中國罕王控股有限公司

CHINA HANKING HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 03788

ANNUAL REPORT 2016

MISSION
As Emerging Key Player

VALUE
Always Beyond Expectations

CONTENTS

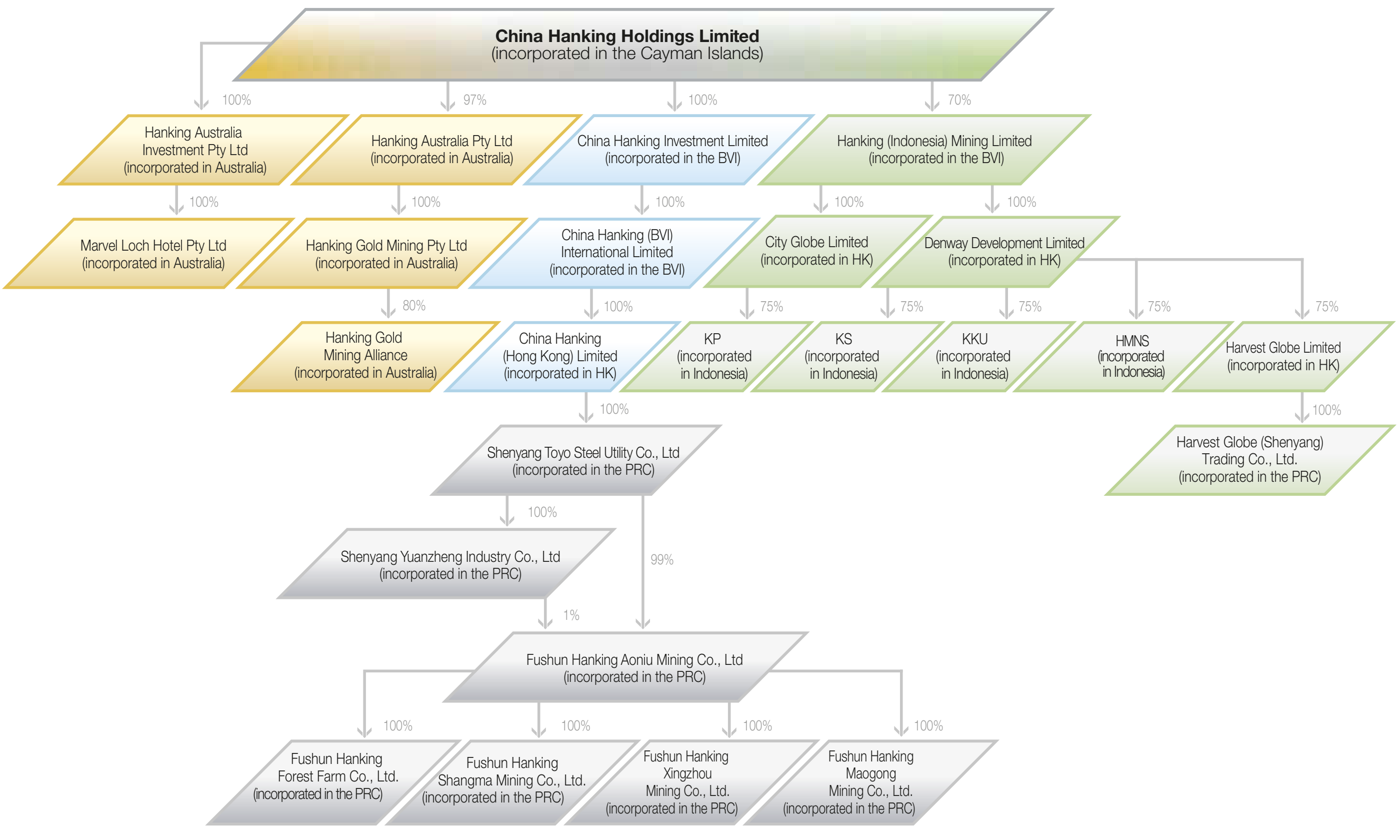
CORPORATE INFORMATION

China Hanking Holdings Limited was incorporated in the Cayman Islands on 2 August 2010, and was listed on the Hong Kong Stock Exchange on 30 September 2011 (stock code: 03788).

Hanking is a fast-growing international mining and metals group of companies, mainly engaging in exploitation, mining and processing of mineral resources and marketing of mineral products. With its principal operations of precious metals that supplemented by nickel and other strategic metals, Hanking has invested and developed mine operation projects with long life cycle, low operating costs and scalable operating scope in the most attractive regions around the world.

Upholding the core value of "people-first and business integrity" and adhering to the principles of "safety, community harmony and green mine", the Group actively performs the enterprises' social responsibilities.

Shareholding Structure of the Group Note



Note This shareholding structure chart reflects the Group's shareholding structure as at 31 December 2016.

COMPANY'S STATUTORY CHINESE NAME

中國罕王控股有限公司

COMPANY'S STATUTORY ENGLISH NAME

China Hanking Holdings Limited

STOCK CODE

03788

REGISTERED OFFICE

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Grand Cayman
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Cayman Islands

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Liaoning Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

AUTHORIZED REPRESENTATIVES

Mr. Zheng Xuezhi
Ms. Mok Ming Wai

JOINT COMPANY SECRETARIES

Mr. Xia Zhuo
Ms. Mok Ming Wai

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
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HONG KONG LEGAL ADVISOR

Locke Lord
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PRINCIPAL SHARE REGISTRAR IN THE CAYMAN ISLANDS

Codan Trust Company (Cayman) Limited
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CORPORATE INFORMATION

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DIRECTORS

Executive Directors

Mr. Yang Jiye *(Chairman)*
Dr. Pan Guocheng
(Chief Executive Officer and President)
Mr. Zheng Xuezhi *(Chief Financial Officer)*
Dr. Qiu Yumin
Mr. Xia Zhuo

Non-executive Director

Mr. Kenneth Jue Lee

Independent Non-executive Directors

Mr. Wang Ping
Dr. Wang Anjian
Mr. Ma Qingshan

AUDIT COMMITTEE

Mr. Wang Ping *(Chairman)*
Dr. Wang Anjian
Mr. Kenneth Jue Lee

REMUNERATION COMMITTEE

Mr. Wang Ping *(Chairman)*
Mr. Kenneth Jue Lee
Mr. Ma Qingshan

NOMINATION COMMITTEE

Mr. Yang Jiye *(Chairman)*
Dr. Wang Anjian
Mr. Ma Qingshan

HEALTH, SAFETY, ENVIRONMENTAL PROTECTION AND COMMUNITY COMMITTEE

Dr. Pan Guocheng *(Chairman)*
Mr. Yang Jiye
Dr. Wang Anjian

FINANCIAL HIGHLIGHTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Revenue	**1,707,198**	1,219,751	1,368,652	1,455,505	1,397,240
Cost of sales	**(1,411,618)**	(929,221)	(887,981)	(663,501)	(648,440)
Gross profit	**295,580**	290,530	480,671	792,004	748,800
Investment and other income	**18,768**	33,389	24,328	7,676	14,626
Other gains and losses	**(163,044)**	(292,763)	(49,066)	(38,711)	(11,085)
Distribution and selling expenses	**(37,603)**	(38,386)	(44,678)	(50,726)	(55,853)
Administrative expenses	**(182,048)**	(230,786)	(264,678)	(309,557)	(247,136)
Finance costs	**(138,576)**	(169,319)	(113,364)	(123,178)	(86,787)
Loss before tax	**(206,923)**	(407,335)	33,213	277,508	362,565
Income tax (expense) credit	**(6,954)**	5,657	(56,102)	(123,919)	(128,744)
Loss for the year	**(213,877)**	(401,678)	(22,889)	153,589	233,821
Owners of the Company	**(207,408)**	(381,596)	8,990	192,661	296,742
Non-controlling interests	**(6,469)**	(20,082)	(31,879)	(39,072)	(62,921)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Current assets	**1,159,656**	1,965,913	1,594,903	1,522,613	1,187,076
Non-current assets	**2,720,706**	2,956,871	2,849,963	2,792,162	2,209,850
Current liabilities	**1,904,910**	3,399,258	2,179,767	1,903,451	1,643,219
Non-current liabilities	**1,170,283**	555,191	865,365	911,107	185,927
Equity attributable to owners of the Company	**602,076**	764,163	1,171,276	1,240,943	1,381,522
Non-controlling interests	**203,093**	204,172	228,458	259,274	186,258

SELECTED FINANCIAL RATIOS

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Gross profit margin	**17.31%**	23.82%	35.12%	54.41%	53.59%
Net profit margin	**(12.53%)**	(32.93%)	(1.67%)	10.55%	16.73%
Gearing ratio	**79.25%**	80.33%	68.51%	65.23%	53.85%
Return ratio of total asset	**(1.55%)**	(5.08%)	3.35%	10.39%	13.85%

CHAIRMAN'S STATEMENT

Dear shareholders,

The year of 2016 was an extraordinary year full of challenges for the Group. All mineral product markets were very volatile, with the iron ore price showing a trend characterized with an upsurge following a dip, the gold price fluctuating significantly and the non-ferrous metal price delivering a satisfactory performance. However, despite of the changes in the market condition, China Hanking adhered to the operation strategy of "cost control, efficiency improvement, risk mitigation and value enhancement", and continued to optimize the operating results of each business segment of the Group, significantly reducing the risk profile of the Company. Under the leadership of the Board and with the great efforts of the management and all staff, the Group achieved satisfactory operating results in the year of 2016. On behalf of the Board of China Hanking Holdings Limited, I am pleased to present to you the audited annual results of the Company for the year ended 31 December 2016.

Mr. Yang Jiye

Chairman of the Board

RESULTS HIGHLIGHTS

In 2016, the global macro-economic environment was characterized with certain new changes. The United States, as the biggest economy in the world, saw its economy recovering steadily, and the US Federal Reserve (Fed) announced the second short-term interest rate hike for the last decade and is expected to accelerate the pace of interest rate hike in the coming year, leading to a stronger US dollar, which continued to exert pressures on prices of mineral products denominated in US dollar. The other major economies in the world continued to implement quantitative easing monetary policy, and the economic performance of the EU generally showed signs of slow recovery. The PRC economy witnessed its growth rate (GDP) dropping to 6.7% last year. Despite of the dramatic slowdown in growth, the overall performance showed a stabilizing and positive momentum. The slowdown in macro-economic growth will certainly further weaken the growth in demand of China for mineral products. Last year, crude steel production in China amounted to 808 million metric tons, which represented a year-on-year increase of only 1.2%, which implied that China's steel and iron sector entered into a stagnant phase and that China was unable to maintain its role as a powerhouse for driving the growth in demand for iron ores and other bulk mineral products. In response to the fluctuations in the mining sector and guided by its strategy for diversification on selected mineral types and internationalization, the Group strived to optimize structure, control costs, facilitate smooth execution of operation plan, drive the full-capacity operation of its gold mine project, and made the greatest efforts to achieve greater returns for the shareholders.

1. Operation Overview

During the reporting period, the Group recorded revenue of RMB1,707,198,000, representing an increase of 39.96% as compared to last year, which was mainly attributable to the significant increase in gold output. During the reporting period, the Group recorded a loss of RMB213,877,000, representing a dramatic decrease of 46.75% as compared to last year. Such losses were mainly attributable to the low iron ore price and the impairment provision for certain iron ore assets. In 2016, the spotlight of the Group's operation was the significant increase in output of the gold mines in Western Australia. Since commencement of commercial production in August 2015, the gold mines gradually reached full-capacity production with gold output increased by 106% on a year-on-year basis, achieving the established production goal. Meanwhile, constant efforts were made to optimize the production process of the gold mines, leading to dramatic decrease in all-in cash sustaining costs and improving marginal returns from gold production. The operation of the iron ore business was notably improved, and the Group continued to streamline its management and administration team by streamlining and restructuring its organization structure, resulting in a year-on-year decrease of 27.15% in management costs of the iron ore business. By rationalizing our model of production and management of control, the iron ore business continued to cut various production and personnel costs, achieving its expected goal of "reducing costs and increasing efficiency" and offsetting the adverse impact of falling iron ore price to the largest extent.

CHAIRMAN'S STATEMENT

2. Gold Business

The gold business continued to adhere to the principle of low-cost operation, i.e. realizing low-cost production through the lowest input. Gold output was gradually increased through synchronized exploration of several mines, successfully maintaining stable production and improving our productivity. The Group has established a competent and efficient team with a full suite of professional skills for gold mine operations, laying a solid foundation for the long-term growth of Hanking's gold business. By developing the open-pit mines at Cornishman and Axehandle and jointly developing the underground mines at Nevoria, the gold output amounted to 121,000 ounces last year, representing an increase of 106% year-on-year. Through optimization of production process and maintenance system of the processing plant, the production cost of the gold business was brought under control with steady decrease in cash costs, recording a gross profit of RMB57,080,000 and a net profit of RMB3,853,000 for the year.

3. Iron Ore Business

The iron ore business made effort to enhance production, technology research and coordination. Upholding the production principle of "production efficiency and cost control", the Group implemented the policy of "distinct strategy for each mine" in light of the difficulties of each mine incurred by restrictive operation, and optimized the processing technique and process, leading to significant improvement in production efficiency. Aoniu Mine focused on optimization of pit shell as the open-pit mining entered into the stage of tailings exploitation which was accompanied with great change in ore grade. In light of the current condition of the pit shell and production sites of the existing open-pit mine, efforts were made to rationally adjust the pit shell limit of the open-pit mine to avoid unnecessary stripping. The processing plant of Maogong Mine carried out phase II technological improvement to optimize equipment, shorten production process and improve processing technique. By refining its management, Maogong Mine maintained a good development momentum of stable production and high efficiency. The output of iron ore concentrates increased by 30.35% year-on-year, creating a new record high. By cooperating with the design institutes and consultation companies, the Group carried out analysis on the optimized underground mining plan of Xingzhou Mine with an annual mining capacity of 2.9 million metric tons, so as to provide capacity reserve for the implementation of such plan.

4. Nickel Business

Since the law prohibiting raw ore export promulgated by the Indonesia government took effect, focus of the Group's nickel ore project in Indonesia shifted to the planning and fund raising for the construction of smelting project. The Group conducted extensive discussion and consultation with a number of institutional investors and corporate entities and identified certain intention of cooperation on some projects related to electricity, etc. As at the end of last year, with the easing of restrictions on raw ore export by the Indonesia government, it became increasingly likely that a green light will be granted for the export of low grade nickel ore. The accelerated effort by the Chinese companies to construct smelting facilities in Indonesia drove the development of the local nickel ore sales market. The Group proactively sought for cooperation opportunities to strive for early resumption of production at the mine. The Group had entered into cooperation agreements for joint exploration and marketing with two local mining companies in Indonesia, and is scheduled to commence mining production and ore sales in the first half of next year.

5. Resources and Reserves

In 2016, the Group conducted mineral exploration activities within and in the surrounding area of the existing mines as planned, and has achieved good results. The JORC Code-compliant ore resources of Hanking's gold business in Australia increased by 50.63% from 3,034,000 ounces in the previous period to 4,570,000 ounces as at the end of last year. The amount of the JORC Code-compliant ore reserves also increased significantly to 960,000 ounces as at the end of last year, representing a year-on-year increase of 62.16%, which effectively extended the mining life of such reserves. Meanwhile, efforts in exploration have partially upgraded gold resources with an increase in the reserves in the proved category and increased the possibility of translating the future resources into reserves.

COMPANY MANAGEMENT AND CONTROL

During the reporting period, the Group continued to maintain high standard of corporate governance, and tried its best to maintain transparency and openness to the Shareholders. The Group followed the principle of prudent financial management and control, continuously enhanced internal control, raised comprehensive budget management level, refined the regulation and supervision policies on its environmental protection and safety, and improved its human resources system. Under the leadership of the Audit Committee of the Board, the Group placed emphasis on the core task of internal auditing in accordance with the plan for the year, focusing on inspection on the stringency and execution of risk management and control process on the connected transactions, legal and tax affairs, significant engineering projects and internal control. Through budget and office information platform, the Group continued to optimize its internal control process including budget management, production and operation and decision making on investments, in an effort to further improve its internal control.

In response to the market changes in the mining sector, the Group repositioned the management model and structure of its iron ore business segment by streamlining the administrative departments, integrating related business departments, and reducing management layers and relevant positions, leading to a leaner management system. It reinforced the standardized management in access to and consumption of materials for mine productions, inventory and other aspects. Due to the overall production suspension of the nickel business, the Group further reduced the front-line work force, scaled down the construction team of smelting facilities, and accordingly streamlined the non-production management team.

Under the leadership of the HSEC Committee of the Board, the Group continued to improve the management and control standard of safety and environmental protection, as well as fully oversaw and guided the performance of health, safety, environmental protection and community and other social responsibilities by each business segment. With the joint efforts of all staff, the Group's safety and environmental protection management performed fairly satisfactorily, with no major safety accidents and pollution incidents in 2016. In addition, the Group devoted its best efforts in implementation of the mine land reclamation and afforestation plan. With the steady progress of the community work by each business segment of the Group, the communication became smoother, and no major community issue occurred.

FUTURE STRATEGY

While the year of 2016 was exceptionally challenging for the mining industry, we believe that the coming years will offer a good time window of opportunities for Hanking to achieve corporate value enhancement. Through diversified development, the Group has expanded from pure iron ore business to multi-mineral operations of iron ore, gold, and nickel, has expanded from single geographical area of China to countries such as Indonesia and Australia, and has become an international mining group. The Group's business profitability model has undergone fundamental change, with the product mix enriched from single iron ore products to a diversified product portfolio comprising iron ore concentrates, nickel ore, ferronickel and gold. With the ongoing fluctuations in the mining sector, prices of mineral products such as iron ore are likely to continue to be depressed. The Group will seize opportunities to implement the following strategic measures by adopting innovative ideas and initiatives:

1. Development strategy of new projects. According to the strategic positioning, the Group will seek new point of growth of core business on the principle of "excellent quality, low cost and quick return". Gold mines and strategic mineral resources will become the priority choice for the Company's merger and acquisition investment. In particular, the Group will focus on the significantly undervalued mine assets and carry out acquisition and merger of new projects on the best endeavor basis. The Group will give priority to the regions including Australia, America, Central Asia and certain regions of Africa with relatively stable political environment. The Group will stick to the principle of "operating at the lowest cost" and seize every opportunity for new projects with strategic value.

2. Optimization of asset portfolio of the Company. In response to market changes in the mining sector, the Group will seek for opportunities for acquisition and merger of new projects, and will at the same time consider rational optimization of its asset portfolio. Seizing the good time window of market opportunities, the Group will carry out separation or even disposal of certain existing non-core projects and assets, so as to reactivate existing assets and gain better revenue. Optimization of the asset portfolio of the Company in a dynamic way through disposal and acquisition of assets will improve the return on assets of the Group. The Group will catch the opportunity to lift the value of core assets from a low level to the top through acquisition, merger, restructuring and capital operation. We will actively upgrade the business operation of the Group to enhance corporate value.

3. Value realization strategy. Investment return on mining assets mainly comprises of (1) return derived from initial capital investment in project assets with profit earned through acquisition, merger, development, production and operation and sales of products; and (2) one-off return from capital investment in project assets through acquisition, merger, development, production and disposal of the projects. The whole value chain, however the return is derived, can be summarized as a process of "discovering value, exploring value and realizing value". The Group will adopt different value growth models in a flexible way to deliver return to the Shareholders based on the project type and in light of the future market trend.

