中國罕王控股有限公司

CHINA HANKING HOLDINGS LIMITED

(Incorporated in the Cayman Islands with the limited liability)

Stock Code: 03788

Interim Report 2012

Contents

Corporate Information

Directors

Executive Directors
Mr. Pan Guocheng *(Chief Executive Officer)*
Mr. Zheng Xuezhi *(Chief Financial Officer)*
Mr. Xia Zhuo
Mr. Qiu Yumin

Non-executive Directors
Ms. Yang Min *(Chairlady)*
Mr. Yang Jiye *(Vice Chairman)*
Mr. Lan Fusheng
Mr. Kenneth Jue Lee

Independent Non-executive Directors
Mr. Wang Ping
Mr. Johnson Chi-King Fu
Mr. Chen Yuchuan
Mr. Wang Anjian

Audit Committee

Mr. Wang Ping *(Chairman)*
Mr. Johnson Chi-King Fu
Mr. Wang Anjian

Nomination Committee

Ms. Yang Min *(Chairlady)*
Mr. Chen Yuchuan
Mr. Johnson Chi-King Fu

Remuneration Committee

Mr. Wang Ping *(Chairman)*
Mr. Yang Jiye
Mr. Chen Yuchuan

Joint Company Secretaries

Mr. Xia Zhuo
Ms. Mok Ming Wai

Authorized Representatives

Mr. Wang Ping
Ms. Mok Ming Wai

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Headquarters in the PRC

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Shenhe District
Shenyang 110015
Liaoning Province
PRC

Corporate Information

Principal Place of Business in Hong Kong

8th Floor, Gloucester Tower
The Landmark, 15 Queen's Road Central
Hong Kong

Principal Share Registrar in the Cayman Islands

Codan Trust Company (Cayman) Limited
Cricket Square
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P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Rooms 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants
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88 Queensway
Hong Kong

Compliance Adviser

Haitong International Capital Limited
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Company Website

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Stock Code

03788

Financial Highlights

Consolidated Statement of Comprehensive Income

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Revenue	604,034	752,638
Cost of sales	(211,264)	(201,752)
Gross profit	392,770	550,886
Profit for the period attributable to:		
Owners of the Company	206,202	136,325
Non-controlling interests	—	3,259
	206,202	139,584
Total comprehensive income for the period attributable to:		
Owners of the Company	205,885	136,325
Non-controlling interests	—	3,259
	205,885	139,584

Consolidated Statement of Financial Position

	30 June 2012 RMB'000	31 December 2011 RMB'000
Total non-current assets	1,159,895	997,562
Total current assets	1,345,907	777,935
Total current liabilities	1,168,923	646,073
Total non-current liabilities	40,000	—
Total Equity attributable to owners of the Company	1,296,879	1,129,424

Financial Highlights

Consolidated Statement of Cash Flows

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Net cash flows from operating activities	**63,186**	220,987
Net cash flows (used in) generated from investing activities	**(280,499)**	157,221
Net cash flows from (used in) financing activities	**585,484**	(166,587)

Selected Financial Ratios

	For the six months ended 30 June	
	2012	2011
Gross profit margin	**65.02%**	73.19%
Net profit margin	**34.14%**	18.55%
Gearing ratio	**48.24%**	36.39%
Return ratio on total assets	**14.22%**	33.26%

Management Discussion and Analysis

1. Market Review

In the first half of 2012, the global economy followed the drift of the previous year and the economy of the United States continued to recover with a tardy pace in the first half year. Recession started to demonstrate its contagious effect in European countries with economic growth diving down into the downstream channel. Naturally, the economy of China was affected and the growth rate was dampened. The Gross Domestic Product ("GDP") in the first half of 2012 was RMB22,709.8 billion, representing an increase of 7.8% compared with the corresponding period of the previous year. Currently, the domestic steel output is in general featured with a modest growth and a significantly decelerated growth rate. According to the data from the National Bureau of Statistics of the People's Republic of China, during the period from January to June of this year, the national outputs of pig iron, crude steel and steel were 334.04 million tons, 357.2 million tons and 467.44 million tons respectively, representing an increase of 2.9%, 1.8% and 6.1% respectively compared to the corresponding period of the previous year.

According to the data published by Bureau of Statistics of Liaoning Province, the GDP of Liaoning province was RMB1,122.81 billion in the first half of 2012, representing an increase of 9.2% compared with the corresponding period of the previous year and was higher than the national average. This year, the major target of the economic and social development in Liaoning is: an increase of 11% in the regional GDP. The outline of the Twelfth Five-Year Plan stated explicitly that the overall revitalization of Northeast Old Industrial Bases will be put forward and accordingly, Liaoning Province continued to promote industrial upgrading measures for industries including equipment manufacturing, and to construct affordable housing as well as energy and transportation facilities, which will then boost the demand for raw materials (including iron ore). Meanwhile, the Liaoning Provincial Land and Resources Department issued a notice, naming 2012 as the year of rectification for the whole mining industry of the province when the order of the industry will be rectified in full. Specifically, the authority will effectively manage geological exploration units to prevent unauthorized and illegal cooperation and market interference. It will also effectively stem illegal activities such as unlicensed exploration and mining, unauthorized or excessive mining, wasting or destruction of mineral resources and severe pollution to the environment. These policies have provided favourable conditions for the Group to consolidate the mineral resources in the region.

2. Business and Operation Review

(1) Major Operation Results

In the first half of 2012, the iron ore mining of the Group was expanded, and the iron ore production volume was 2,899.2 thousand tons, representing a year-on-year increase of 37.90%; the production of iron ore concentrates reached 681 thousand tons, representing an increase of 8.71% as compared to corresponding period of the previous year; the Group achieved sales of iron ore concentrates of 659 thousand tons, representing a decrease of 3.08% as compared with corresponding period of the previous year, while sales revenue of iron ore concentrates was RMB603,277 thousand, representing a decrease of 19.03% as compared to the corresponding period of the previous year. As at 30 June 2012, the total assets of the Group reached RMB2.506 billion, representing an increase of RMB731 million as compared to RMB1.775 billion as at the beginning of this year.

The average cash operation cost per ton of iron ore concentrate of each of the mines was RMB281.5, representing an increase of RMB22.2 as compared with the corresponding period in the previous year which was RMB259.3. The increase in cash operation cost was mainly due to the increase in the level of resources tax provision from RMB9 per ton of iron ore to RMB12 per ton of iron ore in February this year.

Affected by the domestic economic growth slowdown, the average selling price (excluding tax) of iron ore concentrates of the Group in the first half of 2012 decreased from RMB1,095.85 per ton in the corresponding period of the previous year to RMB915.25 per ton, representing a decrease of 16.5%.

(2) *Reserves of Iron Ore Resources*

The Group will continue to increase the investment in geological exploration in our existing mines and their surroundings, with a view to obtaining iron ore resources of relatively high quality with the advantages of lower risks and costs. As at 30 June 2012, the Group owned 196 million tons of iron ore resources and 163 million tons of iron ore reserves that complied with the Australian Joint Ore Reserves Committee standards.

