mining dry selection mining and other fees of sporadic projects.

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

The Group's net cash outflow from financing activities for the Reporting Period was approximately RMB63.3 million, which mainly represented a total of RMB280.0 million of newly raised loans, repayment of bank borrowings of approximately RMB320.0 million and payment of bank interests of approximately RMB23.3 million.

Cash and borrowings

As at 31 December 2018, the balance of cash and cash equivalents of the Group amounted to approximately RMB66.0 million, representing a slight increase of approximately RMB0.3 million or 0.5% as compared with the corresponding period of last year.

As at 31 December 2018, bank loans of the Group was RMB280.0 million, representing a decrease of RMB40.0 million or 12.5% as compared with the end of last year. The interest rates of the borrowings as at 31 December 2018 ranged between 4.35% to 6.53% per annum, same as corresponding period of last year. All of the borrowings were accounted for as current liabilities of the Group (as at 31 December 2017: 100%). The above borrowings were denominated in RMB.

Save as disclosed above, the Group has no outstanding mortgages, pledges, bonds or other loan capital (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 was no material change in the liabilities and contingent liabilities of the Group since 31 December 2018 and up to the date of this report. As at 31 December 2018, the overall financial status of the Group remained in a good condition.

Restricted deposits

Restricted deposits of the Group generally represent bank deposits, deposits pledged as guarantee for bills payables and other deposits during the Year. As of 31 December 2018, there was no restricted deposits (as of 31 December 2017: bank deposits within one year of approximately RMB279.8 million, deposits pledged as guarantee for bills payables of approximately RMB60.0 million and other deposits of approximately RMB3.0 million).

Gearing ratio

The gearing ratio of the Group as at 31 December 2018 was approximately 36.1% represented a decrease of approximately 3.5% as compared with last year. The gearing ratio was calculated by dividing the total debts by total assets.

Capital expenditure

The Group's total capital expenditure amounted to approximately RMB42.7 million, which consisted of instalments for mining right costs, technical transformation of dry selection plant and other sporadic projects.

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 their fair value interest rate risk is 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, the PRC government may take actions to affect the exchange rate exposure, which may affect the Group's net assets, earnings and any dividend declared if such dividends are translated into foreign currency. The Group had no hedging in respect of the exchange rate risk.

Significant acquisitions and sales of subsidiaries and affiliated companies

As at 31 December 2018, the Group had no any significant acquisitions and disposals of subsidiaries and affiliated companies.

Pledge of assets and contingent liabilities

As at 31 December 2018, the Group's bank loans of RMB180.0 million and RMB100.0 million were secured by the Group's mining rights, land use rights and properties and by the land use rights and properties of a related party of the Group, respectively.

The carrying amounts of the Group's mining rights, land use rights and properties pledged for bank loans were approximately RMB0.1 million, RMB10.7 million, and RMB43.1 million respectively as at 31 December 2018. The Group had no material contingent liabilities as at 31 December 2018.

Significant investments held

Save as disclosed in this report, there were no significant investments held by the Company as at 31 December 2018.

FUTURE OUTLOOK

With the rising of anti-globalization wave, the world trade is interfered by protectionism, and the Federal Reserve has not yet completely withdrawn from the process of raising interest rates, resulting in potential uncertainty of the global economic growth in 2019. In the context of a general recession in the external economy, the Chinese government started the supply-side reform timely a few years ago to speed up the clearing of the low -end overcapacity. Last year, the Chinese government began to reduce taxes and fees on a large scale, creating a good macro environment for fostering new momentum for the economic growth. Besides, while controlling the leverage of monetary policy, the central government will deploy appropriate fiscal policy stimulus to stabilize economic growth and focus on investment in infrastructure areas related to the long-term development of the national economy. Under the common influence of this series of policy combinations, it is expected that PRC's macro-economy will maintain a steady growth trend in 2019.

In addition, a mining company of Brazil, one of the world's three largest iron ore producers, recently suffered a dike breach at an iron ore waste pit dam. The company has closed some of its projects, and so it is expected to have an impact on the global supply of iron ore. The increase in demand and the decrease in supply will keep the global iron ore supply in a tight balance in 2019, forming a firm support for iron ore prices.

The Group will actively improve its operational and financial performance, maintain continuous control over cash operating costs, consider to dispose of the suspended facilities in order to reduce the asset impairment and charges and ensure the stability of the Group's cash flows in order to provide adequate financial resources for the transformation of the Group's business. The Group also advocates national policies and environmental protection concepts, takes advantage of existing resources and regional advantages, actively promotes the projects of Jiheng Mining on the comprehensive utilization of solid wastes, and strives to enhance the long-term shareholder value.

In 2019, the prelude to the construction of Xiong'an New Area will be officially opened. According to the news released in PRC's NPC & CPPCC in 2019, the top-level design planned in Xiong'an New Area Plan has been completed and will be transferred to a large-scale substantive construction phase. The large-scale construction of a city in the short term will create a great historic opportunity for infrastructure-related industries in the Hebei Province region. In addition, the Second Session of the 13th People's Congress of Hebei Province also mentioned that Xiong'an New Area will orderly undertake the non-capital functions of universities, scientific research institutes, medical institutions, enterprise headquarters, financial institutions, and other institutions of Beijing in 2019, and speed up the convergence and landing of high-end and high-quality resources, which will introduce a number of medical institutions, universities and other high-quality enterprises to Xiong'an New Area. The Group will pay close attention to the development status and policy trends of Xiong'an New Area, fully grasp the development trend of Xiong'an New Area, and seek stable and diversified development opportunities. The Group will expand market resources for the Group's various businesses including medical business.

With the formal start of the construction of Xiong'an New Area, it is bound to promote the demand for construction sand and stone in this area. The Group will actively promote the solid waste utilization Projects (as defined below) of Jiheng Mining, so as to explore the market and channels of selling construction sand and stone produced by Jiheng Mining in Xiong'an New Area.

At the same time, the Group is also committed to promoting the development of medical business, making full use of regional and medical resources advantages, and expanding the hospital entrustment management network through cooperation or mergers and acquisitions, in order to more securely promote the Group's continued transformation into medical business.

BUSINESS STRATEGY

Confronted with the severe market environment and operating pressure and the increasingly stringent environmental policy of the Chinese government, the Group continues to adopt prudent strategies and measures to improve the operational efficiency of the Group, and avoid or reduce the risk of operation of the Group as much as possible so as to achieve business objectives and sustainable growth, being committed to the maintenance of shareholder value.

The Group will pay close attention to the market changes and policy trends of the steel industry and iron ore industry, reduce operating costs and improve production efficiency by optimizing management organization and improving technological process, so as to consolidate the low-cost competitive advantage of the Group, and enhance its continued profitability during periods when the iron ore prices are low. The Group will ensure the sustainable development of its business while maintaining strict compliance with the laws and regulations of Chinese environmental protection policy. The Group is fully aware of the importance of the relations with customers and suppliers for the sustainable development of its business. The Group has always adhered to the business principles of good faith and sincerity. Through long-term cooperation with major customers and suppliers, and the good communication mechanism established with them, the Group will keep the good business relations with them on the basis of mutual benefit. At the same time, in order to prevent the loss of customers and suppliers from adversely affecting the Group, the Group will also expand new customers and suppliers through selection criteria to ensure the market share and sustainable development of the Group.

Following the policy guidance of the government, the Group will actively promote the comprehensive utilization of solid wastes in the future, make full use of the waste stones generated in the mining and production process of Jiheng Mining, expand the production and sales of construction sand and stone business, build the mode of production of circular economy so as to realize the economic benefits, create the value for the shareholders of the Company, and effectively manage and restore the regional ecological environment, promote the energy saving and emission reduction, and realize the sustainable development of the mine resources.

The Group will actively promote the development of medical business. Due to the effects that the planning policy of Xiong'an New Area has not been fully launched, the construction and renovation projects of the entrusted hospital of the Group cannot be promoted so far, so that the profitability of the Group has not reached the expected level. The Group will pay close attention to the policy trends of Xiong'an New Area and the hospital entrusted business, continue to provide better quality medical services for patients through the continuous introduction of expert teams, enhancing the management and operation capability of medical institutions and raising the overall medical technology level of the Entrusted Hospital. Meanwhile, the Group will plan to take advantage of the integrated construction of Beijing, Tianjin and Hebei, and actively expand the hospital management network through mergers and acquisitions or other cooperative measures in the future, so as to create long-term and stable returns for shareholders.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHIES OF EXECUTIVE DIRECTORS

Mr. Li Yanjun (李豔軍), aged 54, is our executive Director and the chairman of the Board, and is mainly responsible for the overall business plan, strategies and major decisions of our Group. Mr. Li is the founder of the Group, and through the positions he held at Hebei Aowei Industrial Group Co., Ltd. ("**Aowei Group**"), Laiyuan County Aoyu Steel Co., Ltd. (淶源縣奧宇鋼鐵有限公司) ("**Aoyu Steel**") and the Group, Mr. Li has over 20 years of experience in the iron ore mining, steel industry and corporate management. Mr. Li was also a member of the 12th National People's Congress (第十二屆全國人大). Mr. Li Yanjun is the father of Mr. Li Ziwei.

Mr. Li Ziwei (also known as Leung Hongying Li Ziwei) (李子威), aged 31, is our executive Director and was appointed as the chief executive officer of the Company on 23 August 2018 and is responsible for our Group's overall business development, daily operation management and investments. Mr. Li joined our Group in August 2008. He has gained over eight years of experience in the iron ore mining industry from his involvement in the areas of procurement, supply and sales of raw materials and steel products at Aowei Group, Aoyu Steel and our Group. He is also the director of Hengshi Development International Limited. Mr. Li Ziwei is the son of Mr. Li Yanjun.

Mr. Sun Jianhua (孫建華), aged 36, is our executive Director and the chief financial officer. He is responsible for our Group's accounting and financial management. He joined the Group in February 2012 and was appointed as executive director of the Company in June 2013. Mr. Sun has over 10 years of experience in financial and accounting management. He served as the head of the finance department of Laiyuan County Aowei Mining Investments Co., Ltd. (淶源縣奧威礦業投資有限公司) (the "**Aowei Mining**") from February 2012 to June 2013. He held various positions at Aoyu Steel between February 2004 and February 2012, including accountant, head of the finance division and vice head of the finance department. He was also appointed as a director of Xinan Investments Limited and Xinan Limited since August 2016. Mr. Sun graduated from Baoding Financial Senior Professional Institute (保定市金融高等專科學校) in June 2003. He was admitted as a certified public accountant by the Chinese Institute of Certified Public Accountants in December 2010 and was accredited as a certified tax advisor by the State Administration of Taxation in June 2011 and a certified public valuer by the Ministry of Finance of the PRC in September 2011.

Mr. Li Jinsheng (李金生), aged 56, is our executive Director. He is responsible for Aowei Mining's overall business management and daily operation. From January 2005 to February 2006, Mr. Li served as the general manager of Laiyuan Xinxin Mining, an indirectly wholly owned subsidiary of the Company. From February 2006 to March 2012, Mr. Li was the general manager of Aoyu Steel. From April 2012 to March 2016, Mr. Li served as the deputy general manager of Aowei Group and was responsible for assisting the general manager in the business operation and development of the company. Mr. Li was appointed as an executive director of the Company on 30 March 2016, and was also appointed as a director and the general manager of Aowei Mining, an indirect wholly-owned subsidiary of the Company, and was responsible for its business management and daily operations.

Mr. Tu Quanping (塗全平), aged 49, is our executive Director. He is responsible for the supervision of mining, processing, design and mining plan of all our iron ore mines. Mr. Tu has more than 20 years of experience in the mining industry. Since joining our Group in August 2005, he has been in charge of the project design, infrastructure construction, development and mining of our mines, coordination of our production plan, design of the technical parameters of our ore preparation plants and onsite management and supervision. Prior to joining our Group, Mr. Tu served as a mining engineer, and chief of mining, of Anhui Magang Group Nanshan Mining Company (安徽馬鋼集團南山礦業公司) from August 1991 to August 2005. Mr. Tu obtained a bachelor's degree in Mining Engineering from Wuhan Steel Institute (武漢鋼鐵學院) (now known as Wuhan University of Science and Technology (武漢科技大學) in July 1991. He took the postgraduate course of enterprise planning and development at Nanjing University (南京大學) from September 2001 to December 2003. Mr. Tu was accredited as a senior mining engineer by Magang Metallurgy Projects Senior Engineer Evaluation Committee (馬鋼冶金工程高級工程師評審委員會) in December 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ge Xinjian (葛新建), aged 59, is our independent non-executive Director, primarily responsible for providing independent advice and guidance to the Board. He serves as the general manager of Anhui Xinjian Mining Engineering Technology Co., Ltd. (安徽新建礦業工程技術有限責任公司). Mr. Ge has more than 36 years of experience in processing research, design and technical management. Mr. Ge currently serves as a member of the 7th Ore Dressing Branch Committee of the Chinese Society for Metals (中國金屬學會選礦分會委員會), the part- time professor Anhui University of Technology, the member of the Expert Committee of China Metallurgical Mining Enterprise Association (中國冶金礦山企業協會), the standing director of the China Mining Development Strategic Alliance (中國礦業發展戰略聯盟). Mr. Ge served as the chief engineer of Magang Group Design & Research Institute Co., Ltd. (馬鋼集團設計研究院有限責任公司) from March 2004 to December 2014. During this period,Mr. Ge was also as the vice president from August 2011 to December 2014.

Mr. Ge published several theses in different professional journals and compiled many professional works, including Current Application of High-Pressure Grinder of Metallurgy Mine in China"高壓輥磨工藝在我國冶金礦山的應用現狀" (Modern Mining, 9th edition of 2009). Mr. Ge obtained a bachelor's degree in Ore Dressing from Jiangxi Metallurgy Institute (江西冶金學院) (now known as Jiangxi University of Science and Technology (江西理工大學)) in July 1983. Mr. Ge is a professor-level senior engineer in ore dressing recognized by Personnel Department of Anhui Province (安徽省人事廳) in December 2009, a national mineral reserves appraiser recognized by Department of Personnel and Education of Ministry of Land and Resources (國土資源部人事教育司) in September 2007 and a registered national environment engineer recognized by Personnel Department of Anhui Province in September 2007.

Mr. Meng Likun (孟立坤), aged 57, is our independent non-executive Director, primarily responsible for providing independent advice and guidance to the Board. Mr. Meng has been the Chairman of the Board of Guojie Investments Holding Ltd. (國傑投資控股有限公司) since October 2014. Mr. Meng served as the special consultant of Rongtong Fund Management Co., Ltd. (融通基金管理有限公司) from March 2010 to January 2012. He served as the president and an executive director of New Time Securities Co., Ltd. (新時代證券有限責任公司) from May 2006 to January 2009. He acted as the chairman of the board of directors of Rongtong Fund Management Co., Ltd. from May 2001 to March 2010.

Mr. Meng obtained a bachelor's degree in mechanical design and a master's degree in engineering from Taiyuan Mechanical Engineering College (太原機械學院), now known as North University of China (中北大學) in July 1982 and September 1986 respectively, and obtained a doctorate degree in engineering from Beijing Institute of Technology (北京理工大學) in March 1993.

Mr. Kong Chi Mo (江智武), aged 43, has been appointed as our independent non-executive Director since 26 June 2013. Mr. Kong is primarily responsible for providing independent advice and guidance to the Board.

Mr. Kong has over 20 years of experience in accounting, auditing, financial management, corporate finance, investor relations, company secretarial affairs and corporate governance. Presently, Mr. Kong holds the position of independent non-executive director in AK Medical Holdings Limited (a company whose shares are listed on the main board of the Stock Exchange, stock code: 01789), Huazhang Technology Holding Limited (a company whose shares are listed on the main board of the Stock Exchange, stock code: 01673), ZACD Group Ltd. (a company whose shares are listed on the growth enterprise market of the Stock Exchange, stock code: 08313) and Starlight Culture Entertainment Group Limited (a company whose shares are listed on the main board of the Stock Exchange, stock code: 01159), whereas in China Vanadium Titano-Magnetite Mining Company Limited ("**China Vanadium**") (a company whose shares are listed on the main board of the Stock Exchange, stock code: 00893), he holds the position of company secretary and authorised representative.

Mr. Kong was the independent non-executive director of CAA Resources Limited (a company whose shares are listed on the main board of the Stock Exchange, stock code: 02112) from April 2013 to August 2017. Mr. Kong was the executive director and chief financial officer of China Vanadium from October 2013 to May 2015 and from May 2008 to May 2015, respectively. Mr. Kong worked at KPMG from October 1999 to December 2007 and was promoted to senior manager during his term of office. Prior to joining KPMG, Mr. Kong worked as a finance trainee in Hutchison Telecommunications (Hong Kong) Limited, an indirect wholly-owned subsidiary of Hutchison Telecommunications Hong Kong Holdings Limited (a company whose shares are listed on the main board of the Stock Exchange, stock code: 00215), from June 1997 to March 1998 and as an associate in PricewaterhouseCoopers from March 1998 to October 1999.

Mr. Kong obtained his bachelor's degree in business administration from The Chinese University of Hong Kong in December 1997. Presently, Mr. Kong is a fellow of The Association of Chartered Certified Accountants (United Kingdom), a member of The Hong Kong Institute of Directors, a fellow of each of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators (United Kingdom), an ordinary member of Hong Kong Securities and Investment Institute and a full member of Hong Kong Investor Relations Association. Mr. Kong was also awarded the Chartered Governance Professional qualification of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators (United Kingdom) in September 2018.

SENIOR MANAGEMENT

Mr. Gao Changquan (郜常泉), aged 48, is the deputy general manager of Aowei Mining. He is responsible for the administrative affairs and finance and accounting of Aowei Mining. Mr. Gao has approximately 25 years of experience in accounting and financial management. Mr. Gao first joined our Group in February 2005, where he served as the head of finance division of Xinxin Mining until March 2006. From March 2006 to February 2013, he served as the head of finance department of Aoyu Steel. He rejoined our Group in February 2013 as the head of the finance department of Aowei Mining, and was appointed as the deputy general manager of Aowei Mining in March 2016. Prior to joining our Group, Mr. Gao was an accountant of Baoding Xiangda Garment Manufactory Co., Ltd. (保定翔達製衣有限公司) from June 1993 to January 2005. Mr. Gao obtained an undergraduate diploma in Accounting from The Open University of China (中央廣播電視大學) in January 2009.

Mr. Li Shaoshun (李紹順), aged 48, is the director and deputy general manager of Aowei Mining and is responsible of the production management, environment, health and safety of Aowei Mining. Mr. Li has over 12 years' experience in industrial marketing and management from April 2004 to April 2012. Mr. Li was the dispatching manager and general manager of the department of production and technology of Aoyu Steel. He joined the Group in 2012 and was the deputy general manager of Jingyuancheng Mining, during which he was responsible for production, operation and management from April 2012 to March 2016. He has been the deputy general manager of Aowei Mining since March 2016. Mr. Li graduated from Anshan Institute of Iron & Steel Technology with an undergraduate diploma and a bachelor's degree in iron and steel metallurgy in July 1992.

Mr. Li Dongfeng (李東風), aged 47, is a director of Aowei Mining and Jiheng Mining. He also serves as the general manager of Jiheng Mining. He is responsible for the general management and daily operation of Jiheng Mining. Mr. Li has over 10 years of experience in industrial marketing and management. From December 1996 to March 2004, he served as the business manager of Aowei Group. From March 2004 to June 2007, he served as a deputy general manager of Laiyuan County Huiyuan Mining Company Limited (淶源縣匯源礦業有限公司). From July 2007 to August 2010, he served as the general manager of Laiyuan County Xinrui Mining Company Limited (淶源縣鑫瑞礦業有限公司). Mr. Li joined our Group in August 2010 and since then has served as a director and the general manager of Jiheng Mining.

Mr. Jin Jiangsheng (金江生), aged 52, is the general manager of Jingyuancheng Mining and Xinxin Mining. He is responsible for the general management and daily operation of Jingyuancheng Mining and Xinxin Mining. Mr. Jin has over 10 years of experience in industrial marketing and management. He first joined our Group in December 2004, where he served as the leader of water concentration plant of Xinxin Mining until June 2006. Between June 2006 and February 2012, he worked at Aoyu Steel and subsequently served as the head of the sintering plant and the steel plant. He rejoined our Group in February 2012 as the general manager of Jingyuancheng Mining, and was also appointed as the general manager of Xinxin Mining in March 2016. Prior to joining our Group, Mr. Jin worked in Rongcheng County Machinery Plant (容城縣機械廠) and subsequently served as the head of the processing workshop, the head of the sales division and the head of Rongcheng County Machinery Plant from February 1991 to December 2003.

Save as disclosed above, the directors and senior management have no other positions as directors in the listed companies.

COMPANY SECRETARIES

Ms. Kwong Yin Ping, Yvonne (鄺燕萍), is the company secretary of our Company and re-designated as company secretary upon the resignation of Mr. Meng Ziheng as the joint company secretary on 28 September 2018. Ms. Kwong obtained a bachelor's degree of arts in accountancy from the Hong Kong Polytechnic University (香港理工大學). She works as vice president in a professional corporate services company which is engaged in providing secretarial and compliance services for listed companies. She is also a fellow of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators of the United Kingdom. She has extensive experience in providing company secretarial services for numerous private and listed companies. She serves as company secretary and joint company secretary of various companies listed on the Hong Kong Stock Exchange. Mr. Li Ziwei is the main contact person of Ms. Kwong in the Company.

Mr. Meng Ziheng (孟子恒), resigned as a joint company secretary of the Company on 28 September 2018 due to the need to devote more time for his other business commitments.

REPORT OF THE DIRECTORS

The Directors wish to present the report of the Directors together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company acts an investment holding company. The activities of principal subsidiary are (i) the exploration, mining, processing and sales, the products for sales are iron ores, preliminary concentrates and iron ore concentrates; and (ii) the provision of hospital management services. Details of the principal subsidiaries of the Company are set out in note 17 to the consolidated financial statements.

BUSINESS REVIEW

After careful deliberation, the Directors have reviewed the Group's business and made an analysis of the Group's performance in accordance with the requirement of Schedule 5 to the Companies' Ordinance, Chapter 622 of the Laws of Hong Kong, including the discussions of the major risks and uncertainties facing the Group and the disclosure of the future business development the Group will probably achieve. Please refer to the Chairman's Statement, Management Discussion and Analysis and the Corporate Governance Report – Risk Management and Internal Control of this annual report. These discussions form part of this Report of the Directors.

FINANCIAL ACCOUNTING DATA AND FINANCIAL KEY PERFORMANCE INDICATORS (NOTE)

	For the year ended 31 December		
	2018	2017	% of change
Sales and distribution expenses	**(21,093)**	(10,731)	96.6%
Profit before taxation	**92,915**	(301,180)	-130.9%
Earnings per share	**0.03**	(0.22)	-113.6%
Gross profit margin	**34.2%**	31.6%	8.2%

	As at 31 December		
	2018	2017	% of change
Bank balances and cash*	**65,984**	65,745	0.4%
Intangible assets*	**312,674**	369,709	15.4%

Note:

(1) Reasons for choosing the financial key performance indicators and relationship with the Group's objective.

The Group was originally incorporated in the British Virgin Islands on 14 January 2011 under the laws of British Virgin Islands, and redomiciled to the Cayman Islands on 23 May 2013. The Group is principally engaged in the exploration, mining, processing and trading of iron ore and the major products includes iron ores, preliminary concentrates and iron ore concentrates in the People's Republic of China. Therefore, Sales and distribution expenses is a significant indicator to reflect the Group's ore trading business. Operating in the iron ore industry which was partially influenced by environment related policies, the Group was in the process of expanding transformation and diversifying business portfolio by accomplishing acquisition of Xinan Investments Limited and its subsidiaries so as to enter hospital management service. In light of the aforesaid, the intangible assets and goodwill are also significant financial key performance indicators to display the operation of hospital management service acquired by the Group.