4. Development strategy of each business segment. As the essentially fundamental business segment of the Group, the iron ore business continues to focus on cost control, in an effort to improve the marginal profit for per metric ton of products and ensure certain scale of low-cost production, achieving maximum cash flow from operating activities. Gold business continues to be the key sector of our future development. It will continue to seek for quality targets for acquisition and merger, and implement development plan of new projects. Seizing the opportunities arising from the easing of restrictions on raw ore export by the Indonesia government and the gradual development of the local nickel market, the nickel business must achieve new breakthroughs and realize dramatic increase in sales within the coming two years, so as to drive the growth of our business. In addition, the Group will continue to reduce the debt level and expand financing channels, so as to reduce financial risks.

MARKET OUTLOOK

In 2016, as the PRC economy settled into the "new-norm" era featuring a mid-to-high rate of growth, the growth in global market demand for major mineral products significantly slowed down. With excessive supply of bulk mineral products such as iron ore, the market prices of these products will continue to fluctuate. Due to the new changes in the political landscape, the iron ore and certain non-ferrous metal markets started to bottom out since the end of last year. However, it is still too soon to tell if the round of market recovery will last.

1. Iron Ore Market

According to the statistics from relevant authorities, in 2016, China's output of crude steel was 808 million metric tons, representing a year-on-year increase of only 1.2% and accounting for 49.7% of the total output in the world. In 2016, the global output of crude steel was 1.628 billion metric tons, representing a slight increase over last year but significantly lower than the peak level recorded in 2014. China's crude steel output has no doubt entered into a stagnant phase. Despite that China remained the major consuming country of iron ore, it ceased to be the main driver for net growth in demand for iron ore and was losing steam as a powerhouse for driving growth in global demand for iron ore. According to the forecast issued by the relevant authority, China's pig iron output will reach 750 million metric tons in 2017, and demand for finished iron ore products will amount to 1.23 billion metric tons, representing a year-on-year increase of only about 1.5%, among which the demand for imported iron ore will continue to exceed one billion metric tons. Based on the newly built production capacity of 100 million metric tons of the six largest iron ore groups (Vale S.A., Rio Tinto, BHP Billiton, FMG, Anglo American and Roy Hill) in the world last year, it is projected that their production capacity in the coming two years will increase by over 50 million metric tons, and the supply of iron ore will become increasingly excessive in 2017. Therefore, the current rally in the iron ore price is unlikely to last, delivering great downward pressure on the iron ore price in 2017.

2. Gold Market

Gold is a special metal, with triple attributes of "currency, investment and commodity", and has been favored and sought after by mankind. Given that the Fed has embraced the cycle of interest rate hike and due to the continuously strong US dollar against other currencies, the gold price kept fluctuating between the middle and low ranges in 2016, currently staying at the level of around US$1,220/ounce. In 2017, the US Dollar index, consumption growth and cost structure will become the primary factors affecting the gold price. Though the US dollar index movement is the most direct cause for the volatility in gold price, in the long run, the production cost structure of gold will provide great support to the gold price. Currently, the cash costs for most major gold mining enterprises have reached the peak level of US$1,000/ounce. The increasing overhead costs will erode the profitability of the gold mining manufacturers, forcing the mines to reduce or suspend production or cut investments. This will lead to decrease in gold output, resulting in a shortage of supply in the gold market, which will drive the gold price to pick up. In the short term, the gold price still faces downward risk.

3. Nickel Market

In recent years, the nickel laterite pyrometallurgical technology has been developed by leaps and bounds, and is widely used in the production of nickel pig iron (NPI) products with different nickel metal content. Nickel metal prices kept falling after reaching a record high in 2008, now staying at around US$10,000 per metric ton. The market price of nickel metal has been volatile since Indonesia prohibited the export of nickel laterite ore two years ago. Despite notable changes in nickel ore supply market, there was no obvious shortage in nickel metal supply in 2016 due to previous stocks and additional nickel laterite export from the Philippines. As a result, the price of nickel metal fell back to the level of US$10,000 per metric ton after a temporary climb in early 2016. China's crude stainless steel output amounted to 24.94 million metric tons last year, representing an increase of 15.6% on a year-on-year basis. Such strong growth will certainly drive the market demand for nickel metal.

SOCIAL RESPONSIBILITY

Under the leadership of the HSEC (Health, Safety, Environmental Protection and Community) Committee of the Board, the Group streamlined the management structure of each business sector in 2016 with an aim to improve the management systems regarding health of the employees, safety production, environmental protection and harmonious community-enterprise relationship as well as enhance the Company's ability in performing its social responsibilities, so as to ensure the implementation of the business philosophy of "safety, community harmony and green mine" and provide a solid foundation for promoting the Group's diversification development strategy.

In 2016, the Group further improved the safety production and environmental protection responsibility system of the mines, enhanced the employees' awareness of safety and environmental protection, eliminated major or serious safety accidents and environmental pollution incidents, and maintained good records of safety and environmental protection. While making efforts in maintaining a good relationship with the communities and governments, the Group was also actively involved in welfare activities of the communities, and provided assistance to the communities within its power. Through training and education, the Group continued to improve the construction of soft environment of mines and strengthen the employees' sense of social responsibility.

In accordance with the established corporate vision, the Group will make efforts in building itself into a modern international mining enterprise which is "accredited by shareholders, favored by employees and trusted by society", create sustained returns for the Shareholders, and continue to make new contributions to the society.

APPRECIATION

On behalf of the Board, I hereby wish to express my heartfelt thanks to the management and all staff of the Group for their great efforts and contributions over the past year, and express my sincere gratitude to all the Shareholders, intermediate agencies, government agencies and business partners for their support and trust.

Mr. Yang Jiye
Chairman of the Board

MANAGEMENT DISCUSSION AND ANALYSIS


强化安全


MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW[1]

1. Substantial increase in gold dore output and sales volume

The Southern Cross Operation Gold Project of China Hanking Holdings Limited (the "**Company**" and its subsidiaries, the "**Group**") located in Western Australia (the "**SXO Gold Project**"), which started commercial production in August 2015, achieved a substantial increase in gold output and sales volume through optimizations of production plans. As of 31 December 2016, the total gold production of SXO Gold Project[2] was 121,456 ounces (2015: 58,887 ounces), representing a year-on-year increase of 106%, while the total amount of gold sold was 121,032 ounces (2015: 56,044 ounces), representing a year-on-year increase of 116%.

Gold Dore Pouring

2. Significant increase in the value of the gold business

By seizing favorable market conditions, the Company closed a deal quickly for acquisition of the SXO gold asset at the price of AUD$19.7 million in 2013. Through extensive exploration and development, the SXO Gold Project was successfully put into commercial production and achieved multifolded growth in its market values. Again the Company used a favorable market window to sell the SXO asset at the sale price based on the enterprise value of AUD330 million. The Company will realize multi-time returns for our shareholders within a merely 3-year investment cycle.

3. Improvement in profitability of the iron ore business

In 2016, production costs were significantly reduced and production efficiency was also improved in our iron ore business through technology improvements and optimization of production systems. Of which, the output of iron ore concentrates from Maogong Mine, the key low-cost mine of the Group, recorded a significant increase of 30.35%, leading to dramatic decrease in average production cost of iron ore concentrates and significant increase in the profit margin of iron ore concentrates. In 2016, the average cash operation costs of iron ore concentrates decreased to RMB260/metric ton (2015: RMB317/metric ton), representing a year-on-year decrease of 18.00%.

1 In this report: 1) cost data is unaudited as they are not disclosure required to be made in accordance with the International Accounting Standard; 2) for conversion of AUD into RMB, data in the balance sheet was converted at an exchange rate of 5.0157 as recorded on 31 December 2016, while the other data was converted at an average exchange rate of 4.8717.

2 According to the cooperation agreement entered into by the two parties thereto which established the partnership named "Hanking Gold Mining Alliance", the volume of production and sales of Hanking Gold Mining Alliance were accounted to Hanking Gold, while profit was distributed between Hanking Gold and PNP on a profit-sharing basis.

4. Continuous improvement in management

   In 2016, by simplifying operation process and fine-tuning production, coupled with strict capital and financing cost control, the finance costs of the Group for the year decreased by approximately 18.16% year-on-year, and the administration expenses recorded a year-on-year decrease of approximately 21.12%.

5. Continuous increase in resources

   In 2016, with the implementation of systematic mineralizing condition assessment and drilling activities, the resources and reserves of gold were significantly increased. As of the end of 2016, the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 Edition) (the "JORC Code")-compliant resources of Hanking Gold Mining Pty Ltd ("Hanking Gold") amounted to 34,720 thousand metric tons with an average grade of 4.1 g/t, containing 4,570 thousand ounces of gold, representing a year-on-year increase of 50.63%. The JORC Code (2012)-compliant reserves increased to 8,740 thousand metric tons with an average grade of 3.4 g/t, containing 960 thousand ounces of gold, representing a year-on-year increase of 62.16%.

GOLD BUSINESS

In 2016, the performance of gold price was volatile with ups and downs, which can be roughly divided into three phases. The first phase saw a rally in gold price. The international gold price started to bottom out following a quarter of decline as the Federal Reserve Board (FRB) embarked on another tightening cycle at the end of 2015, which marked the first interest hike in nearly 10 years since 2006. The global stock market witnessed a universal slump in January and February 2016, with the S&P index dropping over 10% in just one month, while the VIX index soaring to 26%. The risk aversion drove surge in gold price in the international market. Subsequently, affected by the weakening US dollar index and expectation of interest hike by the FRB, the gold price went upward amidst fluctuations. The second phase witnessed a flight to safe haven assets driven by the black swan event of Brexit in June 2016 with significant increase in holdings of gold ETFs, which pushed the gold price to go upward and hover around at a high level. The third phase was characterized with a falling trend for two consecutive months after the US presidential election in November. Given that the fundamentals showed no significant change during the period, the decline in gold price was mainly attributable to the efforts made by the newly elected US President Donald Trump to improve infrastructure through fiscal stimulus with an aim to boost the US economy, which was expected to drive the domestic inflation and, in turn, the inflation level will cause the FRB to accelerate the pace of interest hike, resulting in higher costs for gold investment.

In 2013, the Company seized the favorable opportunity to acquire the 100% equity interests of the SXO Gold Project at the price of AUD19.7 million. The SXO Gold Project is 360 km east of Perth, Western Australia with extensive infrastructures including highways, railways, airport, water and electricity supplies, and wholly owns Marvel Loch Processing Plant (the "**Processing Plant**"). It owns mining licenses covering an area of 1,159 km^2, which included the gold ore belt with a length of 150 km and a total of 246 mine licences. Through exploration activities, the gold resources were increased from approximately 2.4 million ounces to approximately 4.57 million ounces, representing an increase of about 92%, while the reserves were increased from zero to approximately 0.96 million ounces. Through feasibility study, the mine that was under care and maintenance at the time was gradually put into construction and production. After over three years of operation, an annual production volume of over 0.12 million ounces was achieved. On 15 February 2017, the Company and the other vendors entered into a binding share sale agreement with the purchaser (Shandong Tianye Group Bid Co Pty Ltd) and the guarantor (Shandong Tianye Real Estate Development Group Co., Ltd., the ultimate holding company of the purchaser), pursuant to which the Company and the other vendors conditionally agreed to sell, and the purchaser conditionally agreed to purchase, 100% of the shares in Hanking Australia at a purchase price based on an agreed enterprise value of AUD330 million. An extraordinary general meeting will be held by the Company on 14 April 2017 to seek the approval of the shareholders of the Company on, *inter alia*, the disposal.

Marvel Loch Gold Project

1. Production Review

In 2016, the gold business of the Company achieved rapid growth:

1) In 2016, the sales revenue of the gold business amounted to RMB894,981,000 (2015: RMB292,532,000), representing a year-on-year increase of 205.94%, of which sales revenue of gold amounting to RMB893,483,000 (2015: RMB291,947,000), and sales revenue of silver amounting to RMB1,498,000 (2015: RMB585,000). Net profit amounted to RMB3,853,000 (2015: RMB50,276,000), representing a net profit margin of 0.43% (2015: 17.19%). The Earnings Before Interest, Taxes, Depreciation and Amortization ("**EBITDA**")[3] of the gold business was RMB327,077,000 (2015: RMB136,955,000), and the profit margin of EBITDA was 36.55% (2015: 46.82%).

2) The gold business was put into commercial production in August 2015, and the output of gold was significantly increased in 2016. In 2016, the gold business had three operating mines, while the rest were under maintenance. Cornishman Gold Mine and Axehandle Gold Mine adopts open-pit mining and Nevoria Gold Mine adopts underground mining. All ore mined were transported to Marvel Loch Processing Plant to be processed into gold dores which were then transported to Perth Mint to be refined for sale. After entering into the commercial production phase, the management of the gold business promptly solved the problems emerging from production process and operation such as the rainy weather and landslide, so as to ensure accomplishment of the expected production plan. As at 31 December 2016, a total of 121,456 ounces of gold was produced, representing a year-on-year increase of 106.25%.

3) The gold produced by the gold business was directly sold to Perth Mint in Australia. Meanwhile, in order to reduce the impacts on the production and operation of the gold business arising from fluctuations in gold price, Hanking Australia entered into the Gold Price Hedging Agreement, so as to secure a good selling price for part of the products using hedges. According to the market condition and the desire of long-term development of the project, Hanking Gold terminated the relevant price hedging agreement in August 2016. As of 31 December 2016, the sales volume of gold by Hanking Gold was 111,715 ounces (2015: 38,805 ounces), representing a year-on-year increase of 187.89%, and the average unit selling price was AUD1,643/ounce, representing a year-on-year increase of 6.21%.

	Sales volume of gold (ounces)			**Average unit selling price** (AUD/ounce)		
	2016	2015	Change	**2016**	2015	Change
Future trade	**50,638**	9,444	436.19%	**1,629**	1,662	-1.99%
Spot trade	**61,077**	29,361	108.02%	**1,652**	1,510	9.40%
Total	**111,715**	38,805	187.89%	**1,643**	1,547	6.21%

[3] The calculation of the EBITDA was based on earnings before taxes, plus depreciation and amortisation and provision for impairment.

MANAGEMENT DISCUSSION AND ANALYSIS

4) In 2016, as the collapse at the Cornishman Gold Mine in the first half of the year led to the decrease in output of gold ore with higher grade, Hanking Gold had to lease mobile processing equipments from independent third parties to process gold ores with lower grade. Due to the rainy weather in the second half of the year, the mining progress at the Axehandle Gold Mine was behind schedule. Being affected by the aforesaid factors, the production costs of the gold business increased in 2016, with the direct cash costs (C1) amounting to AUD923/ounce, and the all-in sustaining costs (AISC) amounting to AUD1,131/ounce.

The breakdown of C1 direct cash costs is as follows:

	2016	2015	Change
Open-pit mining	**271**	523	-48.18%
Underground mining	**197**	174	13.22%
Processing and maintenance	**386**	330	16.97%
Mine management costs (including costs for production safety and environmental protection)	**58**	105	-44.76%
Cash cost adjustments[4]	**12**	-370	-103.24%
Adjusted C1 Cash costs (AUD)	**923**	762	21.13%

- **Cornishman Gold Mine**

  Cornishman Gold Mine is located in the middle of the SXO Gold Project[5] and is 26 km away from the Processing Plant, with extensive infrastructures such as highways, electricity and water supplies. In accordance with the feasibility study, production at Cornishman South and North mining areas was suspended in February and July 2016 respectively, while production at Cornishman Middle mining area was suspended in April 2016 due to the landslide incident, which was expected to shift to underground mining in early 2017. Hanking Gold engaged Watpac Limited ("**Watpac**"), an independent third party mining company, to provide open-pit mining services such as drilling, blasting, loading, unloading and hauling. The ores mined were transported by an independent third party transportation company to the Processing Plant for further processing. The services shall comply with the requirements of the Australian laws regarding production safety and environmental production. As of 31 December 2016, a total of 664,460 metric tons (2015: 638,901 metric tons) of ores were mined, and the mining cost per metric ton was AUD127 (2015: AUD76).

4 Mainly adjustments made in respect of stripping adjustment during capital construction period
5 Please refer to Figure 1

- Axehandle Gold Mine

  Axehandle Gold Mine is located in the middle of the SXO Gold Project[6] and is 22 km away from the Processing Plant, with extensive infrastructures such as highways, electricity and water supplies. Open-pit mining is adopted for Axehandle Gold Mine, and Watpac (an independent third party mining company) was engaged to provide open-pit mining services. The ores mined were transported by an independent third party transportation company to the Processing Plant for further processing.

  Stripping at Axehandle Gold Mine commenced in November 2015, and gold ore mining activities commenced in May 2016. As of 31 December 2016, a total of 1,424,736 metric tons of ores were mined, and the mining cost per metric ton was AUD20.9.

- Nevoria Gold Mine

  Nevoria Gold Mine is located in the middle of the SXO Gold Project[7] and is 11 km away from the Processing Plant, with extensive infrastructures such as highways, electricity and water supplies. Hanking Gold collaborated with Pit n Portal Mining Service Pty Ltd. ("**PNP**", an independent third party) and set up a partnership named "Hanking Gold Mining Alliance". PNP provided underground mining services for Nevoria Gold Mine, while Hanking Gold provided aboveground management including logistics and gold ore processing. As of the end of December 2016, the ores mined from the underground mines of Nevoria were from the underground mines in Nevoria East. Development of the slope ramp for the underground mines in Nevoria West commenced in July 2016. Profit was distributed between Hanking Gold and PNP on a profit-sharing basis. For the underground mines in Nevoria East, 80% of the profit was for Hanking Gold and 20% was for PNP, while for the underground mines in Nevoria West, 87.5% of the profit was for Hanking Gold and 12.5% was for PNP. The ores mined were transported to the Processing Plant by an independent third party transportation company for further processing. As of 31 December 2016, a total of 423,182 metric tons (2015: 216,885 metric tons) of ores were mined, and the mining cost per metric ton was AUD56.4 (2015: AUD56).

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6 Please refer to Figure 1

7 Please refer to Figure 1

- Processing Plant

  The Processing plant is located in the middle of the SXO Gold Project[8] and is wholly-owned by Hanking Gold, which has extensive infrastructures such as highways, railways, electricity and water supplies, with an annual ore processing capacity of 2.4 million metric tons. The Processing Plant adopted the industry-proven gravity separation and Carbon in Pulp (CIP) production technique, and the gold will be moulded into gold dores at the smelting room of the Processing Plant before being delivered to Perth Mint to be refined for sale.

  In 2016, the oxide ores from the Axehandle Gold Mine resulted in increased pulp concentration in the leaching tank. The thickening of ore pulp reduced the liquidity of the activated carbon in the gold absorption and recovery process, thus lowered the processing capacity and recovery rate of the ores. Through numerous experiments, Marvel Loch Processing Plant found the best blending ratio between the primary ores from Nevoria Gold Mine and the oxide ores from the Axehandle Gold Mine, and removed the viscous minerals from the oxide ores using portable sieving equipment, so as to effectively solve production problems and accomplish the expected production plan. As of 31 December 2016, the Processing Plant processed a total of 1,757,935 metric tons (2015: 993,360 metric tons) of ores with a recovery rate of 91% (2015: 90%), producing a total of 121,456 ounces (2015: 58,887 ounces) of gold, which represented a year-on-year increase of 106%, at the mining cost of AUD26.54/metric ton of ores (2015: AUD24.18/metric ton of ores).