The quantity of iron ore resources stored in each mine was as follows:

Mines	Types	Resources in Mid-Year (Ton)	TFe (%)
Aoniu Mine	Indicated	8,806,115	32.88
	Inferred	11,361,000	32.33
Subtotal of Aoniu mine		20,167,115	32.59
Maogong Mine	Indicated	32,608,403	32.29
	Inferred	8,606,050	30.15
	Inferred*	270,700	22.47
Subtotal of Maogong mine		41,485,153	31.79
Xingzhou Mine	Indicated	33,249,596	30.88
	Inferred	27,779,010	30.65
	Indicated*	63,722,270	22.76
Subtotal of Xingzhou mine		124,750,876	26.69
Benxi Mine	Indicated	6,960,529	26.14
	Inferred	2,570,000	26.14
Subtotal of Benxi mine		9,530,529	26.14

Mines	Types	Resources in Mid-Year (Ton)	TFe (%)
Total	Indicated	81,624,643	31.25
	Inferred	50,316,060	30.69
	Indicated*	63,722,270	22.76
	Inferred*	270,700	22.47
	Indicated +Inferred +Indicated* +Inferred*	195,933,673	28.41

* represents low grade iron ore resources

The iron ore reserve level of each mine was as follows:

Mines	Types	Reserves in Mid-Year (Ton)	TFe (%)
Aoniu Mine	Probable Ore Reserve	12,593,115	25.69
Maogong Mine	Probable Ore Reserve	35,477,086	26.93
	Probable Ore Reserve*	90,233	22.47
Xingzhou Mine	Probable Ore Reserve	42,509,266	26.49
	Probable Ore Reserve*	63,722,270	19.45
Benxi Mine	Probable Ore Reserve	8,619,851	20.91
Total	Probable Ore Reserve	99,199,318	26.04
	Probable Ore Reserve*	63,812,503	19.45
	Probable Ore Reserve +Probable Ore Reserve*	163,011,821	23.53

* represents low grade reserve

(3) Management of Projects and Capacity Expansion

In order to further improve the processing capability of raw ores and the capacity of iron ore concentrates of our existing mines, the Group had carried out a series of construction projects to upgrade and reconstruct the existing mines and construct new production facilities. In the first half of 2012, 10 applications and 45 contracts of construction projects were submitted for the approval of the Company. The Company has 4 key construction projects in 2012, which include the second phase of the technology improvement of the first processing plant of Aoniu Mine, mining works in Aoniu Mine; reconstruction and expansion of processing plant with annual capacity of 3 million tons in Maogong Mine; mining works in Benxi Mine. The progress of each major project is stated below:

Aoniu Mine

The first phase of the technology improvement has shown a preliminary result, and on such foundation, the second phase of the technology improvement of the first processing plant of Aoniu Mine has officially begun in February 2012. As at the end of June 2012, the civil construction of the thickening pond was completed and is currently in the stage of equipment installation, while the construction of head tank has also completed. Furthermore, the procurement and installation of the modified equipment for the dust-disposal system of the second processing plant of Aoniu Mine will begin. The underground mining works in Aoniu Mine has already started in the mid of April 2012. Currently, the urgent issues of power supply and motive force for underground mining and production have been settled. Before the end of June 2012, the design, tender and construction of the head tank for underground mining work, as well as the watering of the mine entrance have been accomplished. The progress of the project is basically the same as scheduled.

Maogong Mine

High grading magnetic iron ore was found in Maogong Mine, and there is a huge potential to increase the ore reserves in the region. Currently, the environmental assessment, the safety assessment and the water conservation contracts for the reconstruction and expansion project of a processing plant in Maogong Mine have been entered into; the main plant construction is now proceeding as planned. The tender for the infrastructure of the crushing plant has been completed and the construction is going to be started as planned. The tenders and procurements for the key equipment have been completed.

Benxi Mine

Starting from November 2011, the Benxi Mining has started the Underground Excavation Project of Mengjia Mine of Benxi Mining with Annual Capacity of 1.2 million tons, and the design of the project is mixed with the adoption of shafts and ramps. The tunneling for the ramps has been completed, while the main well towers foundation is also completed. The urban construction of the tower of the main drilling well, the equipment and shaft equipment projects were underway. Besides, the installation works of shafts of South wind shaft project were now being carried out.

3. Financial Review

(1) *Income, Cost of Sales, Gross Profit*

For the first half of 2012, the income of the Group was approximately RMB604,034 thousand, representing a decrease of RMB148,604 thousand or 19.74% as compared to the corresponding period in the previous year. The main reason for the decrease was due to the drop in the unit selling price of the iron ore concentrates.

For the first half of 2012, the cost of sales of the Group was approximately RMB211,264 thousand, representing an increase of RMB9,512 thousand or 4.71% as compared to the corresponding period in the previous year. The main reason for the increase was due to the rise in resources tax provision standard from RMB9/ton of iron ore to RMB12/ton of iron ore in February this year.

For the first half of 2012, the gross profit of the Group was approximately RMB392,770 thousand, representing a decrease of RMB158,116 thousand or 28.70% as compared to the corresponding period in the previous year. As compared to the same period last year, the substantial drop in gross profit margin of the Group in the first half of 2012, from 73.19% to 65.02%, was mainly due to the slipping of the average unit selling price of iron ore concentrates and the increase in the resource taxes for the iron ore.

(2) *Other Income and Expense*

For the first half of 2012, other income of the Group was approximately RMB1,770 thousand, representing an increase of RMB1,254 thousand or 243.02% as compared to the corresponding period of the previous year. Other income was mainly interest income, and the increase was mainly due to the abundance of capital of the Company during the Reporting Period which led to an increase in interest income during the Reporting Period.

For the first half of 2012, other expenses of the Group were approximately RMB7,279 thousand, representing a decrease of RMB14,648 thousand or 66.80% as compared with the corresponding period of the previous year. Other expenses included loss of selling properties and plants and equipment, charity donation, expenses related to listing of the Company and other overheads. Other expenses were significantly lower than the same period in the previous year. The reason was mainly due to the inclusion of listing expenses of the Company and the losses from the disposal of fixed assets in the expense of the same period last year. During the Reporting Period, there are no such large expenses related to those two items mentioned above.

(3) *Selling and Distribution Expenses, Administrative Expenses*

For the first half of 2012, the selling and distribution expenses of the Group were approximately RMB14,089 thousand, representing an increase of RMB1,586 thousand or 12.68% as compared to the corresponding period in the previous year. Selling and distribution expenses included transportation expenses, labour expenses and others.

For the first half of 2012, the administrative expenses of the Group were approximately RMB72,124 thousand, representing an increase of RMB6,097 thousand or 9.23% as compared to the corresponding period in the previous year. Administrative expenses included remuneration paid to the Group's management and administrative staff, depreciation and amortization, leasing and office expenses, business development expenses, professional consultation and service expenses, taxation expenses and others. The increase in staff costs (included in cost of sales, selling and distribution expenses and administrative expenses) from RMB37,400 thousand to RMB57,700 thousand is mainly due to the changes in social insurance due to the change of government policy.

(4) Foreign Exchange Gain (loss), Financial Cost, Income Tax Expense

For the first half of 2012, the net foreign exchange loss of the Group was approximately RMB282 thousand, whereas the net foreign exchange gain of the corresponding period in the previous year was RMB4,131 thousand. The main reason for the change is the net exchange losses generated from foreign currency denominated assets and liabilities held by the Group due to changes in exchange rate.

For the first half of 2012, the financing costs of the Group were approximately RMB20,998 thousand, which decreased by RMB190,593 thousand or 90.08% as compared to the corresponding period in the previous year. Financing costs included bank borrowings interest expenses, discount interest expenses and other financial loans interest expenses. The significant decrease of financial cost in the current period as compared to the same period in the previous year was mainly due to the interests from private borrowings that the Company bore in larger amount in the corresponding period in the previous year. During the six months ended 30 June 2012, the repayment of the private borrowings was settled by the Company, and therefore no such type of expenses was charged.