(2) For trend analysis represented by each financial key performance indicators, please refer to the "Management Discussion and Analysis" for the trend analysis.

(3) Differences between the financial key performance indicators and financial statements. No difference is noted between the financial key performance indicators and the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, some of which are inherent to the business of the Group and some are from external sources. Major risks are summarized below:

- **Risks arising from macro-economy**
  PRC's economy is in the stage of transformation and upgrading. The supply-side structural reform will potentially affect the operation status and future prospects of our iron ore business. In view of the uncertain factors in our industry, our Group actively seeks to diversify its business development to cope with the risks faced by our Company. Besides maintaining the existing mining business, our Group actively promotes the development of medical business. At the same time, our Group also actively promotes the development of medical business. Actively responding to the national policy and promoting the comprehensive utilization of solid waste, it is planned to expand the production and sales of construction sand and gravel through Jiheng Mining Industry in 2019, so as to realize diversified business development and promote sustainable economic growth.

- **Risks arising from environmental protection policy**
  PRC's environmental protection policy is becoming increasingly tight, especially in the Baoding area where our company is located, which is close to the capital Beijing and Xiongan New Area. Open-pit mining has become one of the industries that environmental protection agencies pay close attention to. The Company strictly comply with the requirements of environmental policies and regulations, adopt a variety of environmental protection measures, reduce the environmental impact of the Group's production and operation. The Group will also continue to promote diversified business development, and the Group is committed to developing its medical business, so as to avoid increasingly stringent environmental policies.

- **Risks arising from competition**
  With the increasing demand for iron ore quality in PRC's iron and steel industry, more imported iron ore with better quality will be preferred. This will inevitably affect the market sales of domestic iron ore, and even lead to the withdrawal of domestic high-cost iron ore suppliers. In view of this risk, the Group will improve the grade and quality of iron ore through technological renovation, reduce production costs through fine management and other measures, and strive to establish a long-term stable supply-demand relationship with downstream customers through active sales strategies.

- **Risks arising from product price fluctuations**
  The Group believes that the operating environment of PRC's steel and mining industry in 2019 is still complex and changeable, steel and mining industries will continue to frequent volatility situation. The Group will hedge the risk of price decline by virtue of its low-cost advantages and active sales strategy. At the same time, it will reduce production costs and administrative expenditure by means of process improvement, equipment upgrading and internal control, so as to minimize the impact of falling iron ore market prices on the group's profits.

- **Risks arising from difficulties in collecting accounts receivable**

  The Group granted some customers certain credit period in accordance with the credit status of the customers as well as business practices, which resulted in the Group having accumulated some trade receivables. However, due to the sluggish and continuous downturn of iron ore's down-stream products, if certain customers experienced cash flow problem, their debt repayment ability will be affected, which will in turn lead to long term for the overdue payment, making it more difficult for the Group to recover the trade receivables from the customers. The Group has established internal control system and accounts receivable management system, which require regular update of customers' credit status. The Group has also put in more effort to collect trade receivables in order to reduce the risk of bad debt.

- **Risks arising from production**

  Although the Group is committed to maintaining a high level of safety in the production process, iron ore mining, one of the main business activities of the Group is relatively hazardous by its nature and affected by a number of external factors which are beyond the control of the Group, including the production environment and natural disaster. Production safety is significant to the sustainable and stable development of the Group. The Group has established production safety system and set up designated department to supervise the performance, and ensure the safe production of the Group's operating mines through safety education and improvement of infrastructures.

PERMITTED INDEMNITY

The articles of association (the "**Articles**") of the Company provides that the Directors shall be indemnified and held harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

A directors' liability insurance is in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 90 of this annual report.

DIVIDENDS

The Board does not recommend the distribution of a final dividend for the year ended 31 December 2018 (2017: Nil).

ANNUAL GENERAL MEETING

The 2019 annual general meeting of the Company (the "**2019 AGM**") will be held at 10:30 a.m. on 31 May 2019 at Meeting Room, 17 Floor Block C, BITC, A6 Jianguomen Wai Street, Chaoyang District, Beijing, PRC.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 27 May 2019 to Friday, 31 May 2019 (both days inclusive) during which period no transfer of shares of the Company will be effected. In order to determine the entitlement to attend and vote at the 2019 AGM, all share transfers accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 24 May 2019.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year ended 31 December 2018 in the Group's property, plant and equipment are set out in note 11 to the financial statements of this annual report.

SHARE CAPITAL

Details of the movements during the year in the issued share capital of the Company are set out in note 29(c) to the financial statements of this annual report.

DISTRIBUTABLE RESERVES

Details of the movements during the year ended 31 December 2018 in the reserves of the Group are set out in the consolidated statement of changes in equity on page 93 of this annual report.

As at 31 December 2018, the Company's reserves available for distribution to the Shareholders in accordance with the Articles were RMB1,108 million. Under the Cayman Companies Law, subject to the provision of its Articles, the share premium account may be applied by the Company in paying distributions or dividends to its members or in paying up unissued shares to be issued to its members as fully paid bonus shares provided that no distribution or dividend may be paid to members out of the share premium account unless, 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 course of business.

The reserves of the Company available for distribution depend on the dividend distributable by the Company's subsidiaries. For dividend purpose, the amount which the Company's subsidiaries in the PRC can legally distribute by way of a dividend is determined by reference to their distributable profits as reflected in the PRC statutory financial statements which are prepared in accordance with accounting principles generally accepted in the PRC. These distributable profits differ from those that are reflected in the Group's financial statements prepared in accordance with the IFRSs.

FINANCIAL SUMMARY

A summary of the results, assets, liabilities and shareholders' interests of the Group for the last five financial years is set out on pages 5 to 6 of this annual report.

LOANS AND BORROWINGS

Details of the loans and borrowings of the Group are set out in note 24 to financial statements of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The total sale and purchase from the Group's major suppliers and customers for the year ended 31 December 2017 and 2018 are set out as follows:

	2018		2017	
	% of the Group's total		% of the Group's total	
	Sale	Purchase	Sale	Purchase
Largest customer	51.5%	–	44.1%	–
Total of five largest customers	100.0%	–	93.0%	–
Largest supplier	–	14.8%	–	15.5%
Total of five largest suppliers	–	32.1%	–	50.1%

During the year, the Group's customers were highly concentrated primarily because (i) iron ores are bulk raw materials and the customers required stable supply; and (ii) the production volumes of self-produced products were insufficient to adequately satisfy the requirements of multiple target customers. The Group was aware of the risk of concentrated customer base and has entered into non-exclusive sales agreements with several potential customers. Pursuant to the agreements, the Group is able to sell any of our products to the potential customers without any restrictions.

For the year ended 31 December 2018, to the knowledge of Directors, none of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest suppliers or customers.

DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information in respect of the Directors and senior management for the year and as at the date of this annual report:

Name	Position/Title in the Group	Date of Appointment or Re-election
Li Yanjun	Chairman and Executive Director	29 May 2018
Li Ziwei	Executive Director and Chief Executive Officer	29 May 2017 23 August 2018 (resigned as Vice Chairman and appointed as the Chief Executive Officer)
Huang Kai	Executive Director and Chief Executive Officer	resigned as executive director and chief executive officer on 23 August 2018
Sun Jianhua	Executive Director and Chief Financial Officer	29 May 2017
Li Jinsheng	Executive Director and general manager of Aowei Mining	26 May 2016 (appointed as Executive Director) 30 March 2016 (appointed as the general manager of Aowei Mining)
Tu Quanping	Executive Director	29 May 2018

Name	Position/Title in the Group	Date of Appointment or Re-election
Ge Xinjian	Independent Non-executive Director	26 May 2016
Meng Likun	Independent Non-executive Director	29 May 2017
Kong Chi Mo	Independent Non-executive Director	29 May 2018
Gao Changquan	Deputy general manager of Aowei Mining	30 March 2016 (appointed as the deputy general manager of Aowei Mining)
Li Shaoshun	Director and deputy general manager of Aowei Mining	30 March 2016 (appointed as deputy general manager of Aowei Mining) 1 November 2016 (appointed as director of Aowei Mining)
Li Dongfeng	Director of Aowei Mining and general manager of Jiheng Mining	8 June 2011 (appointed as director of Aowei Mining) 10 August 2010 (appointed as the general manager of Jiheng Mining)
Jin Jiangsheng	General Manager of Jingyuancheng Mining and Xinxin Mining	28 February 2012 (appointed as the general manager of Jingyuancheng Mining) 15 April 2016 (appointed as the general manager of Xinxin Mining)

Biographical details of the current Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 31 to 34 of this annual report.

In accordance with the Articles, Mr. Li Ziwei, Mr. Li Jinsheng and Mr. Ge Xinjian will retire at the 2019 AGM, and being eligible, will offer themselves for re-election at the 2019 AGM.

CHANGE IN DIRECTORS' INFORMATION

As of the date of this annual report, there was no information of the Company in relation to Directors required to be disclosed pursuant to Rule 13.51B of the Listing Rules.

SERVICE CONTRACTS OF THE DIRECTORS

The Company has entered into a director service contract with the all Directors. The main details are as follows:

For term of one year commencing from 30 March 2019 (in the case of Mr. Li Jinsheng) or on 28 November 2016 Mr. Li Yanjun, Mr. Li Ziwei, Mr. Sun Jianhua, Mr. Tu Quanping, Mr. Ge Xinjian, Mr. Meng Likun, Mr. Kong Chi Mo entered into service contracts with the Company for a term of three years; and terminated or renewed in accordance with their respective contract terms.

None of the Directors has signed with the Company any service contract that cannot be terminated without compensation (exclusive of statutory compensation) within one year.

REMUNERATION FOR THE DIRECTORS AND TOP FIVE HIGHEST PAID INDIVIDUALS

Detailed information on remuneration for the Directors and top five highest paid individuals of the Company is set out in notes 7 and 8 to the consolidated financial statements.

None of the Directors has agreed to waive any remuneration for the year ended 31 December 2018.The remuneration for the Directors was proposed by the remuneration committee of the Company (the "**Remuneration Committee**"), which would take into account remuneration paid by similar companies, conditions of employment, responsibilities and individual performance when proposing the remuneration.

EMOLUMENT POLICIES

The emolument policies of the Group are based on performance, experience, competence and market comparables. Remuneration packages generally comprise salary, housing allowance, contribution to pension schemes and discretionary bonus relating to the performance of the Group.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Company considers that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

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

As at 31 December 2018, 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), were as follows:

Interests in the Shares:

Name of Directors	Capacity/ Nature of interest	Number of Shares (Long Position)	Approximate percentage of issued Shares
Mr. 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. Li Ziwei is the settlor, 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. Li Ziwei and Mr. Li Yanjun have 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. 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 31 December 2018 and so far as is known to the Directors, the interests or short positions of the substantial shareholders, other than the Directors or the chief executives of the Company whose interests and short positions in the shares of the Company and of its associated corporations (within the meaning of Part XV of the SFO) as set out above, who had 5% or more interests or short positions in the Shares and underlying Shares as recorded in the register required to be maintained by the Company under Section 336 of the SFO, were as follows:

Name of Shareholders	Capacity/Nature of interest	Number of Shares (Long Position)	Approximate percentage of issued Shares
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	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%

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. 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. Li Ziwei and Mr. Li Yanjun have 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.

Save as disclosed above, so far as is known by or otherwise notified to the Directors, no other person or entity (other than the Director(s) or chief executive(s) of the Company) had interests or short positions in the Shares or underlying Shares representing 5% or more of the issued share capital of the Company as at 31 December 2018.

PRE-EMPTIVE RIGHTS

Pursuant to the Articles, in which the Company was incorporated in the British Virgin Islands and continued in the Cayman Islands, and the laws of the Cayman Islands, there is no provision in relation to pre-emptive rights applicable to the Company.

SHARE OPTION SCHEME

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

MANAGEMENT CONTRACTS

The Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The related party transactions which also constitute connected transactions as defined in Chapter 14A of the Listing Rules were disclosed in note 32 to the consolidated financial statements. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules for the year ended 31 December 2018.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

On 8 December 2016, Hebei Aowei Industrial Group Co., Ltd. (the "**Aowei Group**") entered into the property leasing framework agreement (the "**2016 Property Leasing Framework Agreement**") with the Company, pursuant to which the Company rented properties from Aowei Group as office premises.

Annual caps for the transactions contemplated under the 2016 Property Leasing Framework Agreement for the year ended 31 December 2017, 2018 and 2019 are set out as follows:

	For the year ended 31 December		
	2017	**2018**	**2019**
		(RMB Millions)	
Estimated amount of rent paid by the Company to Aowei Group	4.35	4.35	4.35

As Mr. Li Yanjun is one of the Directors and controlling Shareholders of the Company, pursuant to Rule 14A.07 of the Listing Rules, Mr. Li Yanjun is a connected person of the Company. Given that the equity interests of Aowei Group are owned by Mr. Li Yanjun and Mr. Li Xiaojun as to 99% and 1%, respectively, Aowei Group, pursuant to Rule 14A.12(1)(C) of the Listing Rules, is an associate of Mr. Li Yanjun. Therefore, Aowei Group is also a connected person of the Company under Rule 14A.07(4) of the Listing Rules and the transactions contemplated under the 2016 Property Leasing Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules. For further details of the above transactions, please refer to the Company's announcement dated 8 December 2016.

All independent non-executive Directors had reviewed the above continuing connected transaction and confirmed that such transactions had been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or, if there were no sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreement governing the relevant transactions on terms that were fair and reasonable and in the interests of the Shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to the Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditor has issued unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules, and reported that:

(1) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;

(2) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(3) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreement governing such transactions; and

(4) with respect to the aggregate amount of the continuing connected transactions, nothing has come to their attention that causes them to believe that the amount of the disclosed continuing connected transactions has exceeded the aggregate annual caps disclosed in the previous announcement made by the Company in respect of the disclosed continuing connected transactions.

A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

SIGNIFICANT CONTRACTS

Save as disclosed in the section headed "Connected Transactions and Continuing Connected Transactions" of this annual report, none of the Company or any of its subsidiaries entered into material contracts with the controlling Shareholder or any of its subsidiaries other than the Group, nor was there any material contract between the Group and the controlling Shareholder or any of its subsidiaries other than the Group in relation to provision of services.

COMPLIANCE OF DEED OF NON-COMPETITION

The Company entered into a deed of non-competition (the "**Deed of Non-Competition**") with Mr. Li Ziwei, Mr. Li Yanjun, Hengshi International Investments Limited and Hengshi Holdings Limited (collectively, the"**Controlling Shareholders**") on 12 November 2013. Pursuant to the Deed of Non-Competition, each Controlling Shareholder has undertaken to the Company (for itself and in favour of its subsidiaries) that they will not, profitably or non-profitably, and will procure their associates (except any members of the Group) not to, directly or indirectly, either on his own or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate in or hold interests in or engage in or acquire or hold construction, development, operation or management of any business or activity which competes or may compete with the business of the Group, being the exploration, mining, processing and trading of iron ore products and the major products include iron ores, preliminary concentrates and iron ore concentrates (the "**Restricted Business**"). The Controlling Shareholders have also granted us an option for new business opportunities, a pre-emptive right and an option for acquisition to acquire any potential interest in their business which competes or is likely to compete, either directly or indirectly, with the Restricted Business.

In accordance with the Deed of Non-Competition, the independent non-executive Directors are responsible for reviewing and considering whether exercising the option for new business opportunities, pre-emptive right and the option for acquisitions as well as conducting annual review of implementation of the Deed of Non-Competition on behalf of the Company. Each Controlling Shareholder has made annual confirmation of compliance with the Deed of Non-Competition, and the independent non-executive Directors have also reviewed the implementation of the Deed of Non-Competition, and confirmed that the Controlling Shareholders have fully abided by the Deed of Non-Competition without any breach of the Deed of Non-Competition.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, there were no transactions, arrangements, or contracts of significance in relation to the business of the Group, to which the Company, its parent, its subsidiaries or fellow subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDER' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries subsisted at the end of year or at any time during the year.

No contracts of significance between the Company or any of its subsidiaries and a controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2018, having made specific enquiry to all Directors, all of them have confirmed that neither themselves nor their respective close associates (as defined in the Listing Rules) held any competing interests in any business which competes or is likely to compete either directly or indirectly with the business of the Group.

SIGNIFICANT SUBSEQUENT EVENTS

Save as disclosed below, there were no significant subsequent events affecting the Group which occurred since 1 January 2019 and up to the date of this report.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rule 3.21 and Appendix 14 to the Listing Rules. The full version of the terms of reference of the audit committee of the Board is available on the Stock Exchange's website and the Company's website at www.aoweiholding.com.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures.

The audit committee currently comprises three independent non-executive Directors, namely Mr. Ge Xinjian (Chairman), Mr. Meng Likun and Mr. Kong Chi Mo. During the year ended 31 December 2018, the audit committee has reviewed (i) the audited financial statements and annual results announcement of the Group for the year ended 31 December 2017; and (ii) the financial statements and interim results announcement of the Group for the six months ended 30 June 2018. During the year ended 31 December 2018, the audit committee has reviewed the risk management and internal control systems of the Group.

REMUNERATION COMMITTEE

The Company established a remuneration committee with written terms of reference in compliance with the Listing Rules.

The remuneration committee currently comprises two independent non-executive Directors, namely Mr. Meng Likun (Chairman) and Mr. Ge Xinjian and one executive Director, namely Mr. Li Ziwei.

NOMINATION COMMITTEE

The Company established a nomination committee with written terms of reference in compliance with the Appendix 14 to the Listing Rules. The terms of reference of the nomination committee of the Board has been approved and revised by the Board on 13 December 2018.

The nomination committee currently comprises one executive Director, namely Mr. Li Yanjun (Chairman) and two independent non-executive Directors, namely Mr. Meng Likun and Mr. Kong Chi Mo.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the year ended 31 December 2018.

COMPLIANCE OF THE CORPORATE GOVERNANCE CODE

As a listed company on the main board of the Stock Exchange, the Company is committed to maintaining high level of corporate governance. Throughout the year ended 31 December 2018, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Please refer to "Corporate Governance Report" in this annual report for details.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Throughout the year ended 31 December 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as required under the Listing Rules as at the date of this annual report.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognizes the significance of good relationship with employees, customers and suppliers to the long-term development of the Group's business.

Employees

As to the employees' relationship, the Group has taken various measures to improve employees' benefit, provided training opportunities for each job position and adopted a performance management system that enhances employees' career development, at the same time, management and employees also maintain good communication, employees are encouraged to provide feedback.

Customers and Suppliers

As to the relationship with customers and suppliers, the Group selected the customers and suppliers based on various criteria, including but not limited to qualifications and reputations. The Group has always adhered to business principles with integrity and bona fide, And contracts with them were all entered into and performed on mutually beneficial basis.

The Group's customers mainly consisted of purchase iron ores as raw materials for steel mills and processing and trading companies. During the Reporting Period, certain customers were in financial difficulties and the recoverability of their trade receivables was still low. Therefore, stopped supplying goods to them, initiated discussions on repayment terms with them and is in the midst of monitoring their repayment schedules. In the emergency period will also take legal help to protect rights and interests.

The Group's suppliers mainly consisted of mining contractors, transportation contractors, suppliers of production-related materials and trading companies. During the Reporting Period, no incidents that will adversely affect the Group's product supply have occurred. If the goods purchased from suppliers have an adverse impact on the group, the group will safeguard its rights and interests through various means.

RETIREMENT AND EMPLOYEES' BENEFIT PLAN

Detailed information on the retirement and employees' benefit plan of the Company is provided in note 5(b) to the consolidated financial statements.

ENVIRONMENTAL POLICIES AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognizes that proper adoption of environmental policies is essential to the sustainability of corporate growth, and has established specific department to supervise the compliance of the Group with environmental laws and regulations. During the daily operations, the Group has paid close attention to the latest development of environmental protection laws and regulations to ensure that the Group's environmental policies are in line with the legal standard in order to contribute to an environment-friendly society.

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, including but not limited to those which have significant impact on the Group, such as the Listing Rules and the International Financial Reporting Standards. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time. As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. For further details, please refer to the "Environmental, Social and Governance Report" of this annual report.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2018, the Group has not been involved in any significant legal proceedings or arbitration. To the knowledge of the Directors, there are no significant legal proceedings or claims pending or threatened against the Group.

EVENTS AFTER THE REPORTING PERIOD

After the end of the Reporting Period of the Company and to the date of the report of the Directors, according to geological information and waste rock index test result of Jiheng Mining, it is found that the waste rock of Jiheng Mining could be used to produce gravel materials for construction and manufactured sand and the Group has actively carried out the relevant businesses. In view of the storage scale and supply capacity of gravel materials of Jiheng Mining, and the requirements of high standards for green transport in Xiong'an New Area, Hebei province and Beijing and other areas, the Group has entered into a cooperation agreement with Laiyuan County Ao Tong Transportation Co., Ltd. with which the Company has established a long-term cooperative relationship in respect of transportation, with an aim to ensure the Group complies with the requirements of high standards for green transport.

The Company has applied to the local government for approval of the relevant solid waste utilization project of Jiheng Mining (the "**Solid Waste Utilization Project**"). The Solid Waste Utilization Project will be implemented subject to the approval of the local government and is planned to be completed and put into production in early July 2019. Upon its completion, the Solid Waste Utilization Project will not only bring economic benefits to the Company and create value for shareholders of the Company, but also effectively manage and recover regional ecological environment, promote energy conservation and emission reduction, accelerate the construction of a recycling production mode and hence realize the sustainable development and utilization of mine resources.

Other than as disclosed above and elsewhere in this report, from 1 January 2019 to the date of this report, there are no other major subsequent events for the Group.

AUDITOR

The Company appointed KPMG as auditor of the Company for the year ended 31 December 2018. A resolution will be proposed for approval by the Shareholders at the 2019 AGM to re-appoint KPMG as auditor of the Company.

By order of the Board

Mr. Li Yanjun
Chairman of the Board

27 March 2019

CORPORATE GOVERNANCE REPORT

The board of Directors (the "**Board**") of Aowei Holding Limited (the "**Company**") is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance the Group's performance.

The Group believes that operating its businesses in an open and responsible manner and following good corporate governance practices serve its long-term interests and those of its shareholders.

During the year, the Company has complied with the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The Board as a whole is responsible for performing the corporate governance duties and ensuring compliance with the Listing Rules. The Board reviews at least annually the corporate governance practices of the Company to ensure its continuous compliance with the CG Code, and make appropriate changes if considered necessary.

Set out below is the detailed discussion of the corporate governance practices adopted and observed by the Company during the year ended 31 December 2018 (the "**Reporting Period**").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the year ended 31 December 2018.

BOARD OF DIRECTORS

The Board is collectively responsible for leading and overseeing the Group's business with the objective of enhancing Shareholders' value. The Board currently comprises a combination of executive Directors and independent non-executive Directors. At least one of the independent non-executive Directors possesses appropriate professional qualifications (or accounting or related financial management expertise) as required by the Listing Rules. This provides a healthy professional relationship between the Board and the management to shape the strategic process. The management shall provide members of the Board and specialized committees under the Board with appropriate and sufficient information in a timely manner so as to update them with the latest developments of the Group and to better facilitate the discharge of their duties. The management team is accountable to the Board, executing the strategies and plans formulated by the Board, and making decisions in relation to the day-to-day operation of the Group. The management reports monthly to the Board on the operation and financial performance of the Group. The Board is also supported by other key committees to independently supervise management. These key committees are the audit committee, remuneration committee and nomination committee and are comprised mainly of independent non-executive Directors.