Marvel Loch Processing Plant

[8] Please refer to Figure 1

2. Continuous Increase in Gold Resources and Reserves

In 2016, the major increases in resource and reserve were achieved by Hanking Gold, together with its contractors and independent consultants, through successful exploration programs, interpretation of the new and existing geological data, and implementation of drilling activities at Yilgarn Star, Copperhead, Cornishman and Edwards Find North gold mines. As of the end of 2016, the total JORC Code-compliant resources of Hanking Gold (see Table 2) were increased to 34,720 thousand metric tons with an average grade of 4.1 g/t for a total of 4,570 thousand ounces of gold resources, representing a year-on-year increase of 50.63%, while the JORC Code (2012) compliant reserves (see Table 2) were increased to 8,740 thousand metric tons with an average grade of 3.4 g/t for a total of 960 thousand ounces of gold resources, representing a year-on-year increase of 62.16%.

Table 1 JORC Code-compliant resources of Hanking Gold as of the end of 2016
(The gold produced as of 31 December 2016 has been deducted)

		Measured			Indicated			Inferred			Total		
		Ore	Grade	AU	Ore	Grade	AU	Ore	Grade	AU	Ore	Grade	AU
Project	**Deposit**	*(KT)*	*(g/t)*	*(Koz)*	*(KT)*	*(g/t)*	*(Koz)*	*(KT)*	*(g/t)*	*(Koz)*	*(KT)*	*(g/t)*	*(Koz)*
Axehandle-Cornishman	Axehandle	1,793	2.7	153	948	2.5	76	409	2.1	28	3,150	2.5	257
	Cornishman	620	5.1	101	535	5.1	88	434	5.5	77	1,589	5.2	266
	Sub-total	2,413	3.3	254	1,483	3.4	164	843	3.9	105	4,739	3.4	523
Nevoria		–	–	–	3,320	3.3	355	240	4.5	35	3,560	3.4	390
Yilgarn Star		2,582	5.9	490	1,849	6.3	377	707	6.1	139	5,139	6.1	1,006
Copperhead		–	–	–	3,116	5.3	529	417	4.6	62	3,533	5.2	590
Frasers-Transvaal	Transvaal	–	–	–	1,630	4.7	249	1,800	4.9	286	3,430	4.8	535
	Frasers	–	–	–	1,117	4.6	165	1,474	6.1	289	2,591	5.5	454
	New Zealand Gully	–	–	–	64	7.5	16	46	5.9	9	110	6.8	24
	Ruapehu	–	–	–	52	8.5	14	358	4.0	46	410	4.6	60
	Sub-total	–	–	–	2,863	4.8	444	3,678	5.3	630	6,541	5.1	1,073
Marvel Loch-Jaccoletti	Marvel Loch	287	3.1	29	2,930	3.2	299	1,400	2.5	112	4,617	3.0	440
	Joccoletti	–	–	–	852	4.5	124	298	3.1	30	1,150	4.2	154
	Sub-total	287	3.1	29	3,782	3.5	423	1,698	2.6	142	5,767	3.2	594
Edwards Find	Edwards Find	–	–	–	364	3.1	37	261	2.3	19	625	2.8	56
	Edwards Find North	–	–	–	641	2.4	49	227	1.6	12	868	2.2	61
	Tamarin	–	–	–	117	1.8	7	361	1.3	15	478	1.4	22
	Sub-total	–	–	–	1,122	2.6	93	849	1.7	46	1,971	2.2	139
GVG	GVG	–	–	–	1,494	2.3	111	8	2.1	1	1,502	2.3	111
	Zeus	–	–	–	–	–	–	469	2.0	30	469	2.0	30
	Sub-total	–	–	–	1,494	2.3	111	477	2.0	30	1,971	2.2	141
Redwing		–	–	–	–	–	–	1,400	2.4	108	1,400	2.4	108
Stockpile		98	1.1	4	–	–	–	–	–	–	98	1.1	4
Total		5,380	4.4	777	19,029	4.1	2,495	10,309	3.9	1,297	34,719	4.1	4,568

Note: Data shown in the table above covered the data of various deposits of the SXO Gold Project, among which, the data of the Redwing Gold Deposit are extracted from the resource estimate report signed by Mr. J F Brigden, the resource geologist of Sons of Gwalia Ltd., who is the competent person for the JORC Code-compliant resource estimate. The data of Axehandle, Frasers, Cornishman and Yilgarn Star are extracted from the resource estimate report signed by Dr. Shi Bielin, a senior resource geologist, in accordance with the JORC Code (2012). Dr. Shi Bielin is a member of both AusIMM and AIG, and has extensive experience in such type of gold mines at the SXO Gold Project. The data of Jaccoletti Gold Deposit are extracted from the resource estimate report signed by Mr. David Slater, a senior resource geologist of SRK Consulting, in accordance with the JORC Code (2012). Mr. David Slater is a member of both AusIMM and AIG. The data of Copperhead are extracted from the resource estimate report signed by Mr. Brian Fitzpatrick, a senior resource geologist of CUBE Consulting, in accordance with the JORC Code (2012). Mr. Brian Fitzpatric is a member of AusIMM. The data of other mines are extracted from the resource estimate report issued by St Barbara Mining Ltd. ("SBM") in 2012. The report was signed by Mr. Phillip Uttley, the chief geologist of SBM, in accordance with the JORC Code. Mr. Phillip Uttley is a member of AusIMM and has extensive experience in such type of gold mines at the SXO Gold Project.

Table 2 JORC Code-compliant reserves of Hanking Gold as of the end of 2016

Deposit	Resource Category	Ore Tonnage *(KT)*	Grade AU *(g/t)*	Contained Gold *(Koz)*
Frasers	Proved	–	–	–
	Probable	340	3.4	37
	Total	340	3.4	37
Aquarius	Proved	–	–	–
	Probable	616	3.3	65
	Total	616	3.3	65
Axehandle	Proved	1,627	2.4	128
	Probable	479	2.5	39
	Total	2,106	2.5	167
Edwards Find North	Proved	–	–	–
	Probable	327	2.7	28
	Total	327	2.7	28
Yilgarn Star Pit	Proved	1,547	2.9	144
	Probable	–	–	–
	Total	1,547	2.9	144
Sub Total Open Pit	Proved	3,174	2.6	272
	Probable	1,762	3.0	170
	Total	4,936	2.8	442
Nevoria Underground	Proved	–	–	–
	Probable	762	4.2	102
	Total	762	4.2	102
CNC Underground	Proved	–	–	–
	Probable	473	4.3	65
	Total	473	4.3	65
Frasers South Underground	Proved	–	–	–
	Probable	550	4.5	80
	Total	550	4.5	80
Jaccoletti Underground	Proved	–	–	–
	Probable	988	3.5	111
	Total	988	3.5	111
Yilgarn Star Underground	Proved	–	–	–
	Probable	937	5.1	155
	Total	937	5.1	155
Sub Total Underground	Proved	–	–	–
	Probable	3,710	4.2	513
	Total	3,710	4.2	513
Stockpile		98	1.1	4
Total	Proved	3,272	2.6	276
	Probable	5,472	3.8	683
	Total	8,744	3.4	959

Note: The reserve data of Cornishman Frasers Aquarius as shown in the table above are extracted from the reserve report signed by Mr. Shane McLeay, a senior mining engineer of Entech Pty Limited, in accordance with the JORC Code (2012). The reserve data of Axehandle open-pit, Yilgarn Star open-pit and Edwards Find North are extracted from the reserve report signed by Mr. Charles Hastie, the chief mining engineer of Hanking Gold, in accordance with the JORC Code (2012). The reserve data of Nevoria are extracted from the reserve report jointly signed by Mr. Matthew Bellamy of PNP and Mr. Charles Hastie of Hanking Gold in accordance with the JORC Code (2012). The reserve data of Frasers underground, Jaccoletti underground, Cornishman underground and Yilgarn Star underground are extracted from the resources report signed by Mr. Troy Flannery of Hanking Gold in accordance with JORC Code (2012). All the signatories of the reserve reports prepared in accordance with JORC Code (2012) are members of AusIMM and have extensive experience in such type of gold mines.

Table 3 Summary of exploration works conducted in 2016

Project	Type	Number	downhole meters
Jaccoletti	RCD	4	1,398.9
	RC	48	10,445
Nevoria	RCD	9	2,653.4
	RC	7	1,658
	DD	12	1,272.9
Copperhead	RCD	4	1,658.2
	RC	2	422
Redwing	RC	92	8,446
Yilgarn Star	RC	34	3,834
Edwards Find	RC	4	374

- JORC Code-compliant resources and reserves of Yilgarn Star Gold Mine

  Yilgarn Star Gold Mine is located 22 km southeast of Marvel Loch Processing Plant, and is of nearly north-south trending. The main deposit extends over 2 km in strike length, with the main gold mineralisation occurring along the metasediments and ultrabasic lava contact. Mining activities at Yilgarn Star Gold Mine commenced in 1991, and the production has been suspended since 2003, with the total amount of gold produced amounted to 1,091,707 ounces. Hanking Gold carried out a reverse circulation drilling program for 3,834 m in the northern area of Yilgarn Star Gold Mine in mid 2016, based on the diamond hole drilling program for 10,129.54 m carried out by St Barbara Mining Ltd. from 2015 to 2016, Hanking Gold engaged DW Resources Technology for a resource estimate. The resource of Yilgarn Star Gold Mine was estimated at 5.14 million metric tons at an average grade of 6.1 g/t for a total of 1,006,000 ounces of gold. On the basis of the above resource estimate, Hanking Gold conducted feasibility study for open-pit mining and underground mining at Yilgarn Star Gold Mine. As of the end of December 2016, the JORC Code (2012) compliant open-pit reserves of Yilgarn Star Gold Mine amounted to 144,000 ounces at a diluted grade of 2.9 g/t, while the JORC Code (2012) compliant underground reserves of Yilgarn Star Gold Mine amounted to 155,000 ounces at a diluted grade of 5.1 g/t.

- JORC Code-compliant resources of Copperhead (Bullfinch)

  Copperhead (Bullfinch) is located 35 km north of the South Cross region[9]. Gold mineralisation at Copperhead is associated with multiple, 340° oriented ductile shear zones, varying in width up to 10 m wide, including the Northern Series and Southern Series lodes. A total of 1.5 million ounces of gold was produced, making it second only to the Marvel Loch gold mine in the Southern Cross Greenstone Belt. Following a geological program completed in June 2016, Hanking Gold engaged Mr. Brian Fitzpatrick of Cube Consulting for a resource estimate on Copperhead in accordance with JORC Code (2012). The

[9] Please refer to Figure 1

resource was estimated at 3.53 million metric tons at an average grade of 5.2 g/t for a total of 590,439 ounces of gold. The resource was reported at a cut-off grade of 3 g/t and on a remaining and in-situ basis, and previous production has been deducted from the estimate. It should be noted that approximately 90% of the aforesaid resource are in the indicated category. Feasibility study is undertaken by Hanking Gold. Also the deepest holes indicated gold mineralization extending up to 1 km down below the ground and there must be more ore bodies deep down since the it did not show an end.

- JORC Code-compliant resources and reserves of Jaccoletti Gold Mine

  Jaccoletti Gold Mine is located 1.5 km west of Marvel Loch Processing Plant, with extensive infrastructures such as highways, electricity and water supplies[10]. Mining activities at Jaccoletti Gold Mine commenced in 1990 and ceased in 1998, with a total of 87,000 ounces of gold produced. Following an exploration program including reverse circulation holes and diamond holes for 11,843.9 m at Jaccoletti completed in early 2016, Hanking Gold engaged Mr. David Slatter of SRK Consulting for a resource estimate in accordance with JORC Code (2012). As of the end of December 2016, the resources of Jaccoletti Gold Mine amounted to 1.15 million metric tons at a grade of 4.2 g/t for a total of 154,000 ounces of gold. The resource was reported at a cut-off grade of 2.0 g/t. On the basis of the above resource estimate, Hanking Gold conducted a feasibility study for underground mining. The JORC Code (2012) compliant underground reserves of Jaccoletti amounted to 111,000 ounces at a diluted grade of 3.5 g/t.

- JORC Code-compliant resources and reserves of Edward's Find North Gold Deposit

  Edward's Find North gold deposit is located 2 km north of Edward's Find Gold Mine[11]. It was discovered in the early 1990s and subsequently drilled by various owners and have never been mined. The JORC Code-compliant resources of Edward's Find North gold deposit was estimated based on data from 15,558 metres reverse circulation hole and diamond drilling in 229 holes. Hanking Gold had completed a feasibility study for open-pit mining recently, and an open-pit reserve of 28,000 ounces of gold from 327,000 metric tons of ore at a diluted grade of 2.7 g/t was estimated in accordance with the JORC Code (2012).

- Underground reserves of Cornishman

  Cornishman Gold Mine is part of the Axehandle-Cornishman mineralized structure system. Through exploration programs, Hanking Gold increased the JORC Code-compliant resource at Cornishman from 17,000 ounces at acquisition in 2013 to 343,000 ounces in 2015 and Axehandle resources from 120,000 ounces at acquisition in 2013 to 301,000 ounces in 2015. Following the successful open-pit mining at Cornishman, while ramping up open pit mining at Axehandle, Hanking Gold conducted a feasibility study for underground mining at Cornishman. Cornishman underground mine is designed to enter from the north wall of Cornishman Middle mining area. A total of 65,000 ounces of underground reserve in 473,000 metric tons of ore at an average diluted grade of 4.3 g/t was estimated in the first stage of the plan. This made the current reserve for the Axehandle-Cornishman increased to 282,000 ounces of gold.

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[10] Please refer to Figure 1
[11] Please refer to Figure 1

3. Developments of gold mines

Hanking Gold completed the feasibility study for underground mining at Nevoria West in April 2016. The JORC Code-compliant reserves of the project amounted to 843,000 metric tons at a diluted grade of 3.7 g/t for a total of 100.2 thousand ounces of gold. According to the production plan of the Company, excavation of the slope ramp for the underground mines at Nevoria West has commenced in July 2016. As of the end of December 2016, a length of 410m of the slope ramp has been excavated. The designed mine life for the underground mines at Nevoria West is three years.

The capital expenditure of the gold business for 2016 amounted to RMB53,884,000 (as of 31 December 2015: RMB366,994,000), and the capital commitment was RMB172,163,000 (as of 31 December 2015: RMB21,274,000).

IRON ORE BUSINESS

In 2016, like steel, coking coal, coke and other black metals, the price of iron ore in China went up and down showing a three-phase trend of "up-down-up". From mid-December 2015 to late April 2016, the de-capacity measures implemented by the Chinese government and the revised forecast for capacity utilization of the downstream sectors supported the rebar price to go up, which in turn drove the iron ore price to surge. The increase in prices at this stage was mainly attributable to the supply-demand rebalance as a result of the implementation of de-capacity measures for the steel industry since 2015.

From mid-April to early-June 2016, prices of black metals including iron ores experienced a sharp fall, which was mainly attributable to the market's concern about the re-emergence of excess supply as supply was restored to a relatively high level due to the large-scale resumption of production at steel plants.

Steel price returned to the upward track from early-June to the end of 2016, while the iron ore price increased faster since October in line with the rising coking coal and coke prices and due to a shortage in high-grade iron ores. Such increase in price was attributable to the better-than-expected demand and rising costs of raw materials.

1. Operation review

The iron ore business continued to implement the strategy of adjusting production layout according to the market condition as proposed by the Board, and achieved significant increase in the iron ore concentrate output of its key mine – Maogong Mine. In 2016, the output of Maogong Mine was 846 thousand metric tons, representing a year-on-year increase of 30.35%, effectively improving the production output structure. Meanwhile, given that the 100% equity interest of Benxi Mine was transferred to an independent third party, the output of iron ore concentrates for 2016 decreased to 1,749 thousand metric tons (2015: 2,035 thousand metric tons), representing a year-on-year decrease of 14.07%.

MANAGEMENT DISCUSSION AND ANALYSIS

Maogong Mine

In 2016, given the "up-down-up" trend in iron ore price, the Group made efforts to expand sources of market price information, shorten market forecast period and strengthen the regular market dynamics reporting mechanism in light of the market conditions, and took proactive initiatives to explore new markets. Efforts were also made to enhance communication with the customers to ensure rapid response in production and marketing of products. In 2016, the sales amount of iron ore concentrates amounted to 1,790 thousand metric tons (2015: 2,022 thousand metric tons), representing a year-on-year decrease of 11.48%. The average selling price of iron ore concentrates was RMB453 per metric ton (2015: RMB458 per metric ton), representing a year-on-year decrease of 1.09%.

	For the year ended 31 December (thousand metric tons)		
	2016	2015	**Change**
Stripping amount	**6,458**	9,083	-28.90%
Output of iron ore	**5,573**	5,925	-5.93%
Output of iron ore concentrates	**1,749**	2,035	-14.07%
Sales amount of iron ore concentrates	**1,790**	2,022	-11.48%

Despite of the decrease in output and sales volume of iron ore concentrates, and as the Group improved the grade and recovery rate of the products through optimization of production structure and continuous technology upgrading and adopted various measures to control costs such as cutting costs and expenses, the production efficiency was improved and the production costs decreased significantly in 2016, with the average cash operation costs of per metric ton of iron ore concentrates decreasing to RMB260 (2015: RMB317), which represented a year-on-year decrease of 18.00%, enabling the Group to maintain its core competitiveness with lower costs in the industry.

	Cash operation costs of iron ore mines (RMB/metric ton of iron ore concentrate)		
	2016	2015	**Change**
Mining	**111**	140	-20.57%
Processing	**76**	94	-19.44%
Transportation	**21**	19	11.16%
Tax	**32**	34	-5.41%
Mine management	**20**	30	-34.23%
Total	**260**	317	-18.00%

In 2016, the revenue of iron ore business of the Company was RMB812,217,000 (2015: RMB927,219,000), representing a year-on-year decrease of 12.40%, the gross profit was RMB238,842,000 (2015: RMB206,003,000), the gross profit rate was 29.41% (2015: 22.22%), the net profit was RMB-167,396,000 (2015: RMB-365,793,000), net profit rate was -20.61% (2015: -39.45%), with an EBITDA[12] of RMB205,541,000 (2015: RMB212,352,000), representing a year-on-year decrease of RMB6,811,000. The profit margin of EBITDA was 25.31% (2015: 22.9%), representing an increase of 2.41 percentage points as compared with the previous year.

2. Operating mines

1) Maogong Mine

Maogong Mine is located in the township of Shiwen, Fushun County, Fushun City, and is operated by the Company through its subsidiary Maogong Mining. Maogong Mine owns mining licenses covering areas totaling 2.37 km^2, and has extensive infrastructures including paved roads, water and electricity supplies.

Processing Plant, Maogong Mine

In 2016, Maogong Mine was engaged in both open-pit mining and underground mining. For open-pit mining, efforts were made to ensure accomplishment of the open-pit output plan by accelerating stripping progress and optimizing pit shell. For underground mining, the mine made it possible for large-scale production by speeding up the safety production inspection and acceptance procedures for the phase one project of the

[12] The calculation of the EBITDA of iron ore business was based on earnings before taxes, plus depreciation and amortization, interest and provision for impairment.

underground work and making rational arrangement for multi-section and multi-procedure operation, so as to maximizing the efficiency of each mining section and achieve stable increase in underground mining ore output.

After completion of the phase one technology improvement in 2015, the annual output of iron ore concentrates by the processing plant of Maogong Mine was increased from 0.3-0.4 million metric tons to 0.85 million metric tons, with the grade of iron ore concentrates improved to 68% and the silicon content reduced to about 4%. In response to the problems emerged from the production, the mine implemented phase two technology improvement, with the main work completed as at the end of 2016. Through technology improvement, both the output and quality of iron ore concentrates were significantly improved in the second half of 2016. In 2016, the output of iron ore concentrates amounted to 846,000 metric tons, representing a year-on-year increase of 30.35%, at an average grade of 68.33%.