For the first half of 2012, the income tax expenses of the Group was approximately RMB73,566 thousand, which decreased by RMB30,335 thousand or 29.20% as compared to the corresponding period in the previous year. Income tax expenses included the total amount of tax currently payable and deferred tax. As at the end of the first half of 2012, according to the deducted tax in the consolidated statement of comprehensive income and profit before tax, the effective tax rate of the Group was 26.3%, while the effective tax rate for the corresponding period of the previous year was 42.7%. The main reason for the decrease in the effective rate was that there are no overseas financial loans in the current period. Moreover, the financial costs from the private borrowings related to the listing for the same period in the previous year was incurred by the Company (a company incorporated in Cayman Islands), and therefore it is not deductible for the purpose of PRC income tax.

(5) The Profit and Losses on Changes in Fair Values of Financial Assets Available for Sale

In the first half of 2012, the losses on the changes in fair values of financial assets available for sale of the Group was approximately RMB317 thousand.

(6) Profit and Total Comprehensive Income for the Period

Based on the reasons mentioned above, the profit and the total comprehensive income for the first half of 2012 of the Group were approximately RMB205,885 thousand, representing an increase of RMB66,301 thousand or 47.50% as compared to the corresponding period in the previous year. During the six months ended 30 June 2012, the net profit margin of the Group was 34.14%, while it was 18.55% as at the corresponding period in the previous year. The growth in the net profit margin was mainly due to the fact that private borrowings costs and listing expenses were relatively higher as at the same period in the previous year when the Company was in the process of listing. Upon the successful listing of the Company, the relevant expenses decreased significantly during the six months ended 30 June 2012, which resulted in the increase of net profit margin for the current period as compared to the corresponding period last year.

(7) *Property, Plant and Equipment, Inventory*

For the first half of 2012, the property, plant and equipment of the Group were approximately RMB570,491 thousand, representing an increase of approximately RMB133,618 thousand or 30.59% as compared to the end of the previous year. The increase was mainly due to the expansion of the production capacity through the construction of plants, office buildings, tailings and the procurement of machine and equipment.

For the first half of 2012, the inventory of the Group was approximately RMB50,991 thousand, representing an increase of approximately RMB12,945 thousand or 34.02% as compared to the end of the previous year. The increase was mainly due to the restriction of the sales volume of Benxi Mine by contracts and agreements.

(8) *Trade and Other Receivables, Trade and Other Payables*

For the first half of 2012, the trade receivables and the note receivables of the Group was approximately RMB287,525 thousand, representing an increase of approximately RMB54,482 thousand over the end of the previous year, of which, the increase in the notes receivables was due to the fact that the Company has sufficient cash flow during the current period and not all notes were discounted upon receipt. For the first half of 2012, the other receivables of the Group was approximately RMB250,927 thousand, which increased by approximately RMB84,446 thousand as compared to the end of the previous year. The increase was mainly due to the prepayment of other recoverable tax, which is related to certain resources tax and local tax policies regulated by the local tax bureau.

For the first half of 2012, the trade payables and note payables of the Group was approximately RMB15,878 thousand, representing a decrease of RMB4,678 thousand or 22.76% as compared to the end of the previous year. The decrease was mainly due to the maturity for settlement of the note payables. Meanwhile, because the Company has made use of the credit period granted by the suppliers, which resulted in a slightly increase in the amount of trade payables.

For the first half of 2012, the other payables of the Group was approximately RMB145,331 thousand, representing a decrease of approximately RMB36,050 thousand, or 19.87% as compared to the end of the previous year. The main reason for the decrease was the progress payment payable for properties, plants and equipment according to the contracts. Besides, other tax payables also decreased.

(9) *Cash Usage Analysis*

The summary of the Group's consolidated statement of cash flows for the first half of 2012 was set out below.

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Net cash flows from operating activities	**63,186**	220,987
Net cash flows (used in) generated from investing activities	**(280,499)**	157,221
Net cash flows from (used in) financing activities	**585,484**	(166,587)
Net increase in cash and cash equivalents	**368,171**	211,621
Cash and cash equivalents at the beginning of the period	**315,701**	53,305
Effect of changes in foreign exchange rate on cash and cash equivalents	**282**	—
Cash and cash equivalents at the end of the period	**684,154**	264,926

The net cash inflow from the operating activities during the first half of 2012 was RMB63,186 thousand, which was mainly attributed to the profit before tax of RMB279,768 thousand, partially offset by the increase of RMB118,928 thousand in trade and other receivables. As for the current period, the income tax expenses were RMB82,211 thousand, and the cash outflow from other operating activities was RMB15,443 thousand.

During the first half of 2012, the net cash outflow from investing activities amounted to RMB280,499 thousand, which mainly reflected the amount of RMB155,581 thousand used in the construction of the underground pits and the acquisition of properties, plants and equipment in Benxi Mine and Xingzhou Mine, the prepaid lease payment of RMB62,632 thousand in relation to the application of additional land use rights in the mining areas, the amount of RMB916 thousand used in the acquisition of intangible assets, purchase of loan receivable of RMB20,000 thousand, purchase of the available-for-sale financial assets of RMB43,140 thousand and the receipt of interest income of RMB1,770 thousand.

During the first half of 2012, the net cash inflow from the financing activities was RMB585,484 thousand, which included the repayment of bank loans of RMB100,000 thousand and the payment of the shareholders' dividends of RMB32,166 thousand, offset by the proceeds of RMB720,000 thousand from new bank borrowings.

(10) Bank Borrowings

For the year ended 31 December 2011 and the first half of 2012, the bank borrowings of the Group were approximately RMB250,000 thousand and RMB870,000 thousand, respectively. In addition to the information disclosed above or otherwise in this interim report, the Group has no outstanding mortgage, pledge, debentures or other loan capital issued or agreed to be issued, bank overdrafts, borrowing, liabilities under acceptance or other similar liabilities, hire purchase and finance lease commitments, or any guarantees or other material contingent liabilities. The Directors have confirmed that, save for the information disclosed above, there has been no material changes in the indebtedness and contingent liabilities of the Group since 31 December 2011.

(11) Gearing Ratio, Interest Rate Risk, and Foreign Exchange Risk

The gearing ratio of the Group increased from 36.4% in 31 December 2011 to 48.2% in 30 June 2012, which is calculated by dividing the total liabilities by the total assets.

The interest rate risk in the fair value of the Group mainly relates to the bank borrowings. The bank borrowings of the Group are usually due within one year, and therefore, the interest rate risk in its fair value is relatively remote. There is no interest rate hedging policy currently prevailing in the Company. Nevertheless, the management of the Group monitors the interest rate risk, and may consider taking hedging measures as needed on the occurrence of significant interest rate risks.

The businesses of the Group are located in China, and its major operating transactions are dominated in RMB. In addition to the liabilities arising from the financing loans dominated in US dollars and certain professional expenses payable dominated in HK dollars and US dollars mainly arising from the listing of the Company, most of the assets and liabilities of the Group are dominated in RMB. Since RMB is not freely convertible, the risk that the Chinese government may take measures to interfere the exchange rates, may bring effects to the Group's net asset value, profit and the dividends declared to the extent that such dividends are subject to foreign exchange, and we have no hedging measures against such exchange risks.

(12) Assets Securities and Contingent Liabilities

The bank borrowings of the Group are secured by the mining rights certificates and, notes and equity interest in Benxi Mine. Meanwhile, Ms. Yang Min offered a guarantee for the Group on it's bank borrowings of RMB140,000 thousand. As of 30 June 2012, the aggregate net carrying value of the assets used as securities amounted to RMB285,000 thousand, and the aggregate net carrying value of the notes used as securities amounted to RMB80,000 thousand.