As at the date of this annual report, the composition and committees of the Board were as follows:

Name of Directors	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors			
Li Yanjun *(Chairman)*	–	–	C
Li Ziwei *(Chief Executive Officer)*	–	M	–
Huang Kai (On 23 August 2018, resigned as executive director and chief executive officer of the Company)	–	–	–
Sun Jianhua *(Chief Financial Officer)*	–	–	–
Li Jinsheng	–	–	–
Tu Quanping	–	–	–
Independent Non-executive Directors			
Ge Xinjian	C	M	–
Meng Likun	M	C	M
Kong Chi Mo	M	–	M

Note:

C: Chairman

M: Member

During the year, the re-designation, resignation and appointment of Directors are set out as follows:

On 23 August 2018, Mr. Huang Kai has resigned as an executive Director and the chief executive officer due to the need to devote more time for his other business commitments. Mr. Li Ziwei has resigned as vice chairman of the Board but remains as an executive Director of the Company, and has been appointed as the chief executive officer of the Company.

For the year ended 31 December 2018, the Board consisted of eight Directors including five executive Directors and three independent non-executive Directors.

The number of independent non-executive Directors complied with the requirement of Rule 3.10(A) of the Listing Rules. Each independent non-executive Director has given an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Non-executive Directors (including independent non-executive Directors) are appointed for a specific term (no more than three years) and subject to retirement by rotation. None of the independent non-executive Directors has served the Company for more than nine years.

The biographical details of the Directors are set out in the section headed "Biographies of Directors and Senior Management" of this annual report. Mr. Li Yanjun and Mr. Li Ziwei are parent-child relationship. Save as disclosed above, none of the members of the Board has any financial, business or family relationships or any relationships in other material aspects with other members.

The key roles of the Board are:

- to guide the overall development, corporate strategies and directions of the Group, approve the Board's policies, strategies and financial objectives of the Group and monitor the performance of management;

- to ensure effective management leadership of the highest quality and integrity;
- to approve major funding proposal and investments; and
- to provide overall insight in the proper conduct of the Group's business.

During the year, the Company held four regular Board meetings for reviewing and approving the financial and operating performance and considering the overall strategies and policies of the Group and appointment of chief executive officer, etc. Sufficient notice (at least 14 days notice of regular Board Meetings) convening the Board meeting was dispatched to the Directors setting out the matters to be discussed. All Directors were given an opportunity to include matters in the agenda for the Board meeting and had access to the company secretary of the Company (the "**Company Secretary**") to ensure that all board procedures and all applicable rules and regulations were followed. The Board also enabled the Directors to seek independent professional advice at the Company's expense in appropriate circumstances. At the meetings, the Directors were provided with the relevant documents to be discussed and approved. The Company Secretary was responsible for keeping minutes for the Board meetings.

During the Reporting Period, the Company held the annual general meeting on 29 May 2018. The following is the attendance record of the meetings held by the Board, audit committee, remuneration committee, nomination committee and the Shareholders for the year ended 31 December 2018:

	Specialized Committees under the Board / no. of meeting held				
Name of Directors	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Annual general meeting
Executive Directors					
Li Yanjun *(Chairman)*	4/4	–	–	3/3	1/1
Li Ziwei *(Chief Executive Officer)*	4/4	–	2/2	–	1/1
Huang Kai (On 23 August 2018, resigned as executive director and chief executive officer)	1/4	–	–	–	1/1
Sun Jianhua *(Chief Financial Officer)*	4/4	–	–	–	1/1
Li Jinsheng	4/4	–	–	–	1/1
Tu Quanping	4/4	–	–	–	1/1
Independent Non-executive Directors					
Ge Xinjian	4/4	2/2	2/2	–	1/1
Meng Likun	4/4	2/2	2/2	3/3	1/1
Kong Chi Mo	4/4	2/2	–	3/3	1/1

DIRECTORS' TRAINING

According to code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

All Directors have been provided with training on their duties and responsibilities as a director of a listed company and the compliance issues under the Listing Rules. The Company continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure their compliance and enhance their awareness of good corporate governance practices.

Directors had provided the Company with their respective training records pursuant to the CG Code. During the Reporting Period, all Directors have participated in appropriate continuous professional development by ways of attending training or reading materials relevant to the Company's business or to Directors' duties and responsibilities.

The records of the training attended by the Directors are set out as follows:

Name	Position	Types of Training
Li Yanjun	Chairman and Executive Director	B
Li Ziwei	Chief Executive Officer and Executive Director	B
Huang Kai	Chief Executive Officer and Executive Director (resigned on 23 August 2018)	
Sun Jianhua	Executive Director and Chief Financial Officer	B
Li Jinsheng	Executive Director, General manager of Aowei Mining	B
Tu Quanping	Executive Director	A, B
Ge Xinjian	Independent non-executive Director	A, B
Meng Likun	Independent non-executive Director	B
Kong Chi Mo	Independent non-executive Director	A, B

Notes:

A: attending seminars and/or conferences and/or forums relating to directors' duties or other relevant topics

B: reading newspaper, journals and updates relating to the economy, general business or directors' duties, etc.

CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

The positions of the chairman of the Board and the chief executive officer of the Company are held by different individuals in order to ensure the independence and accountability of their respective duties and a balanced distribution of power and authority between them. Mr. Li Yanjun is the chairman of the Board and is responsible for the management and effective operation of the Board, ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. Mr. Huang Kai is the chief executive officer who resigned on 23 August 2018 of the Company. On the same day, Mr. Li Ziwei was appointed as the chief executive officer and is responsible for the daily operational activities of the Group and accountable to the Board for the overall operations of the Group. During the Reporting Period, the chairman of the Board held one meeting with the independent non-executive Directors in the absence of the other Directors.

The chairman chairs the Board meetings and briefs the Board members on the issues discussed at the Board meetings.

The chairman also ensures that the Board members work together with the management with the capability and authority to engage management in constructive views on various matters, including strategic issues and business planning processes.

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

According to the Articles, at each annual general meeting, one-third of the Directors are subject to retirement by rotation or, if the number is not a multiple of three, then the number nearest to but not less than one-third shall retire from the office and shall be eligible for re-election. The Directors to be retired by rotation shall be those who have been longest in office since their last appointment or re-election. Every Director shall be subject to retirement at an annual general meeting at least once every three years. Any other appointment, resignation, removal or re-designation of Director will be timely disclosed to the Shareholders by announcement and shall include in such announcement, the reasons given by the Director for his resignation.

The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Company's business.

COMPANY SECRETARIES

For the year ended 31 December 2018, Ms. Kwong Yin Ping, Yvonne is the company secretary of the Company (On 28 September 2018, Mr. Meng Ziheng resigned as joint company secretary of the company). Ms. Kwong Yin Ping, Yvonne have taken no less than 15 hours of relevant professional training.

The secretary of the company shall be responsible for ensuring good information flow among members of the Board and that the policies and procedures of the Board are followed. The company secretary make recommendations on governance matters to the Board through the chairman of the Board and the chief executive officer, and shall also arrange for induction training and professional development of the Directors.

SPECIALIZED COMMITTEES UNDER THE BOARD

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee to provide the Board with specialized decision-making support. The Company has established and updated systematically the terms of reference of each of the committees as required by the Listing Rules as well as its amendment, which clearly set out duties of each of the committees.

AUDIT COMMITTEE

The audit committee of the Board was established with effect from the listing date in compliance with Rule 3.21 of the Listing Rules. It is responsible for ensuring that the Company has an effective financial reporting and internal control systems in compliance with the Listing Rules, overseeing the integrity of the financial statements of the Company (including the review of the quarterly, half-yearly and annual results and internal control system), selecting and assessing the independence and qualifications of the Company's external auditor and ensuring effective communication between the Directors and external auditor. The audit committee consists of three members (including all independent non-executive Directors), namely, Mr. Ge Xinjian (Chairman of the committee), Mr. Meng Likun and Mr. Kong Chi Mo, who possesses the appropriate professional qualification or accounting or related financial management expertise. The written terms of reference of this committee has been made available on the Company's website at www.aoweiholding.com and on the website of the Stock Exchange.

The audit committee held two physical meetings during the year ended 31 December 2018. At these two meetings, the audit committee discussed and reviewed, among other things, (i) the accuracy and fairness of Group's annual results for the year ended 31 December 2017 and interim results for the six months ended 30 June 2018; and (ii) the effectiveness of the Group's internal control systems.

The Group established an independent internal audit function directly reporting to the audit committee. The internal audit personnel will attend the audit committee meetings and report on internal audit matters annually. If there is any material internal control defects, the internal audit personnel directly reports to the audit committee without limitation. The audit committee assists the Board in monitoring the risk exposures, the design and operating effectiveness of the relevant risk management and internal control systems. The audit committee will report to the Board after properly reviewing the effectiveness of the Group's risk management and internal control systems.

During the year ended 31 December 2018, the audit committee has reviewed the risk management and internal control systems and the effectiveness of the Company's internal audit function. Details of the risk management and internal control of the Group are set out on pages 60 of this report.

REMUNERATION COMMITTEE

The remuneration committee of the Board was established with effect from the listing date in accordance with the Listing Rules. It is responsible for assisting the Board in determining the policy and structure for the remuneration of Directors and senior management, assessing the performance of executive directors, reviewing incentive schemes and the terms of the Directors' service contracts and fixing the remuneration packages for executive Directors and senior management. The remuneration committee consists of three members (including one executive Director and two independent non-executive Directors), namely, Mr. Meng Likun (Chairman of the committee), Mr. Ge Xinjian and Mr. Li Ziwei. The written terms of reference of this committee has been made available on the Company's website at www.aoweiholding.com and on the website of the Stock Exchange.

Under the remuneration policy of our Company, the Remuneration Committee will make recommendations to the Board on the amount of remuneration payable to our Directors and the senior management, by reference to, among other things, the market level of salaries paid by comparable companies, the respective responsibilities, tenure, commitment, responsibilities and performance of our Directors and the senior management. The Remuneration Committee held two physical meeting during the year ended 31 December 2018. At the two meeting, the Remuneration Committee discussed and reviewed, among other things, (i) the remuneration policy and structure for executive directors and senior management for the year ended 31 December 2018; and (ii) Mr. Li Ziwei was appointed as the chief executive officer of the remuneration, welfare and benefits.

The remuneration payable to the senior management (comprising Directors) during the year ended 31 December 2018 by band is set out below:

Name of Director	Remuneration Band RMB	Director's Fee %	Salaries, allowances and benefits in kind %	Pension scheme contributions %	Total %
Executive Directors					
Mr. Li Yanjun	1,000,000-1,500,000	–	100	–	100
Mr. Li Ziwei	500,000 – 1,000,000	–	98.1	1.9	100
Mr. Huang Kai	0 – 500,000	–	100	–	100
Mr. Sun Jianhua	0 – 500,000	–	85.7	14.3	100
Mr. Li Jinsheng	500,000 – 1,000,000	–	100	–	100
Mr. Tu Quanping	500,000 – 1,000,000	–	98.6	1.4	100
Independent non-executive Directors					
Mr. Ge Xinjian	0 – 500,000	100	–	–	100
Mr. Meng Likun	0 – 500,000	100	–	–	100
Mr. Kong Chi Mo	0 – 500,000	100	–	–	100

Name of senior management	Remuneration Band RMB	Director's Fee %	Salaries, allowances and benefits in kind %	Pension scheme contributions %	Total %
Mr. Gao Changquan	0 – 500,000	–	98.0	2.0	100
Mr. Li Shaoshun	0 – 500,000	–	100	–	100
Mr. Li Dongfeng	500,000 – 1,000,000	–	98.9	1.1	100
Mr. Jin Jiangsheng	500,000 – 1,000,000	–	98.8	1.2	100

NOMINATION COMMITTEE

The Board has established a nomination committee of the Company (the "**Committee**" or the "**Nomination Committee**") in compliance with CG code with effect from the listing date. The principal duties of the Nomination Committee are to formulate and review the nomination and Board diversity policies, review the size, structure and composition of the Board, assess the independence of INEDs, and to make recommendations to the Board on nominations, appointment of Directors and Board succession with adequate consideration to the Board diversity policy. The nomination committee consists of three members (including one executive Director and two independent non-executive Directors), namely, Mr. Li Yanjun (Chairman of the committee), Mr. Meng Likun and Mr. Kong Chi Mo. The written terms of reference of this committee has been made available on the Company's website at www.aoweiholding.com and on the website of the Stock Exchange. On 13 December 2018, the Board revised and approved the terms of reference of nomination committee of the Board.

The nomination committee held three physical meeting during the year ended 31 December 2018. At the meeting, the nomination committee discussed and reviewed, among other things, (i) the existing structure, composition and diversity and the sufficiency of time and efforts contributed by the Directors in relation to the performance of their duties of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the Group's business and that it is in compliance with the requirements under the Listing Rules; (ii) the recommendation on re-election of retiring Directors at the forthcoming annual general meeting, and (iii) the independence of the independent non-executive directors; (iv) Mr. Li Ziwei was nominated as chief executive officer; (v) revised the terms of reference of nomination committee in accordance with the amendment to Corporate Governance Code and related Listing rules.

Duties and Functions

The duties of the Committee are as follows:

(a) review from time to time the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and recommend to the Board for its consideration the Director Nomination Policy on selection criteria of potential candidates for directorship of the Company for the Board to achieve a balance of skills, experience and diversity of perspective appropriate to the requirements of the Group's strategic focus, specific business needs. Changes to the Board's composition shall be managed without undue disruption; and shall continue a balanced composition of Directors so that there is a strong independent element in the Board, which can effectively exercise independent judgment;

(b) review from time to time and recommend to the Board the succession plan to ensure the stability of the Board to complement the Company's corporate strategy;

(c) review and report annually against any measurable objectives set for the implementation of the Board Diversity Policy and the Nomination Policy, and the progress on achieving these objectives (if relevant);

(d) receive from a Director referral of suitable qualified candidate for it to assess if the potential candidate meets the selection criteria, which shall be based on meritocracy and the Board Diversity Policy appropriate for the Company's strategic focus and specific business needs; assess and recommend the Board for approval the nomination of the selected candidate as a Director either to fill a casual vacancy or as an addition to the existing Board and/or a member of any Board Committee of the Company and senior management;

(e) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships. The Board and shareholders shall be provided with detailed curriculum vitae of nominated candidates so that they can make well-informed decisions;
(f) identify and nominate candidates to fill temporary vacancies of Directors for the approval of the Board;
(g) assess the independence of independent non-executive Directors, review the annual confirmation submitted by independent non-executive Directors in respect of their independence and make disclosure of the findings in the "Corporate Governance Report";
(h) review the time required by directors in performing their responsibilities on a regular basis;
(i) make other relevant disclosures in the Corporate Governance Report for approval by the Board in accordance with the Listing Rules;
(j) make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive;
(k) under suitable circumstances, review the Board Diversity Policy and Director Nomination Policy, and measurable objectives and the progress made when the members of the Board implement the Policies, as well the annual disclosure of the findings in the "Corporate Governance Report"; and
(l) conform to any requirement, direction, and regulation that may from time to time be contained in the memorandum and articles of association of the Company or imposed by the Listing Rules or applicable law.

The Committee is accountable to the Board. Resolutions proposed by the Committee shall be submitted to the Board for consideration and decision, among which, resolutions on the nomination of candidates for directors shall be submitted to the general shareholders' meeting for consideration and approval upon approval by the Board. The Committee shall make sure that where the Board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he/she should be elected and the reasons why they consider him/her to be independent.

Decision-making procedures

The Committee shall examine the election criteria and procedures and the term of office of directors and senior management of the Company in accordance with relevant laws and regulations and the provisions of the articles of association while taking into consideration of the Company's actual circumstances. The Committee shall, upon formation of a resolution, submit it to the Board for approval and, if approved, implement it accordingly.

The Nomination Policy of directors and senior management are as follows:

(a) the Committee shall actively carry out communications with relevant departments of the Company in examining the Company's demand for new directors and senior management and prepare written materials;
(b) the Committee may search for candidates for directors and senior management on an extensive scale in the Company, holding enterprises (with a controlling or minority interest) and the job market;
(c) the selection of relevant candidates will consider whether the candidates can complement the other Directors, whether they will enhance the overall talents, experience and expertise of the Board, taking into account the distribution of gender, age, professional experience and qualifications, cultural and educational background and any other factors that the Board considers relevant and applicable to contribute to the diversity of the members of the Board from time to time;
(d) the Committee shall seek the consent of the nominees on the nomination, otherwise such persons shall not be nominated for directors and management;
(e) the Committee shall convene a meeting to conduct a qualification check of the preliminary candidates based upon the appointment criteria for directors and senior management;
(f) the Committee shall submit to the Board its recommendations on the candidates for directors and senior management and relevant materials one to two weeks prior to the election of new directors or the appointment of new senior management; and
(g) the Committee shall implement other follow-up work in accordance with the decisions and feedback of the Board.

Director nomination policy and Board Diversity Policy Measures

The Company's director nomination policy will be based on meritocracy, combining the Company's business model with the specific needs of keeping pace with the times, the selection of relevant candidates will full consider whether the candidates can complement the other Directors, whether they will enhance the overall talents, experience and expertise of the Board, taking into account the distribution of gender, age, professional experience and qualifications, cultural and educational background and the sufficiency of time and efforts contributed in relation to the performance of their duties was also full consider etc, as the objective criteria for the selection of directors. At the same time, the Company takes full account of the benefits of diversity on the Board, diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The Company will also introduce different types of talents with professional knowledge and familiar with business types from the perspective of business types of the Company to equip the board with the appropriate skills, experience and diverse perspectives for the group's business. The Company holds the belief that the board diversity will be immensely beneficial for the enhancement of the Company's performance. The board diversity helps the Board make reasonable decisions, improve efficiency of the Board, make sure high level of corporate governance and develop sustainably.

Measurable Objectives of Board Diversity Policy

Selection of candidates for Board membership is based on a range of diversity perspectives, and the ultimate decision is based on merit and contribution that the selected candidates will bring to the Board. As at 31 December 2018, the Board comprised eight Directors, all of them are male. There were two Directors at the age range of 31-40, two Directors at the range of 41-50, and four Directors at the range of 51-60, of which six Directors are from Mainland China and two from Hong Kong. All Directors have a one of obtained doctorate degree, have three of obtained bachelor degree. The Directors have rich experiences in enterprise operation and management and risk management and control, mine development, processing and operation, financial, investment and financing and constantly enhance their professional skills through continuous learning and training. The Nomination Committee has reviewed the members, structure and composition of the Board, and was of the opinion that the extensive experiences and skills of the Directors in various fields and the rational structure and accord with Board diversity policy of the Board may enable the Company to maintain high standard operation.

Educational and professional background	Number of Directors	Percentage of the total number of Directors
Enterprise management and risk management and control	Totalling three persons, including Mr. Li Yanjun, Mr. Li Ziwei and Mr. Li Jinsheng	3/8
Mine development, processing and operation	Totalling two persons, including Mr. Tu Quanping, Mr. Ge Xinjian	2/8
Financial, investment and financing	Totalling three persons, including Mr. Sun Jianhua Mr. Meng Likun and Mr. Kong Chi Mo	3/8

The Company will further consider the diversification of the board of directors according to the needs of the Company's business development. For example, seek candidates with medical professional background and management experience to enter the board of directors through internal company or talent market, so as to meet the needs of future medical business development.

CORPORATE GOVERNANCE FUNCTIONS

The Board is the highest authority of the Group on corporate governance, whose main responsibilities include:

- developing and reviewing the Company's policies and practices on corporate governance;
- reviewing and monitoring the training and continuous professional development of Directors and senior management;
- reviewing and monitoring the Group's policies and practices in compliance with legal and regulatory requirements;
- developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and the Directors; and
- reviewing the Group's compliance with the CG Code and disclosure in the Corporate Governance Report. The Board had discussed and reviewed the aforesaid works at the Board meetings held during the Reporting Period.

REMUNERATION OF AUDITOR

For the year ended 31 December 2018, the Group's external auditor, KPMG, provided annual audit services to the Company. For the year ended 31 December 2018, the total fee paid/payable in respect of audit and non-audit services provided by the Group's external auditor is set out below:

	RMB
Annual audit service	3,500,000
No audit service	–
Total	3,500,000

The audit committee is responsible for making recommendation to the Board as to the appointment, re-appointment and removal of the external auditor, which is subject to the approval by the Board and at the general meetings of the Company by the Shareholders.

DIRECTORS AND AUDITOR'S RESPONSIBILITY FOR PREPARATION OF THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for preparing the financial statements for the year ended 31 December 2018, which gave a true and fair view of the state of affairs, the results and cash flows of the Group for that year. The Company allocated sufficient resources to prepare the audited accounts. Senior management was required to present and explain the financial reporting and matters that materially affected or may have material impact on the financial performance and operations of the Company to the Audit Committee and the Board and to respond to the queries and concerns raised by the Audit Committee and the Board to their trust. The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the financial statements included appropriate disclosure made in accordance with the Listing Rules and the Companies Ordinance. The responsibility of the external auditor of the Company for preparing the financial statements of the Group was set out in the "Independent Auditor's Report" of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has overall responsibility for the systems of risk management and internal controls of the Group. The risk management and internal control systems were designed to provide reasonable (but not absolute) assurance against material misstatement or loss, and to manage (but not fully eliminate) the mistakes of the Group's operational systems and the risks of failure to achieve the Group's business objectives. The Audit Committee reviewed the adequacy and effectiveness of the risk management and internal control systems of the Group through active communication and discussion with management, internal audit and external auditor. The results were reported to the Board. The Board had conducted an annual review on the risk management and internal control systems of the Group including financial, operational and compliance controls and risk management and is of the view that the existing risk management and internal control systems of the Group are effective and adequate. The Board has also reviewed the adequacy of resources, qualifications and experience of staff of the internal audit, accounting and financial reporting functions, training and budget.

Under the supervision of the Board, the management of the Group is responsible for designing and implementing the Group's risk management and internal control systems. The Group's business units (e.g., sales department and production department) are responsible for identifying and assessing business risks and develop risk mitigation measures; the functional departments (e.g., compliance department and finance department) are responsible for assisting the business units to improve the risk management and monitoring the effectiveness of risk management; and the internal audit function, assists the Board and the audit committee to review the effectiveness of the Group's risk management and internal control systems.

As and when required, the management convened meetings which were chaired by the senior management with attendants including managers from subsidiaries and department heads from headquarters. The Group's decisions on operations, implementation of investment projects, financial issues, and the updates on risk management and internal control were considered and determined at these meetings. The management convened annual and interim work meetings in order to assign and review works on a yearly and half yearly basis. The meetings have facilitated the organisation, co-ordination, communication and supervision on the commencement and implementation of the Group's various operations, as well as the risk management and internal control systems. The Group has set out following departments and internal controls procedures, including:

- The Company has established an independent accounting department to set out the duties and rights in relation to finance management, accounting and auditing, and assigned the relevant staff to ensure the smoothness of finance and accounting work and the separation of approval, implementation and recording functions, and formulated different systems for finance and accounting as a guarantee for fair execution;

- The Group has established a specialized internal audit department, formulated relevant mechanism, and set up proper internal supervising procedures to ensure the effectiveness of internal supervision and extend its application to all of the Group's subsidiaries. The annual audit report and plan are approved by the Audit Committee;

- The management of the Company provides members of the Board with the latest information of the Group monthly, which sets out the performance, the financial position and prospects and clear assessment of the Group;

- the Company established sensitive information disclosure policy, which specified the information disclosure process, the confidentiality requirements of the undisclosed sensitive information, the confidentiality obligations of the employees of the Group, etc;

- the service contracts of the Directors, the senior management and the employees of the Group specify the confidentiality clauses; and

- the legal advisors of the Company regularly provide relevant trainings to the Board and the senior management.