Maogong Mine	**For the year ended 31 December**		**Change**
	2016	2015	
Output of iron ore concentrates (thousand metric tons)	**846**	649	30.35%
Sales amount of iron ore concentrates (thousand metric tons)	**852**	652	30.76%
Mining costs (RMB per metric ton of iron ore concentrate)	**191**	208	-10.78%
Of which, underground mining by contractor*Note 1*	**98**	88	11.10%
Processing costs (RMB per metric ton of iron ore concentrate)*Note 2*	**125**	135	-7.33%
Government tax (RMB per metric ton of iron ore concentrate)	**31**	30	3.53%
Freight on sales (RMB per metric ton of iron ore concentrate)*Note 3*	**11**	11	-3.55%

Note 1: The increase of underground mining cost for per metric ton of iron ore concentrates by contractor was mainly due to the increase of drivage quantity.

Note 2: The decrease was mainly attributable to the technology improvement.

Note 3: The transportation service was provided by independent third parties.

In 2016, Maogong Mine focused on the shaft and drift development of the underground mining works, and the phase two technology improvement of the processing plant. As of 31 December 2016, the capital expenditure of Maogong Mine was RMB95,978,000, of which the expenditure for investment of fixed assets amounted to RMB80,403,000, and expenditure for projects under construction amounted to RMB7,842,000. The capital commitment amounted to RMB114,551,000.

2 **Aoniu Mine**

Aoniu Mine is located in the township of Hou'an, Fushun County, Fushun City, and is operated by the Company through its subsidiary Aoniu Mining. Aoniu Mine owns mining licenses covering areas totaling 1.8911 km^2 and has extensive infrastructures including paved roads, water and electricity supplies. Even faced the increasing difficulty for mining in the open-pit mining area and the increasing rate of dilution, Aoniu Mine enhanced management and implemented adequate production arrangement, and the output of Aoniu Mine in 2016 still achieved the budget target and produced 903 thousand metric tons, representing a year-on-year decrease of 17.31%.

In 2016, Aoniu Mine was engaged in both open-pit mining and underground mining. In 2016, open-pit mining focused on optimization of pit shell. In light of the existing condition of the open pit, unnecessary stripping work was skipped. An independent third party was engaged to undertake the underground mining establishment/development works and underground mining. In 2016, efforts were focused on production management of underground mining. Geological technicians inspected the mining sites to promptly mark the ore body boundaries and rock condition and gave instructions for shaft and drift development. The development of exploration drift with a length of 32 metres and the logging of shaft-drift with a length of 2,688 metres were completed.

Aoniu Mine has two processing plants. In 2016, the processing workshop launched the equipment maintenance plan and equipment inspection system, so as to ensure smooth operation of all equipment. The average grade of iron ore concentrates produced in 2016 was 69.49%. Efforts were made to improve product quality and strengthen cost control, so as to better meet the market needs.

Processing Plant, Aoniu Mine

Aoniu Mine	**For the year ended 31 December**		**Change**
	2016	2015	
Output of iron ore concentrates (thousand metric tons)	**903**	1,092	-17.31%
Sales amount of iron ore concentrates (thousand metric tons)	**906**	1,081	-16.22%
Mining costs (RMB per metric ton of iron ore concentrate)	**130**	129	0.87%
Of which, underground mining by contractor*Note 1*	**47**	35	35.70%
Processing costs (RMB per metric ton of iron ore concentrate)	**100**	96	3.74%
Government tax (RMB per metric ton of iron ore concentrate)	**33**	33	0%
Freight on sales (RMB per metric ton of iron ore concentrate)*Note 2*	**31**	27	14.69%

Note 1: The increase of underground mining cost for per metric ton of iron ore concentrates was attributable to the decrease in the production volume of iron ore concentrates and the increase in the volume of underground mining ores.

Note 2: The transportation service was provided by independent third parties. In 2016, some of the iron ore concentrates were sold from Aoniu Mine to the new customers which located in further area and required more cost of transportation.

In 2016, the capital expenditure of Aoniu Mine was RMB47,874,000, of which investments for infrastructure projects amounted to RMB6,208,000, expenditure for acquisition of lands amounted to RMB39,564,000, and expenditure for property, plant and equipment amounted to RMB2,103,000. The capital commitment amounted to RMB160,000.

3) Benxi Mine

Benxi Mine is located in Pingshan District, Benxi City, and is operated by the Company through its subsidiary Benxi Mining. Benxi Mine owns mining licenses covering areas of 0.25 km^2, and has extensive infrastructures including paved roads, water and electricity supplies. In light of the market price of iron ore concentrates, it is not economically viable to carry on production at Benxi Mine, thus the production of the mine was suspended.

On 7 July 2016, Aoniu Mining, a wholly-owned subsidiary of the Company, entered into the Equity Interest Transfer Agreement with the purchaser, with an aim to focusing on developing and operating the Group's quality resources. Pursuant to the Equity Interest Transfer Agreement, Aoniu Mining agreed to transfer 100% equity interest in Benxi Mining to the purchaser at a cash consideration of RMB1. Loss on disposal of the equity interest amounted to RMB47,194,000, including loss from equity investment and loss of debts. Benxi Mining ceased to be a subsidiary of the Company from July 2016.

4) Xingzhou Mine

Xingzhou Mine is located in Dongzhou District, Fushun City, and is operated by the Company through its subsidiary Xingzhou Mining. Xingzhou Mine owns mining licenses covering areas of 0.94 km^2, and has extensive infrastructures including paved roads, water and electricity supplies. Xingzhou Mine has two processing plants with an annual iron ore processing capacity of 1.5 million metric tons. Against the backdrop of continuously decreasing price of iron ore concentrates and in order to improve productivity and facilitate sustainable development, production at Xingzhou Mine was suspended in 2016 in light of the market condition.

5) Shangma Mine

Shangma Mine is located at the center of the iron ore belt in Fushun City, which is situated between Aoniu Mine and Xingzhou Mine, serving as a link connecting the two major mines. Shangma Mine owns mining licenses covering areas of 4.98 km^2. Given the large areas of land taken by open-pit mining and the higher mining costs of Shangma Mine, production at Shangma Mine was suspended in 2016.

3. Iron ore resources and reserves

1) Iron ore resources and reserves

In 2016, Aoniu Mine completed 4 drilling holes and drilled 1,152.18 meters. Exploration expenditure was RMB382,851. Maogong Mine completed 1 drilling holes, and drilled 275 meters. Exploration expenditure was RMB85,250.

As of the end of 2016, the Group owned 231 million metric tons of iron ore resources. The decrease in such resources as compared with that as at the end of 2015 was mainly attributable to the resources owned by Benxi Mine which has been sold and the decrease in the resources of Aoniu Mine. The increased amount of iron ore resources through exploration activities for each mine and the amount of iron ore resources of each mine as at the end of 2016 were as follows:

MANAGEMENT DISCUSSION AND ANALYSIS

Mines	Resources category	Increased amount for 2016 (metric ton)	Resources amount at the end of 2016 (metric ton)	TFe (%)
Aoniu Mine	Indicated[Note 1]	0	16,867,299	31.6
	Inferred[Note 2]	0	20,610,590	31.89
Subtotal of Aoniu Mine		0	37,477,889	31.75
Maogong Mine	Indicated	800,429	30,610,352	32.29
	Inferred	206,786	6,134,851	30.15
	Inferred*	0	217,700	22.47
Subtotal of Maogong Mine		1,007,215	36,962,903	31.72
Xingzhou Mine	Indicated	0	32,956,373	30.88
	Inferred	0	27,779,010	30.65
	Indicated*	0	63,722,270	22.76
Subtotal of Xingzhou Mine		0	124,457,653	26.67
Shangma Mine	Indicated	0	8,122,403	31.07
	Inferred	0	23,727,200	30.56
Subtotal of Shangma Mine		0	31,849,603	30.73
Total[Note 3]	Indicated	800,429	88,556,427	31.21
	Inferred	206,786	78,251,651	30.78
	Indicated*	0	63,722,270	22.76
	Inferred*	0	217,700	22.47
Total resources		1,007,215	230,748,048	28.7

* *Represents low-grade ore body*

Note: With the estimation of iron ore resources, firstly, the industrial parameters were determined in accordance with the requirements of the general standard of the geological exploration profession in the PRC "Geological and Exploration Standards for Iron, Manganese and Chrome Deposits" (DZ/T0200-2002); and then the "Geological Block" method was selected based on the geological characteristics of the ore bodies to estimate the amount of ore resources using the volume and specific gravity of ore body in each block. The resources category classification is based on the extent of geological exploration work carried out and comparable to the JORC Code.

Note 1: The resources amount at the end of 2016 includes approximately 11,364 thousand metric tons of the resources amount which does not shown on the mining licenses;

Note 2: The resources amount at the end of 2016 includes approximately 16,164 thousand metric tons of the resources amount which does not shown on the mining licenses;

Note 3: The resources amount at the end of 2016 includes portion of the resources amount which does not shown on the mining licenses.

As of the end of 2016, the Group owned 155 million metric tons of JORC Code-compliant iron ore reserves. The decrease in such reserves as compared with that as at the end of 2015 was mainly attributable to the disposal of Benxi Mine and the decrease in the reserves of Aoniu Mine. The increased amount of iron ore reserves for each mine and the quantity of iron ore reserves of each mine as at the end of 2016 were as follows:

Mines	**Reserves category**	**Increased amount for 2016 (metric ton)**	**Reserves at the end of 2016 (metric ton)**	**TFe (%)**
Aoniu Mine	Probable Ore Reserve	0	5,503,260	25.27
Maogong Mine	Probable Ore Reserve	1,007,215	30,610,352	26.93
	Probable Ore Reserve*	0	72,567	22.47
Xingzhou Mine	Probable Ore Reserve	0	42,216,043	26.49
	Probable Ore Reserve*	0	63,722,270	19
Shangma Mine	Probable Ore Reserve	0	12,440,303	25.90
Subtotal	Probable Ore Reserve	1,007,215	90,769,958	26.05
	Probable Ore Reserve*	0	63,794,837	19.45
Total	Probable Ore Reserve+			
	Probable Ore Reserve*	1,007,215	154,564,795	23.72

* *Represents low-grade ore body*

Note: In accordance with the JORC Code, ore reserves are the economically mineable portion of the exploration obtained resources, and are determined based on mine feasibility study as well as actual operation parameters from the operations of relevant mines.

NICKEL BUSINESS

In 2016, nickel price bottomed out following a declining trend in 2015, with its annual growth rate ranking among the best of base metals. In June 2016, the Philippine government implemented remedial measures towards the mines with severe pollution problems in the country. As of December 2016, more than 30 mines in the country were closed due to pollution problems, which almost covered over 50% of the nickel production capacity in Philippines. Due to the significant decrease in nickel supply, the international nickel price went up amidst fluctuations. On the other hand, the supply-side reform implemented in China boosted the prices of black metals to surge, while the downstream stainless steel price gradually picked up in line with rising costs. Due to the combined effect of upstream and downstream factors, the global nickel price surged up, with the nickel price once reaching a peak of US$12,145/metric ton, recording a new high since July 2015.

The Company acquired the 52.5% equity interests of laterite nickel project located in North Konawe Regency, Southeast Sulawesi, Indonesia (the "Nickel Project") in the first half of 2013. As of the end of 2016, the nickel business of the Company has a JORC Code-compliant resources of 350,925 thousand metric tons of laterite nickel ore resources at the cut-off nickel grade of 1%, with an average nickel grade of 1.37%. Resource with nickel grade lower than 1% and iron grade higher than 45% (i.e. resources with high TFe and low Ni) amounted to 90,540 thousand metric tons, with an average TFe grade of 50.27%. Since the acquisition, the Company has made strenuous efforts to enhance its mining capacity and infrastructure construction, currently with an annual mining capacity of 5 million metric tons of ore.

On 12 January 2014, the Ministry of Energy and Mineral Resources (the "ESDM") issued a Minister of ESDM Regulation (No. 1 of 2015) (the "Regulation") to increase domestic minerals' additional value through domestic processing and refining, which imposed restrictions on export of extracted mineral products including from nickel mines in Indonesia. Since then, production from the nickel project has been suspended. Since the implementation of the Regulation, a number of companies in Indonesia began to operate nickel smelting plants to process nickel products in Indonesia. The rapid expansion of production capacity of nickel smelting has stimulated the demand for local nickel ore in Indonesia. In view of the above, the Board had decided to initiate the preparatory works to resume mining production from the nickel project since the first half of 2016. The nickel business has carried out the following tasks during 2016:

1. Cooperating with partners to develop and sell nickel ores

In 2016, the nickel business team had negotiated with a number of potential partners with the view of possible cooperation to develop nickel resources, and has achieved positive results. Subsequent to the year end, KS entered into a cooperation agreement with PT. Maha Bhakti Abadi, a company incorporated in Indonesia with limited liability and an independent third party.

2. Analyzing market trend to promote sales of ore stockpiles

Based on the market analysis conducted in 2016, KS entered into a nickel ore sale and purchase agreement with an independent third party subsequent to the year end, pursuant to which KS will sell 100,000 metric tons of nickel ores to the buyer at a total consideration of approximately US$1 million.

The Board believed that the entering into of the cooperation agreement and the nickel ore sale and purchase agreement marked the coming resumption of production and sales of the nickel project.

3. Reducing headcounts for improving efficiency and safeguarding the Company's assets

In order to reduce expenses incurred by the nickel business, the segment take measures to streamline post setting, resulting in a year-on-year decrease of 38% in labor costs. The business adopted the approach of giving employees multi-posts to ensure smooth operation, especially the validity of mining rights, forest and land use right and other government permits, so as to safeguard the Company's assets.

In 2016, being affected by the Regulation, production for the Group's nickel business was suspended. The expenses incurred for the Group's nickel business amounted to RMB24,956,000, representing a year-on-year decrease of 67.67%. The capital expenditure amounted to RMB16,741,000 (2015: RMB22,334,000), and the capital commitment was RMB0 (2015: RMB0).

SAFETY, ENVIRONMENTAL PROTECTION, EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2016, the Group had a total of 1,265 employees (as at 31 December 2015: a total of 1,837 employees).

As of 31 December 2016, the aggregate remuneration expenses and other employee benefits costs of the Group amounted to RMB112,503,000 (2015: RMB154,581,000). Employee costs included basic salary, commission and bonus, housing allowance, pension, medical insurance, occupational injury insurance and other insurances required by the government. In accordance with the remuneration policy of the Company, income of employees is related to the performance of individual employee and the operation performance of the Company. The Company carried out performance assessment to stimulate employee in initiatives, so as to enhance the operation performance of the Company.

In order to improve the overall quality and professional skills of the employees, the Group has developed and implemented the Administrative System on Training. During the reporting period, the Group has organized a number of internal and external trainings for its employees. For further details on this aspect, please refer to the Environmental, Social and Governance Report issued by the Company for the year 2016.

FINANCIAL REVIEW

1. Income, Cost of Sales and Gross Profit

For the year of 2016, the Group's revenue was RMB1,707,198,000, representing an increase of RMB487,447,000 or 39.96% over the corresponding period of last year, mainly due to: 1) an increase of RMB602,449,000 in revenue from the gold business over the corresponding period of last year as the gold business was in overall production for the whole year of 2016; 2) a decrease of RMB96,179,000 in revenue as compared to last year due to the disposal of Benxi Mine.

For the year of 2016, the Group's cost of sales was RMB1,411,618,000, representing an increase of RMB482,397,000 or 51.91% over the corresponding period of last year, mainly attributable to: 1) an increase of RMB630,138,000 in cost of sales of gold business after commencement of overall production in 2016; 2) a decrease of RMB140,693,000 in cost of sales as compared to last year due to the disposal of Benxi Mine.

For the year of 2016, the Group's gross profit was RMB295,580,000, representing an increase of RMB5,050,000 or 1.74% over the corresponding period of last year. Gross profit margin of the Group declined from 23.82% to 17.31%, which was mainly attributable to: 1) an increase in the overall cost of the gold business over the corresponding period of last year due to the landslide and the bad weather; 2) an increase in the overall gross profit margin of the iron ore business after the disposal of Benxi Mine.

2. Other Income and Expenses

For the year of 2016, the Group's other income was RMB18,768,000, representing a decrease of RMB14,621,000 or 43.79% over the corresponding period of last year. Other income mainly included interest income. Such decrease was mainly due to a decrease of RMB13,958,000 in interest income from bank loan deposit of the Group in 2016.

For the year of 2016, the Group's other expenses were RMB163,044,000, representing a decrease of RMB129,719,000 or 44.31% over the corresponding period of last year. Please refer to 5. Provision for Asset Impairment under the Financial Review for the main reason of the decrease. Other expenses consisted of provision for asset impairment, foreign exchange losses, loss from disposal of properties, plants and equipment, charity donation and other overheads.

3. Selling and Distribution Expenses and Administrative Expenses

For the year of 2016, selling and distribution expenses of the Group were RMB37,603,000, representing a decrease of RMB783,000 or 2.04% over the corresponding period of last year. Selling and distribution expenses consisted of transportation expenses, labour expenses and others.

For the year of 2016, administrative expenses of the Group were RMB182,048,000, representing a decrease of RMB48,738,000 or 21.12% over the corresponding period of last year, which was mainly due to a decrease of RMB46,317,000 or 27.15% in administrative expenses of the iron ore business over the corresponding period of last year. The main decreased expenses were labour costs of RMB21,575,000, relocation compensation of RMB13,000,000, bank charges of RMB5,500,000 and inventory depreciation reserves of RMB4,700,000. 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, bank charges, inventory depreciation reserves, accrued doubtful debt reserves and others.

4. Financing Costs and Income Tax Expense

For the year of 2016, financing costs of the Group were RMB138,576,000, representing a decrease of RMB30,743,000 or 18.16% over the corresponding period of last year. The decrease was mainly due to a decrease of RMB12,484,000 in interest expenses as a result of a decrease in bank borrowings, a decrease of RMB11,220,000 in discount interest expenses as a result of a decrease in discounting of bank acceptance bills, and a decrease of RMB7,271,000 in amortization of long-term payable discount charges as compared to last year. Financing costs included bank borrowing interest expenses, discount expenses and other financing expenses and the amortization of long-term payable discount charges.

For the year of 2016, the income tax expenses of the Group was RMB6,954,000, representing an increase of RMB12,611,000 over the corresponding period of last year. Income tax expenses included the total amount of current tax payable and deferred tax.

5. Provision for Asset Impairment

For the year of 2016, the provision for asset impairment of the Group was RMB57,678,000, representing a decrease of RMB180,953,000 over the corresponding period of last year, mainly because no impairment was identified on any other assets of the Group after testing during the year except the asset impairment provision of RMB61,197,000 of Xingzhou Mine, impairment provision on other receivables of RMB1,189,000 and reversal of the inventory impairment provision for last year of RMB4,708,000.

6. Gains and Losses on Changes in Fair Values of Available-for-Sale Financial Assets

For the year of 2016, aggregate gains on changes in fair values of available-for-sale financial assets and reclassification adjustment for cumulative gain included in profit or loss on disposal of the Group amounted to RMB6,142,000 and were recognised in other expenses under the comprehensive income. Such gains were mainly attributable to gains on changes in value of the shares of the Australian listed companies held by the Group of RMB7,432,000.

7. Profit and Total Comprehensive Income for the Period

Based on the reasons mentioned above, the loss of the Group for the period was RMB213,877,000, representing a decrease of RMB187,801,000 or 46.75% in loss over the corresponding period of last year.