As of 30 June 2012, the Group had no material contingent liabilities.

(13) Capital Commitments

As at 30 June 2012, the Group had future capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided for of approximately RMB147.9 million (30 June 2011: RMB34.3 million). Such increase is mainly due to the increase in the expenditure in the exploration, development of mines and mining.

(14) Material Acquisitions and Disposals of Assets, and the Merger Issue

As of 30 June 2012, the Group had no material acquisitions and disposals of assets and merger issue.

(15) Use of the Proceeds

The Company was listed on the main board of the Hong Kong Stock Exchange on 30 September 2011. The net proceeds raised from the listing of the Company excluding underwriting expenses and other expenses payable related to its initial public offering ("IPO") amounted to approximately HK$807.3 million. As of 30 June 2012, the IPO proceeds available for application and already applied by the Company are set out as follows:

	Net Proceeds for the Global Offering	
Purposes	**Available for application** Million HK$	**Already applied** Million HK$
Repayment of bank borrowing	702.3	702.3
Expansion and upgrading of the mining areas and production equipments	68.6	68.6
Acquiring new mining areas and relevant production equipments	36.4	—
Total	807.3	770.9

(16) Exploration, Development and Mining Expenses

The exploration, development and mining production activities expenses of the Group was approximately RMB472,644 thousand in the corresponding period in 2011. It dropped to approximately RMB222,822 thousand in the first half of 2012. The expenses for the first half of 2012 mainly included: (i) expenses on properties, plants and equipments of RMB155,709 thousand; (ii) land lease payments of RMB66,612 thousand paid in order to acquire the using right of mining lands; and (iii) expenses of RMB501 thousand generated from the acquisition of the mining rights certificates.

4. Future Outlook

Under the influence of the slowdown of economic growth in China and the sluggish growth in fixed assets investment, the crude steel output of the first half of 2012 merely recorded an increase of 1.8% compared to the corresponding period of the previous year, while the rate of growth decreased 7.8% year-on-year. Yet, to consider the absolute output volume, the crude steel output of China for the first half of 2012 reached 357 million tons, representing 46.6% of the global crude steel output, which remains as the largest crude steel production country worldwide. At the same time, as at the end of 2011, the urbanization rate in China reached 51.27%. However, this figure shows that China still has huge potential in terms of urbanization. Accordingly, the rate of growth of crude steel output in China may not reach a high level, but the aggregate output will still maintains at a high level, which will in turn be the continuous support for the future demand for the iron ores market.

In recent years, the State has promulgated a series of policies to encourage the development of mining industry which covers the iron ore segment. Such policies included encouraging mining companies to conduct “integrated exploration” and carry out mining activities on temporary lands under the pilot scheme in Liaoning province. The Group has fully utilized such policies to expand its exploration areas and mining capabilities. In addition, the redevelopment and the new construction projects of the processing plant of Aoniu Mine and Maogong Mine under the Group will be completed progressively in the first half of 2013. Upon completion, the processing capability of these two mines alone will reach 6 million tons per year which in turn will significantly increase the iron ore processing capacity of the Group.

1. Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 30 June 2012, the interests or short positions of the Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(1) Interests in the shares of the Company

Name of Director or chief executive	Status/Nature of interest	Number of shares held (long positions)	Approximate percentage of shareholding
Yang Min[1]	Interests in controlled corporation	751,035,000	41.04%
	Founder of discretionary trust	29,953,500	1.64%
Yang Jiye[2]	Interests in controlled corporation	424,360,500	23.19%
Xia Zhuo[3]	Others	165,651,000	9.05%
Zheng Xuezhi	Beneficial owner	50,000	0.00%[4]

(2) Interests in associated corporations of the Company:

Name of Director or chief executive	Interests in associated corporations	Number of shares held	Approximate percentage of shareholding
Yang Min	China Hanking (BVI) Limited	1	100%
Yang Min	Best Excellence Limited	1	100% (held through controlling management trust)[5]
Yang Jiye	Bisney Success Limited	50,000	100%
Xia Zhuo	Splendour Ventures Limited	3,138	6.3%

Notes:

1. Ms. Yang Min ("Ms. Yang") holds 100% interest in China Hanking (BVI) Limited and serves as settlor and beneficiary of management trust which holds the entire issued share capital of Best Excellence Limited. As a result, Ms. Yang is deemed to own interests of 751,035,000 shares held by China Hanking (BVI) Limited and 29,953,500 shares held by Best Excellence Limited.

2. Mr. Yang Jiye ("Mr. Yang") holds 100% interest in Bisney Success Limited. As a result, Mr. Yang is deemed to own interests of 424,360,500 shares held by Bisney Success Limited.

3. Mr. Xia Zhuo holds 6.28% interest in Splendour Ventures Limited, which holds interests of 165,651,000 shares of the Company.

4. The precise percentage is 0.00273224%

5. The management trust is a revocable discretionary trust settled by Ms. Yang as settlor with Credit Suisse Trust Limited as trustee for the purposes of recognizing and rewarding the contributions of certain eligible staff ("Beneficiaries"). On 2 June 2011, China Hanking (BVI) Limited transferred 19,969 shares of the Company, representing approximately 1.6% of the share capital of the Company after the listing, to Best Excellence Limited. It is the intention of Ms. Yang and the trustee that the Beneficiaries of the management trust include Ms. Yang herself and two groups of eligible staff. The first group comprises 11 persons who are employees of our Group including Mr. Pan Guocheng (潘國成), Mr. Zheng Xuezhi (鄭學志), Mr. Huang Jinfu (黃金夫) and Mr. Lu Zengxiang (路增祥), and these Beneficiaries may hold up to approximately 1.025% of the issued share capital of our Company. The second group comprises 16 employees of Hanking Group, and the aggregate maximum amount of shares to be received by this group of Beneficiaries is expected to represent approximately 0.612% of the issued share capital of our Company. Credit Suisse Trust Limited as trustee has the discretionary powers to, among others, allocate all or a portion of the trust fund of the management trust (including the shares held by Best Excellence Limited), but Ms. Yang, as settlor of the management trust, may request Credit Suisse Trust Limited as trustee to make distributions of such shares to one or more Beneficiaries, including herself. As at the date of this interim report, no decision has been made by Ms. Yang or the trustee with respect to any such distribution.

Save as disclosed above, as at 30 June 2012, none of the Directors nor chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or are required, pursuant to the Model Code to be notified to the Company and the Hong Kong Stock Exchange.

2. Substantial Shareholders' Interests or Short Positions in the Shares and Underlying Shares of the Company

As at 30 June 2012, to the best of Directors' knowledge, having made all reasonable enquires, the following persons (other than the Directors and chief executives of the Company) own interests or short positions in the shares or underlying shares of the Company which shall be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholders	Capacity/Nature of interest	Number of shares (long positions)	Approximate percentage of issued share capital
China Hanking (BVI) Limited	Beneficial owner	751,035,000	41.04%
Bisney Success Limited	Beneficial owner	424,360,500	23.19%
Splendour Ventures Limited	Beneficial owner	165,651,000	9.05%
SAIF IV GP Capital Ltd.[1]	Interest in a controlled corporation	93,107,000	5.09%
SAIF IV GP LP[1]	Interest in a controlled corporation	93,107,000	5.09%
SAIF Partners IV L.P.[1]	Beneficial owner	93,107,000	5.09%
Yan Andrew Y.[1]	Interest in a controlled corporation	93,107,000	5.09%

Note:

1. These 93,107,000 shares belong to the same group of shares.

Save as disclosed above, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

3. Changes of Directors and Director's Information

During the Report Period, both Mr. Lu Zengxiang and Mr. Huang Jinfu resigned as executive Directors of the Company on 30 January 2012; Mr. Mao Guosheng also resigned as a non-executive Director and a member of the Audit Committee of the Company on 30 January 2012.