The Group has established the Information Disclosure Management System, the Administrative Rules Governing Related Party Transactions, and the Inside Information Disclosure System which stipulate the relevant procedures for processing the inside information. Before inside information is disclosed to the public, the Board ensures that such inside information is kept confidential. The Board regularly evaluates the effectiveness of internal control.

SIGNIFICANT CHANGE TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

For the year ended 31 December 2018, the Company did not make any significant changes to the Memorandum and Articles of Association of the Company.

THE RIGHTS OF SHAREHOLDERS

Procedures for Convening of an Extraordinary General Meeting and Putting Forward Proposals at General Meeting

In accordance with Article 12.3 of the Articles of Association of the Company, the Board may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one or more member of the Company which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

Procedures for Shareholders to Put Enquiries to the Board

Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. In respect of other enquiries, Shareholders may put forward enquiries to the Board through the Company's principal place of business in Hong Kong which will direct the enquiries to the Board for handling.

Dividend Policy

Subject to the relevant laws and the articles of association of the Company (the "**Articles of Association**"), the board (the "**Board**") of the directors (the "**Directors**") may from time to time pay to the shareholders such interim dividends as appear to the Board to be justified by the profits of the Company and we, through a general meeting, may declare dividends in any currency but no dividend shall be declared in excess of the amount recommended by our Board.

The Board of the Company may declare dividend after taking into account of the following factors:

- our operations;
- earnings and, distributable reserve of the Company and each of the members of the Group;
- the Company's actual and expected financial performance;
- the Group's cash or working capital requirements, capital expenditure requirements and future expansion plans;
- the Group's liquidity position;
- general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
- other factors as the Board may deem relevant at such time.

The amount of dividend eventually declared and distributed to our Shareholders will also depend upon our earnings and financial performance, operating requirements, then capital commitments and requirements and other conditions that our Directors may deem relevant or appropriate.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

In 2018, the Company continued to communicate with Shareholders, investors and analysts in a honest manner. Comprehensive corporation information has been disclosed in due course and necessary data for valuation purpose has been fully provided by the Company so as to help capital market to understand its investment value. The main communication channels with the Shareholders include:

ANNUAL GENERAL MEETINGS

The annual general meeting is an important discussion platform for Shareholders to participate in, facilitating the communications between the management of the Company and the Shareholders. The annual general meeting is held once a year, being accessible to all Shareholders. The Directors answer any questions put by the Shareholders at the annual general meeting, being attended by the external auditor and the Company Secretary. All matters proposed to Shareholders for approval shall be submitted in separate resolutions and resolved by way of poll at the annual general meeting. The procedures of conducting a poll will be explained in details to Shareholders and the voting results will be set out on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.aoweiholding.com).

ANNUAL REPORTS, INTERIM REPORTS, ANNOUNCEMENTS AND CIRCULARS

The Company issues its annual reports and interim reports after publishing the annual results and the interim results in March and August every year, respectively, so as to periodically review the development of the Group as well as to update its Shareholders with its latest business information and market trends. In addition, the Company will inform the Shareholders through announcements regarding any major event or price-sensitive information on a timely manner.

For any matter requires the approval of the Shareholders, the Company will hold an extraordinary general meeting according to the requirements of the Stock Exchange and issue a circular prior to the specific date of the meeting, allowing the Shareholders to have sufficient time to learn more about the matters for making voting decisions. All annual reports, interim reports, announcements and circulars will be uploaded to the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.aoweiholding.com).

THE COMPANY'S WEBSITE

The Company's website offers timely access to the Group's press releases and other business information. Through its website, the Company provides Shareholders with the electronic version of the financial reports, the latest slide presentations, as well as up-to-date news about the Group's business, announcements and general information, etc. To make contributions to environmental protection and maintain effective communication with Shareholders, the Group encourages all Shareholders to browse the Company's corporate communication files on the Company's website.

INVESTOR CONTACTS AND ENQUIRIES

The Group has a dedicated team to maintain contact with investors and handles Shareholders' enquiries. Should investors have any enquiries, please contact the Company's Investor Relations Department via email at ir@aow.com.cn.

The Company will ensure that the information of the work on investor relations is disclosed in a timely and accurate manner, and to react to the capital market effectively and smoothly. This can keep helping the capital market to have a better understanding of its development strategies and operating conditions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About this Report

The report of the year (the "**Report**") covers Aowei Holding Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") with its details of the subject scope set out in the shareholding structure diagram in the Corporate Information. The time range of the Report, is the financial year 2018, from 1 January 2018 to 31 December 2018 (the "**Reporting Period**"), and is consistent with that of the annual report of the Group.

The Report has been formulated in accordance with the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") as set out in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"),the key performance indicators are fully disclosed. The information contained in the Group is derived from the integration of the policies adopted by the management of the Group and the relevant information provided.

The board (the "**Board**") and the directors (the "**Directors**") of the Company had confirmed that the Report does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents. The board confirms that the Group has complied with the "comply or explain" and the proposed disclosure provisions set out in the Environmental, Social and Governance Reporting Guide.

The key indicators in relation to safety and environment issues of the Company are counted and calculated based on the regulations or industry standards of the PRC. The Group is committed to promoting sustainable development, which is extremely important to create long-term value for the Group's shareholders, clients, employees, other stakeholders, as well as general public. The core content of the Group's environment, social and governance management includes emission management, resources utilization management and employee's health and safety management. We are committed to implement the environment and safety impact assessments in our production process comprehensively through increasingly improving our managing systems and measures, aiming to minimize the impact on environment and to ensure achieving zero fatality in production for employees. Also, the Group will fulfill our corporate social responsibility through multiple measures while sustaining the business development and providing better returns to the shareholders of the Company (the "**Shareholders**").

Health, Safety, Environmental Protection and Community Organization of the Group

Operating subsidiaries of the Group have set up the multi-level health, safety, environmental protection and community organization according to the practical situation, including establishing general manager responsibility system, under which a designated deputy manager will be appointed to, with the support of dedicated management organizations, manage issues regarding health, safety, environmental protection and community within each company, and developing a number of management systems to ensure definite responsibilities, strict implementation and effective supervision.

Stakeholder Engagement and Materiality Assessment

Communicating with the stakeholders and understanding their concerns are an important part of the Group's social responsibility and sustainable development. Through various channels, the Group actively communicates with the stakeholders on various environmental and social issues and establishes relationships based on mutual trust and benefit with the stakeholders.

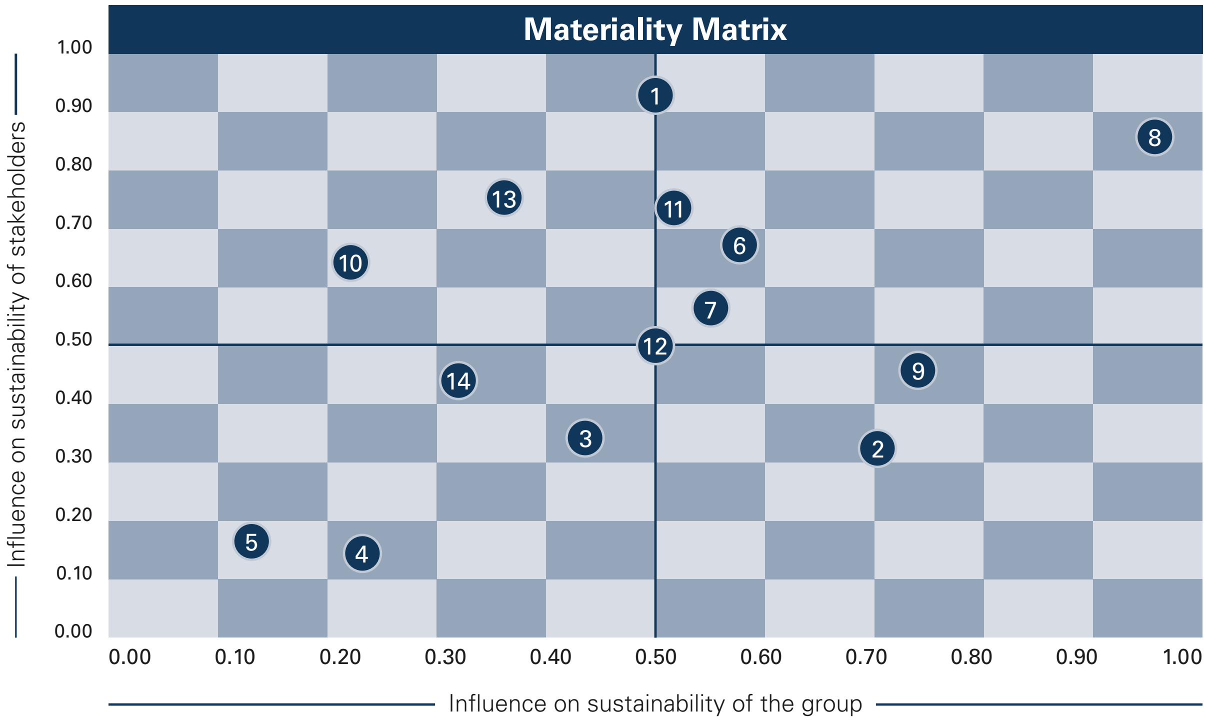
The Company's Stakeholders' Involvement for the year ended 31 December 2018

Stakeholders	Main goals and focuses	Ways and channels of communication and involvement	The Company's initiatives
Shareholders and investors	To maintain steady operation, gain profits, protect shareholders' interests and ensure information disclosure is true, accurate and timely.	General meetings, investor information sessions and onsite visits, roadshows, information disclosure (including financial statements) and company contact details.	Issued notices of general meeting and proposed resolutions according to regulations, disclosed company's information. Carried out different forms of investor activities with an aim to improve investors' recognition, including results briefing and investor relations activity. Disclosed company contact details on website and in reports and ensured all communication channels available and effective. For detail of communication policies with Shareholders, please refer to the Company's website: www.aoweiholding.com.
Customers	To assure product quality and quantity and maintain long-term and stable cooperation.	Regular visits and daily communication.	Formulates comprehensive management systems in respect of quality and sales, strengthening the quality examination and sales management of products.
Governments	To operate and pay taxes according to law, ensure production safety and fulfill social responsibilities.	On-site inspections and checks, research and discussion through work conferences, work reports preparation and submission for approval.	Operated, managed and paid taxes according to laws and regulations, strengthened safety management; accepted the government's supervision, inspection and evaluation, and actively undertook social responsibilities.
Employees	Employees To protect their basic rights, offer reasonable welfare and remuneration, provide healthy working environment and development space, ensure occupational health and safety and help to realize their self-value.	Communication channels between employees and the management, suggestion boxes, employees' activities, training and learning activities.	Provided a healthy and safe working environment; developed a fair mechanism for promotion; set up safety education and training.

Stakeholders	Main goals and focuses	Ways and channels of communication and involvement	The Company's initiatives
Communities and the public	To create jobs, promote community development, protect ecological environment and provide compensation and assistance.	Exchange visits between villagers and the Company, co-sponsored community activities, charitable assistance, volunteer service and community building activities.	Committed to establishing good relationship with communities, gave priority to local people seeking jobs from the Company so as to promote community building and development, protected the communities' ecological environment, and provided timely compensation and assistance, provided volunteer service, kept communication channels open between the Company and the communities and villagers, co-sponsored community activities to promote the building up of harmonious communities.
Partners	To achieve fairness, justice and openness and maintain our commitment.	Tenders meeting, fairs and daily communication.	Invited tenders fairly to select best partners, performed contracts according to agreements, enhanced daily communication, and established long-term cooperation with quality suppliers and contractors.
Banks	To repay loans on schedule, monitor operating conditions and risks and operate with honesty and credibility.	Work conferences, on-site visits, post-loan tracking and daily communication.	Repaid loans with interests on schedule by instalment, cooperative to the banks' review and supervision on loans.
Peers	To stick to fair play, cooperate to develop, share technologies and experiences and promote development of the industry.	Seminars, exchange visits, negotiations and meetings within industry organizations.	Stuck to fair play, cooperated with peers to realize win-win, shared experiences and attended industry seminars so as to promote sustainable development of the industry.
Market regulators	To comply with regulatory requirements, ensure compliant operation and timely information disclosure and reporting.	Consulting, information disclosure, reporting and filing.	Complied with regulatory requirements in a strict manner, disclosed and reported true information in a timely and accurate manner according to law.

Materiality Assessment

According to the importance principle of "Guidelines for Environmental, Social and Governance Reports", the Group combs out the important issues related to sustainable development of the Group through interviews and surveys with stakeholders. The following Matrix of Importance Assessment lists the extent to which stakeholders pay attention to different issues. The closer to the upper right corner of the matrix, the more concerned the stakeholders are, and the closer to the lower left corner, the less concerned the stakeholders are.



Environmental Protection and Green Operation	Work Environment	Operating Practice	Community Contribution
1 Environmental impact and management 2 Mine resource management 3 Water conservation 4 Energy saving and emission reduction 5 Air Emission	6 Employee benefits 7 Development of employees 8 Workplace safety 9 Occupational health management	10 Supply chain management 11 Quality assurance 12 Anti-corruption	13 Community development 14 Public welfare charity

Environmental Protection

The Group formulate scientific environmental impact and protection governance measures strictly in compliance with laws, regulations and environmental requirements, such as the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), the Air Pollution Prevention and Control Law of the People's Republic of China (中華人民共和國大氣污染防治法), the Environmental Prevention and Control Law of the People's Republic of China on Solid Waste Pollution (中華人民共和國固體廢物污染環境防治法) and the Emergency Response Law of the People's Republic of China (中華人民共和國突發事件應對法), upholding the tenet of "green mines", the Group takes the environmental protection and restoration measures and has made great efforts in reducing the impact of production and operations on the environment by recycling and reducing emissions, striving to build "environment-friendly" mines.

Emission management

We attach importance to waste management during operation and formulate scientific environmental impact and protection governance measures strictly in compliance with laws, regulations and environmental requirements, such as the Environmental Protection Law of the PRC (中華人民共和國環境保護法) and the Environmental Prevention and Control Law of the People's Republic of China on Solid Waste Pollution (中華人民共和國固體廢物污染環境防治法), and reduce waste generation and disposal through technological measures and methods such as recycling and reuse.

The Group adopts physical magnetic separation techniques to produce iron ore concentrates without producing harmful substances during the production process. It uses open-pit operation as its mining method. Stripped waste is mainly produced during mining, waste rocks are mainly produced during dry processing, whereas tailings and waste water are mainly produced during wet processing. Mining and ore hauling in the mines as well as crushing and mechanical operating in the processing plants would produce noise and dust, and greenhouse gas emissions from electricity, diesel oil and carbon dioxide generated by gasoline consumed by the operation of machinery and equipment and vehicle transportation.

Waste rocks and tailings management

The Group would produce waste rocks and tailings during mining, dry processing and wet processing. In order to control the risks of producing waste rocks and tailings, the Group had formulated the following effective measures:

Some of the waste rocks produced in mining and dry processing will be backfilled into the mined out open-pit area or reused as construction material for roadways, retaining walls, and swales, which can reduce the waste rock volume. The rest will be sent to waste rock dump areas, and piled up and stored strictly in compliance with the planned requirement. Tailings are transported through tailings pumps and channels to the tailings storage facilities for storage, or they will be dumped in dry, transported to dewatering workshops for dewatering and delivered to the tailings storage facilities by belt conveyer for piling up in compaction. Tailing storage facilities are important for mine production. Each of the subsidiaries discharges, piles up and stores tailings strictly in compliance with the requirements of the design and safety regulation department, and arranges related staff members to check and monitor the tailings storage facilities throughout 24 hours every day. Waste rock dump areas have retaining walls with a height of 2 m installed. Related staff members will be arranged to conduct regular check and examination.

Breakdown of emissions from each mines of the Group for the year ended 31 December 2018 are as follows:

Unit: Mt	Stripped waste produced during mining	Waste rocks produced during dry processing	Tailings produced during wet processing
Jiheng Mining	104.9	1095.8	84.1
Jingyuancheng Mining	955.4	908.0	129.1
Total	1,060.3	1,095.8	213.2

In 2019 Jiheng Mining will establish solid waste utilization project, to process waste rocks generated during the production and produce gravel materials for construction. Such gravel materials, manufactured sand and soil can be available for sale. The system can actually achieve zero waste emissions during the course of production and no solid waste generated, which not only complies with the national policy on comprehensive utilization of mining resources, but also effectively reduce waste emissions, thus restores ecological environment and meets the requirement of environmental protection and further promotes the sustainable exploration and comprehensive utilization of local resources.

Dust management

Dust is the main air pollutant produced by each of the subsidiaries of the Group during the operation process. Dust is classified into unorganised dust and organised dust. In order to effectively control the risks of producing dust, the Company formulated the following effective measures:

Unorganised dust includes (1) dust from rock drilling is managed by adoption of wet rock drilling, which means most of the dust produced when drilling the rocks by the drill rigs will deposit along the water flow, which effectively restrains the dust generation; (2) dust from blasting is managed by adoption of water bladder for hole plugging to reduce the amount of dust from the source of blasting; (3) dust from excavating, loading and transportation is managed by the use of sprinklers by construction units for 24-hour sprinkling and dust suppression in order to reduce dust generated by iron ore and waste rocks during loading, vehicle transportation and dumping process; and (4) dust from dumping site is managed by adoption of regular sprinkling, dust suppression and gradual reinstatement of green vegetation to effectively reduce dust from dumping site. In addition, dry processing preliminary concentrates sites and wet processing preliminary concentrates and ore concentrate sites were equipped with windbreak walls, and dry processing raw ores, tailings and preliminary concentrates sites as well as wet processing preliminary concentrates and ore concentrate sites were covered and sheltered to prevent dust in the wind.

Organised dust includes dust generated during crushing in the dry processing plant and is managed by reducing dust mainly through bag dust collector and gravitate dust filter, and also suppressing dust through drenching and spraying system, and the plant was closed and the conveyor belt was sealed. Besides, all subsidiaries provided dust-proof equipment for all dust-affected employees in compliance with the requirements of national prevention and treatment of occupational diseases so as to avoid the occurrence of occupational diseases.

Noise management

The equipment producing high-noise during mining mainly includes drills, air compressors, water pump and transportation vehicles, which produce noise within the range between 75 to 92dB(A). The engineering department adopts measures such as low noise equipment and noise insulation pits to reduce the impacts on the surroundings.

The noise momentary value generated in blasting using open-pit mining is relatively large. As the Group adopts multihole and micro-differential blasting method, and mountains in between the mine sites and the sensitive targets in the surroundings act as a barrier to adsorb and intercept most noise, so as to mitigate the impacts of momentary noise generated in blasting on the surroundings. In addition, villages, separated by mountains and forest, are far away from the mining area, where noise is blocked by those barriers and reduced by distance without creating significant impacts on the nearby acoustic environment. After the noise test for the mining boundary contribution value, the noise generating equipment in the mining area fulfills the requirements of Class 3 standard under the Emission Standard for Industrial Enterprises Noise at Boundary (GB12348-2008).

The equipment generating noise in the processing plants mainly include crushers, ore feeders, vibrating screens, ball mills, dust-collecting fans, pumps, etc. The noise value of the equipment is between 75 to 96dB(A). The equipment generating noise is located in the plants for all the projects to control impacts of noise on the surrounding environment. After the noise test, the noise generating in the plants fulfills the requirements of the corresponding standard limited values of Class 2 under the Emission Standard for Industrial Enterprises Noise at Boundary (GB12348-2008).

Recycling waste water

Waste water of the Company mainly comes from the water carried off with tailings discharged by processing plants. Being discharged to the tailings storage facilities, the waste water together with tailings would be precipitated and cleaned up. The remaining clean water will flow to the circulating water pumps, which pump up and transport the water back to processing plants available for processing use. As such, the waste water generated by processing plants achieves closed-loop recycling and reuse through the tailings storage facilities without being discharged to the surroundings. At the same time, the domestic sewage in the factory, after treated in the septic tank, together with rainwater, is also discharged into the tailings storage facilities and recycled by processing plants after being cleaned up, achieving zero discharge of domestic sewage and rainwater.

Tailpipe emissions control

The Company selects the fuel equipment that meets the national emission standards and uses it properly. Besides, non-operating fuel equipment for a long time will be shut down in a timely manner to reduce the tailpipe emissions.

GHG Emissions

The Group committed to a green office by setting GHG emissions reduction as one of its top priorities. It encouraged using teleconferences, reasonably using travel vehicles and reducing the use of printers as well as promoted a paperless office, with an aim to reduce emissions. For the purpose of cutting back GHG emissions, the Group eliminated outdated high-energy-consuming equipment with more clean-energy facilities to gradually improve the overall energy management.

The Group's main sources of GHG emissions comprise of indirect energy emissions and the direct emissions from official vehicles.

		Annual GHG Emissions (Tons)
Direct emissions	Gasoline and diesel	6,122.7
Indirect energy emissions	Electricity purchased	113,606.0
Total		119,728.7

Recycling of waste and used materials

The Group encourages the recycling of waste and used materials, with an aim to reduce waste of resources and turn waste into wealth. Dedicated mechanical maintenance department at each mine can revamp abandoned and wornout equipment for reuse.

Domestic waste control

The perishable domestic waste in the living area is discharged into the septic tank for disposal and burial. Non-corruptible domestic waste is transported to the garbage disposal station for disposal. The Company encourages waste sorting and prohibits the random disposal or incineration of domestic waste.

Management of resources

For mining companies, mineral resources and water resources are their foundation to survive and thrive. The Group values and encourages thrifty and efficient use of resources, while preventing waste of resources by enhancing its effort in recycling.

Mineral resources

Exploring and processing mineral resources are the core business of the Group. The iron ore business minimizes the mining loss rate and dilution rate and maximizes the processing recovery rate by optimizing its mining methods and processing techniques, strengthening the management of on-site operations, and establishing strict technical standards for mining and processing in light of the actual conditions of each mine to reduce the consumption of mineral resources.

Water resources

Each mine has water recycling system, which pumps water in the tailing dam into the processing plant for recycling use with an aim to reduce production water use. In order to reduce daily water use, the wash basin in the office area is connected with recycled water and most toilets are half flushing.

Water consumption for production by the Group during the year ended 31 December 2018:

Unit: tons	Underground water	Surface water
Jiheng Mining	441,782	–
Jingyuancheng Mining	446,742	–
Total	888,524	–

Use of energy

During the reporting period, the Group's energy consumption mainly related to electricity, diesel and gasoline. The Group understands the importance of efficient use of energy and is committed to enhancing the fine management of production and operation through technological renovation and equipment upgrading, and to practicing the concept of green low-carbon in order to improve energy efficiency.

Electricity

The Group achieves cost reduction and power saving by transforming the existing electricity system, optimizing production process, adopting cutting-edge production techniques and equipment with low energy consumption and phasing out backward techniques and equipment with high energy consumption; furthermore, the Group actively launches energy saving system to comply with laws, regulations and rules, promotes and implements industry policies, actively organises training for the staff members, to improve their energy saving awareness and skills and enhance the responsibility and initiative for energy saving.