Based on the loss for the period, and affected by the losses on changes in fair values of available-for-sale financial assets and foreign currency translation, the total comprehensive losses for the year of 2016 was approximately RMB169,123,000, representing a decrease of RMB260,421,000 or 60.63% in loss over the corresponding period of last year.

8. Properties, Plants and Equipment and Inventories

As of 31 December 2016, properties, plants and equipment of the Group were RMB1,381,364,000, representing a decrease of RMB128,731,000 or 8.52% over the end of last year. The decrease was mainly due to the disposal of Benxi Mine during the year.

As of 31 December 2016, inventories of the Group were RMB144,779,000, representing a decrease of RMB2,827,000 or 1.92% over the end of last year.

9. Trade and Other Receivables and Trade and Other Payables

As of 31 December 2016, trade receivables of the Group were RMB288,114,000, representing a decrease of RMB140,635,000 over the end of last year, mainly attributable to the decrease in balance of accounts receivable of the iron ore concentrates.

For the year of 2016, other receivables of the Group were RMB167,944,000, representing a decrease of RMB50,664,000 over the end of last year which was mainly due to a decrease of RMB31,702,000 in deposit for resource tax.

As of 31 December 2016, trade payables of the Group were RMB139,121,000, representing an increase of RMB29,120,000 over the end of last year. As of 31 December 2016, other payables of the Group were RMB328,912,000, representing a decrease of RMB96,659,000 over the end of last year, mainly due to a decrease in the balances as compared with the corresponding period last year as a result of the disposal of Benxi Mining.

10. Cash Use Analysis

The summary of the Group's consolidated statement of cash flows for the year of 2016 is set out below.

	For the twelve months ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net cash flows from operating activities	**594,335**	159,626
Net cash flows from investing activities	**(721,163)**	(566,152)
Net cash flows from financing activities	**94,112**	201,213
Net decrease in cash and cash equivalents	**(32,716)**	(205,313)
Cash and cash equivalents at the beginning of the period	**99,223**	299,587
Effect of changes in foreign exchange rate on cash and cash equivalents	**3,655**	4,949
Cash and cash equivalents at the end of the period	**70,162**	99,223

The net cash inflow from operating activities during the year of 2016 was RMB594,335,000. The amount was mainly attributed to the loss before tax of RMB206,923,000, together with depreciation and amortization of RMB525,770,000, the provision for asset impairment of RMB61,197,000, an increase of RMB36,146,000 in accounts payable, non-cash financial cost of RMB-15,513,000, foreign exchange losses of RMB31,452,000, losses from disposal of a subsidiary of RMB47,194,000, an increase of RMB129,308,000 in accounts receivable and was offset by interest income of RMB9,427,000.

For the year of 2016, the net cash outflow from investing activities amounted to RMB721,163,000. The amount mainly included the amount of RMB385,613,000 used in the acquisition of new plants and machine equipments, etc. and acquisition of properties in order to expand production capacity and improve technology, the amount of RMB64,945,000 used as consideration for the acquisition of intangible assets, the amount of RMB7,534,000 used in the acquisition of land and the amount of RMB400,000,000 used in the payment for available-for-sale financial assets.

For the year of 2016, the net cash inflow from financing activities was RMB94,112,000. The amount was mainly from the newly added bank loans of RMB2,370,784,000 and net inflow from the release of deposit upon expiry of bank loans of RMB870,093,000 and was offset by the repayment of bank loans of RMB3,149,786,000.

11. Cash and Borrowings

As of 31 December 2016, cash balance of the Group was RMB113,854,000, representing a decrease of RMB899,154,000 or 88.76% over the end of last year, which was mainly due to a decrease of RMB870,093,000 in balance of domestic bank loan deposit over the corresponding period of last year as a result of repayment of the overseas bank loan.

As of 31 December 2016, the balance of bank borrowings of the Group was RMB2,172,999,000, representing a decrease of RMB800,353,000 or 26.92% over the end of last year. Apart from the information disclosed above or otherwise in this announcement, the Group has no any outstanding mortgage, pledge, debentures or other loan capital issued or agreed to be issued, bank overdrafts, borrowings, 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 have been no material changes in the indebtedness and contingent liabilities of the Group since 31 December 2016.

12. Gearing Ratio, Interest Rate Risk and Foreign Exchange Risk

The gearing ratio, as calculated by dividing total liabilities by total assets, of the Group decreased from 80.33% on 31 December 2015 to 79.25% on 31 December 2016.

The interest rate risk in the fair value of the Group mainly relates to the bank borrowings. The management of the Group will continue to monitor the loan portfolio and interest rate risks of the Group, and may consider taking appropriate measures to hedge material interest rate risks when necessary. Up to now, the reporting currency of the Group was RMB. Since RMB is not freely convertible, the risk that the Chinese government may take measures to interfere 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. Meanwhile, the Group acquired mining assets in Indonesia and Australia in 2013. Their assets and liabilities are denominated in Indonesian Rupiah and AUD respectively, which are subject to fluctuation in the foreign exchange rate and affect net assets value and profit of the Group to some extent. The management of the Group will continue to monitor the currency matching between the revenue and costs of the Group and exchange risks, and may consider taking appropriate measures to hedge material exchange risks when necessary.

13. Assets Securities and Contingent Liabilities

Some of bank loans of the Group were secured by mining rights certificates. As of 31 December 2016, the aggregate net carrying value of the mining rights used as securities amounted to RMB248,915,000.

As of 31 December 2016, the Group had no material contingent liabilities.

14. Capital Commitments

In 2016, capital commitments of the Group were RMB172,163,000, representing an increase of RMB12,262,000 or 7.67% over last year. The capital commitments mainly consisted of the amount of RMB105,272,000 for underground mining works of Maogong Mine, the amount of RMB9,279,000 for construction of Maogong Processing Plant, the amount of RMB32,364,000 for underground mining works of Shangma Mine, the amount of RMB160,000 for Aoniu Mine and the government charges of RMB25,088,000 for gold exploration.

15. Capital Expenditure

The Group's capital expenditure decreased from approximately RMB559,217,000 in 2015 to approximately RMB217,070,000 in 2016. Expenditure incurred in 2016 mainly included (i) expenditure for acquisition of plants, machine equipment and properties and underground mining works amounting to RMB144,391,000; (ii) expenditure for acquisition of intangible assets amounting to RMB64,945,000; (iii) expenditure for land compensation and others amounting to RMB7,734,000.

16. Significant Foreign Investments Held

Save for the equity interests in three companies listed on Australian Securities Exchange held by the Group, the Group did not hold any significant investments as of 31 December 2016.

17. Material Acquisitions and Disposals of Subsidiaries and Associated Companies

In July 2016, the Group sold its subsidiary Benxi Hanking Mining Co., Ltd. (本溪罕王礦業有限公司) to an independent third party at a consideration of RMB1, resulting in loss on disposal in an amount of RMB47,194,000. Save as aforesaid, the Group had no other material acquisitions or disposals of subsidiaries and associated companies during the year of 2016.

REPORT OF THE DIRECTORS

1. PRINCIPAL ACTIVITIES

The Group is mainly engaged in three principal activities, i.e. gold exploration, mining, processing, smelting and sale; iron ore exploration, mining, processing and sale; and nickel ore exploration, mining, smelting and sale. Details of the principal subsidiaries of the Company are set out in note 35 to the consolidated financial statements.

2. BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the future business development are provided in the section headed "Chairman's Statement" on pages 6 to 13 of this annual report. Description of possible risks and uncertainties that the Group may be facing can also be found in the section headed "Chairman's Statement" on pages 11 to 12. Also, the financial risk management objectives and policies of the Group can be found in note 42 to the consolidated financial statements. Particulars of important events affecting the Group that have occurred from the end of this report to Latest Practicable Date are provided in paragraph 3 "Subsequent Events" on page 48 of this report. A financial summary of the Group is provided on page 5 of this annual report, setting out an analysis of the Group's performance during the year using key financial performance indicators. In addition, discussions on the Group's environmental policies, relationships with its stakeholders and the Group's compliance with the relevant laws and regulations which have a significant impact on the Group are contained in the section headed "Chairman's Statement" on pages 6 to 13, the section headed "Corporate Governance Report" on pages 61 to 78 and the section headed "Report of the Directors" on pages 43 to 60 respectively, which can also be found in the Environmental, Social and Governance Report of the Company.

3. RESULTS

The profit of the Group for the year ended 31 December 2016, and the position of the Company and the Group as at that date are set out on pages 80 to 82 of this annual report.

4. PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company for the year ended 31 December 2016 are set out in note 18 to the consolidated financial statements.

5. SHARE CAPITAL

As at 31 December 2016, the total number of authorized shares of the Company was 10,000,000,000 shares with a par value of HK$0.1 each, the total authorized capital was HK$1,000,000,000, and the number of shares in issue was 1,830,000,000 shares. During the year, there was no change in the share capital of the Company.

6. PRE-EMPTION RIGHT

Pursuant to the Memorandum and Articles of Association of the Company ("Articles of Association") and the laws of the Cayman Islands (the place where the Company was incorporated), no provision in relation to pre-emption rights shall be applicable to the Company.

7. RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out on page 159 of this annual report, among which, details of reserves distributable to the equity holders of the Company are set out on page 82 of this annual report.

8. DIVIDEND

The Board did not recommend the payment of the final dividend for the year ended 31 December 2016 to the shareholders of the Company.

Closure of Register of Members

The annual general meeting of the Company is scheduled to be held on Monday, 22 May 2017. The register of members of the Company will be closed from Monday, 15 May 2017 to Monday, 22 May 2017 (both days inclusive) to determine the entitlement to attend and vote at the annual general meeting during which period no transfer of shares will be registered. In order to attend and vote at the 2017 annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 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, 12 May 2017.

9. PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2016.

10. MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, according to the Listing Rules, the purchase from the Company's five largest suppliers in aggregate accounted for 87.5% of the Company's total purchase for the year. In particular, the total purchase from the largest supplier accounted for 36.9% of the Company's total purchase for the year.

For the year ended 31 December 2016, the sales to the Company's five largest customers in aggregate contributed 97.22% to the Company's total sales for the year. In particular, the sales to the largest customer contributed 39.3% to the Company's total sales for the year.

So far as the Directors are aware, except for Fushun Hanking D.R.I (details of which are set out in paragraph 23. "Connected Transactions" of this section), none of the Directors and close associates (as defined in the Listing Rules) of the Directors or shareholders of the Company (who, to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the five largest suppliers or customers during the year.

11. BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group as of 31 December 2016 are set out in note 30 to the financial statements.

12. DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information concerning the Directors and senior management of the Company during the year and up to the date of this report:

Name	Position in the Company	Date of Appointment/Re-election	Position and Date of Resignation
Yang Jiye	Executive Director and Chairman of the Board	Re-designated from non-executive Director to executive Director and appointed as Chairman of the Board on 18 March 2016 Re-elected as executive Director on 27 May 2016	N/A
Pan Guocheng	Executive Director, Chief Executive Officer and President	28 May 2015	N/A
Zheng Xuezhi	Executive Director and Chief Financial Officer	18 March 2016	N/A
Qiu Yumin	Executive Director, Vice President and executive Director, chief executive officer and president of Hanking Australia and Hanking Gold	29 May 2014	N/A

REPORT OF THE DIRECTORS

Name	Position in the Company	Date of Appointment/Re-election	Position and Date of Resignation
Xia Zhuo	Executive Director, Vice President, Joint Company Secretary and president of Hanking (Indonesia)	Re-elected as executive Director on 27 May 2016	N/A
Kenneth Jue Lee	Non-executive Director	28 May 2015	N/A
Wang Ping	Independent non-executive Director	27 May 2016	N/A
Wang Anjian	Independent non-executive Director	29 May 2014	N/A
Ma Qingshan	Independent non-executive Director	Appointed as Independent non-executive Director on 30 March 2016 Re-elected as Independent non-executive Director on 27 May 2016	N/A
Yang Min	Executive Director and Chairlady of the Board	Re-designated from non executive Director to executive Director and appointed as Chairlady of the Board on 28 May 2015	Resigned as executive Director, Chairlady of the Board and chairman of the Nomination Committee on 18 March 2016
Liao Pin-tsung	Executive Director and Chief Financial Officer	Appointed as executive Director on 16 July 2015 Appointed as Chief Financial Officer on 1 April 2015	Resigned as executive Director and Chief Financial Officer on 18 March 2016
Jiang Zhouhua	Independent non-executive Director	28 May 2015	Resigned as independent non-executive Director on18 March 2016
Victor Yang	Independent non-executive Director	28 May 2015	Resigned as independent non-executive Director on19 January 2016
Huang Jinfu	General Manager of Aoniu Mine	9 October 2015	N/A
Chen Yanshao	Vice President	14 March 2014	Resigned as Vice President on 1 April 2016

According to the requirement under Article 84(1) of the Articles of Association, at each annual general meeting, one third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The retiring Directors, being eligible, may offer themselves for re-election. Dr. Qiu Yumin, Mr. Kenneth Jue Lee and Dr. Wang Anjian will retire as Directors at the annual general meeting to be held on 22 May 2017 and, being eligible, will offer themselves for re-election as 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 Listing Rules and considered that all of the independent non-executive Directors were independent from the Company.

13. BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Detailed biographies of Directors and senior management are set out on pages 70 to 74 of this annual report.

14. DIRECTORS' SERVICE CONTRACT

The Company has entered into a director service contract with each of the executive Directors and non-executive Directors.

The Company has entered into a director service contract and letter of appointment with each of the Directors, the major terms of which is that the service contracts and the letters of appointment shall be: (1) for a term of three years commencing from 17 March 2015 (in the case of Mr. Yang Jiye, Dr. Pan Guocheng, Mr. Xia Zhuo, Dr. Qin Yumin, Mr. Kenneth Jue Lee, Mr. Wang Ping and Dr. Wang Anjian), 18 March 2016 (in the case of Mr. Zheng Xuezhi), or 30 March 2016 (in the case of Mr. Ma Qingshan); and (2) terminated or renewed in accordance with their respective contract terms.

The Company entered into a supplemental agreement to the director service agreement with Mr. Yang Jiye on 30 March 2016 in respect of the remuneration adjustment.

The Company has received the written confirmation of their independence of 2016 from each of the independent non-executive Directors and considered them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgment.

Save as disclosed above, the Directors have not signed with the Company service contracts that cannot be terminated by the Company without compensation (exclusive of statutory compensation) within one year.

15. REMUNERATION FOR DIRECTORS AND TOP 5 HIGHEST PAID EMPLOYEES

Detailed information on remuneration for Directors and top 5 highest paid employees are provided in note 14 and 15 to the financial statements.

For the year ended 31 December 2016, none of the Directors has agreed with the Company to waive any remuneration.

The remuneration for the Directors with the Company was proposed by the Remuneration Committee and approved by the Board. The Remuneration Committee would take into account (among others) remuneration of companies in the same categories, conditions of employment, responsibilities and individual performance when proposing the remuneration.

16. DIRECTOR'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in item 23 "Connected Transactions" of this section, during the year ended 31 December 2016, the Company has not directly or indirectly concluded transactions, arrangements or contracts of significance, in which any Director had material interests, and which were relevant to the business of the Company and remained valid at any time during the year or at the end of the year.

17. INDEMNITIES MADE TO THE DIRECTORS

According to Article 164 of the Article of Association, the Directors shall be entitled to be indemnified out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which may incur or sustain in the execution of their duties. The Company has purchased appropriate directors and senior management liabilities insurance for the Directors and senior management of the Group.

18. SIGNIFICANT SUBSEQUENT EVENTS

On 15 February 2017 (after trading hours), following a global competitive sale process, the Company and the other vendors entered into a binding share sale agreement with the purchaser (Shandong Tianye Group Bid Co Pty Ltd) and the guarantor (Shandong Tianye Real Estate Development Group Co., Ltd., the ultimate holding company of the purchaser), pursuant to which the Company and the other vendors conditionally agreed to sell, and the purchaser conditionally agreed to purchase, 100% of the shares in Hanking Australia Pty Ltd ("**Hanking Australia**") at a purchase price based on an agreed enterprise value of AUD330 million. Hanking Australia holds the Company's SXO Gold Project assets located in Australia.

Upon completion, the Company will cease to have any interest in Hanking Australia which will cease to be a subsidiary of the Company, and the financial results of Hanking Australia will no longer be consolidated into the consolidated financial statements of the Company. As a result of the sale of shares, the Group is expected to record an unaudited gain of approximately RMB701,256,000, subject to relevant working capital adjustment set out in the share sale agreement. The unaudited gain represents the difference between the purchase price, adjusted for any remaining debts due from Hanking Australia and its subsidiaries upon completion or any debts repaid by the purchaser on completion, and the share of the unaudited net liabilities and other reserves of Hanking Australia as at 30 June 2016.

An extraordinary general meeting will be held by the Company on a later date to seek the approval of the shareholders of the Company on *inter alia* the disposal.

A circular containing, amongst other matters, further details of the sale of shares and the notice of the extraordinary general meeting will be despatched to the shareholders of the Company on 31 March 2017.

19. DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

(1) Excluded Businesses

Benxi Iron Processing

Benxi Iron Processing was established in the PRC in July 2010. As at the Latest Practicable Date, it was 100% owned by Hanking Group. Benxi Iron Processing is engaged in the iron processing business only. The ore processing business engaged in by Benxi Iron Processing used to be operated under Benxi Mining, a subsidiary of the Company.

Since the land use right certificate(s) relating to the land on which the iron processing business is operated has(have) not been obtained and the timing of obtaining such certificates is uncertain, the iron processing business was then transferred from Benxi Mining and retained by Hanking Group. According to the Non-competition Agreement (as described below), if and when the land use right certificate of Benxi Iron Processing is obtained, Benxi Iron Processing must promptly give notice to the Company and the Company has the right to purchase the interests of Benxi Iron Processing at a price determined by an independent valuer. Once the Company decides to exercise such right, after obtaining the approval of the independent non-executive Directors and/or the independent Shareholders, as the case may be, Hanking Group, the owner of Benxi Iron Processing, is obliged to transfer its interests in Benxi Iron Processing to the Company. Therefore, the Directors are of the view that the Non-competition Agreement can sufficiently safeguard the Company's interest.

At the extraordinary general meeting held on 29 November 2013, the processing agreement entered into between Benxi Mining and Benxi Iron Processing was approved for a term of three years to 31 December 2016, pursuant to which Benxi Iron Processing will provide processing services to Benxi Mining. As Benxi Iron Processing is a connected person (as defined under the Listing Rules) of Hanking Group, the entering into of the processing service agreement constitutes a continuing connected transaction for the Group. On 7 July 2016, Aoniu Mining, a wholly-owned subsidiary of the Company, entered into the Equity Interest Transfer Agreement with Mr. Wang Wen (the Purchaser) to transfer 100% equity interest in Benxi Iron Processing to the Purchaser. As Benxi Mining ceased to be a subsidiary of the Company since July 2016, the transactions contemplated under the New Benxi Iron Processing Service Agreement would no longer constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Please refer to the paragraph headed "Non-exempt Continuing Connected Transactions" under paragraph 23 "Connected Transactions" of this section for details of the processing service agreement.

To the best knowledge of the Directors and based on the information available to the Directors, financial information of the excluded businesses for the past three years (RMB million) (audited):

	As of 31 December 2016	As of 31 December 2015	As of 31 December 2014
Total assets	**24.33**	37.16	37.35
Total liabilities	**15.97**	25.99	24.61
Revenue	**1.44**	23.04	28.05
Profit/loss	**-2.87**	-1.57	0.3

(2) Hanking Group

Ms. Yang Min holds 88.96% of the equity interests in Hanking Group. Other business interests held by Hanking Group include Benxi Iron Processing, where Hanking Group holds 100% equity interests in Benxi Iron Processing.