Moreover, Mr. Qiu Yumin was appointed as an executive Director of the Company on 30 January 2012; both Mr. Lan Fusheng and Mr. Kenneth Jue Lee were appointed as non-executive Directors of the Company on 30 January 2012; Mr. Wang Anjian was appointed as an independent non-executive Director and a member of the Audit Committee of the Company on 30 January 2012.

Mr. Wang Ping, an independent non-executive Director of the Company, entered into an engagement letter with the Company on 16 June 2011, with his director's remuneration prescribed as HK$16,000 per month. Subject to the discretion of the Remuneration Committee of the Board, the remuneration stated in the original engagement letter was amended as: (i) HK$16,667 per month from 1 October 2011 to 31 May 2012; (ii) HK$20,833 per month from 1 June 2012 and for the period of continuing engagement.

4. Model Code for Securities Transactions by Directors of Listed Companies

The Group has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding the dealings in the Company's securities by the Directors of the Group. Specific enquiry has been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the six months period ended 30 June 2012.

5. Purchase, Sale or Redemption of Listed Securities of the Company

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

6. Employees and Remuneration Policy

As at 30 June 2012, the Group had 1,629 employees in total. During the six months ended 30 June 2012, the total remuneration expenses and the amounts of the employees' benefit were RMB50,651 thousand. One of the main features of the Group's remuneration structure was to emphasise that the employees' income was directly related to its business performance and profits. The remuneration package included basic salary, commission and bonus, housing allowance, pension, medical insurance, occupational injury insurance and other insurance required by the government. Meanwhile, the Group adopted the policy of "People Oriented" which integrated the trinity modes of thinking, including "Job Reallocation", "Role" and "Up-to-Standard" and formulated incentive programmes tailored for employees at different stage of their career development in the Group. For the aspect of employees training, the Group arranged numerous training programmes for employees, including training programmes conducted by in-house instructors; training programmes conducted by external instructors, training abroad and business college's online network video training programmes, etc., which would act as the motive for the development of their professional skills and knowledge.

7. Corporate Governance

The Company has fully complied with the code provisions of the "Code on Corporate Governance Practices" as set out in Appendix 14 of the Listing Rules during the period from 1 January 2012 to 31 March 2012. Meanwhile, the Company has complied with most of the best practice as recommended therein.

During the period from 1 April 2012 to 30 June 2012, the Company has fully complied with the code provisions of the amended "Corporate Governance Code and Corporate Governance Report" as set out in Appendix 14 of the Listing Rules. Meanwhile, the Company has complied with most of the best practice as recommended therein.

8. Audit Committee

During the Reporting Period, the Audit Committee comprised three independent non-executive Directors, namely Mr. Wang Ping, Mr. Johnson Chi-King Fu and Mr. Wang Anjian, with Mr. Wang Ping as the chairman of the Audit Committee.

Pursuant to Rule 3.21 of the Listing Rules, the Company established the Audit Committee. According to Rule 3.22 of the Listing Rules and the Code on Corporate Governance Practices (Corporate Governance Code and Corporate Governance Report as amended on 1 April 2012) as set out in Appendix 14 of the Listing Rules, the terms of reference of the Audit Committee was approved and stated; the Audit Committee is primarily responsible for reviewing and monitoring the financial report and the internal control of the Group, and reviewing the accounting policies, accounting principles and methods adopted by the Company with the management of the Company.

The Audit Committee, which has reviewed the 2012 interim results of the Company for the six months ended 30 June 2012 which has not been audited by independent auditors, believes that the interim results were prepared in accordance with the accounting principles, rules and regulations adopted, and made appropriate disclosure.

9. Interim Dividend

The Board has resolved not to distribute any interim dividend for the six months ended 30 June 2012.

10. Major Subsequent Events

On 3 July 2012, Aoniu Mining, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Shenyang Toyo Steel Company Limited, pursuant to which Aoniu Mining has agreed to acquire, and Shenyang Toyo Steel Company Limited has agreed to sell, an aggregate of 100% equity interest in Fushun Hanking Shangma Mining Company Limited for a total consideration of RMB100 million. The transaction should comply with the reporting, announcement and independent shareholders' approval requirements contained in Chapter 14A of the Listing Rules. The Company has already published an announcement in respect of the above acquisition on 3 July 2012. Upon the approval of the acquisition at the extraordinary general meeting and the fulfillment of other conditions precedent, Fushun Hanking Shangma Mining Company Limited will become a wholly-owned subsidiary of the Company.

11. Major Legal Proceeding

During the six months ended 30 June 2012, the Group was not involved in any major legal proceedings or arbitrations. To the knowledge of the Directors, there is no pending or potential major legal proceedings or claims.

Report on Review of Condensed Consolidated Financial Statements

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF CHINA HANKING HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of China Hanking Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 22 to 40, which comprises the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20 August 2012

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (audited)
Revenue		604,034	752,638
Cost of sales		(211,264)	(201,752)
Gross profit		392,770	550,886
Other income		1,770	516
Selling and distribution expenses		(14,089)	(12,503)
Administrative expenses		(72,124)	(66,027)
Other expenses		(7,279)	(21,927)
Net foreign exchange (loss) gain		(282)	4,131
Finance costs	4	(20,998)	(211,591)
Profit before tax	5	279,768	243,485
Income tax expense	6	(73,566)	(103,901)
Profit for the period		206,202	139,584
Other comprehensive income:			
Fair value loss on available-for-sale financial assets		(317)	—
Total comprehensive income for the period		205,885	139,584
Profit for the period attributable to:			
Owners of the Company		206,202	136,325
Non-controlling interests		—	3,259
		206,202	139,584
Total comprehensive income for the period attributable to:			
Owners of the Company		205,885	136,325
Non-controlling interests		—	3,259
		205,885	139,584
Earnings per share			
— Basic (RMB cent per share)	8	11	9

Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	570,491	436,873
Intangible assets	10	299,350	307,999
Prepaid lease payments	11	274,000	231,946
Deferred tax assets		4,643	6,734
Deposit on acquisition of property, plant and equipment	9	11,411	14,010
		1,159,895	997,562
Current assets			
Inventories		50,991	38,046
Prepaid lease payments	11	26,753	18,594
Trade and other receivables	13	538,452	399,524
Tax recoverable		2,734	6,070
Available-for-sale financial assets	12	42,823	—
Bank balances and cash	14	684,154	315,701
		1,345,907	777,935
Current liabilities			
Trade and other payables	15	161,209	201,937
Bank borrowings	16	830,000	250,000
Consideration payable		—	2,350
Tax liabilities		177,714	191,786
		1,168,923	646,073
Net current assets		176,984	131,862
Total assets less current liabilities		1,336,879	1,129,424

Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Capital and reserves			
Share capital	17	149,137	149,137
Reserves		1,147,742	980,287
Total equity attributable to owners of the Company		1,296,879	1,129,424
Non-current liability			
Bank borrowings	16	40,000	—
		1,336,879	1,129,424