Diesel

The Group reduces its diesel consumption by preferring diesel-saving equipment, using diesel-powered equipment reasonably, phasing out relevant equipment with high energy consumption and low production, turning off equipment not running for a long time in a timely manner, and preventing spill when refueling. In the meantime, the Group has enhanced the management of diesel purchase, transport, storage and use, in order to prevent any waste, abuse and loss.

Gasoline

Consumption of gasoline for each mining company was mainly due to the use of company's vehicles. The Group formulated a complete system for vehicle management, while each mining company shall refuel vehicles via eligible and designated petrol stations instead of storing gasoline and maintain a record of fuel charging. The Group also set up a standard for assessment on fuel consumption of vehicles. Drivers would be assessed in respect of the fuel consumption with strict criterion for mileage and consumption, so as to guarantee a lower consumption when driving and economize on fuel. At the same time, the Group also advocates green travel for employees, promoting low-carbon energy conservation and environmental protection, and achieving emission reduction.

Use of energy by the Group as follows:

		For the year ended 31 December		
Energy	**Unit**	**2018**	**2017**	**% of change**
Electricity	0000' KWh	**12,847**	13,062	-1.6%
Diesel	Tonnes	**1,909**	1,942	-1.7%
Gasoline	0000' Litres	**4**	4.2	-11.9%

Environment and natural resources

The Group has made great efforts in promoting the construction of the mine environment, strives to build modernized ecological mines, and aims to achieve the targets of energy conservation and emission reduction as well as cleaner production and mitigate impacts of production activities on environment by ways of recycling and technology upgrade. Report on environmental impact assessment is prepared for each operating project of the Company which will not commence until such report is reviewed and passed by professional experts, so as to minimize the impact of the operating project on the environment.

Revegetation and reclamation

The Group complies with all environmental protection laws and regulations of each location where the Group operates, takes necessary environmental protection measures, fulfills the responsibility of restoration of mine environment, and prepares and implements the plans for protecting, restoring and managing the mine environment. The restoration of the geological environment at the mine sites goes well as no geological and environmental accidents disasters have occurred in recent years.

To carry out mining activities, the Group needs to occupy part of the land, but after the mining is completed, the Company will restore the land and vegetation through land reclamation and revegetation measures. Besides, the Group paid a Mine Environmental rehabilitation fund deposit of RMB44.8 million to local community governments of ended 31 December 2018 for enhancement of ecological environmental protection and full implementation of green mines construction in response to ecological environmental protection.

In order to mitigate the damage of stripping activities to land surface, each mines clearly defines in which area the vegetation will be removed to prevent unnecessary removals, and takes necessary measures to reduce the impact on rare plants. For the year ended 31 December 2018, the mines took certain measures such as factory district greening and tree planting, with the accumulated area of green area about 1.7 ha. The group adopts of greening and tree planting in mines are of great significance for ecological environment protection since they can gradually resume the ecological environment of the mines.

Emergency plans for unexpected environmental accidents

The Company has formulated emergency plans for unexpected environmental accidents. In case any environmental accident happens, immediate actions can be taken in accordance with the plans, and the Company can immediately report the nature of the accident, investigate and analyze the cause of accident, propose and implement remedial measures, and assess its effectiveness and impacts on the environment with an aim to prevent any environmental accident and the expansion of negative impact.

Employment and labour practices

The Group strictly follows the laws and regulations related to the Labour Law of the PRC (中華人民共和國勞動法) Considering the legitimate rights and interests of employees, we should establish perfect policies and mechanisms to create a positive, fair, safe and healthy working environment for employees. The Group continues to expand the career development space of employees and promote their growth. It also regularly reviews the salary policy of employees to protect their personal interests in order to attract and retain talents.

Policy and Welfare

The Group respects employee’s rights and dignity. Strictly complies with the provisions regarding working hours and holidays under the law. The administrative departments of the Company adopt pattern with eight working hours a day. The production departments at each mine work in shifts with consideration of the actual production conditions. The Company provides personal leave, sick leave, marriage leave, compassionate leave, maternity leave, work injury leave and home leave helpful for employees to combine work and leisure and enrich their spare time.

The Group bases salaries on the principle of fairness and ensures that wages are no lower than the minimum wage requirements. Wages in the same industry are also referenced to provide attractive compensation, and provides staff members with retirement protection plans as stipulated by laws and regulations. The Group is committed to perfecting the staff performance appraisal mechanism for employees, and considers the personal work performance of employees as the basis for the adjustment of salary and rank to stimulate the enthusiasm of employees and encourage them to realize their self-worth. Meanwhile, the Group establishes different channels to understand and collect employee comments and suggestions on our policies, working environment, and development strategies.

The Group welcomes diversity in its staff members. Regardless of ethnicity, religion, gender or age, all people receive equal employment opportunity, including employment decisions such as recruitment, development, promotion, training etc. During the Reporting Period, the Group did not receive any complaints about unequal employment.

Through the establishment of a fair and just Labor Employment Management System (勞動用工管理制度), the Group openly recruits legitimate employees for the public through transparent employment and recruitment processes. Conducts open recruitment in the society according. In order to prevent child labour, candidates must submit photocopies of identity cards and present the originals for verification. We adhere to the principles of "freedom in job choosing" and "two-way choice", utilizing our labour with no traces of treats, suppression, oppression, swindle, or fraud. During the Reporting Period, there had been no circumstances of any violation of the legislation and regulation such as child labour or forced labour.

As of 31 December 2018, the Group had 830 employees, which was the total amount of employees of the subsidiaries covered in the Report the relevant data of the Group's employees is as follows:

By region:

Region	Number of employees at the end of the year	Percentage of total workforce at the end of the year	Loss of employees	Turnover rate(2)
Aborigines(1)	504	60.7%	41	4.8%
Non-aborigines	326	39.3%	32	3.7%
Total	830		73	8.5%

By gender and age:

Gender and age	Number of employees at the end of the year	Percentage of total workforce at the end of the year	Loss of employees	Turnover rate[(2)]
Male				
35 and under	271	32.7%	10	1.2%
35-50	443	53.4%	55	6.4%
50 and above	87	10.5%	5	0.6%
Sub-total	801	96.5%	70	8.1%
Female				
35 and under	8	1.0%	–	–
35-50	19	2.3%	3	0.3%
50 and above	2	0.2%	–	–
Sub-total	29	3.5%	3	0.3%
Total	830		73	8.5%

By employment category:

Employment category	Number of employees at the end of the year	Percentage of total Workforce at the end of the year	Turnover Staff	Turnover rate[(2)]
Functional management	160	19.3%	3	0.3%
Mining production	155	18.7%	8	0.9%
Dry cleaning production	339	40.8%	51	5.9%
Water concentration production	121	14.6%	3	0.3%
Others	55	6.6%	8	0.9%
Total	830		73	8.5%

Notes:

(1) Aborigines: Local residents of Laiyuan county where mines locate.

(2) turnover rate = loss of employees (i.e. the number of regular employees voluntarily resigned) ÷ annual average workforce of the Company (859)

Health and Safety

The Group due to the particularity of the industry itself, We have always attached great importance to the health and safety of staff and all field staff. The Group strictly complies with Law of the PRC on Safety in Production and Law of the PRC (中華人民共和國安全生產法) and Occupational Diseases Law of the PRC (中華人民共和國職業病防治法) ,seriously fulfils responsibilities as an entity. The Group also establishes sound policies to regulate employee personal protection in daily management, enhances the safety of the work environment, and ensures the safety and health of employees and other onsite workers. The Group implements the policy of "safety first, prevention-oriented, and comprehensive governance", safety production is regarded as the lifeline of the company, and health and safety work should be done well.

Management Measures

The Group has adopted the following occupational health and safety measures as well as the relevant implementation and monitoring approaches, so as to maintain a healthy and safe working environment.

The health and safety working organizations at all levels of the Group from the Board to the production workshops at each mine are responsible for the implementation and monitoring of health and safety work, constituting a multi-level health and safety management systems and organizational structure as well as a comprehensive fleet of competent personnel. The Group has developed and strictly implemented several health and safety management systems, including the safety production management system (《安全生產管理制度》) the safe production responsibility system (安全生產責任制度), the safe operation rules (《安全操作規程》), the occupational health management system (《職業健康管理制度》), the occupational health responsibility system (《職業健康責任制度》), the occupational health practices (《職業健康操作規程》), etc. So as to institutionalize health and safety management, standardize operating procedures and clarify responsibilities.

In order to clarify safety production responsibility and enhance the safety production reward and punishment mechanism, each of the mines signed the Letter of Commitment on Safety Production Objective at all levels to strictly implement various safety production regulations, standardize group management and lay a foundation for safety. commence safety check and diagnosis on a regular basis, strengthen corrective measures, and provide supervision for implementation, in order to eliminate hidden perils; seriously implement induction training for licensed safety management personnel and specific operators, and enhance occupational hygiene management works.

The Group requires staff members to conduct an occupational health check in the local quarantine stations before and during employment, in order to set up occupational health archives. The occupational health check and occupational hazards are monitored regularly at the operation workplace, diagnosis and troubleshooting for hidden perils are in place, whereas occupational health protection facilities are improved and equipped with necessary labour protection products, we also provide heat-proof and cooling materials, cold-proof cotton boots, cotton clothes and other materials for employees in hot or cold winter season to ensure their physical and mental health. At the same time, the Group also pays special attention to the management of Contractors' health, safety and environmental protection. It requires contractors to establish health, safety and environmental protection management systems and strictly implement industry standards and standards.

The Group strictly enforces the health, safety inspection and reward and punishment system, regularly carries out occupational hazards, safety production inspection and hidden danger investigation on the work site, and carries out reward and punishment policies linked to the effectiveness of health and safety production work with the promotion of employees and the economic interests of contractors. The focus is to cultivate the safety awareness of all employees and contractors in their daily work and keep safety standards in mind, to form a self-conscious and long-term mechanism. For the year ended 31 December 2018, the Group has conducted 163 health and safety inspections, achieving a rate of safety risk ratification and safety instruction implementation of 100%. In addition to self-examinations and checks, the Company actively cooperates with government authorities in health and safety inspections, and regularly reports to the government. For the year ended 31 December 2018, the Group has paid RMB408,034 for the safety assessment reward, with no fine imposed against behaviors violating the safety regulations throughout the year.

In order to enhance the employees' health and safety awareness, the Group organises trainings every year, holds regular safety work meetings, reminds employees of safety before work every day, promotes safety activities month and safety lectures, and sets up safe and healthy work bulletin, safety warning signs, banners and slogans, etc. As at 31 December 2018, our rates of "three-levels" safety education training for newly-recruited employees and all employees, attendance with special operation certificate, all have reached 100%. During the reporting period, the Group had completed health and safety education training for 696 person-times. Through such trainings intensified the professional safety education and imbedded safety awareness into the mind of employees.

In order to improve the level of emergency management, the ability of emergency response and the operability of emergency plans, the Group organizes emergency plan drills and warning education activities every year. For the year ended 31 December 2018, the Group organised 4 emergency response drills in accordance with the relevant regulations. Through emergency response drills, each of the mining subsidiaries attained rewarding outcome and all staff gained first hand experienced about emergency respond and rescue as to accidents, which upgraded emergency handling and joint coordination mechanism and forged contingency plans in a more targeted and maneuverable direction.

Emergency response drill of the Group during the year ended 31 December 2018.

Mines	Names of drills	Date	Number of participants
Jiheng Mining	Drills as to emergency rescue plans for floods in Mining	10 June 2018	45
	Drills as to emergency rescue plans for floods overtopping in tailings reservoir	23 June 2018	30
Jingyuancheng Mining	Drills as to emergency rescue plans for landslide in Mining	16 June 2018	50
	Drills as to emergency rescue plans for floods overtopping in tailings reservoir	17 June 2018	40

Safety fund Insurance

The Group continues to ensure the fund investment in health and safety and sets aside safety measure fees each year exclusively for health and safety protection purpose. During the reporting period, the actual investment in safety measures fees amounted to RMB9.8 million.

For the year ended 31 December 2018, the Group continued to enhance management and control over safety and health risks, and achieved the annual target of zero death with the accident rate keeping at a reasonable level, no work days were lost.

Development and Training

The Group recognises the importance of staff development and training. Being closely related to corporate sustainable development, training can enhance the overall quality of staff members, and enables them to adapt to new requirements as well as improve their capabilities to perform their current duties. It can also help staff members to seize promotion opportunities and realize their own career aspirations in addition to the improvement of the staff's ability and the enhancement of the Group's overall competitiveness. We provide effective trainings for staff members and formulate a clear promotion path to ensure that the staff members are equipped with necessary skills. This also helps the Group to nurture outstanding successors and foster a good learning culture for the Group.

In accordance with the Group's development strategy needs and together with training demands, the human resources department collaborates with various departments to formulate annual training plans. Each unit organises trainings on a regular basis according to the training plans. There will be examinations after the trainings to ensure the effectiveness of the trainings.

For the year ended 31 December 2018, the Group provided its employees with a variety of targeted trainings. Details on trainings of the Group are set out as below:

Trainings for employees during the year ended 31 December 2018 (by training content)

Name/Type of courses	Brief of course content	Average training hours	Cumulative number of participants	Percentage of cumulative number of participants to annual average number of employees
Safety officer training	laws and regulations, safety knowledge	54	2	0.2%
Safety management personnel training	laws and regulations, safety knowledge	36	20	2.3%
Occupational disease management training	laws and regulations, Occupational disease prevention knowledge	16	30	3.5%
Special operation personnel training	laws and regulations, Safety knowledge	25	44	5.1%
Other training	Regulations system, Emergency rescue, Safe operation rules	240	600	69.8%
Total		371	696	80.9%

Trainings for employees during the year ended 31 December 2018 (by employee category)

Employee category	Number of Employees trained	Average training hours	Percentage of participants to the annual average number of employees
Senior management	13	74	1.5%
Middle management	55	87	6.4%
General staff	628	210	73.1%
Total	696	371	81.0%

Note: The average of the total workforce of the Group was (859) during the year ended 31 December 2018.

Supply chain management

The Group has formulated and implemented resources procurement management system which unifies the management of procurement, storage and allocation for resources required by respective mines. According to the demand plans and types of resources required by the production departments, the resources procurement is generally conducted in three ways which are tender, price enquiry and comparison, and sentinel procurement. Contracts are signed for all procurement. The Company strictly oversees the performance of contracts and monitors the payment. The Company maintains a list of suppliers, and provides evaluation and updates regularly.

During the Reporting Period, the Group has a total of 77 listed suppliers which are divided into four categories: Type A has 21 strategic suppliers; Type B has 27 qualified suppliers, Type C has 29 ordinary/new suppliers; and Type D has 44 eliminated suppliers. Among the listed suppliers (excluding Type D), 35 has a registered capital of RMB5 million or above, 18 has a registered capital of RMB1 million to RMB5 million, 11 has a registered capital of less than RMB1million. There are13 individual cooperative enterprises. The selection of suppliers of the Group shall be subject to the approval process and supervision procedure, and shall be supervised by the legal department and audit department of the Group, so as to ensure a fair selection procedure.

Suppliers by geographical locations

Areas	Type A	Type B	Type C
Hebei Province	13	13	16
Other provinces	8	14	13
Total	21	27	29

The Group encourages suppliers to make a continuous improvement, and expects all suppliers in compliance with the laws and regulations of their countries. The Group also requires suppliers to provide a safe working environment for their staff members, ensure safety and health as an integral part of their operating activities. Also, the suppliers need to continuously improve their safety standards and performance with the aim of achieving zero injuries. The Group understands the environmental values and social responsibilities with suppliers by mutually communicating from time to time.

The Group expects suppliers to implement good employment measures by dealing with their employees fairly and reasonably, respecting employees' rights and providing employees with an environment free of discrimination, child labour and forced labour. The suppliers also need to adhere to transparency business processes and high standards of conduct, including avoiding conflicts of interest and prohibiting corruption and accepting bribery.

The Group's suppliers must also emphasize the efficient use of resources and strive to reduce waste. This includes efficiently using fuel and water, properly processing and disposing of waste, monitoring and managing their impacts on the environment in a responsible manner, and continuing to improve in all aspects.

Product responsibility

Quality is an eternal theme and the life of an enterprise. Product quality is the cornerstone to represent a brand and the core of enhancing operation value of a brand. Therefore, the Group puts high emphasis on the quality and reputation of products. The Group strictly follows the laws and regulations related to Product Quality Law and formulates comprehensive management systems in respect of quality and sales, strengthening the quality examination and sales management of products to ensure that high-quality products are offered to the customers.

Products sold to the customers by the Group must be assessed and conduct quality examination before exporting from the mines and delivering to the customers. The quantity and quality of the Company and the customers can be compared. When the differences appear to be substantial, the Group will address the problem under the Customer Complaints Guidelines for Quantity and Quality. Problem that cannot be resolved will be subject to review and arbitration by third-party authoritative organization. During the reporting period, no quality complaints occurred.

The Group has an established management system with advanced production techniques and equipments, as well as dedicated and responsible staff members. During the reporting period, there is no material quality defect of products or recall of products sold.

Given that the Group is in the upper stream of the whole value chain and does not provide products directly to end users, the products cause no direct harm to people's safety and health, it will not cause environmental pollution.

Anti-corruption

Ethics and integrity is the cornerstone of the Group's success. The Group adopts zero-tolerance approach to bribery, extortion, fraud and money-laundering in strict compliance with Anti-Criminal Law of the PRC (中華人民共和國刑法) and Corruption Law of the PRC (中華人民共和國反腐敗法). All directors, management personnel and staff members must comply with all related national and local government laws and regulations on preventing bribery, extortion, fraud and money-laundering in their operation regions in their daily work. All employees not only have responsibility to understand and comply with above policies on preventing bribery, extortion, fraud and money-laundering, but also have obligation to report violation to the person responsible for audit department. Any person, who contravenes the regulations, will be subject to disciplinary sanction.

In order to strengthen the anti-corruption approach, the Company sets up an audit department dedicated to executing anti-corruption function, commencing special issues auditing and supervision processes in due course, investigating loopholes and defects rectification, and auditing legality, reasonability and stringency of respective businesses. The Group establishes and improves various internal systems to specify the anti-corruption management disciplines and conduct requirements of the Company, so that corruption can be eliminated with the help of an established system and better management approach.

Meanwhile, the Group commences anti-corruption training, laws education among the public and case analysis, so as to promote the importance of anti-corruption. The Company sets up various channels such as telephone hotlines, email and mailbox for whistleblowing. Dedicated staff members collect and sort reported information on a regular basis and refer the same to the audit department for supervision and investigation. The Company also adopts various measures to encourage staff members to proactively report acts in violation of disciplines, and strengthens the privacy protection of the whistleblower.

The Group puts more efforts on punishing acts in violation of disciplines by increasing the fines on violation. Upon verification of any acts in violation, the entire illegal proceeds will be confiscated and the violator will be fined twice the amount of its illegal proceeds (cash equivalent for gifts), and subject to administrative sanction such as demotion and removal. Serious case will be referred to judicial authorities for criminal charges.

For the year ended 31 December 2018, the Group was not aware of any corruption litigation cases against the Company or its staff members.

Community Participation

Adhering to the tenet of "harmonious mines", the Group attaches importance to the establishment of a harmonious relationship with the local communities. The Company comes to understand their needs by actively participating in community activities, and takes concrete actions to ensure that interests of the communities are taken into consideration in the operations of the Group.

The Group complies with local laws and regulations in its operations to minimize potential adverse impacts on the community and to help promote community development. During the reporting period, the Group actively assisted the development of community education, donated 200,000 yuan to the "Autumn Student Assistance" (金秋助學) campaign, and won the title of "Autumn Student Aid Enterprise" (金秋助學愛心企業) and "Advanced Unit of Respecting Teachers and Respecting Education" (尊師重教先進單位) awarded by the Lianyuan County People's Government in 2017-2018.

Employment and recruitment of the Aboriginal people in the community where the Group operates give priority to. This not only solves the employment problem of the labor force in the community where the Group operates, promotes the increase of the income of the people in the community, but also helps to build a harmonious and prosperous business and community relationship. As of December 31, 2018, there were about 504 aborigines in the group's business area, accounting for 60.7% of the total number of aborigines in the group.

In addition to the donor community, we also seek to understand the impact our operations may have on neighbouring communities and to ensure that our operations take into consideration their interests and concerns.

INDEX

This indicators index illustrates the Company's compliance with indicators of "comply or explain" and "recommended disclosures" set out in Environmental, Social and Governance Report issued by the Stock Exchange during the reporting period.

Disclosures and KPIs		Page
Environmental		
A1: Emissions		
General Disclosure		**67**
A1.1	The types of emissions and respective emissions data	67-70
A1.2	Greenhouse gas emissions in total (in tons) and, where appropriate intensity (e.g. per unit of production volume, per facility).	70
A1.3	Total hazardous waste produced (in tons) and, where appropriate intensity (e.g. per unit of production volume, per facility).	67
A1.4	Total non-hazardous waste produced (in tons) and, where appropriate intensity (e.g. per unit of production volume, per facility).	68
A1.5	Description of measures to mitigate emissions and results achieved.	67-70
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	67-70
A2:Use of Resources		
General Disclosure		**70**
A2.1	Direct and indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	71
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	70
A2.3	Description of energy use efficiency initiatives and results achieved.	71
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	69, 70
A2.5	Total packaging material used for finished products (in tons) and, if applicable, with reference to per unit produced.	No packaging used for the Group's products

Disclosures and KPIs		**Page**
A3: The Environment and Natural Resources		
General Disclosure		**71**
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	70, 71-72
Social		
Employment and Labour Practices		
B1:Employment		
General Disclosure		**72**
B1.1	Total workforce by gender, employment type, age group and geographical region.	73-74
B1.2	Employee turnover rate by gender, age group and geographical region.	73-74
B2:Health and Safety		
General Disclosure		75
B2.1	Number and rate of work-related fatalities.	77
B2.2	Lost days due to work injury.	77
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	75,77
B3:Development and Training		
General Disclosure		**77**
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	77-78
B3.2	The average training hours completed per employee by gender and employee category.	77-78
B4:Labour Standards		
General Disclosure		**72**
B4.1	Description of measures to review employment practices to avoid child and forced labour.	73
B4.2	Description of steps taken to eliminate such practices when discovered.	73
Operating Practices		
B5:Supply Chain Management		
General Disclosure		**78**
B5.1	Number of suppliers by geographical region.	78
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	78-79

Disclosures and KPIs		Page
B6:Product Responsibility		
General Disclosure		**79**
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	No related issue
B6.2	Number of products and service related complaints received and how they are dealt with.	No related issue
B6.3	Description of practices relating to observing and protecting intellectual property rights.	No related issue
B6.4	Description of quality assurance process and recall procedures.	79
B6.5	Description of consumer data protection and privacy policies, how they are implemented and No related issue monitored.	No related issue
B7:Anti-corruption		
General Disclosure		**79**
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its 20 employees during the reporting period and the outcomes of the cases.	80
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and 20 monitored.	79-80
Community		
B8:Community Investment		
General Disclosure		**80**
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	80
B8.2	Resources contributed (e.g. money or time) to the focus area.	80

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Aowei Holding Limited
(Incorporated in the British Virgin Islands and continued in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Aowei Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 90 to 168, which comprise the Consolidated Statement of Financial Position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessment of impairment/reversal of impairment on mining assets

Refer to notes 2(k)(ii), 3(a)(iii), 14 and 16 to the consolidated financial statements.