(3) Directors' and Controlling Shareholders' Positions in Competing Business

As at 31 December 2016, save as disclosed below, the Directors and their associates did not hold any interests in any business which competes, either directly or indirectly, or is likely to compete against the business of the Group:

Name of Directors	**Positions in the Company**	**Positions in Competing Business**
Yang Jiye	Chairman of the Board and executive Director	Vice chairman of the board of directors of Hanking Group
Xia Zhuo	Executive Director and Joint Company Secretary	director of Hanking Group

(4) Facts demonstrating that the Company is capable of carrying on its business independently of, and at arm's length from the excluded businesses are disclosed in the Prospectus.

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

So far as the Company is aware, as at 31 December 2016, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which was 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 the SFO) or was recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or was otherwise required to be 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:

Interests in the shares of the Company:

Name of Director and Chief Executive	Status/Nature of Interest	Number of Shares Held	Approximate Percentage of Shareholding
Yang Jiye[1]	Founder of discretionary trust	424,360,500 (long positions)	23.19%
	Interest in controlled corporation	222,993,000 (long positions)	12.19%
Xia Zhuo[2]	Interest in controlled corporation	19,130,589 (long positions)	1.05%
	Beneficial owner	60,000 (long positions)	Less than 0.01%
Pan Guocheng[3]	Beneficial owner	4,220,000 (long positions)	0.23%
Zheng Xuezhi	Beneficial owner	2,259,000 (long positions)	0.12%

Notes:

1. Mr. Yang Jiye is the founder of management trust which holds the entire issued share capital of Bisney Success Limited and holds 100% interest in Tuochuan Capital Limited. As a result, Mr. Yang Jiye is deemed to hold interest in 424,360,500 shares of the Company held by Bisney Success Limited and 222,993,000 shares of the Company held by Tuochuan Capital Limited.

2. Mr. Xia Zhuo holds 54.38% interest in Splendour Ventures Limited. As a result, Mr. Xia Zhuo is deemed to hold interest in 19,190,589 shares of the Company held by Splendour Ventures Limited. The accurate percentage of the 60,000 shares of the Company beneficially owned by Mr. Xia Zhuo is 0.00327869%.

3. These shares are held jointly with Ms. Pan Guoying.

Interests in the shares of associated corporations of the Company:

Name of Director and Chief Executive	Name of Associated Corporation	Status/Nature of Interest	Number of Shares Held	Approximate Percentage of Shareholding
Qiu Yumin	Hanking Australia Pty Ltd	Beneficial owner	6,185,567 (long positions)	3.00%

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which was 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 interest or short position taken or deemed to have under such provisions of the SFO), or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

As at 31 December 2016, as far as the Directors of the Company, having made all reasonable enquires, are aware, the following persons (other than the Directors and chief executives of the Company) owned 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 the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholders	Status/Nature of Interest	Number of shares	Approximate Percentage of Shareholding
Yang Min[1]	Interest in controlled corporation	586,025,000 (long positions)	32.02%
	Founder of discretionary trust	13,820,166 (long positions)	0.76%
China Hanking (BVI) Limited	Beneficial owner	586,025,000 (long positions)	32.02%
Bisney Success Limited	Beneficial owner	424,360,500[2] (long positions)	23.19%
Le Fu Limited	Interest in controlled corporation	424,360,500[2] (long positions)	23.19%

Name of Shareholders	Status/Nature of Interest	Number of shares	Approximate Percentage of Shareholding
UBS Nominees Limited	Nominee for the Trustee	424,360,500[2] (long positions)	23.19%
UBS Trustees (BVI) Limited	Trustee	424,360,500[2] (long positions)	23.19%
Tuochuan Capital Limited	Beneficial owner	222,993,000 (long positions)	12.19%
Industrial and Commercial Bank of China Limited	Person having a security interesting Shares	208,000,000 (long positions)	11.37%
China Citic Bank Corporation Limited	Person having a security interesting Shares	280,000,000 (long positions)	15.30%

Notes:

1. Ms. Yang Min 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. Thus Ms. Yang Min is deemed to have an interest in 586,025,000 Shares held by China Hanking (BVI) Limited and 13,820,166 Shares held by Best Excellence Limited.

2. These 424,360,500 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 or debentures of the Company which were required to be disclosed to the Company pursuant to 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.

22. MANAGEMENT CONTRACTS

For the year ended 31 December 2016, there is no contract entered into by the Company relating to its management and administration or subsisting during the year which is substantial to the entire or any part of business of the Company.

23. CONNECTED TRANSACTIONS

All the connected transactions disclosed in note 43 to the financial statements also constitute connected transactions or continuing connected transactions for the Company as defined in the Listing Rules. Details of these transactions have been disclosed in accordance with Chapter 14A of the Listing Rules.

The annual transaction amount caps and actual transaction amounts of the continuing connected transactions in 2016 are as follows:

Items of Continuing Connected Transactions	Connected Person	2016 Annual Transaction Amount Cap (RMB)	Actual Transaction Amount (RMB)
(a) Benxi Iron Processing Service	Benxi Iron Processing	35,000,000	1,629,000 (as of 7 July 2016,i.e. the date of disposal of Benxi Mining by the Group)
(b) Sales of Iron Ore Concentrates	Fushun Hanking D.R.I., Dalian Huaren and Deshan Trading	400,000,000	235,677,000
(c) Lease of Properties and Properties Management	Shengtai Property	4,000,000	2,247,000
(d) Purchase Framework Agreement	Benxi Iron Processing	4,000,000	0

During the year ended 31 December 2016, the Group had no non-exempt one-off connected transactions but carried out certain non-exempt continuing connected transactions. The details are as follows:

(1) The Company had obtained the approval from the Hong Kong Stock Exchange when listed for the annual cap of transaction amount in respect of each of the following non-exempt continuing connected transactions, and the Company was exempted from compliance with the requirements on announcement and approval of independent shareholders. The Company renewed the agreements in respect of each of the following transactions for a term of three years on 15 November 2013 and re-determined the annual transaction amount caps of each transaction for each of the three years, which had been approved by the Board and/or at the extraordinary general meeting held on 29 November 2013 and/or 23 December 2016.

a. Benxi Iron Processing Service

As of 6 July 2016, Benxi Mining is an indirect wholly-owned subsidiary of the Company, specializing in iron ore mining. Benxi Iron Processing is a wholly-owned subsidiary of Hanking Group, specializing in iron ore processing. According to Rule 14A.11 of the Listing Rules, Benxi Iron Processing is a connected person of the Company. Benxi Mining and Benxi Iron Processing signed an agreement for the provision of iron processing services on 16 June 2011. According to the agreement, Benxi Iron Processing will provide iron ore processing services and process the iron ore provided by Benxi Mining, and deliver the iron ore concentrates produced to Benxi Mining for a term of three years commencing from the listing date. On 15 October 2013, Benxi Mining entered into a new processing service agreement with Benxi Iron Processing for a term of three years commencing from 1 January 2014 and ending on 31 December 2016. The annual transaction amount cap for each of the three years is RMB35,000,000. On 28 May 2015 (after trading hours), Benxi Mining entered into the Amendment Agreement with Benxi Iron Processing. Under the Amendment Agreement, Benxi Iron Processing and Benxi Mining agreed that the iron ore processing fee payable by Benxi Mining of RMB21.5 per metric ton of iron ores (tax exclusive) shall be revised to RMB19.0 per metric ton of iron ores (tax exclusive), with effect from 1 January 2015. All the other terms of the New Benxi Iron Processing Service Agreement, including term of the agreement and proposed annual caps, remained the same. On 7 July 2016, Aoniu Mining, a wholly-owned subsidiary of the Company, entered into the Equity Interest Transfer Agreement with Mr. Wang Wen (the Purchaser) to transfer 100% equity interest in Benxi Iron Processing to the Purchaser. As Benxi Mining ceased to be a subsidiary of the Company since July 2016, the transactions contemplated under the New Benxi Iron Processing Service Agreement would no longer constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As of 30 June 2016, the actual transaction amount of the continuing connected transaction was RMB1,629,000.

b. Sales of Iron Ore Concentrates

Fushun Hanking D.R.I. is a wholly-owned subsidiary of Hanking Group, specializing in producing direct reduced iron and pig iron and selling iron ore concentrates, iron ores and steel. According to Rule 14A.11 of the Listing Rules, Fushun Hanking D.R.I. is a connected person of the Company. The Company concluded a procurement agreement with Fushun Hanking D.R.I. on 16 September 2011. According to the agreement, the Company will, through its subsidiaries, including Aoniu Mining and STSU, provide iron ore concentrates to Fushun Hanking D.R.I. for a term of three years commencing from the listing date. On 15 October 2013, the Company entered into a new agreement on the sale of iron ore concentrates with Fushun Hanking D.R.I. and Dalian Huaren (as an agent of Fushun Hanking D.R.I.) for a term of three years commencing from 1 January 2014 and ending on 31 December 2016. The annual transaction amount cap for each of the three years is RMB480,000,000. The actual transaction amount of the continuing connected transaction for 2016 was RMB235,677,000.

On 22 November 2016, the Company, through its subsidiaries, entered into the New Iron Ore Concentrates Sale Agreement with Fushun D.R.I., Dalian Huaren and Fushun Deshan (both are the agents of Fushun D.R.I.) for a term of three years commencing from 1 January 2017 and ending on 31 December 2019. The annual transactional cap for each of the three years is RMB345,000,000.

c. Lease of Properties and Properties Management

Given the fact that 100% of interest in Shengtai Property is indirectly held by the Controlling Shareholder of the Company, Shengtai Property is a connected person of the Company in accordance with Rule 14A.11 of the Listing Rules. Aoniu Mining, STSU and Shengtai Property concluded a lease agreement on 16 September 2011. According to the agreement, Aoniu Mining and STSU continued to lease office premises located at No. 227, Qingnian Street, Shenhe District, Shenyang City, Liaoning Province, with a leased area of approximately 3,193.8 m^2 from Shengtai Property, leased advertising sites in the same building, and engaged Shengtai Property to provide properties management service for a term of three years commencing from the listing date. On 15 October 2013, Aoniu Mining and STSU entered into a new lease agreement with Shengtai Property for a term of three years commencing from 1 January 2014 and ending on 31 December 2016. The annual transaction amount cap for each of the three years is RMB4,000,000. The actual transaction amount of the continuing connected transaction for 2016 was RMB2,247,000.

d. Purchase Framework Agreement

The Company has published the relevant announcement on 29 May 2015. On 28 May 2015 (after trading hours), Aoniu Mining Group entered into a purchase framework agreement (the "Purchase Framework Agreement") with Benxi Iron Processing. Pursuant to the Purchase Framework Agreement, Aoniu Mining Group agreed to sell and Benxi Iron Processing agreed to purchase the idle equipment, spare parts and raw materials of Aoniu Mining which are derived from continuing mining technology improvement, for a term of three years with effect from 28 May 2015 (i.e. the date on which the Purchase Framework Agreement took effect) to 31 December 2017. During the term of the Purchase Framework Agreement, both parties agreed that they might enter into further individual purchase agreement(s) from time to time upon and subject to such terms and conditions as may be agreed between both parties, in each case to be negotiated on a case-by-case and arm's length basis and on normal commercial terms. During the term of the Purchase Framework Agreement, the annual transaction amount cap is RMB4,000,000. The actual transaction amount of the continuing connected transaction for 2016 was RMB0.

The independent non-executive Directors of the Company have reviewed each of the above-mentioned continuing connected transactions and confirmed that these transactions have been conducted:

(1) in the ordinary course of business of the Company;

(2) on normal commercial terms or, if there are no sufficient comparable transactions to determine whether they are on normal commercial terms, from the perspective of the Company, on terms no less favorable than the terms available to or from independent third parties;

(3) in accordance with relevant agreements governing the relevant transactions on terms that are fair and reasonable and in the interests of the equity holders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain factual finding procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to 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 auditor has reported their conclusion to the Board that:

(1) nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Board of the Company.

(2) for transactions involving the provision of goods or services by the Group, nothing has come to the auditor's attention that causes the auditor to believe that the transactions were not, in all material respects, conducted in accordance with the pricing policies of the Company.

(3) nothing has come to the auditor's attention that causes the auditor to believe that the transactions were not, in all material respects, conducted in accordance with the relevant agreement governing these transactions.

(4) with respect to the aggregate amount of each of the continuing connected transactions as shown in the table above, nothing has come to the auditor's attention that causes the auditor to believe that the transaction amounts of such continuing connected transactions have exceeded the aggregate annual cap in respect of each of the disclosed continuing connected transaction as set out in the respective relevant announcement of the Company.

(5) in respect of the above mentioned connected transactions, the Directors also confirmed that the Company was in compliance with the disclosure requirements under Chapter 14A of the Listing Rules.

24. NON-COMPETITION AGREEMENT COMPLIANCE

The Company signed a non-competition agreement (the "**Non-Competition Agreement**") with the controlling shareholders on 16 June 2011. In accordance with the Non-Competition Agreement, the independent non-executive Directors of the Company is responsible for reviewing and considering whether to exercise such option and pre-emptive right, as well as entitled to conduct annual review of implementation of the agreement on behalf of the Company. During the year of 2016, each controlling shareholder of the Company has made annual confirmation of compliance of the Non-Competition Agreement, and the independent non-executive Directors of the Company have also reviewed the implementation of the Non-Competition Agreement, and confirmed that the controlling shareholders of the Company have fully abided by the agreement without any breach of the agreement.

25. RETIREMENT AND EMPLOYEES' BENEFIT PLAN

Detailed information on the retirement and employees' benefit plan of the Company is provided in note 11 to the financial statements.

26. COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE

During the period from 1 January 2016 to 31 December 2016, the Company has fully complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), meanwhile, the Company has complied with most of the best practices as recommended therein.

27. PUBLIC FLOAT

In accordance with information available to the Company, and to the knowledge of the Directors, the public held not less than 25% of shares issued by the Company as at the Latest Practicable Date prior to the issue of this annual report, which was in compliance with the requirement of the Listing Rules.

28. SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2016, 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.

29. AUDIT COMMITTEE

The audit committee under the Board of the Company has reviewed the announcement for Annual Results for 2016 and the financial statements for the year ended 31 December 2016.

30. AUDITOR

The consolidated financial statements stated in this annual report have been audited by the Company's auditor Deloitte Touche Tohmatsu. A resolution for re-appointing Deloitte Touche Tohmatsu as the auditor for the ensuing year is to be proposed at the forthcoming annual general meeting.

31. FINANCIAL HIGHLIGHTS

The operating performance, assets and liability highlights of the Group for the last five fiscal years are stated on page 5 of this annual report.

32. SIGNIFICANT CONTRACTS

Save as disclosed under the section "Connected Transactions" of this report, neither the Company nor any of its subsidiaries has signed a significant contract with the Controlling Shareholders or any of its subsidiaries other than the Group, and no significant contract for delivery of service has been signed between the Group and the Controlling Shareholders or any of its subsidiaries other than the Group.

33. FINANCIAL ASSISTANCE AND GUARANTEE TO AFFILIATED COMPANY BY THE COMPANY

For the year ended 31 December 2016, the Company has not granted financial assistance and guarantee to its affiliated company.

34. LOAN TO A GIVEN ENTITY

For the year ended 31 December 2016, the Group has granted a loan of RMB11,300,000 to a given entity. Please refer to note 23 to the financial statements for details.

35. DISCLOSURES PURSUANT TO RULE 13.17 OF THE LISTING RULES

On 17 September 2015, China Hanking (BVI) Limited ("China Hanking (BVI)") has pledged 208,000,000 ordinary shares in the issued share capital of the Company in favour of Industrial and Commercial Bank of China Limited ("ICBC") as a security for a term loan facility up to a maximum aggregate amount of RMB160,000,000 provided to Aoniu Mining by ICBC. The above Pledged Shares represent in aggregate approximately 11.37% of the issued share capital of the Company as at 17 September 2015. Details are set out in the announcement of the Company dated 17 September 2015.

On 11 August 2016, China Hanking (BVI) and Tuochuan Capital Limited ("Tuochuan Capital") pledged 80,000,000 and 200,000,000 ordinary shares in the issued share capital of the Company, respectively, in favour of China Citic Bank Corporation Limited, Dalian Branch ("China CITIC Bank") as security for a term loan facility up to a maximum aggregate amount of RMB180,000,000 provided by China CITIC Bank to Aoniu Mining. The above Pledged Shares represent approximately 15.30% of the issued share capital of the Company on 11 August 2016. Details are set out in the announcement of the Company dated 11 August 2016.

36. DISCLOSURES PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES

In accordance with the disclosure requirements of Rules 13.18 and 13.21 of the Listing Rules, the following disclosures are included in respect of one of the Company's loan agreements, which contain covenants requiring performance of obligations by a Controlling Shareholder of the Company.

On 27 January 2014, Aoniu Mining as borrower (the "Borrower"), has entered into a facility letter (the "Facility Letter") with HSBC Bank (China) Company Limited, Shenyang Branch, as lender (the "Second Lender"). The Second Lender is a third party independent of the Company and its connected persons. Pursuant to the Facility Letter, the Second Lender agreed to grant the Borrower standby documentary credit facilities for the maximum amount of Renminbi equivalent of US$25,600,000 (the "Facilities"). The documentary credit under the Facilities will be held by The Hongkong and Shanghai Banking Corporation Limited as security for the banking facilities of US$25,000,000 granted to the Company. Under the Facility Letter, the Facilities are for a term of not exceeding one year, and Ms. Yang Min, the Controlling Shareholder of the Company, covenants that she shall own not less than 40% of the shares of the Company during the term of the Facilities and provides a personal guarantee. The term of the Facilities was extended to 30 April 2016 upon expiry with the amount of the loan decreased to US$22,018,716. Ms. Yang Min, the Controlling Shareholder of the Company, has provided a personal guarantee on the Facilities during the term of the Facilities. As of 31 December 2016, the loan was fully repaid.

37. CHARITABLE DONATIONS

The Group didn't make donation for charitable purposes during the year ended 31 December 2016.

By order of the Board
Mr. Yang Jiye
Chairman of the Board and Executive Director

22 March 2017

CORPORATE GOVERNANCE REPORT

The Company believes that good corporate governance provides a framework that is essential for ensuring effective management, business growth and shareholder value. On 19 March 2013, the Board approved and adopted the Corporate Governance Policies developed by the Company. The Corporate Governance Policies of the Company, which is prepared in accordance with the principles, code provisions and certain recommended best practices of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, is in the best interest of the Company and its shareholders. During the period from 1 January 2016 to the date of this annual report, save as disclosed below, the Company has substantially complied with the Corporate Governance Policies as well as the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Meanwhile, it has also complied with most of the recommended best practices of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Details of the code provisions adopted and complied by the Company during the period are set out below.

BOARD COMPOSITION

The Board of the Company is collectively responsible to all Shareholders for leading and overseeing the Group's business, and is in charge of operation and decision making. The Board is mainly responsible for formulating the business strategies, objectives, policies and plans of the Company, and monitoring the execution of the Company's strategies. It is also responsible for overseeing and controlling the operational and financial performance of the Company and establishing appropriate risk management policies and procedures in order to ensure that the strategic objectives of the Group are materialized. In addition, the Board is also responsible for improving the corporate governance structure and enhancing communications with the Shareholders. The management team headed by the Chief Executive Officer is responsible to the Board and executes the strategies and plans formulated by the Board, and making decisions for day-to-day operation. The management shall report monthly to the Board on the operational and financial performance of the Company.