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Attributable to owners of the Company									
	Share capital/ Paid-in capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000 (note a)	Future development funds reserve RMB'000 (note b)	Investments revaluation reserve RMB'000	Special reserve RMB'000	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2011 (audited)	162,042	—	73,269	198,808	—	(82,247)	42,289	394,161	69,826	463,987
Acquisition of equity interest from non-controlling shareholders (note c)	—	—	—	—	—	61,085	—	61,085	(73,085)	(12,000)
Distribution to the then equity shareholders upon Group Reorganisations (note d)	(162,042)	—	—	—	—	(387,958)	—	(550,000)	—	(550,000)
Shareholder's contribution (note e)	—	—	—	—	—	175,960	—	175,960	—	175,960
Profit and total comprehensive income for the period	—	—	—	—	—	—	136,325	136,325	3,259	139,584
Transfer to future development funds reserve	—	—	—	30,783	—	—	(30,783)	—	—	—
Balance at 30 June 2011 (audited)	—	—	73,269	229,591	—	(233,160)	147,831	217,531	—	217,531

	Attributable to owners of the Company									
	Share capital/ Paid-in capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000 (note a)	Future development funds reserve RMB'000 (note b)	Investments revaluation reserve RMB'000	Special reserve RMB'000	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2012 (audited)	149,137	495,537	73,269	267,406	—	(233,160)	377,235	1,129,424	—	1,129,424
Profit for the period	—	—	—	—	—	—	206,202	206,202	—	206,202
Other comprehensive income for the period	—	—	—	—	(317)	—	—	(317)	—	(317)
Total comprehensive income for the period	—	—	—	—	(317)	–	206,202	205,885	—	205,885
Profit appropriation — cash dividends	—	—	—	—	—	—	(38,430)	(38,430)	—	(38,430)
Transfer to future development funds reserve	—	—	—	43,172	—	—	(43,172)	—	—	—
Balance at 30 June 2012 (unaudited)	149,137	495,537	73,269	310,578	(317)	(233,160)	501,835	1,296,879	—	1,296,879

Notes:

(a) In accordance with the relevant company laws and regulations of the People's Republic of China (the "PRC") and the 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 (the "PRC GAAP") 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 used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalization 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.

(b) Pursuant to regulation in the PRC, Fushun Hanking Aoniu Mining, Limited. ("Aoniu Mining"), Benxi Hanking Mining Co., Ltd. ("Benxi Mining"), Fushun Maogong Mining Co., Ltd. ("Maogong Mining") and Fushun Xingzhou Mining Co., Ltd. ("Xingzhou Mining") are required to transfer an amount to a future development fund at RMB22 per ton of iron ore mined annually which will be used for enhancement of safety production environment and improvement of facilities. The fund can only be used for the future development of the iron ore mining business and is not available for distribution to shareholders.

RMB40,179,000 and RMB54,116,000 of future development fund were provided during the six months ended 30 June 2011 and 2012, respectively. RMB9,396,000 and RMB10,944,000 of future development fund were utilised during the six months ended 30 June 2011 and 2012, respectively.

(c) Special reserve arising from the acquisition of additional 7.60% effective equity interest in Shenyang Toyo Steel Utility Co.,Ltd. ("STSU") resulting from the acquisition of 75% equity interest in STSU from Hanking Industrial Group Co., Ltd. by China Hanking (Hong Kong) Limited ("Hanking HK") on 18 January 2011 with a cash consideration of RMB12,000,000.

(d) On 18 January 2011 STSU and Shenyang Yuanzheng Industry Limited acquired 99% and 1% equity interests in Aoniu Mining from Hanking Industrial Group Co., Ltd. and Ms. Yang Min for a cash consideration of RMB544,500,000 and RMB5,500,000, respectively. It is accounted for as distribution to the then equity shareholders.

(e) On 24 December 2010, the Company entered into a facility agreement (the "Facility Agreement", which was amended and restated on 21 January 2011 and further amended on 2 February 2011, 25 March 2011 and 24 June 2011) with certain lenders (the "Facility Lenders"). As one of the conditions precedent to the provision of the loan under the Facility Agreement, and pursuant to warrant instrument A and warrant instrument B, China Hanking (BVI) Limited issued warrant A and warrant B exercisable into 12.6667% and 0.6667% of the Company's fully diluted post-listing shares on the Stock Exchange respectively to the Facility Lenders with exercise price of US$90 million. China Hanking (BVI) Limited is the entity through which Ms. Yang Min indirectly holds approximately 58.67% equity interest in the Company. The Company considered the warrants granted by China Hanking (BVI) Limited to the Facility Lenders as a capital contribution made by the controlling shareholder and recorded the fair value of those warrants of RMB175,960,000 as a deemed contribution in the consolidated statement of changes in equity.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	30 June 2012 RMB'000 (unaudited)	30 June 2011 RMB'000 (audited)
Net cash from operating activities	63,186	220,987
Net cash (used in) generated from investing activities:		
Purchases and deposit paid for acquisition of property, plant and equipment	(155,581)	(102,628)
Payments for prepaid lease payments	(62,632)	(107,100)
Purchase of available-for-sale investment	(43,140)	—
Proceeds on disposal of property, plant and equipment	—	25,526
Interest received	1,770	516
Purchase of intangible assets	(916)	(1,991)
Repayments of loans to related parties	—	376,481
Advanced to related parties	—	(33,583)
Other investing activities	(20,000)	—
	(280,499)	157,221
Net cash from (used in) financing activities:		
Proceeds from borrowings	720,000	780,723
Repayment of borrowings	(100,000)	(325,000)
Distribution to the then equity shareholders	—	(550,000)
Dividend paid to the owners of the Company	(32,166)	—
Acquisition of non-controlling interests	(2,350)	(40,650)
Repayments of loans from related parties	—	(10,598)
Expenses in connection with the issuance of other borrowing	—	(21,082)
Loans from related parties	—	20
	585,484	(166,587)
Net increase in cash and equivalents	368,171	211,621
Cash and cash equivalents at 1 January	315,701	53,305
Effect of foreign exchange rate changes	282	—
Cash and cash equivalents at 30 June represented by bank balances and cash	684,154	264,926

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

1. Basis of Preparation

Prior to the Group Reorganisation, Ms. Yang Min and Mr. Yang Jiye, through their direct equity interest and ownership in certain related companies which had equity interest in, effectively controlled the companies comprising the Group.

Through the Group Reorganisation as detailed in the Prospectus of the Company dated 20 September 2011, the Company became the holding company of the Group on 18 January 2011. The consolidated financial statements of the Group for the year ended 31 December 2011 has been prepared using the principles of merger accounting, and includes the results and cash flows of the companies comprising the Group pursuant to the Group Reorganisation as if the business combination had occurred from the date when the combining entities or business first came under the control of the Controlling Parties, Ms. Yang Min and Mr. Yang Jiye, except that the results attributable to the owners of the group companies other than Ms. Yang Min and Mr. Yang Jiye prior to the Group Reorganisation were treated as non-controlling interests.

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (IAS 34) Interim Financial Reporting issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except for accounting policy of new transaction that occurred during the current period as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on available-for-sale financial assets below).

2. Principal Accounting Policies (continued)

Impairment of available-for-sale financial assets

Available-for-sale financial assets are assessed for indicators of impairment at the end of the reporting period. Available-for-sale financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

In the current interim period, the Group has also applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board:

- amendments to IFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets; and
- amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets;

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. Segment Information

The Group has operating in one segment, being the iron ore mining and processing. The Group identified an operating segment which is a component of the Group (a) that engages in business activities from which it may earn revenues and incur expenses; and (b) whose operating results are reviewed regularly by the executive directors, the chief operating decision maker, to make decisions about resources allocation and assess its performance.