The Key Audit Matter

The Group's mining assets are located in three mining areas, each of which is owned by one of the Group's subsidiaries. Each subsidiary was considered to be a separate cash generating unit ("CGU"). As a result of continuing weaker iron ore price forecasts and the deferral of the Group's mine development plans in the second half of 2015, the Group recognised impairment losses in respect of its mining assets of RMB393.6 million for the year ended 31 December 2015. During the year of 2016, management had reassessed whether there was any indication that a CGU might be impaired and performed impairment assessments. Based on these impairment assessments, no further impairment losses were considered necessary as at 31 December 2016.

As a result of the continuing production suspension of Xinxin Mining, i.e. one of the Group's CGU, and the adjustment to the Group's mine development plans due to the gradual tightening of environmental protection policies in Hebei Province in which the Group operates, management has performed impairment assessments of the Group's mining assets as at 31 December 2017 and 2018. Management determined the recoverable amount of each CGU by using discounted cash flow techniques and engaged an independent external valuation expert to assist in determining the recoverable amount of each CGU for assessing impairments. Accordingly, the Group recognised impairment losses in respect of its mining assets of RMB375.6 million and RMB43.4 million for the year ended 31 December 2017 and 2018, respectively.

We identified the assessment of impairment/reversal of impairment of mining assets as a key audit matter because the assessment of the recoverable amount of a CGU involves significant management judgement in the selection of the assumptions adopted in the cash flow forecasts which could be subject to management bias.

How the matter was addressed in our audit

Our procedures in relation to the impairment assessment on mining related assets included the following:

- evaluating the design and implementation of key internal controls over the valuations of the Group's CGUs on which the related estimated recoverable amounts are based;

- with the assistance of our internal valuation specialists, assessing the methodology applied by management in its impairment assessments with reference to the requirements of the prevailing accounting standards;

- evaluating the experience, competence, objectivity and independence of the independent external valuation expert engaged by the management to perform the valuation of the recoverable amount of each CGU;

- challenging the Group's key assumptions and estimates used to determine the recoverable amounts of the CGUs, including those relating to future sales, future operating costs, future capital expenditure and the discount rates applied. This included obtaining the independent valuation report from the external valuation expert engaged by management, and involving our internal valuation specialists to compare these key assumptions and estimates with external benchmarks (including future commodity prices and discount rates for similar companies in the same industry) and to consider the key assumptions and estimates based on their knowledge of the Group and the industry in which it operates;

- comparing the key assumptions and estimates included in the cash flow forecasts prepared in the prior year with the current year's performance of the CGUs to assess the reliability of management's cash flow forecasts and making enquiries of management as to the reasons for any significant variances identified;

- performing sensitivity analyses of the key assumptions and estimates adopted in the cash flow forecasts and assessing the impact of changes in the key assumptions and estimates and whether there were any indicators of management bias; and

- assessing the disclosures in the consolidated financial statements in respect of management's impairment assessments with reference to the requirements of the prevailing accounting standards.

Impairment assessment on the Xinan CGU (defined below)

Refer to notes 2(k)(ii), 3(a)(iii) and 15 to the consolidated financial statements.

The Key Audit Matter

Xinan Investments Limited and its subsidiary (collectively, the "Acquired Business") are principally engaged in hospital management, the establishment of specialist clinics, the supply of medical consumables and the provision of nursing services. The Company completed the acquisition of 100% of the issued share capital of Xinan Investments Limited on 13 July 2016. Goodwill of RMB73.4 million have been allocated to the cash generating unit to which the Acquired Business belongs ("Xinan CGU"). As at 31 December 2017, management has performed the impairment assessment of the Xinan CGU and engaged an independent external valuation expert to assist in determining the recoverable amount of the Xinan CGU. Impairment loss of RMB73.4 million was identified and allocated first to reduce the carrying amount of the goodwill allocated to the Xinan CGU in 2017.

Given the under-performance of the Acquired Business, management has performed an impairment assessment of the Xinan CGU as at 31 December 2018. Management determined the recoverable amount of the Xinan CGU by using discounted cash flow techniques and engaged an independent external valuation expert to assist in determining the recoverable amount of the Xinan CGU. Based on the impairment assessment, no further impairment losses were considered necessary in relation to the Xinan CGU as at 31 December 2018.

The preparation of the cash flow forecast involves the exercise of significant management judgement over key assumptions, including those relating to the number of patients and average income earned from each patient, gross margin on supply chain business and the discount rate applied.

We identified the impairment assessment of the Xinan CGU as a key audit matter because the assessment of the recoverable amount of a CGU involves significant management judgement in the selection of the assumptions adopted in the cash flow forecasts which could be subject to management bias.

How the matter was addressed in our audit

Our procedures in relation to the impairment assessment on the Xinan CGU included the following:

- evaluating the design and implementation of key internal controls over the valuation of the Xinan CGU on which the related estimated recoverable amounts are based;

- with the assistance of our internal valuation specialists, assessing the methodology applied by management in its impairment assessment with reference to the requirements of the prevailing accounting standards;

- evaluating the experience, competence, objectivity and independence of the independent external valuation expert engaged by the management to perform the valuation of the recoverable amount of the Xinan CGU;

- challenging the Group's key assumptions and estimates used to determine the recoverable amount of the Xinan CGU, including those relating to the number of patients and average income earned from each patient, gross margin on supply chain business and the discount rates applied. This included obtaining the independent valuation report from the external valuation expert engaged by management, and involving our internal valuation specialists to compare these key assumptions and estimates with external benchmarks (discount rates for similar companies in the same industry) and to consider the key assumptions and estimates based on their knowledge of the Group and the industry in which it operates;

- comparing the key assumptions and estimates included in the cash flow forecasts prepared in the prior year with the current year's performance of the Xinan CGU to assess the reliability of management's cash flow forecast and making enquiries of management as to the reasons for any significant variances identified;

- performing sensitivity analyses of the key assumptions and estimates adopted in the cash flow forecast and assessing the impact of changes in the key assumptions and estimates and whether there were any indicators of management bias; and

- assessing the disclosures in the consolidated financial statements in respect of management's impairment assessment with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

– Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chu Man Wai.

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

27 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Revenue	*4*	**854,783**	869,122
Cost of sales		**(562,525)**	(594,757)
Gross profit		**292,258**	274,365
Distribution costs		**(21,093)**	(10,731)
Administrative expenses		**(91,779)**	(74,056)
Impairment losses	*5(c)*	**(55,876)**	(449,055)
Profit/(loss) from operations		**123,510**	(259,477)
Finance income	*5(a)*	**7,674**	3,871
Finance costs	*5(a)*	**(38,269)**	(45,574)
Net finance costs		**(30,595)**	(41,703)
Profit/(loss) before taxation	*5*	**92,915**	(301,180)
Income tax	*6*	**(51,373)**	(55,828)
Profit/(loss) for the year		**41,542**	(357,008)
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of group of companies outside of Mainland China	*9*	**1,244**	(1,211)
Total comprehensive income for the year		**42,786**	(358,219)
Profit/(loss) attributable to equity shareholders of the Company		**41,542**	(357,008)
Total comprehensive income attributable to equity shareholders of the Company		**42,786**	(358,219)
Earnings/(loss) per share			
Basic and diluted (RMB)	*10*	**0.03**	(0.22)

The notes on pages 96 to 168 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 29(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2018
(Expressed in Renminbi)

	Note	31 December 2018 RMB'000	31 December 2017 RMB'000
Non-current assets			
Property, plant and equipment, net	*11*	**663,500**	755,528
Construction in progress	*12*	**–**	696
Lease prepayments	*13*	**93,508**	112,111
Intangible assets	*14*	**312,674**	369,709
Long-term receivables	*18*	**55,760**	55,760
Prepayments	*19*	**326,682**	59,412
Deferred tax assets	*26(b)*	**146,375**	129,853
Total non-current assets		**1,598,499**	1,483,069
Current assets			
Inventories	*20*	**121,027**	91,570
Trade and other receivables	*21*	**436,245**	295,598
Restricted deposits	*22*	**–**	342,836
Cash and cash equivalents	*23*	**65,984**	65,745
Total current assets		**623,256**	795,749
Current liabilities			
Short-term borrowings	*24*	**280,000**	320,000
Trade and other payables	*25*	**112,297**	188,057
Current taxation	*26(a)*	**69,491**	49,249
Current portion of long-term payables	*27*	**111,785**	77,889
Current portion of accrued reclamation obligations	*28*	**4,512**	7,316
Total current liabilities		**578,085**	642,511
Net current assets		**45,171**	153,238
Total assets less current liabilities		**1,643,670**	1,636,307

The notes on pages 96 to 168 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2018
(Expressed in Renminbi)

	Note	31 December 2018 RMB'000	31 December 2017 RMB'000
Non-current liabilities			
Long-term payables, less current portion	*27*	**123,113**	162,446
Accrued reclamation obligations, less current portion	*28*	**57,729**	52,260
Deferred tax liabilities	*26(b)*	**42,854**	44,413
Total non-current liabilities		**223,696**	259,119
NET ASSETS		**1,419,974**	1,377,188
CAPITAL AND RESERVES			
Share capital	*29(c)*	**131**	131
Reserves		**1,419,843**	1,377,057
TOTAL EQUITY		**1,419,974**	1,377,188

Approved and authorised for issue by the board of directors on 27 March 2019.

Li Yanjun
Chairman and Executive Director

Leung Hongying Li Ziwei
Chief Executive Officer and Executive Director

The notes on pages 96 to 168 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company							
	Note	Share capital RMB'000 (note 29(c))	Share premium RMB'000 (note 29(d))	Statutory surplus reserve RMB'000 (note 29(d))	Specific reserve RMB'000 (note 29(d))	Exchange reserve RMB'000 (note 29(d))	Other reserve RMB'000 (note 29(d))	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2017		131	1,142,640	84,556	59,923	(452)	(126,229)	570,718	1,731,287
Changes in equity for 2017:									
Loss for the year		–	–	–	–	–	–	(357,008)	(357,008)
Other comprehensive income		–	–	–	–	(1,211)	–	–	(1,211)
Total comprehensive income		–	–	–	–	(1,211)	–	(357,008)	(358,219)
Transfer back to retained earnings, net of utilisation		–	–	–	(3,129)	–	–	3,129	–
Reversal of deferred tax liabilities arising from undistributed profits of subsidiaries in Mainland China	26(b)	–	–	–	–	–	–	4,120	4,120
Balance at 31 December 2017 and 1 January 2018		**131**	**1,142,640**	**84,556**	**56,794**	**(1,663)**	**(126,229)**	**220,959**	**1,377,188**
Changes in equity for 2018:									
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**41,542**	**41,542**
Other comprehensive income		**–**	**–**	**–**	**–**	**1,244**	**–**	**–**	**1,244**
Total comprehensive income		**–**	**–**	**–**	**–**	**1,244**	**–**	**41,542**	**42,786**
Transfer back to retained earnings, net of utilisation		**–**	**–**	**–**	**(296)**	**–**	**–**	**296**	**–**
Balance at 31 December 2018		**131**	**1,142,640**	**84,556**	**56,498**	**(419)**	**(126,229)**	**262,797**	**1,419,974**

The notes on pages 96 to 168 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Profit/(loss) before taxation		**92,915**	(301,180)
Adjustments for:			
Depreciation and amortisation	*5(c)*	**141,700**	142,884
Interest income	*5(a)*	**(7,674)**	(3,871)
Interest expenses	*5(a)*	**38,269**	45,573
Net (gains)/losses on disposal of property, plant and equipment	*5(c)*	**(66)**	9
Impairment losses	*5(c)*	**55,876**	449,055
Changes in working capital:			
(Increase)/decrease in inventories		**(29,457)**	14,577
Increase in trade and other receivables		**(412,750)**	(230,775)
Decrease in trade and other payables		**(12,139)**	(11,972)
Cash (used in)/generated from operations		**(133,326)**	104,300
Income tax paid	*26(a)*	**(49,212)**	(43,820)
Net cash (used in)/generated from operating activities		**(182,538)**	60,480
Investing activities			
Payment for purchase of property, plant and equipment and construction in progress		**(25,618)**	(31,680)
Payment for purchase of other assets		**(17,129)**	(16,494)
Proceeds from disposals of property, plant and equipment		**263**	43
Proceeds for purchase of other financial assets		**–**	48,000
Placement of restricted deposits for investing purpose		**–**	(24,789)
Release of restricted deposits for investing purpose		**279,800**	–
Interest received	*5(a)*	**7,674**	3,871
Net cash generated from/(used in) investing activities		**244,990**	(21,049)

The notes on pages 96 to 168 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Financing activities			
Proceeds from borrowings	*23(b)*	**280,000**	360,000
Repayment of borrowings	*23(b)*	**(320,000)**	(350,000)
Interest paid	*23(b)*	**(23,296)**	(29,027)
Net cash used in financing activities		**(63,296)**	(19,027)
Net (decrease)/increase in cash and cash equivalents		**(844)**	20,404
Cash and cash equivalents at 1 January		**65,745**	46,577
Effect of foreign exchange rate changes		**1,083**	(1,236)
Cash and cash equivalents at 31 December	*23*	**65,984**	65,745

The notes on pages 96 to 168 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 CORPORATION INFORMATION

Aowei Holding 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 28 November 2017, the name of the Company was changed from Hengshi Mining Investments Limited to Aowei Holding Limited.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the group's financial statements:

(i) IFRS 9, Financial instruments

(ii) IFRS 15, Revenue from contracts with customers

(iii) IFRIC 22, Foreign currency transactions and advance consideration

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 financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, Prepayment features with negative compensation which have been adopted at the same time as IFRS 9.

(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation

IFRS 9 replaces IAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items not existed at 1 January 2018 in accordance with the transition requirements. The Group has assessed the cumulative effect of initial application is not material, therefore no adjustment to the opening equity at 1 January 2018 was made. Comparative information continues to be reported under IAS 39.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation *(continued)*

a. Classification of financial assets and financial liabilities

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

– FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The Group does not have financial assets classified as FVPL and FVTOCI, and its financial assets previously measured at amortised cost with their classification and measurements upon the adoption of IFRS 9.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation *(continued)*

b. Credit loss

IFRS 9 replaces the "incurred loss" model in IAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and loans to associates);

– contract assets as defined in IFRS 15.

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation *(continued)*

b. Credit loss *(continued)*

Measurement of ECLs (continued)

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation *(continued)*

b. Credit loss *(continued)*

Significant increases in credit risk (continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

(ii) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services and IAS 11, Construction contracts, which specified the accounting for construction contracts.

The Group has applied IFRS 15 retrospectively to items not existed at 1 January 2018 in accordance with the transition requirements. The Group has assessed the cumulative effect of initial application is not material, therefore no adjustment to the opening equity at 1 January 2018 was made. Comparative information continues to be reported under IAS 18 and IAS 11.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue arising from services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard has not to have significant impact on how it recognises revenue from service income and sales of iron ore products.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

(ii) IFRS 15, Revenue from contracts with customers *(continued)*

b. Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

As the customer paid for the iron ore products in advance and the timing of the transfer of those goods is at the discretion of the customer, the Group's contract with customers would not have a significant financing component.

c. Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset.

Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The Group has assessed that this new requirement does not have any significant impact on the Group upon adoption of IFRS 15.

(iii) IFRIC 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Basis of consolidation

(i) Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets acquired and liabilities assumed are measured based on their carrying amounts in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the carrying amount of the net assets acquired and the consideration paid for the combination (or the total par value of shares issued) is adjusted to equity. Any costs directly attributable to the combination are recognised in profit or loss when incurred. The combination date is the date on which one combining entity obtains control of other combining entities.

(ii) Business combinations involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. Acquisition-related costs are expensed when incurred. The acquiree's identifiable assets, liabilities and contingent liabilities, if the recognition criteria are met, are recognised by the Group at their acquisition-date fair value. The acquisition date is the date on which the acquirer obtains control of the acquiree.

(iii) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Basis of consolidation *(continued)*

(iii) Subsidiaries and non-controlling interests *(continued)*

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2(n) or (o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Other investments

Investments are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets.

At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in debt securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(k)(i)). Interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in note 2(v)(ii). Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 2(k)(i)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Property, plant and equipment

Property, plant and equipment, which consists of buildings and plants, machinery and equipment, motor vehicles, office equipment and mine properties (including capitalised stripping costs), are initially stated at cost less accumulated depreciation and impairment losses (see note 2(k)(ii)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, the cost of borrowed funds used during the period of construction (see note 2(x)) and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other cost is recognised as an expense in profit or loss in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write-off the cost of items of property, plant and equipment, other than mine properties, over their estimated useful lives using the straight-line method, after taking into account the estimated residual values. The estimated useful lives of property, plant and equipment, other than mine properties, are as follows:

	Depreciable life
Buildings and plants	6 – 20 years
Machinery and equipment	3 – 10 years
Motor vehicles	5 years
Office equipment	3 years

Mine properties are depreciated using the units-of-production method based on the proven and probable mineral reserves of the relevant ore body or component of ore body.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Construction in progress

Construction in progress represents property and plant under construction, equipment pending installation and mines under construction, and is initially recognised at cost less impairment losses (see note 2(k)(ii)). Cost comprises cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (see note 2(x)).

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress until it is completed and substantially ready for its intended use.

(h) Capitalised stripping costs

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. Stripping costs (waste removal costs) are incurred during the development and production phases at open-pit mining and they are accounted for separately for each component of an ore body unless the stripping activity provides improved access to the whole of the ore body. A component is a specific section within an ore body that is made more accessible by the stripping activity. The identification of components is dependent on the mine plan. Judgement is required to identify and define these components and also to determine the expected volumes of waste to be stripped and ore to be mined in each of these components. Judgement is also required to identify a suitable production measure that can be applied in the calculation and allocation of production stripping costs between inventory and production stripping activity. These are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity assets.

Development stripping costs are capitalised as a stripping activity asset, in construction in progress and forming part of the cost of constructing the mine, when:

- It is probable that future economic benefits associated with the asset will flow to the entity; and
- The costs can be measured reliably.

Capitalisation of development stripping costs ceases and these costs are transferred to mine properties in property, plant and equipment when the ore body or component of ore body is ready for its intended use.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Capitalised stripping costs *(continued)*

Production stripping can give rise to two benefits being the extraction of ore in the current period and improved access to the ore body or component of ore body in future periods. To the extent that the benefit is the extraction of ore, the stripping costs are recognised as an inventory cost. To the extent the benefit is improved access to the ore body or component of ore body in future periods, the stripping costs are capitalised as mine properties in property, plant and equipment, if the following criteria are met:

- It is probable that the future economic benefit (improved access to ore) will flow to the Group;
- The ore body or component of the ore body for which access has been improved can be identified; and
- The costs relating to the stripping activity can be measured reliably.

Production stripping costs are allocated between the inventory produced and the mine properties capitalised using a life-of-component waste to ore strip ratio. When the current strip ratio is greater than the life-of-component ratio, a portion of the stripping costs is capitalised to the existing mine properties.

The development and production stripping assets are depreciated using the units of production method based on the proven and probable mineral reserves of the relevant ore body or component of ore body.

(i) Goodwill and other intangible assets

(i) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit (CGU), or groups of cash generating units, which is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(k)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Goodwill and other intangible assets *(continued)*

(ii) Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses (see note 2(k)(ii)). The mining rights are amortised using the units-of-production method based on the proved and probable mineral reserves. The Group's mining rights are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all reserves to be mined in accordance with current production schedules.

(iii) Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses (see note 2(k)(ii)). Exploration and evaluation assets include expenditures incurred in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and expenditures incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure during the initial exploration stage is charged to profit or loss as incurred.

When it can be reasonably ascertained that a mining structure is capable of commercial production, exploration and development costs capitalised are transferred to mining right and amortised to profit or loss using the units-of-production method based on the proved and probable mineral reserves. If any project is abandoned during the exploration and evaluation stage, the related exploration and evaluation assets are written off to profit or loss.

(iv) Hospital management right

The acquired hospital management right is stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(k)(ii)).

Amortisation of the hospital management right is charged to profit or loss on a straight-line basis over its estimated useful lives of 30 years.

Both the period and method of amortisation are reviewed annually.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Leased assets *(continued)*

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Lease prepayments

Lease prepayments represent the costs of acquiring land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 2(k)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the period of land use rights.

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

(A) Policy applicable from 1 January 2018

The group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and loans to associates);
- contract assets as defined in IFRS 15;
- debt securities measured at FVOCI (recycling);
- lease receivables; and
- loan commitments issued, which are not measured at FVPL.

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments, contract assets and lease receivables *(continued)*

(A) Policy applicable from 1 January 2018 *(continued)*

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

- variable-rate financial assets: current effective interest rate;

- lease receivables: discount rate used in the measurement of the lease receivable;

- loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments, contract assets and lease receivables *(continued)*

(A) Policy applicable from 1 January 2018 *(continued)*

Measurement of ECLs (continued)

For all other financial instruments (including loan commitments issued), the group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings 94.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments, contract assets and lease receivables *(continued)*

(A) Policy applicable from 1 January 2018 *(continued)*

Significant increases in credit risk (continued)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 2(v)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments, contract assets and lease receivables *(continued)*

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for-sale investments and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

- For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments, contract assets and lease receivables *(continued)*

(B) Policy applicable prior to 1 January 2018 *(continued)*

For available-for-sale investments, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (including capitalised mine properties);
- construction in progress;
- lease prepayments;
- intangible assets;
- goodwill;
- investments in subsidiaries; and
- other non-current assets (excluding receivables)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(ii) Impairment of other assets *(continued)*

- **Calculation of recoverable amount**
  The recoverable amount of an asset is the greater of its fair value less costs of disposal ("FVLCD") and value in use ("VIU"). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a CGU).

- **Recognition of impairment losses**
  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual FVLCD (if measurable) or VIU (if determinable).

- **Reversals of impairment losses**
  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Inventories

Inventories, including weakly mineralised wall rock, iron ores, preliminary concentrates and iron ore concentrates, are physically measured or estimated and valued at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion, an appropriate portion of fixed and variable overhead costs, including the stripping costs incurred during the production phase, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated future sales price of the product the Group expects to realise when such item is sold or processed, less estimated costs to complete and bring the product to sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Inventories of ancillary materials, spare parts and small tools used in production are stated at cost less impairment losses for obsolescence.

(m) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(k)(i)).

(n) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(x)).

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(q) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Income tax *(continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

- the same taxable entity; or

- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Levies

A levy is not recognised until the obligating event specified in relevant legislation occurs, even if there is no realistic opportunity to avoid the obligation.

(u) Obligations for reclamation

The Group's obligations for reclamation consist of spending estimates at its mines in accordance with the relevant rules and regulations in the PRC. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset associated with the liability for final reclamation and mine closure as mine properties in property, plant and equipment. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and the corresponding asset are recognised at the appropriate discount rate.

(v) Revenue recognition

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of iron ore products

Revenue associated with the sale of iron ores, preliminary concentrates and iron ore concentrates is recognised when the control over goods is transferred to the customer. Revenue excludes value added tax and is after deduction of any trade discounts.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Revenue recognition *(continued)*

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(k)(i)).

(iii) Service income

Service income associated with hospital management is recognised when the related services are rendered and when it is probable that the economic benefits from the service rendered will flow to the Group and such benefit could be reliably measured.

(w) Translation of foreign currencies

The presentation currency of the Group is Renminbi ("RMB"). The functional currency of the Company and Hengshi Development International Limited is Hong Kong dollars ("HKD") and the functional currency of other group entities is Renminbi. Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(f) The entity is controlled or jointly controlled by a person identified in (i).