During the period from 1 January 2016 to the date of this annual report, the re-designation, resignation and appointment of Directors are set out as follows:

On 19 January 2016, Mr. Victor Yang resigned as an independent non-executive Director and the member of the Nomination Committee and the Audit Committee of the Company due to his intention to develop other business.

On 18 March 2016, (1) Mr. Yang Jiye resigned as members of the Remuneration Committee and the Audit Committee, was re-designated as executive Director and appointed as chairman of the Board and chairman of the Nomination Committee, and remained as a member of the HSEC Committee; (2) Mr. Zheng Xuezhi was appointed as executive Director, chief financial officer and authorised representative of the Company; (3) Mr. Kenneth Jue Lee was appointed as members of the Remuneration Committee and the Audit Committee and remained as a non-executive Director; (4) Dr. Wang Anjian was appointed as a member of the Nomination Committee and remained as an independent non-executive Director and members of the Audit Committee and the HSEC Committee; (5) Ms. Yang Min resigned as an executive Director, Chairlady of the Board and chairlady of the Nomination Committee due to her intention to develop other business; (6) Mr. Liao Pin-tsung resigned as an executive Director, Chief Financial Officer and authorized representative of the Company due to his intention to develop other business; and (7) Mr. Jiang Zhouhua resigned as an independent non-executive Director as well as members of the Nomination Committee and the Remuneration Committee due to his intention to develop other business.

On 30 March 2016, Mr. Ma Qingshan was appointed as an independent non-executive Director and the member of the Nomination Committee and Remuneration Committee of the Company.

Given the above re-designation, resignation and appointment of Directors, details of the Directors of the Company for the year 2016 will be presented respectively as follows:

During the period from 1 January 2016 to 18 January 2016, the Board consisted of the following eleven members:

Non-executive Directors	Executive Directors	Independent non-executive Directors
Mr. Yang Jiye *(Vice Chairman)* Mr. Kenneth Jue Lee	Ms. Yang Min *(Chairlady)* Mr. Pan Guocheng *(Chief Executive Officer and President)* Mr. Liao Pin-tsung Mr. Xia Zhuo Mr. Qiu Yumin	Mr. Wang Ping Dr. Wang Anjian Mr. Jiang Zhouhua Mr. Victor Yang

During the period from 19 January 2016 to 17 March 2016, the Board consisted of the following ten members given the resignation of the Directors:

Non-executive Directors	Executive Directors	Independent non-executive Directors
Mr. Yang Jiye *(Vice Chairman)* Mr. Kenneth Jue Lee	Ms. Yang Min *(Chairlady)* Mr. Pan Guocheng *(Chief Executive Officer and President)* Mr. Liao Pin-tsung *(Chief Financial Officer)* Mr. Xia Zhuo Mr. Qiu Yumin	Mr. Wang Ping Dr. Wang Anjian Mr. Jiang Zhouhua

During the period from 18 March 2016 to 29 March 2016, the Board of the Company consisted of the following eight members given the resignation and appointment of the Directors:

Non-executive Director	Executive Directors	Independent non-executive Directors
Mr. Kenneth Jue Lee	Mr. Yang Jiye *(Chairman)* Dr. Pan Guocheng *(Chief Executive Officer and President)* Mr. Zheng Xuezhi *(Chief Financial Officer)* Mr. Xia Zhuo Dr. Qiu Yumin	Mr. Wang Ping Dr. Wang Anjian

During the period from 30 March 2016 to 31 December 2016, the Board of the Company consisted of the following nine members given the appointment of the Directors:

Non-executive Director	Executive Directors	Independent non-executive Directors
Mr. Kenneth Jue Lee	Mr. Yang Jiye *(Chairman)* Dr. Pan Guocheng *(Chief Executive Officer and President)* Mr. Zheng Xuezhi *(Chief Financial Officer)* Mr. Xia Zhuo Dr. Qiu Yumin	Mr. Wang Ping Dr. Wang Anjian Mr. Ma Qingshan

After resignation of Mr. Victor Yang on 19 January 2016, the number of the independent non-executive Directors fell below the minimum number as required under Rule 3.10A of the Listing Rules, and the number of members of the Nomination Committee also fell below the minimum number as set out in the terms of reference of such committee. Furthermore, after resignation of Mr. Jiang Zhouhua on 18 March 2016, the number of the independent non-executive Directors fell below the minimum number as required under Rules 3.10(1) and 3.10A of the Listing Rules. In addition, the composition of the Remuneration Committee and the Nomination Committee also fell short of the requirements under Rule 3.25 of the Listing Rules and code provision A.5.1 of the Corporate Governance Code.

However, after the appointment of Mr. Ma Qingshan as an independent non-executive Director of the Company on 30 March 2016, the number of independent non-executive Directors of the Company has increased to three, accounting for one third of the members of the Board, which has been in compliance with the requirements under Rules 3.10(1) and 3.10A of the Listing Rules. In addition, the number of members of the Nomination Committee and the Remuneration Committee also met the requirements under Rule 3.25 of the Listing Rules and code provision A.5.1 of the Corporate Governance Code. During the reporting period (except for the periods disclosed above), the Company has appointed sufficient number of independent non-executive Directors who are equipped with relevant qualification in accordance with the requirements of the Listing Rules.

As of 31 December 2016, the Company had three independent non-executive Directors in total, representing one-third of the total number of Directors. Mr. Wang Ping has over 20 years' experience in corporate finance, audit, accounting and taxation; Dr. Wang Anjian has extensive experience in research of resource strategy; Mr. Ma Qingshan has over 14 years of extensive experience in management and consultation.

Details of the Directors' biographies are disclosed in the "Biographies of Directors and Senior Management" of this annual report. None of the members of the Board has any relationship with other members.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

For the year ended 31 December 2016, Directors of the Company have participated in the following trainings on the roles, functions and duties of a director of a listed company, so as to continuously develop their expertise and professional skills.

	Training Scope		
Directors	**Corporate Governance**	**Listing Rules**	**Business/ management**
Non-executive Director			
Mr. Kenneth Jue Lee	✓	✓	✓
Executive Directors			
Mr. Yang Jiye (re-designated from non-executive Director to executive Director since 18 March 2016)	✓	✓	✓
Dr. Pan Guocheng	✓	✓	✓
Mr. Zheng Xuezhi (appointed as executive Director since 18 March 2016)	✓	✓	✓
Mr. Xia Zhuo	✓	✓	✓
Dr. Qiu Yumin	✓	✓	✓
Independent non-executive Directors			
Mr. Wang Ping	✓	✓	✓
Dr. Wang Anjian	✓	✓	✓
Mr. Ma Qingshan (appointed as independent non-executive Director since 30 March 2016)	✓	✓	✓

In order to gain the latest information of their specialized fields, each of the Directors proactively attended seminars related with various industries. Mr. Yang Jiye attended the 11th Mineral Processing Annual Review Convention (第十一屆選礦年評會議), the Exchange Conference of the Working Committee for the Promotion of Green Mines (綠色礦山促進工作委員會工作交流會), the Seminar on Mineral Resources Selection for Future Development in the Era of Big Consumption (大消費背景下礦種選擇未來方向專題研討會) and several seminars on issues including risk Control and internal governance of the enterprises. Dr. Pan Guocheng attended various conferences such as the 18th International Mining Conference of China (第十八屆中國國際礦業大會), 2016 China Gold Congress (2016中國國際黃金大會), 2016 China International Gold Mining Technology Summit Forum (2016中國國際黃金礦業技術高峰論壇), China Iron Ore 2016 (2016中國鐵礦石會議), the Annual Mines and Money (Hong Kong) Conference and Exhibition (礦業與財富(香港)高峰論壇暨展覽會), the Annual Mines and Money Conference & Exhibition (礦業與財富高峰論壇暨展覽會) and the 2nd Nieba Annual Nickel Summit & Stainless Steel Sourcing Fair (第二屆鎳吧年會暨不銹鋼採購會). Mr. Xia Zhuo attended the 42nd session intensified and continuous professional development seminar of joint members organized by the Hong Kong Institute of Chartered Secretaries.

COMPANY SECRETARY

For the year ended 31 December 2016, the joint company secretaries of the Company were Mr. Xia Zhuo and Ms. Mok Ming Wai and both of them have participated in not less than 15 hours' professional training. Ms. Mok's primary contact person at the Company was Mr. Xia Zhuo.

LIABILITY INSURANCE

The Company has purchased liability insurance for the Directors and its senior management for a term of one year.

THE TENURE OF THE DIRECTORS AND THE INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The service contracts of the Directors (including service contracts of all non-executive Directors) are for a term of three years, which are subject to termination in accordance with their respective terms. According to the provisions of the Articles of Association, at each annual general meeting of the Company, one-third of the Directors for the time being, or, if their number is not a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation, provided that every Director shall be subject to retirement by rotation at least once every three years; while any Director appointed by Chairman of the Board as an addition to the existing Board shall hold office only until the next general meeting of the Company and shall then be eligible for re-election.

The appointment of independent non-executive Directors strictly adheres to the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. The Company has received the written confirmation of their independence of 2016 from each of the independent non-executive Directors and considers them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgment.

During the reporting period, the independent non-executive Directors of the Company actively took part in the meetings held by the Board and all specialized committees, during which independent professional comments and suggestions were given in respect of the business development, significant decisions, risk management and internal control of the Company. On 25 August 2016, the independent non-executive Directors and Chairman of the Board made a thematic discussion about the non-executive Directors' comments on the operation in 2016 and the recommendations and request in regard to the operation in 2017.

During the reporting period, no objection was raised by the independent non-executive Directors of the Company to the resolutions made by the Board or the specialized committees.

SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, and also formulated the Written Guideline on Dealings in the Securities of the Company by Directors and the Relevant Employees (the "Company Guideline"), which adopted the standards equivalent to the provisions of Appendix 10 to the Listing Rules as the model code regarding dealings in the Company's securities by the Directors and the relevant employees. After making specific enquiries to all Directors and the relevant employees of the Company, all of them have confirmed that they have complied with the Model Code and the Company Guideline throughout the year ended 31 December 2016.

THE CHAIRLADY/CHAIRMAN OF THE BOARD AND THE CHIEF EXECUTIVE OFFICER

The Company has developed the Guidelines regarding the Division of Functions between the Board and Senior Management, so as to separate roles of the Chairlady/Chairman of the Board and Chief Executive Officer. During the period from 1 January 2016 to 17 March 2016, Ms. Yang Min, an executive Director, was the Chairlady of the Board, while Dr. Pan Guocheng, an executive Director, acted as the Chief Executive Officer of the Company. During the period from 18 March 2016 to 31 December 2016, Mr. Yang Jiye, an executive Director, was the Chairman of the Board, while Dr. Pan Guocheng, an executive Director, acted as the Chief Executive Officer of the Company. The Chairlady/Chairman of the Board is responsible for the management of the Board to ensure its effective operation. The Chief Executive Officer is responsible for daily operational activities of the Group and responsible to the Board for the overall operations of the Group. The management shall provide the Directors and the members of the specialized committees under the Board with information and materials related to the operation on a monthly basis, so as to update them with the latest developments of the Company and facilitate the discharge of duties better.

GENERAL MEETING, BOARD MEETING AND SPECIALIZED COMMITTEE MEETING

In 2016, the Company held two general meetings and all the Directors attended these general meetings.

The Company has sufficiently promulgated the terms of reference of the Board and the four specialized committees under the Board (namely the Audit Committee, Nomination Committee, Remuneration Committee and HSEC Committee), and published on the websites of the Stock Exchange and the Company the terms of reference of each of the specialized committees, which enable these committees to perform their duties and also provide that these four specialized committees should report their decisions and recommendations to the Board.

The Company has convened seven Board meetings in total during the year of 2016. During the reporting period, details of Directors' attendance of the Board meetings, meetings of the specialized committees under the Board and general meetings are as follows:

Name of Directors	Board of Directors	Specialized Committees under the Board Audit Committee	Remuneration Committee	Nomination Committee	Health, Safety, Environmental Protection and Community Committee	General Meetings
Non-executive Director						
Kenneth Jue Lee	6/7	2/2	2/2	N/A	N/A	2/2
Executive Directors						
Yang Jiye (re-designated from non-executive Director to executive Director on 18 March 2016)	7/7	N/A	N/A	1/1	1/1	2/2
Pan Guocheng	7/7	N/A	N/A	N/A	1/1	2/2
Xia Zhuo	7/7	N/A	N/A	N/A	N/A	2/2
Qiu Yumin	7/7	N/A	N/A	N/A	N/A	2/2
Zheng Xuezhi (appointed as executive Director since 18 March 2016)	7/7	N/A	N/A	N/A	N/A	2/2
Yang Min (resigned as executive Director since 18 March 2016)	0/0	N/A	N/A	1/1	N/A	0/0
Liao Pin-tsung (resigned as executive Director since 18 March 2016)	0/0	N/A	N/A	N/A	N/A	0/0
Independent non-executive Directors						
Wang Ping	7/7	2/2	2/2	N/A	N/A	2/2
Wang Anjian	7/7	2/2	N/A	1/1	1/1	2/2
Ma Qingshan (appointed as independent non-executive Director since 30 March 2016)	6/6	N/A	0/0	0/0	N/A	2/2
Jiang Zhouhua (resigned as independent non-executive Director since 18 March 2016)	0/0	N/A	0/0	0/0	N/A	0/0
Victor Yang (resigned as independent non-executive Director since 19 January 2016)	0/0	0/0	N/A	0/0	N/A	0/0

Note:

As the Company did not convene any other Remuneration Committee meeting or Nomination Committee meeting during 2016 after Mr. Ma Qingshan was appointed, thus the attendance of Mr. Ma Qingshan at such meetings was zero.

The meetings were held in way of Board meeting instead of written resolution to approve any matter in case of significant interest conflict between substantial shareholders or Directors in the matters to be considered by the Board. All independent non-executive Directors who have no significant interest in the transactions have attended the Board meetings. Minutes of Board meetings and specialized committee meetings were prepared and maintained by the company secretary.

(A) Audit Committee

During the period from 1 January 2016 to 18 January 2016, the Audit Committee of the Company comprised the following members:

Independent non-executive Directors	**Non-executive Director**
Mr. Wang Ping *(Chairman)* Dr. Wang Anjian Mr. Victor Yang	Mr. Yang Jiye

Due to retirement and appointment of Directors, during the period from 19 January 2016 to 17 March 2016, the Audit Committee of the Company comprised the following members:

Independent non-executive Directors	**Non-executive Director**
Mr. Wang Ping *(Chairman)* Dr. Wang Anjian	Mr. Yang Jiye

Due to re-designation of Directors, during the period from 18 March 2016 to 31 December 2016, the Audit Committee of the Company comprised the following members:

Independent non-executive Directors	**Non-executive Director**
Mr. Wang Ping *(Chairman)* Dr. Wang Anjian	Mr. Kenneth Jue Lee

The Audit Committee shall act as a focal point for communication among other Directors, the external auditors and the internal auditors in respect of financial and other reporting, internal controls, external and internal audits and such other matters as the Board determines from time to time. The Audit Committee shall assist the Board in fulfilling its duties by providing an independent review and supervision of financial reporting, satisfying themselves as to the effectiveness of the internal controls of the Group and as to the adequacy of the external and internal audits.

On 17 December 2015, the Board resolved that the Audit Committee should be responsible for the review of the effectiveness of risk management and the internal control system, and formulated the revised Terms of Reference and Operating Mode of the Audit Committee to reflect the authority. The revised Terms of Reference and Operating Mode of the Audit Committee were published on the websites of the Stock Exchange and the Company on 17 December 2015. The terms of reference of the Audit Committee shall at least include: to supervise the financial reporting system, risk management and internal control system of the Company; to review the financial control of the Company as well as, unless expressly addressed by a separate risk committee under the Board, or by the Board itself, to review the risk management and internal control system of the Company; to discuss the risk management and internal control system with the management and to ensure that the management has performed its duties in establishing an effective system; to consider major investigation findings on risk management and internal control matters and the response of the management on investigation findings on its own initiative or as delegated by the Board.

During the year of 2016, the Audit Committee held a total of two meetings, at which the Audit Committee reviewed the half-year and annual financial results and financial reports of the Group for the first half of 2016 and the year 2015 respectively, the principles and methods of the internal control report and the risk management, terms of the connected transactions and other issues, and also discussed the appointment of auditors and the determination of their remuneration. The external auditors and all members of the Audit Committee have attended the above meetings.

(B) Remuneration Committee

During the period from 1 January 2016 to 17 March 2016, the Remuneration Committee of the Company comprised the following members:

Non-executive Director	**Independent non-executive Directors**
Mr. Yang Jiye	Mr. Wang Ping *(Chairman)*
	Mr. Jiang Zhouhua

During the period from 18 March 2016 to 29 March 2016, the Remuneration Committee of the Company comprised the following members:

Non-executive Director	**Independent non-executive Director**
Mr. Kenneth Jue Lee	Mr. Wang Ping *(Chairman)*

During the period from 30 March 2016 to 31 December 2016, the Remuneration Committee of the Company comprised the following members:

Non-executive Director	Independent non-executive Directors
Mr. Kenneth Jue Lee	Mr. Wang Ping *(Chairman)* Mr. Ma Qingshan

The Remuneration Committee shall formulate remuneration policies for submission to the Board for approval (factors to be considered in the remuneration policies shall include remuneration paid by comparable companies, time commitment and responsibilities and employment conditions of other positions within the Group) and implement the remuneration policies determined by the Board.

During the year of 2016, the Remuneration Committee of the Company held two meetings:

On 29 March 2016, the Remuneration Committee of the Company held its first meeting of 2016, at which the committee mainly reviewed the remuneration policies and structure of the Directors and senior management of the Company and approved the director service agreement of Mr. Ma Qingshan, the supplementary agreement to the director service agreement of Mr. Yang Jiye and the engagement letters of the newly-appointed senior management.

On 26 May 2016, the Remuneration Committee held its second meeting of 2016, at which the committee mainly considered and approved submission of the resolution to the Board regarding the issuance of additional shares as a reward to Mr. Qiu Yumin, the chief executive officer of Hanking Australia Pty Ltd.

(C) Nomination Committee

During the period from 1 January 2016 to 18 January 2016, the Nomination Committee of the Company comprised the following members:

Executive Director	Independent non-executive Directors
Ms. Yang Min *(Chairlady)*	Mr. Jiang Zhouhua Mr. Victor Yang

Due to re-designation and resignation of Directors, during the period from 19 January 2016 to 17 March 2016, the Nomination Committee of the Company comprised the following members:

Executive Director	Independent non-executive Director
Ms. Yang Min *(Chairlady)*	Mr. Jiang Zhouhua

Due to re-designation and resignation of Directors, during the period from 18 March 2016 to 29 March 2016, the Nomination Committee of the Company comprised the following members:

Executive Director	Independent non-executive Director
Mr. Yang Jiye *(Chairman)*	Dr. Wang Anjian

Due to re-designation and resignation of Directors, during the period from 30 March 2016 to 31 December 2016, the Nomination Committee of the Company comprised the following members:

Executive Director	Independent non-executive Directors
Mr. Yang Jiye *(Chairman)*	Dr. Wang Anjian Mr. Ma Qingshan

The Nomination Committee shall formulate policies on nomination for the consideration of the Board and implement nomination policies approved by the Board.

In 2016, the Nomination Committee of the Company held one meeting and passed one written resolution:

On 17 March 2016, the Nomination Committee of the Company passed a written resolution, pursuant to which the committee resolved to submit to the Board the resolution on the re-designation of Mr. Yang Jiye as the executive Director of the Company, and also resolved to submit to the Board the resolution on the appointment of Mr. Zheng Xuezhi as the executive Director, Chief Financial Officer and authorized representative of the Company.