3. Segment Information (continued)

The accounting policies of the operating segment are the same as those adopted by the Group in the preparation of condensed consolidated financial statements expect that the financial impact of deferred taxation, effective interest on other borrowings and listing expenses had not been considered by the Group's chief operating decision maker to make decisions about resources to be allocated and assess performance. Reconciliation from the operating segment to the consolidated financial statements is as follows:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Segment revenue	**604,034**	752,638
Segment result	**208,293**	343,485
Less: Listing expenses	**—**	19,168
Deferred taxation	**2,091**	(9,459)
Effective interest on other borrowings	**—**	194,192
Profit for the period	**206,202**	139,584

All of the Group's revenue are derived from the PRC and the non-current assets are located in the PRC and therefore, no geographical information is presented.

4. Financial Costs

The decrease of financial cost in the current period was mainly due to the repayment of the full amount of USD120 million under the Facility Agreement in the year ended 31 December 2011.

5. Profit Before Tax

Profit before taxation has been arrived at after charging (crediting):

	Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (audited)
Cost of inventories recognized as an expense	174,385	185,010
Auditors' remuneration	400	94
Release of prepaid lease payments	12,419	9,469
Depreciation and amortisation:		
— Property, plant and equipment	23,877	20,761
— Intangible assets	9,565	9,160
	33,442	29,921
Net foreign exchange gain	282	(4,131)
Staff costs (including directors):		
— Salary and other benefits	50,651	35,296
— Retirement benefits scheme contributions	7,021	2,070
	57,672	37,366

6. Income Tax Expenses

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Income tax expenses comprise:		
PRC enterprise income tax ("EIT") — current	**70,727**	112,964
Under provision of EIT in prior years	**748**	396
Deferred tax	**2,091**	(9,459)
	73,566	103,901

The Company was incorporated in the Cayman Islands and is not subject to any income tax.

PRC income tax is calculated based on the statutory income tax rate of 25% (2011: 25%) of taxable income of the subsidiaries based on the relevant PRC tax rules and regulations.

China Hanking Investment Limited ("Hanking Investment") and China Hanking (BVI) International Limited ("Hanking International") were incorporated in the British Virgin Islands ("BVI") and are not subject to income tax of any jurisdiction during the current period (2011: nil).

Hanking HK was incorporated in Hong Kong and Hong Kong Profits Tax rate is 16.5% (2011: 16.5%).

Hanking Australia Pty Ltd. was incorporated in Australia and has no assessable profits subject to Australia profits tax during the current period (2011: nil).

7. Dividends

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Final dividend declared for 2011 RMB 2.1 cents (2010: nil) per share	**38,430**	—

During the current interim period, a final dividend of RMB2.1 cents per share in respect of the year ended 31 December 2011 (2011: RMB nil cents per share in respect of the year ended 31 December 2010) was declared and paid to the owners of the Company.

No dividends were paid, declared or proposed during the current period. The directors have determined that no dividend will be paid in respect of the current period.

8. Earnings Per Share

The calculation of basic earnings per share is based on the profit for the six months ended 30 June 2012 attributable to owners of the Company and the 1,830,000,000 shares in issue during the current period (2011: weighted average number of 1,500,000,000 shares, comprising 1,000,000 shares in issue as at the date of 16 September 2011 and 1,499,000,000 shares to be issued pursuant to the capitalisation issue as if the shares had been in issue throughout the six months ended 30 June 2011).

No diluted earnings per share is presented as the Company did not have dilutive potential ordinary shares in issue.

9. Movements in Property, Plant and Equipment

During the period, the Group acquired property, plant and equipment (including capital expenditure for construction in progress) of RMB156,310,000 for business expansion in the PRC.

10. Intangible Assets

As at 30 June 2012, the Company has pledged mining rights of having a net book value of approximately RMB284,854,000 (31 December 2011: RMB251,655,000) to secure the bank borrowings of RMB290,000,000 (31 December 2011: RMB200,000,000).

11. Prepaid Lease Payments

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Analysed for the reporting purpose as:		
Current portion	26,753	18,594
Non-current portion	274,000	231,946
	300,753	250,540

The prepaid lease payments were amortised over the benefit periods from 5 to 50 years. At 30 June 2012, amount of RMB250,708,000 (31 December 2011: RMB167,463,000), represented the pre-paid rental to various farmers and no land certificates for these pre-paid rental have been obtained.

12. Available-for-Sale Financial Assets

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Listed investment at fair value (note a)	2,823	—
Unlisted financial product investments at fair value (note b)	40,000	—
	42,823	—

Notes:

(a) The listed investment represents the Group's equity interests in company listed on Australian Securities Exchange. The investment are measured at fair value at the end of the reporting period.

(b) The investments are managed by licensed financial institution in the PRC to principally invest in certain financial assets including notes, bonds and other money market investments. The principal of the investments are not guaranteed.

The expected yield of these investments ranged from 2.52% per annum to 4.60% per annum. In the opinion of the directors, the fair values of these investments are close to the principal amounts of these investments.

13. Trade and Other Receivables

Since 1 July 2011, the Group allows an average credit period of 7 days to all its customers. Prior to 1 July 2011, the Group allowed an average credit period of 7 days to all its non-related party customers while there was no credit period policy to its related party customers and the related party customers normal settled trade receivables within three months. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

13. Trade and Other Receivables (continued)

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Within 7 days	28,188	17,070
8 days to 3 months	7,532	—
	35,720	17,070
Bills receivables	251,805	215,973
Total trade receivables	287,525	233,043
Other receivables, deposits and prepayments	250,927	166,481
	538,452	399,524

14. Bank Balances and Cash

Bank balances and cash of the Group comprise cash and short term bank deposits with an original maturity of three months or less. The bank balances carry variable interest rates of 0.35% (2011: 0.50%) per annum.

15. Trade and Other Payables

Payment terms with suppliers are mainly on credit within 90 days from the time when the goods are received from suppliers. The following is an aged analysis of trade payables based on the date of the goods received at the end of the reporting period:

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Within 3 months	14,473	9,375
3 months to 1 year	811	357
1 year to 2 years	—	498
Over 2 years	—	91
	15,284	10,321
Bill payables	594	10,235
Total trade payables	15,878	20,556
Other payables, advances and accruals	145,331	181,381
	161,209	201,937

16. Bank Borrowings

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Fixed-rate bank loans	480,000	—
Floating-rate bank loans (note a)	390,000	250,000
	870,000	250,000
Secured bank loans (note b)	370,000	250,000
Unsecured bank loans	500,000	—
	870,000	250,000
Amount repayable:		
Due within one year (amount shown under current liabilities)	830,000	250,000
More than two years, but not exceeding five years (amount shown under non-current liabilities)	40,000	—
	870,000	250,000
Effective interest rates of bank borrowings	7.72%	6.85%

Notes:

(a) The floating-rate bank loans carry interest at 110% to 130% of the one-to-three-year interest rates of RMB loan promulgated by the People's Bank of China.

(b) The secured bank borrowings of RMB290,000,000 (31 December 2011: RMB200,000,000) were secured by various assets including the mining rights with carrying amounts of RMB284,854,000 (31 December 2011: RMB251,655,000) and by the pledge of equity interest right of Benxi Mining. Of the above RMB290,000,000, bank borrowings of RMB140,000,000 were also guaranteed by Ms. Yang Min.