(g) A person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(h) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Segment reporting *(continued)*

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) Iron ore reserves

Engineering estimates of the Group's iron ore reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. Reserve estimates are updated at regular basis and have taken into account recent production and technical information about the relevant iron ore deposits. In addition, as prices and cost levels change from year to year, the estimate of iron ore reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation and amortisation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation and amortisation expenses and impairment loss. Depreciation and amortisation rates are determined based on estimated iron ore reserve quantity and costs of mining structures and mining rights. The cost of mining structures and mining rights are depreciated and amortised based on the units of iron ore reserves consumed.

(ii) Useful lives of property, plant and equipment

Management determines the estimated useful lives of and related depreciation charges for its property, plant and equipment. This estimate is based on the actual useful lives of assets of similar nature and functions. It could change significantly as a result of significant technical innovations and competitor actions in response to industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

(a) Critical accounting judgements in applying the Group's accounting policies *(continued)*

(iii) Impairment of assets

In relation to the goodwill, the CGU to which goodwill has been allocated is tested for impairment annually whether or not there is any indicator of impairment. Management prepares discounted future cash flow to assess the differences between the carrying amount and VIU. In case the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU.

The Group reviews the carrying amounts of the assets at the end of each reporting period to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cash flow to assess the differences between the carrying amount and VIU and provided for impairment loss. Any change in the assumptions adopted in the cash flow forecasts would increase or decrease in the provision of the impairment loss and affect the Group's net asset value.

In relation to trade and other receivables, a provision for impairment is made and an impairment loss is recognised in profit or loss when there is objective evidence (e.g. probability of insolvency or significant financial difficulties of debtors) that the Group will not be able to collect all of the amounts due under the original terms of invoices. Management uses judgement in determining the probability of insolvency or significant financial difficulties of debtors.

Notwithstanding that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher or lower than the amount estimated. An increase or decrease in the above impairment loss would affect the net profit in future years.

(iv) Obligations for reclamation

The estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including future production volume and development plan, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation will be recognised at the appropriate discount rate.

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

(a) Critical accounting judgements in applying the Group's accounting policies *(continued)*

(v) Recognition of deferred tax assets

Deferred tax assets in respect of unused tax losses and tax credit carried forward and deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in the future years.

(vi) Capitalised stripping costs

Production stripping costs can be incurred both in relation to the production of inventories in that period and the creation of improved access and mining flexibility in relation to ore to be mined in the future. The former are included as part of the costs of inventories, while the latter are capitalised as mine properties, where certain criteria are met (see note 2(h)). Significant judgement is required to distinguish between the production stripping that related to the extraction of inventories and what relates to the creation of mine properties.

Once the Group has identified its production stripping for each surface mining operation, it identifies the separate components of the ore bodies for each of its mining operations. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Significant judgement is required to identify and define these components, and also to determine the expected volumes of waste to be stripped and ore to be mined in each of these components. These assessments are undertaken for each individual mining operation based on the information available in the mine plan. The mine plans and, therefore, the identification of components, will vary between mines for a number of reasons. These include, but are not limited to, the type of commodity, the geological characteristics of the ore body, the geographical location and/or financial considerations.

Judgement is also required to identify a suitable production measure to be used to allocation production stripping costs between inventories and any stripping activity asset for each component. The Group considers that the ratio of the expected volume of waste to be stripped for an expected volume of ores to be mined for a specific component of the ore body, the most suitable production measure.

(Expressed in Renminbi unless otherwise indicated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

(b) Sources of estimation uncertainty

Other than requiring critical accounting judgements, assumptions concerning the future and other major sources of estimation uncertainty at the end of each reporting period are required in relation to the Group's accounting policies on "impairment of assets", "obligations for reclamation" and "recognition of deferred tax assets". Information about the assumptions and their risk factors are set out in notes 3(a)(iii), (iv) and (v).

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.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2018 RMB'000	2017 RMB'000
Mining Segment		
Iron ore concentrates	**854,008**	868,783
Medical Segment		
Hospital management service	**775**	339
	854,783	869,122

During the year ended 31 December 2018, there were three customers with whom transactions have exceeded 10% of the Group's revenue (2017: three customers) and revenue from sale of iron ore concentrates to these customers amounted to RMB850,588,000 (2017: RMB703,676,000). Details of the concentration of credit risk arising from the Group's customers are set out in note 30(a).

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.

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:

- Mining segment: the mining, processing and sale of iron ore products; and
- Medical segment: 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.

(Expressed in Renminbi unless otherwise indicated)

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 year ended 31 December 2018 is set out below.

	Year ended 31 December 2018		
	Mining segment RMB'000	Medical segment RMB'000	Total RMB'000
Reportable segment revenue	854,008	775	854,783
Cost of sales	(556,292)	(6,233)	(562,525)
Reportable segment gross profit/(loss)	297,716	(5,458)	292,258
Distribution costs	(21,093)	–	(21,093)
Administrative expenses	(87,263)	(806)	(88,069)
Net finance costs	(30,608)	9	(30,599)
Impairment losses	(55,769)	(107)	(55,876)
Reportable segment profit/(loss) before taxation	102,983	(6,362)	96,621
Income tax	(52,931)	1,558	(51,373)
Reportable segment profit/(loss)	50,052	(4,804)	45,248

(Expressed in Renminbi unless otherwise indicated)

4 REVENUE AND OPERATING SEGMENTS *(continued)*

(b) Operating Segments *(continued)*

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

	Year ended 31 December 2017		
	Mining segment RMB'000	Medical segment RMB'000	Total RMB'000
Reportable segment revenue	868,783	339	869,122
Cost of sales	(588,522)	(6,235)	(594,757)
Reportable segment gross profit/(loss)	280,261	(5,896)	274,365
Distribution costs	(10,731)	–	(10,731)
Administrative expenses	(76,723)	(1,095)	(77,818)
Net finance costs	(41,718)	13	(41,705)
Impairment losses	(375,645)	(73,410)	(449,055)
Reportable segment loss before taxation	(224,556)	(80,388)	(304,944)
Income tax	(57,404)	1,558	(55,846)
Reportable segment loss	(281,960)	(78,830)	(360,790)

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

	2018 RMB'000	2017 RMB'000
Revenue		
Reportable segment revenue	**854,783**	869,122
Consolidated revenue *(note 4(a))*	**854,783**	869,122
Profit		
Reportable segment profit/(loss)	**45,248**	(360,790)
Unallocated head office and corporate (expense)/income	**(3,706)**	3,782
Consolidated profit/(loss)	**41,542**	(357,008)

4 REVENUE AND OPERATING SEGMENTS *(continued)*

(b) Operating Segments *(continued)*

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

5 PROFIT/(LOSS) BEFORE TAXATION

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

(a) Net finance costs:

	2018 RMB'000	2017 RMB'000
Interest income	**(7,674)**	(3,871)
Finance income	**(7,674)**	(3,871)
Interest on interest-bearing borrowings	**23,184**	29,143
Unwinding of interest on		
– long-term payables	**11,691**	13,621
– accrued reclamation obligations *(note 28)*	**3,395**	2,809
Foreign exchange difference, net	**(1)**	1
Finance costs	**38,269**	45,574
Net finance costs	**30,595**	41,703

During the year ended 31 December 2018, no borrowing costs were capitalised in relation to construction in progress (2017: RMB nil).

5 PROFIT/(LOSS) BEFORE TAXATION *(continued)*

(b) Staff costs:

	2018 RMB'000	2017 RMB'000
Salaries, wages and other benefits	**69,972**	70,785
Retirement scheme contributions	**5,233**	4,725
	75,205	75,510

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.

(c) Other items:

	2018 RMB'000	2017 RMB'000
Cost of inventories *(note (i))*	**546,934**	588,522
Depreciation and amortisation	**141,700**	142,884
Operating lease charges	**4,623**	5,036
Auditor's remuneration		
– audit services	**3,500**	3,060
– non audit services	**–**	470
Net (gains)/losses on disposal of property, plant and equipment	**(66)**	9
Impairment losses on property, plant, equipment and intangible asset *(note 16)*	**43,428**	449,055
Impairment losses on trade and other receivables *(note 21 (d))*	**12,448**	–

Note:

(i) During the year ended 31 December 2018, cost of inventories includes RMB165,219,000 (2017: RMB181,160,000) relating to staff costs, depreciation and amortisation expenses which are also included in the respective amounts disclosed separately above for each of these types of expenses.

During the year ended 31 December 2018, production stripping costs recognised in profit or loss as part of cost of inventories amounted to RMB261,887,000 (2017: RMB280,135,000).

6 INCOME TAX

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

	2018 RMB'000	2017 RMB'000
Current tax		
Provision for PRC enterprise income tax *(note 26(a))*	**69,454**	65,075
Deferred tax		
Origination and reversal of temporary differences *(note 26(b))*	**(18,081)**	(9,247)
	51,373	55,828

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

	2018 RMB'000	2017 RMB'000
Profit/(loss) before taxation	**92,915**	(301,180)
Notional tax on profit/(loss) before taxation, calculated at tax rate of 25% *(note (i))*	**23,229**	(75,295)
Differential tax rates on subsidiaries' income *(note (ii))*	**(505)**	(4,311)
Tax effect of non-deductible expenses *(note (iii))*	**11,701**	116,060
Tax effect of unused tax losses not recognised	**16,948**	1,659
Reversal of previously recognised temporary differences *(note 26(b))*	**–**	14,981
Tax provision for prior years	**–**	2,734
Actual tax expense	**51,373**	55,828

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 PRC 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. The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits.

(iii) For the year ended 31 December 2018, it represents mainly non-deductible timing difference arising from the impairment losses amounting to RMB10,857,000 (2017: RMB112,264,000).

6 INCOME TAX *(continued)*

(b) Reconciliation between tax expense and accounting profit/(loss) at applicable tax rate: *(continued)*

Notes: (continued)

(iv) 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%.

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

7 DIRECTORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	2018 Total RMB'000
Executive directors				
Mr. Li Yanjun *(chairman)*	–	1,219	–	1,219
Mr. Leung Hongying Li Ziwei *(vice chairman)*	–	797	15	812
Mr. Li Jinsheng	–	633	–	633
Mr. Sun Jianhua	–	205	34	239
Mr. Huang Kai	–	318	–	318
Mr. Tu Quanping	–	572	8	580
Independent non-executive directors				
Mr. Ge Xinjian	102	–	–	102
Mr. Meng Likun	102	–	–	102
Mr. Kong Chi Mo	152	–	–	152
	356	3,744	57	4,157

7 DIRECTORS' REMUNERATION *(continued)*

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	2017 Total RMB'000
Executive directors				
Mr. Li Yanjun *(chairman)*	–	1,246	–	1,246
Mr. Leung Hongying Li Ziwei *(vice chairman)*	–	815	16	831
Mr. Li Jinsheng	–	615	7	622
Mr. Sun Jianhua	–	134	34	168
Mr. Huang Kai	–	318	–	318
Mr. Tu Quanping	–	562	7	569
Independent non-executive directors				
Mr. Ge Xinjian	104	–	–	104
Mr. Meng Likun	104	–	–	104
Mr. Kong Chi Mo	156	–	–	156
	364	3,690	64	4,118

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2017: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2017: two) individuals are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	**1,365**	1,298
Retirement scheme contributions	**16**	14
	1,381	1,312

The emoluments of the two (2017: two) individuals with the highest emoluments are within the following bands:

	2018 Number of individuals	2017 Number of individuals
Nil to HKD1,000,000	**2**	2

9 OTHER COMPREHENSIVE INCOME

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

10 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2018 of profit of RMB41,542,000 (2017: loss of RMB357,008,000) and the weighted average number of shares in issue during the year ended 31 December 2018 of 1,635,330,000 shares (2017: 1,635,330,000 shares).

The Company did not have any potential dilutive shares for the years presented. Accordingly, diluted earnings/(loss) per share is the same as basic earnings/(loss) per share.

11 PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings and plants RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Mine properties RMB'000	Total RMB'000
Cost:						
At 1 January 2017	503,780	354,102	31,471	5,724	369,316	1,264,393
Additions	–	6,494	1,402	511	–	8,407
Transferred from construction in progress *(note 12)*	24,068	887	–	2,901	–	27,856
Disposals	–	(129)	(2,185)	(3)	–	(2,317)
At 31 December 2017	527,848	361,354	30,688	9,133	369,316	1,298,339
At 1 January 2018	**527,848**	**361,354**	**30,688**	**9,133**	**369,316**	**1,298,339**
Additions	**–**	**201**	**1,418**	**44**	**–**	**1,663**
Transferred from construction in progress *(note 12)*	**9,860**	**671**	**–**	**4,224**	**1,307**	**16,062**
Disposals	**–**	**–**	**(1,692)**	**–**	**–**	**(1,692)**
At 31 December 2018	**537,708**	**362,226**	**30,414**	**13,401**	**370,623**	**1,314,372**
Accumulated depreciation and impairment losses:						
At 1 January 2017	(119,209)	(147,137)	(24,130)	(4,476)	(130,862)	(425,814)
Charge for the year	(23,875)	(26,971)	(2,449)	(642)	(28,031)	(81,968)
Written back on disposals	–	107	2,156	2	–	2,265
Impairment losses *(note 16)*	(4,801)	(3,691)	(185)	(27)	(28,590)	(37,294)
At 31 December 2017	(147,885)	(177,692)	(24,608)	(5,143)	(187,483)	(542,811)
At 1 January 2018	**(147,885)**	**(177,692)**	**(24,608)**	**(5,143)**	**(187,483)**	**(542,811)**
Charge for the year	**(27,629)**	**(23,522)**	**(1,805)**	**(1,482)**	**(25,594)**	**(80,032)**
Written back on disposals	**–**	**–**	**1,429**	**–**	**–**	**1,429**
Impairment losses *(note 16)*	**(3,633)**	**(2,487)**	**(87)**	**(20)**	**(23,231)**	**(29,458)**
At 31 December 2018	**(179,147)**	**(203,701)**	**(25,071)**	**(6,645)**	**(236,308)**	**(650,872)**
Net carrying value						
At 31 December 2018	**358,561**	**158,525**	**5,343**	**6,756**	**134,315**	**663,500**
At 31 December 2017	379,963	183,662	6,080	3,990	181,833	755,528

11 PROPERTY, PLANT AND EQUIPMENT, NET *(continued)*

The Group's property, plant and equipment are substantially located in the PRC. As at 31 December 2018, the Group has not obtained title certificate of certain of its buildings and plants with an aggregate carrying amount of approximately RMB45,587,000 (31 December 2017: RMB48,872,000). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use of the above-mentioned properties.

As at 31 December 2018, mine properties include capitalised stripping activity asset with a carrying amount of RMB142,385,000 (31 December 2017: RMB163,528,000).

As at 31 December 2018, certain of the Group's borrowings were secured by the Group's property, plant and equipment (see note 24(a)) with a carrying amount of RMB43,055,000 (31 December 2017: RMB46,484,000).

12 CONSTRUCTION IN PROGRESS

	Other property and plant under construction/ installation RMB'000
At 1 January 2017	5,374
Additions	23,178
Transferred to property, plant and equipment *(note 11)*	(27,856)
At 31 December 2017	696
At 1 January 2018	**696**
Additions	**15,366**
Transferred to property, plant and equipment *(note 11)*	**(16,062)**
At 31 December 2018	**–**

13 LEASE PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Cost:		
At 1 January	**211,020**	210,727
Additions	**–**	293
At 31 December	**211,020**	211,020
Accumulated amortisation:		
At 1 January	**(98,909)**	(83,692)
Charge for the year	**(18,603)**	(15,217)
At 31 December	**(117,512)**	(98,909)
Net carrying value:	**93,508**	112,111

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in the PRC, with original lease periods over 5 to 50 years. Up to the issue of these financial statements, the Group is still in the process of applying for the title certificates of certain of its leasehold land with a carrying amount of approximately RMB77,995,000 (31 December 2017: RMB95,936,000). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use of the above-mentioned leasehold land.

The analysis of net carrying value of leasehold land is as follows:

	2018 RMB'000	2017 RMB'000
In the PRC:		
– short leases	**14,663**	18,364
– medium-term leases	**78,845**	93,747
At 31 December	**93,508**	112,111

As at 31 December 2018, certain of the Group's borrowings were secured by the Group's land use rights (see note 24(a)) with a carrying amount of RMB10,662,000 (31 December 2017: RMB10,942,000).

(Expressed in Renminbi unless otherwise indicated)

14 INTANGIBLE ASSETS

	Mining rights RMB'000	Hospital management right RMB'000	Total RMB'000
Cost:			
At 1 January 2017, 31 December 2017 and 31 December 2018	**880,567**	**187,000**	**1,067,567**
Accumulated amortisation:			
At 1 January 2017	(310,692)	(3,117)	(313,809)
Charge for the year	(39,465)	(6,233)	(45,698)
Impairment losses *(note (ii))*	(338,351)	–	(338,351)
At 31 December 2017	**(688,508)**	**(9,350)**	**(697,858)**
At 1 January 2018	**(688,508)**	**(9,350)**	**(697,858)**
Charge for the year	**(36,832)**	**(6,233)**	**(43,065)**
Impairment losses *(note (ii))*	**(13,970)**	**–**	**(13,970)**
At 31 December 2018	**(739,310)**	**(15,583)**	**(754,893)**
Net carrying value:			
At 31 December 2018	**141,257**	**171,417**	**312,674**
At 31 December 2017	192,059	177,650	369,709

Notes:

(i) Intangible assets represent mining rights and the related premium paid in relation to obtaining the mining rights, and the hospital management right acquired in 2016.

(ii) During the year ended 31 December 2018, the impairment provision on mining rights of Laiyuan Xinxin Mining Co., Ltd. ("Xinxin Mining") was RMB43,428,000 (see note 16(a)).

14 INTANGIBLE ASSETS *(continued)*

Notes: (continued)

(iii) As at 31 December 2018, the Group's borrowings were secured by the mining right of Laiyuan County Jiheng Mining Co., Ltd. ("Jiheng Mining") (see note 24(a)) with a carrying amount of approximately RMB55,000 (31 December 2017: RMB28,106,000).

15 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 an 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.

Since the master plan for the Xiong'an New Area of where the operation is located is still under processing, the performance of the Group's hospital management business did not reach the original expectation. Impairment losses of RMB73,410,000 was recognised for the year ended 31 December 2017, and the carrying value of goodwill has been reduced to RMB nil.

16 IMPAIRMENT LOSSES

(a) Property, plant and equipment

When any indication of impairment is identified, property, plant and equipment are reviewed for impairment based on CGU. The carrying values of the CGU was compared to the recoverable amount. The recoverable amount is the higher of the CGU's FVLCD and VIU. Given the nature of the Group's activities, information on the fair value of a CGU is usually difficult to obtain unless negotiations with potential purchasers or similar transactions are taking place. As such, the recoverable amount of CGU was determined based on 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. The cash flow was discounted using a discount rate that reflects current market assessment of the time value of money and the risks specific to the CGU.

As a result of continuing and weaker iron ore product price forecasts and consequent deferral of mine development plan in the second half of 2015, the Group identified indications of impairment in relation to Laiyuan County Jingyuancheng Mining Co., Ltd. ("Jingyuancheng Mining") and Xinxin Mining. Consequently, a formal estimate of the recoverable amounts of the related CGUs were performed. For the purpose of the impairment testing, each of Jingyuancheng Mining and Xinxin Mining is regarded as a CGU. For the year ended 31 December 2015, impairment losses totally RMB393,637,000 was recognised in respect of the Group's property, plant and equipment, construction in progress and intangible assets amounting to RMB184,384,000, RMB25,091,000 and RMB184,162,000, respectively.

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. During the year ended 31 December 2017, the directors carried out the review of the recoverable amounts of each CGU of which indications of impairment were identified. The Group recognised impairment loss of RMB54,645,000 of which RMB37,294,000 (see note 11) in property, plant and equipment and RMB17,351,000 in intangible assets (see note 14).

During the year ended 31 December 2018, the Group anticipates a further deferral of production resumption of Xinxin Mining after taking into account the fact that it will continue to remain production halt. The directors carried out the review of the recoverable amount of this CGU and such review led to the recognition of an impairment loss of RMB43,428,000, which has been recognised in the profit or loss for the year ended 31 December 2018, of which RMB29,458,000 (see note 11) was recognised in the property, plant and equipment and RMB13,970,000 was recognised in intangible assets (see note 14), and this CGU has been reduced to its recoverable amount of RMB99,194,000.

The determination of VIU was most sensitive to iron ore concentrate prices, sales and production volumes and discount rate. The Group adopts a pre-tax rate of 11.4% (2017: 13.9%) that reflects specific risks related to the CGUs as discount rates. Other key assumptions for the VIU calculations reflect management's judgements and expectations regarding the past performance of the relevant assets, as well as future industry conditions and operations.

(Expressed in Renminbi unless otherwise indicated)

16 IMPAIRMENT LOSSES *(continued)*

(b) Mining rights

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 31 December 2018, the Group is still in process of negotiating with the local government to renew title certificates of these two mining rights as part of the planned consolidation works. Given the fact that the local government has carried out policies such as gradually closing down and ceasing new license of open-pit under scale recently, the directors considered indication of impairment exist and carried out the review of the recoverable amount of the above-mentioned mining rights.

Further to the impairment assessment made by the Company, an impairment loss of RMB321,000,000 has been recognised in the profit or loss for the year ended 31 December 2017 after taking into account the uncertainties associated with the consolidation works in the foreseeable future. For the year ended 31 December 2018, the management considered no further impairment or reversal for the mining rights of Jiheng Mining.

17 SUBSIDIARIES OF THE GROUP

The following list contains the particular of subsidiaries of the Group as at 31 December 2018. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Name of companies	Place of incorporation/ establishment and business	Particulars of issued and paid-up capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Hengshi Development International Limited 恒實發展國際有限公司	Hong Kong	100 shares of HKD1.00 each	100%	100%	–	Investment holding
Beijing Panshi Industrial Co., Ltd. 北京盤實實業有限公司	PRC	RMB150,000,000	100%	–	100%	Investment holding
Beijing Hengwen Industrial Co., Ltd. # 北京恒穩實業有限公司	PRC	RMB120,000,000	100%	–	100%	Investment holding
Laiyuan County Aowei Mining Investments Co., Ltd. # 淶源縣奧威礦業投資有限公司	PRC	RMB120,000,000	100%	–	100%	Investment holding
Laiyuan County Jingyuancheng Mining Co., Ltd. # 淶源縣京源城礦業有限公司	PRC	RMB160,000,000	100%	–	100%	Mining, processing and sale of iron ore products

(Expressed in Renminbi unless otherwise indicated)

17 SUBSIDIARIES OF THE GROUP *(continued)*

			Proportion of ownership interest			
Name of companies	Place of incorporation/ establishment and business	Particulars of issued and paid-up capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Laiyuan Xinxin Mining Co., Ltd. # 淶源鑫鑫礦業有限公司	PRC	RMB135,000,000	100%	–	100%	Mining, processing and sale of iron ore products
Laiyuan County Jiheng Mining Co., Ltd. # 淶源縣冀恒礦業有限公司	PRC	RMB100,000,000	100%	–	100%	Mining, processing and sale of iron ore products
Xinan Investments Limited 熹南投資有限公司	BVI	1 share of USD1.00 each	100%	100%	–	Investment holding
Xinan Limited 熹南有限公司	Hong Kong	1 share of HKD1.00 each	100%	–	100%	Investment holding
Baoding Xinan Medical Management Consulting Co., Ltd. # 保定熹南醫療管理諮詢有限公司	PRC	RMB5,000,000	100%	–	100%	Hospital management
Baoding Aoxiang Property Services Co., Ltd. # 保定奧祥物業服務有限公司	PRC	RMB1,000,000	100%	–	100%	Property management
Baoding Xiang'an Pharmaceutical Sales Co., Ltd. # 保定翔安藥品銷售有限公司	PRC	RMB4,000,000	100%	–	100%	Supply chain business

\# The official names of the entities are in Chinese. The English names are for identification purpose only.