The remaining secured bank borrowing of RMB80,000,000 (31 December 2011: RMB50,000,000) was secured by the bills receivables with carrying amount of RMB80,000,000 (31 December 2011: RMB51,250,000).

17. Share Capital

Paid-in capital of the Group at 1 January 2011 represented the combined paid-in capital of Aoniu Mining and STSU attributable to the ultimate controlling parties (Ms. Yang Min and Mr. Yang Jiye). The amount as at 30 June 2012 and 31 December 2011, represented the then issued share capital of the Company, details of movements of share capital of the Company are as follow:

	Number of share	Share capital	Shown in the consolidated financial statements
		HK$'000	RMB'000
Ordinary shares of HK$0.1 each			
Authorised:			
At 1 January 2011	3,900,000		
Increased on 16 June 2011	9,996,100,000		
At 31 December 2011 and 30 June 2012	10,000,000,000		
Issued:			
At 1 January 2011	1,000,000	—	—
Issue by capitalisation of the share premium account relating to capitalisation issue	1,499,000,000	149,900	122,229
New issue of shares by way of initial public offering	330,000,000	33,000	26,908
At 31 December 2011 and 30 June 2012	1,830,000,000	182,900	149,137

On 16 June 2011, pursuant to the resolutions in writing passed by the shareholders of the Company, the increase of the authorised share capital of the Company from HK$390,000 divided into 3,900,000 shares of a nominal or par value of HK$0.10 each to HK$1,000,000,000 divided into 10,000,000,000 shares of a nominal or par value of HK$0.10 each by the creation of 9,996,100,000 shares, which shall rank pari passu in all respects with the shares in issue as at the date of this resolution, was approved.

17. Share Capital (continued)

Pursuant to the resolutions in writing of the shareholders of the Company passed on 16 September 2011, conditional on the share premium account of the Company being credited as a result of the issue of the offer shares by the Company pursuant to the initial public offering of shares of the Company and subject to the IPO price, the sum of HK$149,990,000 be capitalised and be applied in paying up in full at par 1,499,000,000 shares, each of which was allotted and issued to the shareholders of the Company.

In connection with the Company's initial public offering, 330,000,000 shares of HK$0.10 each were issued at a price of HK$2.51 per share for a total cash proceeds of approximately HK$828,300,000 (equivalent to RMB675,396,000). Dealings in these shares on the Main Board of the Stock Exchange commenced on 30 September 2011.

18. Capital Commitments

Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	147,883	34,254

19. Related Party Transactions

During the period, save as disclosed elsewhere in the condensed consolidated financial statements, the Group had the following related party transactions:

	Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (audited)
Sales of goods to:		
Fushun Hanking D.R.I. Co., Ltd. (note a) 撫順罕王直接還原鐵有限公司	**135,777**	165,435
Fushun Hanking Shangma Iron Mine (note a) 撫順罕王上馬鐵礦	**–**	333
Benxi Hanking Iron Processing Co. Ltd. (note a) 本溪罕王鐵選有限公司	**–**	6,429
Fushun Hanking New Building Materials. Co., Ltd. (note a) 撫順罕王新型建材有限公司	**–**	10
Fushun County Dawei Foundry (note a) 撫順縣大維鑄造廠	**–**	65
	135,777	172,272
Material purchased from:		
Fushun County Dawei Foundry 撫順縣大維鑄造廠	**1,162**	2,335
Processing fee paid to:		
Benxi Hanking Iron Processing Co. Ltd. 本溪罕王鐵選有限公司	**14,051**	19,108
Rental expense paid to:		
Shenyang Shengtai Property Management Co., Ltd. (note a) 瀋陽盛泰物業管理有限公司	**2,400**	2,416
Transportation fee paid to:		
Fushun Mingyang Transport Co., Ltd. (note b) 撫順名揚運輸有限公司	**11,552**	–
Fushun Mingcheng Transport Co., Ltd. (note b) 撫順名城運輸有限公司	**–**	11,459
	11,552	18,549

19. Related Party Transactions (continued)

Notes:

(a) These companies are the related parties which are controlled by Ms. Yang Min, one of the ultimate controlling shareholders of the Company.

(b) These companies are the related parties in which Ms. Yang Min has significant influence.

20. Subsequent Event

Subsequent to 30 June 2012, the following significant event took place:

The Company announced that on 3 July 2012, Aoniu Mining, a wholly-owned subsidiary of the Company, entered into the equity transfer agreement with Shenyang Toyo Steel Company Limited ("Shenyang Toyo") and Fushun Hanking Shangma Mining Company Limited ("Fushun Shangma"), which are related parties controlled by Ms. Yang Min, pursuant to which Aoniu Mining has agreed to acquire, and Shenyang Toyo has agreed to sell, an aggregate of 100% equity interest in Fushun Shangma for a total consideration of RMB100 million. Upon completion of the acquisition, Fushun Shangma will become a wholly-owned subsidiary of the Company.

The transaction is subject to the approval by the shareholders of the Company. As at the date of issuance of these condensed consolidated financial statements, the transaction has not yet been completed.

Definitions of Terms

"Aoniu Mine"	located at Hou'an Town, Fushun City, an iron mine operated through Aoniu Mining, a subsidiary of the Company
"Aoniu Mining"	Fushun Hanking Aoniu Mining Limited (撫順罕王傲牛礦業股份有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of our Company
"Benxi Mining"	Benxi Hanking Mining Co., Ltd. (本溪罕王礦業有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of our Company
"Board"	the board of directors of the Company
"China" or "PRC"	the People's Republic of China. Unless the context requires, references in this report to the "PRC" or "China" do not include Hong Kong, Macau Special Administrative Region and Taiwan Region
"Company" or "our Company" or "we"	China Hanking Holdings Limited
"Controlling Shareholders"	has the meaning ascribed in the Listing Rules and unless the context requires otherwise, refers to Mr. Yang Jiye, Ms. Yang Min, China Hanking (BVI) Limited, Bisney Success Limited and Best Excellence Limited
"Directors"	the directors of the Company
"Group"	China Hanking Holdings Limited and its subsidiaries
"Hanking Group"	Hanking Industrial Group Co., Ltd, a company incorporated in PRC with limited liabilities, which is controlled by the Controlling Shareholders
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Indicated resource"	An Indicated resource is one which has been sampled by drill holes or other sampling procedures at locations too widely spaced to ensure continuity, but close enough to give a reasonable indication of continuity and where geoscientific data are known with a reasonable level of reliability
"Inferred resource"	An Inferred resource is one where geoscientific evidence from drill holes or other sampling procedures is such that continuity cannot be predicted with confidence and where geoscientific data may not be known with a reasonable level of reliability

Definitions of Terms

“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Maogong Mine”	located at Shiwen Town, Fushun City, an iron mine operated through Maogong Mining, a subsidiary of the Company
“Maogong Mining”	Fushun Hanking Maogong Mining Co., Ltd. (撫順罕王毛公鐵礦有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of our Company
“Mengjia Mine”	located at Pingshan District, Benxi City, an iron mine operated by Benxi Mining, a subsidiary of the Company
“Reporting Period”	the six months ended 30 June 2012
“RMB”	Renminbi, the lawful currency of the PRC
“the 12th Five-Year Plan”	the Twelfth Five-Year Plan for National Economic and Social Development of the People’s Republic of China
“US$” or “US dollars”	US dollars, the lawful currency of the United States
“Xingzhou Mine”	located at Dongzhou District, Fushun City, an iron mine operated through Xingzhou Mining, a subsidiary of the Company
“Xingzhou Mining”	Fushun Xingzhou Mining Limited (撫順興洲礦業有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of our Company