18 LONG-TERM RECEIVABLES

	2018 RMB'000	2017 RMB'000
Environmental reclamation deposits *(note (i))*	**44,760**	44,760
Receivables from Rongcheng Hospital *(note (ii))*	**11,000**	11,000
	55,760	55,760

Notes:

(i) Environmental reclamation deposits placed with government in respect of the Group's reclamation obligations for the closure of mines.

(ii) The balances represent a five-year loan to Rongcheng County Hospital maturing in year 2021, which is unsecured and interest-free.

All of the balances are not expected to be repaid/refunded within the next 12 months.

19 PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Prepayments for construction work and equipment purchases	**2,655**	547
Prepayments for on-site loading service and transportation service *(note 21(c))*	**323,002**	58,865
Others	**1,025**	–
	326,682	59,412

20 INVENTORIES

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

	2018 RMB'000	2017 RMB'000
Iron ores	**67,611**	46,383
Preliminary concentrates	**22,572**	20,130
Iron ore concentrates	**5,837**	2,147
	96,020	68,660
Consumables and supplies	**25,007**	22,910
	121,027	91,570

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

	2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	**546,934**	588,522

21 TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Accounts receivable	**72,702**	89,599
Bills receivable	**–**	300
	72,702	89,899
Less: allowance for doubtful debts	**12,358**	286
Trade receivables *(note (a))*	**60,344**	89,613
Other receivables *(note (c))*	**375,901**	205,985
	436,245	295,598

21 TRADE AND OTHER RECEIVABLES *(continued)*

(a) Ageing analysis

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

	2018 **RMB'000**	2017 RMB'000
Within 6 months	**59,975**	71,336
Over 1 year	**369**	18,277
	60,344	89,613

(b) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2018 **RMB'000**	2017 RMB'000
Neither past due nor impaired *(note (i))*	**59,975**	71,336
Over 1 year past due *(note (ii))*	**369**	18,277
	60,344	89,613

Notes:

(i) Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

(ii) Receivables that were past due but not impaired relate to independent customers that have a good track record with the Group.

(c) Other receivables

	2018 **RMB'000**	2017 RMB'000
Prepayments and deposits#	**371,045**	195,723
Value added tax recoverable	**1,651**	1,120
Amounts due from related parties *(note 32(b))*	**–**	15
Others	**3,581**	9,127
	376,277	205,985
Allowance for doubtful debts	**(376)**	–
	375,901	205,985

21 TRADE AND OTHER RECEIVABLES *(continued)*

(c) Other receivables *(continued)*

\# Prepayments and deposits mainly represent advance payments made to the Group's mining contractors. As at 31 December 2018, prepayments to Tangshan Hengsheng Blasting Engineering Co., Ltd. for blasting services, Laiyuan County Huiguang Logistics Co., Ltd ("Laiyuan Huiguang") for on-site loading services and Laiyuan County Ao Tong Transportation Co., Ltd. ("Laiyuan Aotong") for transportation services amounted to RMB9,515,000, RMB361,397,000 and RMB308,605,000, respectively (31 December 2017: RMB10,378,000, RMB87,539,000 and RMB142,345,000).

The Group plans to expand into the business of manufacturing and sales of gravel materials for construction through Jiheng Mining ("gravel materials business"), in view of which the Group has entered into a cooperation agreement with Laiyuan Aotong and has prepaid for its transportation services on 24 December 2018.

Based on agreements with the respective companies, all of which are external third parties, the prepaid amounts are interest-free and the Group anticipates the amounts to be subsequently utilised along with the provision of related services. Pursuant to the negotiation between the Group and Laiyuan Huiguang, the Group collected the payments from Laiyuan Huiguang amounted to RMB170,000,000 on 8 January 2019 along with the reallocation of resources to develop the gravel materials business.

As at 31 December 2018, other than deposits amounted to RMB2,685,000 (31 December 2017: RMB2,685,000), which are included in prepayments and deposits, all of the other receivables were aged within one year and were expected to be recovered or expensed off within one year.

(d) Impairment of trade and other receivables

Credit losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the credit losses is written off against trade receivables directly (Note 2(k)(i)).

	2018 RMB'000	2017 RMB'000
At 1 January	**286**	286
Impairment loss recognised on trade receivables		
– trade receivables	**12,072**	–
– other receivables	**376**	–
At 31 December	**12,734**	286

22 RESTRICTED DEPOSITS

As at 31 December 2018, there is no restricted deposits (31 December 2017: bank deposits within one year of RMB279,800,000, deposits pledged as guarantee for bill payables of RMB60,000,000 and other deposits of RMB3,036,000).

(Expressed in Renminbi unless otherwise indicated)

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) The Group's cash and cash equivalents comprise:

	2018 RMB'000	2017 RMB'000
Cash on hand	**94**	147
Cash at banks	**65,890**	65,598
	65,984	65,745

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Borrowings *(note 24)* RMB'000	Accrued interest *(note 25)* RMB'000
At 1 January 2017	**320,000**	440
Changes from financing cash flows:		
Proceeds from new bank loans	**360,000**	–
Repayment of bank loans	**(350,000)**	–
Interest paid	**–**	(29,027)
Total changes from financing cash flows	**10,000**	(29,027)
Other changes:		
Interest expenses	**–**	29,143
At 31 December 2017/1 January 2018	**320,000**	556
Changes from financing cash flows:		
Proceeds from new bank loans	**280,000**	–
Repayment of bank loans	**(320,000)**	–
Interest paid	**–**	(23,296)
Total changes from financing cash flows	**(40,000)**	(23,296)
Other changes:		
Interest expenses	**–**	23,184
At 31 December 2018	**280,000**	444

24 BORROWINGS

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

	2018		2017	
	Interest rate per annum %	**RMB'000**	Interest rate per annum %	RMB'000
Renminbi denominated				
Short-term borrowings:				
– secured bank loans#	**4.35 ~ 6.53**	**280,000**	4.35 ~ 6.53	320,000
		280,000		320,000

As at 31 December 2018, the Group's bank loans of RMB180,000,000 and RMB100,000,000 (2017: RMB200,000,000 and RMB120,000,000) were secured by the Group's mining right, land use rights, properties and equipment (see notes 11, 13, and 14) and by the land use rights and properties of a related party of the Group (see note 32(b)(iii)), respectively.

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

	2018 RMB'000	2017 RMB'000
Within 1 year	**280,000**	320,000

(c) The Group's banking facilities comprise:

	2018 RMB'000	2017 RMB'000
Secured by:		
Mining rights, land use rights and properties of the Group *(notes 11, 13 and 14)*	**243,000**	243,000
Land and properties of a related party *(note 32(b)(iii))*	**160,000**	160,000
	403,000	403,000

As at 31 December 2018, the above banking facilities of the Group were utilised to the extent of RMB280,000,000, including bank loan facilities of RMB280,000,000 and bank acceptance bill facilities of RMB nil, respectively (31 December 2017: RMB380,000,000, including bank loan facilities of RMB320,000,000 and bank acceptance bill facilities of RMB60,000,000).

24 BORROWINGS *(continued)*

(c) The Group's banking facilities comprise: *(continued)*

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 2018, none of the covenants relating to drawn down facilities had been breached.

25 TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**43,655**	50,398
Bills payables	**–**	60,000
Other taxes payable	**14,038**	24,607
Receipts in advance	**3,528**	10,199
Payables for construction work, equipment purchase and others	**7,363**	7,792
Amounts due to related parties *(note 32(b))*	**107**	100
Interest payables	**444**	556
Others#	**43,162**	34,405
	112,297	188,057

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

As at 31 December 2018, all trade payables are due and payable on presentation or within one year. All of the other payables were expected to be settled within one year or are repayable on demand.

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2018 RMB'000	2017 RMB'000
Income tax payable at 1 January	**49,249**	27,994
Provision for the year *(note 6(a))*	**69,454**	65,075
Income tax paid	**(49,212)**	(43,820)
Income tax payable at 31 December	**69,491**	49,249

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(b) Deferred tax assets and liabilities recognised

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Accrued expenses RMB'000	Impairment losses on non-current assets RMB'000	Long-term payables RMB'000	Safety production fund RMB'000	Depreciation and amortisation RMB'000	Accrued reclamation obligations RMB'000	Provision for doubtful debts RMB'000	Undistributed profits of subsidiaries in Mainland China RMB'000	Deferred tax liabilities arising from business combination RMB'000	Total RMB'000
At 1 January 2017	12,625	98,409	3,305	(265)	2,044	5,973	72	(4,120)	(45,970)	72,073
Credited/(expense) to profit or loss *(note 6(a))*	7,116	(14,981)	2,313	24	11,842	1,376	–	–	1,557	9,247
Charged to reserves	–	–	–	–	–	–	–	4,120	–	4,120
At 31 December 2017 and 1 January 2018	**19,741**	**83,428**	**5,618**	**(241)**	**13,886**	**7,349**	**72**	**–**	**(44,413)**	**85,440**
Credited/(expense) to profit or loss *(note 6(a))*	**8,489**	**–**	**1,806**	**241**	**1,464**	**1,411**	**3,111**	**–**	**1,559**	**18,081**
At 31 December 2018	**28,230**	**83,428**	**7,424**	**–**	**15,350**	**8,760**	**3,183**	**–**	**(42,854)**	**103,521**

(ii) Reconciliation to the consolidated statement of financial position

	2018 RMB'000	2017 RMB'000
Net deferred tax assets	**146,375**	129,853
Net deferred tax liabilities	**(42,854)**	(44,413)
	103,521	85,440

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(r), the Group has not recognised deferred tax assets in respect of tax losses and impairment losses on non-current assets amounted to RMB260,367,000 and RMB43,428,000, respectively, as at 31 December 2018 (31 December 2017: RMB192,575,000 and RMB449,055,000, respectively) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Included in the total amount of tax losses are RMB173,447,000 (31 December 2017: RMB106,655,000) in relation to Group entities operated in the PRC, for which the tax losses can be carried forward for five years from the year incurred.

The year of expiry of tax losses not recognised is as follows:

	2018 **RMB'000**	2017 RMB'000
Year of expiry:		
2018	**–**	978
2019	**7,784**	7,784
2020	**74,266**	74,266
2021	**17,006**	17,006
2022	**6,621**	6,621
2023	**67,770**	–
	173,447	106,655

(d) Deferred tax liabilities not recognised

As at 31 December 2018, temporary differences in relation to undistributed profits of subsidiaries in Mainland China since 1 January 2008 and up to the public listing of the Company's shares on the Stock Exchange amounted to RMB554,346,000 (31 December 2017: RMB554,346,000). Relevant deferred tax liabilities of RMB27,717,000 (31 December 2017: RMB27,717,000) have not been recognised at the end of the respective reporting periods in respect of the withholding income tax (see note 6(b)(v)) that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

27 LONG-TERM PAYABLES

	2018 RMB'000	2017 RMB'000
Consideration payables for the acquisition of mining rights	**234,898**	240,335
Less: current portion of long-term payables	**111,785**	77,889
	123,113	162,446

In March 2012 and January 2013, the Group acquired the Gufen Mine, Wang'ergou Mine, 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. 20151011 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 considerable payables and the payment periods were extended to 2022.

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

	2018 RMB'000	2017 RMB'000
Within 1 year	**111,785**	77,889
After 1 year but within 2 years	**49,428**	47,314
After 2 years but within 5 years	**73,685**	115,132
	234,898	240,335

28 ACCRUED RECLAMATION OBLIGATIONS

	2018 RMB'000	2017 RMB'000
At 1 January	**59,576**	57,326
Accretion expenses *(note 5(a))*	**3,395**	2,809
Utilised during the year	**(730)**	(559)
At 31 December	**62,241**	59,576
Less: current portion of accrued reclamation obligations	**4,512**	7,316
	57,729	52,260

28 ACCRUED RECLAMATION OBLIGATIONS *(continued)*

The accrual for reclamation costs has been determined based on management's best estimates. The estimate of the associated 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 respective reporting periods are adequate and appropriate. The accrual is based on estimates and therefore, the ultimate liability may exceed or be less than such estimate.

29 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 *(note 29(c))*	Share premium RMB'000 *(note 29(d))*	Exchange reserve RMB'000 *(note 29(d))*	Other reserve RMB'000 *(note 29(d))*	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2017	131	1,142,640	359	150,576	(34,796)	1,258,910
Change in equity for 2017:						
Total comprehensive income for the year	–	–	(1,845)	–	3,839	1,994
Balance at 31 December 2017 and 1 January 2018	131	1,142,640	(1,486)	150,576	(30,957)	1,260,904
Change in equity for 2018:						
Total comprehensive income for the year	**–**	**–**	**1,797**	**–**	**(3,705)**	**(1,908)**
Balance at 31 December 2018	**131**	**1,142,640**	**311**	**150,576**	**(34,662)**	**1,258,996**

(b) Dividends

The board of directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December 2018 (2017: RMB nil).

29 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital

	2018		2017	
	Number of shares '000	**RMB'000 (equivalent)**	Number of shares '000	RMB'000 (equivalent)
Ordinary shares, issued and fully paid:				
At 1 January	**1,635,330**	**131**	1,635,330	131
Shares issued for acquisition of business	**–**	**–**	–	–
At 31 December	**1,635,330**	**131**	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 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.

(d) 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.

(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.

29 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

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

(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 HKD denominated financial statements to the Group's presentation currency. The reserve is dealt with in accordance with the accounting policy set out in note 2(w).

(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.

(e) Distributability of reserves

Pursuant to the Cayman Companies Law, Chapter 22 (2012 Revision, as consolidated and reserved) of the Cayman Islands, share premium of the Company is also a distributable reserve to the shareholders. As at 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,107,978,000 (31 December 2017: RMB1,111,683,000).

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group defines the capital as total shareholders' equity plus loans and borrowings.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 31 December 2018 was 12.60% (31 December 2017: 14.04%).

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES MEASUREMENT

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to cash at banks and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

All of the Group's cash at banks are deposited in the reputable banks which management assessed the credit risk to be insignificant.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group generally delivers goods to its customers after receiving full payments in advance. Under certain circumstances, a credit period of up to one year is granted to customers that have a good track record with the Group and in good credit condition. The Group seeks to maintain tight control over those outstanding balances in order to manage credit risk. Management monitors the balances on a regular basis and takes appropriate actions against overdue balances, if any. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2018, 98.27% (31 December 2017: 80.19%) of trade receivables was due from the Group's five largest customers.

Further quantitative disclosures in respect of the group's exposure to credit risk arising from trade and other receivables are set out in note 21.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES MEASUREMENT *(continued)*

(b) Liquidity risk

The Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

As at the date of these financial statements, the Group is in process of negotiation to refinance its short-term interesting bearing borrowing of RMB280 million, and the Group also considers alternative sources of financing as well, taking into account of unutilised banking facilities (note 24(c)), the directors of the Company are of the opinion that the Group would have adequate funds to meet its liabilities as and when they fall due at least twelve months from the end of the reporting period.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2018 contractual undiscounted cash flow					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Interest-bearing borrowings *(note 24)*	280,000	288,282	288,282	–	–	–
Trade and other payables *(note 25)*	112,297	112,297	112,297	–	–	–
Long-term payables *(note 27)*	234,898	254,111	94,397	54,210	105,504	–
Accrued reclamation obligations *(note 28)*	62,241	67,096	4,512	4,885	15,073	42,626
	689,436	721,786	499,488	59,095	120,577	42,626

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES MEASUREMENT *(continued)*

(b) Liquidity risk *(continued)*

	2017 contractual undiscounted cash flow					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Interest-bearing borrowings *(note 24)*	320,000	326,827	326,827	–	–	–
Trade and other payables *(note 25)*	188,057	188,057	188,057	–	–	–
Long-term payables *(note 27)*	240,335	272,859	80,567	52,768	139,524	–
Accrued reclamation obligations *(note 28)*	59,576	66,300	7,316	4,512	16,638	37,834
	807,968	854,043	602,767	57,280	156,162	37,834

(c) Interest rate risk

The Group's interest rate risk arises primarily from its short-term and long-term borrowings carrying interests at fixed rates exposed the Group to fair value interest rate risk. The Group manages its exposure to interest rate risk by maintaining high proportion of fixed rate borrowings. Details of the interest rates are disclosed in note 24.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES MEASUREMENT *(continued)*

(d) Currency risk

The Group is exposed to currency risk primarily through financing activities which give rise to cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The Group's principal business is located in the PRC and the principal operation and transactions are carried out in RMB. Substantially all of the Group's assets and liabilities 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 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 and have not entered into any derivative instruments to manage foreign exchange fluctuations. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of the reporting period.

	2018		2017	
	Untied States Dollars RMB'000	**Renminbi Yuan RMB'000**	Untied States Dollars RMB'000	Renminbi Yuan RMB'000
Cash and cash equivalents	**53**	**1,125**	48	1,121

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remain constant.

	2018			2017		
	Increase/ (decrease) exchange rates %	**Effect on profit after tax and retained profits RMB'000**	**Effect on other components of equity RMB'000**	Increase/ (decrease) exchange rates %	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
United States Dollars	**5**	**3**	**–**	5	2	–
	(5)	**(3)**	**–**	(5)	(2)	–
Renminbi Yuan	**5**	**56**	**(56)**	5	56	(56)
	(5)	**(56)**	**56**	(5)	(56)	56

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES MEASUREMENT *(continued)*

(e) Fair value measurement

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

Apart from the available-for-sale securities measured at fair value, 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, as appropriate.

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.

	2018			2017		
	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 (a))*	**65,984**	**–**	**65,984**	65,745	–	65,745
Restricted deposits *(note (a))*	**–**	**–**	**–**	342,836	–	342,836
Trade and other receivables *(note (b))*	**436,245**	**–**	**436,245**	295,598	–	295,598
Long-term receivables *(note (a))*	**55,760**	**–**	**55,760**	55,760	–	55,760
Trade and other payables *(note (b))*	**–**	**(112,297)**	**(112,297)**	–	(188,057)	(188,057)
Borrowings *(note (a))*	**–**	**(280,000)**	**(280,000)**	–	(320,000)	(320,000)
Total financial assets/(liabilities) carried at amortised costs	**557,989**	**(392,297)**	**165,692**	759,939	(508,057)	251,882
Total financial asset carried at fair value	**–**	**–**	**–**	–	–	–
Non-financial assets/(liabilities)	**1,663,766**	**(409,484)**	**1,254,282**	1,518,879	(393,573)	1,125,306
Total assets/(liabilities)	**2,221,755**	**(801,781)**	**1,419,974**	2,278,818	(901,630)	1,377,188

Notes:

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

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

31 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

	2018 RMB'000	2017 RMB'000
Contracted for		
– property, plant and equipment	–	–

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	4,408	4,793
After 1 year but within 5 years	–	4,408
	4,408	9,201

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 for environment remediation and has not accrued any significant amounts for environmental 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. However, environmental laws and regulations continue to evolve. Management of the Group regularly reassesses environmental remediation for its operations. 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.

31 COMMITMENTS AND CONTINGENCIES *(continued)*

(c) Environmental contingencies *(continued)*

The amount of such future cost is indeterminable 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 and pollutant discharge fee, 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 years 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.

32 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, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2018 **RMB'000**	2017 RMB'000
Basic salaries, allowances and benefits in kind	**6,598**	6,472
Discretionary bonus	**–**	–
Retirement scheme contributions	**81**	84
	6,679	6,556

Total remuneration is included in "staff costs" (see note 5(b)).

32 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Other related party transactions

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

Name of party	Relationship
Mr. Li Yanjun	The ultimate controller
Hebei Aowei Industrial Group Co., Ltd.	A company ultimately owned by Mr. Li Yanjun
Aowei International Development Limited	A company ultimately owned by Mr. Li Yanjun and Mr. Leung Hongying Li Ziwei
Hengshi Holdings Limited	A company ultimately owned by Mr. Li Yanjun and Mr. Leung Hongying Li Ziwei
Hengshi International Investments Limited	A company ultimately owned by Mr. Li Yanjun and Mr. Leung Hongying Li Ziwei
Beijing Tong Da Guang Yue Trading Co., Ltd.	A company jointly owned by Mr. Li Yanjun

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

	2018 RMB'000	2017 RMB'000
Property leasing charges *(note (i))*	**4,270**	4,270
Advances received from a related party *(note (ii))*	**1,259**	250
Advances paid to related parties *(note (ii))*	**–**	633

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

	2018 RMB'000	2017 RMB'000
Amounts due to related parties *(note (i))*	**107**	100
Amounts due from related parties *(note (ii))*	**–**	15

Notes:

(i) Property leasing charges represent office rental paid and payable to Hebei Aowei Industrial Group Co., Ltd..

(ii) Advances from a related party represent payments made by Mr. Leung Hongying LiZiwei on behalf of the Group. Advances to related parties represent payments made on behalf of Hengshi Holdings Limited, Aowei International Development 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 bank facility agreement with the aggregate amount of RMB160.0 million, including bank loan facilities of RMB110.0 million and bank acceptance bill facilities of RMB50.0 million, respectively. The bank facility agreement has a term of 12 months from the date of drawdown and is 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 lands and properties of Beijing Tong Da Guang Yue Trading Co., Ltd. (a company jointly owned by Mr. Li Yanjun).

32 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

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.

(c) Commitments with related parties

Pursuant to the property leasing agreement entered into by the Company and Hebei Aowei Industrial Group Co., Ltd., the Company rents properties from Hebei Aowei Industrial Group Co., Ltd. as office premises for the years ended 31 December 2018, 2019 and 2020.

As at the end of the respective reporting periods, the estimated total future minimum lease payments to Hebei Aowei Industrial Group Co., Ltd. under non-cancellable operating leases were payable as follows:

	2018 **RMB'000**	2017 RMB'000
Within 1 year	**4,270**	4,270
After 1 year but within 5 years	**–**	4,270
	4,270	8,540

(d) Applicability of the Listing Rules relating to connected transactions

Certain related party transactions in respect of notes 32(b) and (c) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section "Connected Transactions and Continuing Connected Transactions" of the Report of the Directors.

(Expressed in Renminbi unless otherwise indicated)

33 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

Approved and authorised for issue by the board of directors on 27 March 2019.

	31 December 2018 RMB'000	31 December 2017 RMB'000
Non-current asset		
Investment in a subsidiary	369,419	369,419
Total non-current asset	369,419	369,419
Current assets		
Other receivables	877,652	878,594
Cash and cash equivalents	12,857	13,817
Total current assets	890,509	892,411
Current liability		
Other payables	932	926
Total current liability	932	926
Net current assets	889,577	891,485
Total assets less current liability	1,258,996	1,260,904
NET ASSETS	1,258,996	1,260,904
CAPITAL AND RESERVES		
Share capital *(note 29(a))*	131	131
Reserves *(note 29(d))*	1,258,865	1,260,773
TOTAL EQUITY	1,258,996	1,260,904

Li Yanjun
Chairman and Executive Director

Leung Hongying Li Ziwei
Chief Executive Officer and Executive Director

(Expressed in Renminbi unless otherwise indicated)

34 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2018, the directors considered the immediate parent and ultimate controlling party of the Group to be Hengshi International Investments Limited and Mr. Li Yanjun and Mr. Leung Hongying Li Ziwei, respectively. Hengshi International Investments Limited does not produce financial statements available for public use.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019
Amendments to IAS 28, Long-term interest in associates and joint ventures	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(continued)*

IFRS 16, Leases

As disclosed in note 2(j), 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 leases as the lessee. Once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.