On 29 March 2016, the Nomination Committee of the Company held its first meeting of 2016, at which the retiring Directors were nominated for re-election and Mr. Ma Qingshan was nominated to be appointed as the independent non-executive Director and members of the Nomination Committee and the Remuneration Committee of the Company. The independence of Mr. Wang Ping, Dr. Wang Anjian and Mr. Ma Qingshan were assessed. The members, structure and composition of the Board were reviewed, and the sufficiency of time and efforts contributed by the Directors of the Company were also discussed.

Diversity Policies

The Company will make efforts to keep an appropriate balance in diversity of skills, experience and opinions of the Board members, so as to support the execution of business strategies and ensure the effective operation of the Board.

With a view that "diversity" is a broad concept, the Company may consider the board diversity in designing the Board's composition from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy as well as the business model of the Company and specific needs from time to time, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Measurable Objectives of 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 2016, the Board comprised nine Directors, 9 of them are male. There were 2 Directors at the age range of 31-40, 3 Directors at the range of 41-50, 3 Directors at the range of 51-60 and 1 Director aged over 61, of which 5 Directors are from Mainland China, 2 from Hong Kong, 1 from the U.S. and 1 from Australia. All Directors have received tertiary education or above, and three of them have obtained doctorate degree. The Directors have rich experiences in enterprise operation and management and risk management and control, mine site exploration, development, operation and investment, geology and mineral resources, financial, financing and securities, 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 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**
Mine site exploration, development and operation and geology	Totalling three persons, including Pan Guocheng, Qiu Yumin and Wang Anjian	3/9
Financial, investment and financing	Totalling three persons, including Zheng Xuezhi, Kenneth Jue Lee, and Wang Ping	3/9
Enterprise management and risk management and control	Totalling three persons, including Yang Jiye, Xia Zhuo and Ma Qingshan	3/9

(D) Health, Safety, Environmental Protection and Community Committee

During the period from 1 January 2016 to 31 December 2016, the HSEC Committee of the Company comprised the following members:

Chairman	**Members**
Dr. Pan Guocheng *(Executive Director)*	Mr. Yang Jiye *(Executive Director)* Dr. Wang Anjian *(Independent non-executive Director)*

In 2016, the HSEC Committee of the Company held one meeting, at which the committee considered the preliminary draft of the Environmental, Social and Governance Report of the Company for the year 2015 before submitting the same to the Board of the Company.

CORPORATE GOVERNANCE

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

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Group's policies and practices in compliance with the laws and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual applicable to employees and the Directors; and

(e) to review the Group's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

The Company compiled the existing corporate governance system and dispatched it to the Directors in 2016. The Board reviews the Group's corporate governance on an annual basis.

REMUNERATION OF AUDITORS

The Shareholders of the Company approved the resolution for the re-appointment of Deloitte Touche Tohmatsu as the auditor of the Company for 2016 and authorizing the Board to determine its remuneration at the annual general meeting held on 27 May 2016. The Company continued to appoint Deloitte Touche Tohmatsu as the auditor of the Company for the year of 2016 with a term of one year to the date of the 2017 annual general meeting. As of 31 December 2016, details of the audit and non-audit services provided by the auditor for the Group are as follows:

Audit Service	The total fee charged for providing the Group with the interim audit for the financial statements as of 30 June 2016 and annual audit for the financial statements as of 31 December 2016 was RMB2,550,000 (excluding taxation and sundries).
Non-audit Service	Nil.

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 2016, which gave a true and fair view of the state of affairs of the Group and of the results and cash flows 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 respond to the queries and concerns raised by the Audit Committee and the Board to their satisfaction. The consolidated financial statements have been prepared in accordance with the IFRS. In addition, the financial statements included appropriate disclosure made in accordance with the Listing Rules and the Companies Ordinance. The responsibility of the independent auditor engaged by the Company for the preparation of the financial statements of the Group was set out in the independent auditor's report of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the risk management and internal control system of the Group, including setting management structure and making appropriate authorization, identifying proper accounting policy and providing reliable financial information for internal and external use. The measures above were designed to provide reasonable (but not absolute) assurance against material misstatement or loss, and to manage (but not fully eliminate) risks of failure in operational systems and achievement of the Group's objectives. The Board authorized the Audit Committee to supervise the financial reporting system, risk management and internal control system of the Company; to review the financial control of the Company and to review the risk management and internal control system of the Company; to discuss the risk management and internal control system with the management and to ensure that the management has performed its duties in establishing an effective system; to consider major investigation findings on risk management and internal control matters and the response of the management on investigation findings on its own initiative or as delegated by the Board.

The Group has established an internal control system and formulated regulations on the segregation of duties of the Board and senior management, according to which the senior management is responsible to the Board and executes the resolution proposed by the Board and is entitled to manage and oversee the Group's operations. The Group has reviewed the effectiveness of risk management and the internal control system.

The management of the Company provides the members of the Board with monthly updates of the Group, which set out the balanced and understandable assessment of the Group's performance, financial position and prospects.

The Group has established a specialized internal audit organ, formulated relevant mechanism, and set up proper internal control procedures to ensure the effectiveness of internal control and risk management and extend its application to all the Group's holding subsidiaries. Annual audit report and plan of the audit department were approved by the Audit Committee.

The Company established a set of sound and reasonable internal control system covering operation and management and all other material aspects, which was in line with the actual situation of the Company and was implemented in an effective manner. The Company summarized and established the risk management and control policy. Through ongoing summarization and self-review on the internal control process, the internal audit department carried out internal audit on key business processes and risks areas according to the control assessment standards and risks areas, and carried out effectiveness tests and assessment on our development strategies, organizational structure, enterprise culture, human resources and social responsibility according to the internal control and risk assessment standards and internal control assessment plan. With reference to the requirements under the Guideline on Internal Control Assessment (《內部控制評價指引》), the management prepared the self-assessment report covering the whole year of 2016, which was submitted to the Audit Committee and the Board for consideration and approval. The deficiency in the internal control and the remedial results identified during the auditing process and monitoring and assessment of the risk management system were also contained in the self-assessment report. In addition, under the guidance of the Audit Committee, the management prepared the Plan on Continuous Monitoring of the Risk Management System and the Internal Control of the Company (《關於持續監察公司風險管理體系及內部監控的計劃》), and reviewed the risk management and internal control system of the Company in respect of the possibility of risks and the impact on the accomplishment of company goals, for which the Company has outlined the relevant plan and time schedule. By doing so, the Board is of the opinion that the Company has maintained effective internal control over the financial reporting process in all material aspects with reference to the requirements under the enterprise internal control regulation system and the relevant provisions. According to the assessment of deficiency in the internal control over the non-financial reporting process of the Company, as at the reference date of the internal control assessment report, no material defects or major deficiencies in the internal control over the non-financial reporting process were identified.

ARTICLES OF ASSOCIATION

For the year 2016, there were no material changes to the Articles of Association of the Company.

COMMUNICATION POLICY WITH SHAREHOLDERS

The Company attached great importance to the communication with shareholders and promoted understanding and communication with shareholders through various channels of general meetings, results announcement conferences, road show activities, receiving guests and telephone counseling.

(A) The rights of Shareholders

The Articles of Association provides the rights and obligations of all Shareholders.

Shareholders are encouraged to attend the annual general meetings or extraordinary general meetings to ensure the high level of accountability and to stay apprised of the Group's strategy and goals.

There are no provisions allowing Shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision). However, pursuant to the Articles of Association, member or members holding not less than one-tenth of paid-up capital of the Company entitled to vote at the meeting on the date of submitting requirements, is or are entitled to give written requirements to the Board or the Company Secretary of the Company to request the Board to convene an extraordinary general meeting at any time and to handle the matters set out in the above requirements. The above meeting shall be convened within two (2) months after submitting relevant requirements to the Company's principal place of business in Hong Kong, at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong and for the attention of the Company Secretary. If the Board had not convened the meeting within twenty-one (21) days after receiving the requirements, the requesting persons can convene the meeting by which all the reasonable expenses of petitioners so caused should be compensated by the Company.

According to the Listing Rules, any voting of the shareholders at a general meeting must be taken by poll (except where the chairlady/chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands) and the results of the poll shall be deemed to be the resolution of the meeting.

(B) Procedures of putting forward enquiries to the Board by Shareholders

For putting forward any enquiries or proposals to the Board, Shareholders may send written enquiries to the Company. The contact information is as follows:

Address: 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Tel: +852 3589 8899
Fax: +852 3589 8555

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Meanwhile, the Chairlady/Chairman of the Board as well as Chairlady/Chairmen of all of the specialized committees of the Company, or in their absence, other members of the respective committees, are available to answer questions at the annual general meeting. The independent auditor shall also be present at the meeting to assist the Directors to answer questions raised by the shareholders.

(C) Shareholders' enquiries

Any enquiries relating to your shareholding, for example, transfers of shares, change of address, lost share certificates or dividend cheques, shall be sent or made to Computershare Hong Kong Investor Services Limited, the Company's branch Share Registrars in Hong Kong whose contact information is as follows:

Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Tel: +852 2862 8628
Fax: +852 2865 0990, +852 2529 6087
Website: www.computershare.com.hk

(D) Investor relations and communication

The Company promotes the effective communication with Shareholders, investors and other interested persons through website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the Company's website (www.hankingmining.com). The Company's website sets out the following information:

- Articles of Association, the Board and its specialized committees and the biographies of Directors;
- announcements, circulars, regular reports, promotional materials and press releases of the Company;
- financial information and summarized financial information for the respective years of the Company;
- information about the Company's shares;

The Company's website also provides investors' calendar and subscription of company information services, so as to promote the communication with investors.

In addition, the Company duly issues company consultancy and other related financial information, including detailed information related to the Company's business performance and development as disclosed in annual report, interim report, news release and announcement.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

1. COMPOSITION OF DIRECTORS

As at the Latest Practicable Date, the Board consisted of five executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets forth certain information in respect of our Directors:

Name	Age	Position/Title in the Group	Date of Appointment/ Re-election	Roles and Responsibilities
Mr. Yang Jiye	39	Executive Director and Chairman of the Board	re-designated from non-executive Director to executive Director and appointed as Chairman of the Board on 18 March 2016 re-elected as executive Director on 27 May 2016	responsible for the overall operation and development strategy of the Group as well as supervision on the execution and implementation of the strategies by the management
Dr. Pan Guocheng	60	Executive Director, Chief Executive Officer and President	28 May 2015	responsible for the implementation of the overall operation and development strategy and daily operation and management of the Group
Mr. Zheng Xuezhi	47	Executive Director and Chief Financial Officer	appointed as executive Director and Chief Financial Officer on 18 March 2016	responsible for the financial management and accounting of the Group
Mr. Xia Zhuo	51	Executive Director, Vice President, Joint Company Secretary and the president of Hanking (Indonesia)	27 May 2016	Responsible for the daily work of the Board of the Group and daily operation and management of the nickel business
Dr. Qiu Yumin	54	Executive Director, Vice President and the executive director, chief executive officer and president of Hanking Australia (罕王澳大利亞) and Hanking Gold	29 May 2014	responsible for the daily operation and management of the Group's gold business
Mr. Kenneth Jue Lee	49	Non-executive Director	28 May 2015	N/A
Mr. Wang Ping	46	Independent non-executive Director	27 May 2016	N/A
Dr. Wang Anjian	63	Independent non-executive Director	29 May 2014	N/A
Mr. Ma Qingshan	37	Independent non-executive Director	30 March 2016	N/A

Resignation/Retirement of Directors

Name	Age	Position/Title	Date of Appointment	Date of Resignation/ Retirement	Roles and Responsibilities
Ms. Yang Min	62	Executive Director and Chairlady of the Board	28 May 2015	18 March 2016	N/A
Mr. Liao Pin-Tsung	42	Executive Director and Chief Financial Officer	appointed as executive Director on 16 July 2015 appointed as Chief Financial Officer on 1 April 2015	18 March 2016	N/A
Mr. Jiang Zhouhua	53	Independent non-executive Director	28 May 2015	18 March 2016	N/A
Mr. Victor Yang	71	Independent non-executive Director	28 May 2015	19 January 2016	N/A

2. BIOGRAPHY OF NON-EXECUTIVE DIRECTORS

Mr. Kenneth Jue Lee, aged 49, is a non-executive Director. He has served on the Company's Board of Directors since 2012. Mr. Lee has more than 20 years of experience across private equity investments, corporate finance and business development in China. He is a partner at SAIF Partners, which manages one of the largest and most successful growth venture private equity investment funds in China that mainly focuses on the Chinese market. He is also a non-executive director of Sinovac Biotech Ltd. (NASDAQ-GM:SVA), a company listed in the USA, and China Polymetallic Mining Limited (HKSE: 02133, a company listed on the Stock Exchange). He is a board director for four other private Chinese companies backed by SAIF Partners. Mr. Lee graduated from Amherst College in Massachusetts, the USA.

3. BIOGRAPHY OF EXECUTIVE DIRECTORS

Mr. Yang Jiye, aged 39, is an executive Director and Chairman of the Board. Meanwhile, he is also the vice chairman of the board of directors of Aoniu Mining, director of Hanking Gold and Hanking Indonesia, and supervisor of KS, KKU, KP and HMNS. Mr. Yang is currently serving as the vice-chairman of the board of directors of Hanking Group and the chairman of the board of directors of Liaoning Hanking Investment Co., Ltd. (遼寧罕王投資有限公司). With his previous and current positions in the Group, he has more than 14 years of experience in corporate governance and management. Over the past three years, he did not hold any directorships in any other listed public companies. Mr. Yang is the son of Ms. Yang Min, a controlling shareholder.

Dr. Pan Guocheng, aged 60, is an executive Director, Chief Executive Officer and President. Currently, he is the director of Aoniu Mining, STSU, Hanking Australia and Hanking Gold and the supervisor of KS, KKU, KP and HMNS. Being in his previous and current positions in the Group, Dr. Pan has obtained more than 26 years of experience in operation management and project development from mining companies. Over the past three years, he did not hold any directorships in any other listed public companies.

Mr. Zheng Xuezhi, aged 47, is an executive Director and Chief Financial Officer. Mr. Zheng joined the Group in 2008. He is the director of Fushun Hanking Aoniu Mining Limited and the supervisor of PT Konutara Sejati, PT Konutara Prima, PT Karyatama Konawe Utara and PT Hanking Makmur Nickel Smelt, which are the subsidiaries of the Company. Mr. Zheng was responsible for financial management and accounting of the Group. Mr. Zheng is also a director of Liaoning Hanking Investment Co., Ltd. and chairman of the board of directors of Luoyang Precision of Machine Equipment Technology Co., Ltd. (中機洛陽精密裝備科技股份有限公司).

Prior to joining the Group, he held positions in various organisations, including deputy general manager of Zhongxi Certified Public Accountants (中喜會計師事務所) from 2004 to 2007, and manager of audit department at Weifang Yuandu Certified Public Accountants LLP (濰坊鳶都有限責任會計師事務所) from 2001 to 2003. Being in his previous and current positions in the Group, Mr. Zheng has obtained more than 14 years of experience in financing, auditing, taxation and accounting. Mr. Zheng graduated from Northeast University (東北大學) with a master degree of business administration for executives. Mr. Zheng is a certified public accountant in the PRC.

Mr. Xia Zhuo, aged 51, is an executive Director, Vice President, Joint Company Secretary, and the president of Hanking (Indonesia). He is responsible for daily administrative matters of the Group. He is currently serving as the director and board secretary of Aoniu Mining, the director of STSU, the director and president of Harvest Globe (Shenyang) as well as the chairman of KS, KKU and KP and the supervisor of HMNS. In addition, he also serves as the director of Hanking Group. Mr. Xia has obtained more than 20 years of experience in the mining industry. Over the past three years, he did not hold any directorships in any other listed public companies.

Dr. Qiu Yumin, aged 54, is an executive Director and Vice President. He is also an executive director, chief executive officer and president of Hanking Australia and Hanking Gold. He is responsible for the overall business management of the Group's gold project in Australia. Mr. Qiu Yumin is a member of Australian Institute of Geoscientists, and has over 19 years of experience in exploration and business development. Currently, save for the directorship in the Company, he is also a non-executive director of Primary Gold Limited (ASX: PGO) and Kimberley Diamonds Limited (ASX: KDL), both companies listed in Australia.

4. BIOGRAPHY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Ping, aged 46, is an independent non-executive Director. He is a fellow member of the Chinese Institute of Certified Public Accountants. Mr. Wang has over 20 years of experience in corporate finance, audit and accounting. Mr. Wang is currently acting as the Independent non-executive director of Chongyi Zhangyuan Tungsten Co., Ltd. (SZSE: 002378), Sichuan Crun Co., Ltd. (SZSE: 002272), Shenzhen Zowee Tech. Co., Ltd. (SZSE: 002369) and Shenzhen Fuanna Bedding and Furnishing Co., Ltd. (SZSE: 002327), all being companies listed on the Shenzhen Stock Exchange, as well as China Sinostar Group Company Limited (SEHK: 485), China Tianrui Group Cement Company Limited (SEHK: 1252) and Jia Yao Holdings Limited (SEHK: 1626), all being companies listed on the Stock Exchange. He was also an executive director and chief financial officer of China First Capital Group Limited, a company listed on the Stock Exchange (SEHK: 1269), from April 2014 to December 2015 and from March 2012 to December 2015 respectively. Save as disclosed above, over the past three years, he did not hold any directorships in any other listed public companies.

Dr. Wang Anjian, aged 63, is an independent non-executive Director of the Company. Dr. Wang Anjian is currently the director and researcher of the Research Center for Strategy of Global Mineral Resources, Chinese Academy of Geological Sciences, responsible for the organizing, researching and training and he is also the standing director of Chinese Society for Environmental Sciences and the adjunct professor of China University of Geosciences (Beijing). Dr. Wang Anjian has extensive experience in the research of resource strategy. Over the past three years, Dr. Wang Anjian did not hold any directorships in any other listed public companies.

Mr. Ma Qingshan, aged 38, is an independent non-executive Director of the Company and has over 15 years of experience in management and consultation. He once served as consulting director of KPMG Advisory (China) Limited and Accenture (China) Co., Ltd. and a partner of Beijing Yucheng Hengsheng Management Consultating Co., Ltd.(北京譽誠恒盛管理諮詢有限公司). He provided management consulting services for fifteen Fortune top 500 companies and a number of listed public companies and fast-growing enterprises. He has extensive experience in company strategic planning, business model and control model, digitalization and internet transformation, post-acquisition integration, enterprise performance management, enterprise investment management, business process optimization and global business development. Mr. Ma obtained a bachelor's degree in finance and e-commerce from Peking University, and is qualified as a Chartered Financial Analyst (CFA). Over the past three years, Mr. Ma Qingshan did not hold any directorships in any other listed public companies.

5. SENIOR MANAGEMENT

The following table sets forth certain information in respect of our senior management as at the Latest Practicable Date:

Name	Age	Position/Title	Biography
Pan Guocheng	60	Chief Executive Officer and President	See "Biography of Executive Directors"
Zheng Xuezhi	47	Chief Financial Officer	See "Biography of Executive Directors"
Qiu Yumin	54	Vice President, and executive director, chief executive officer and president of Hanking Australia and Hanking Gold	See "Biography of Executive Directors"
Xia Zhuo	51	Vice President, Joint Company Secretary of the Company and president of Hanking (Indonesia)	See "Biography of Executive Directors"
Huang Jinfu	60	General manager of Aoniu Mine and Maogong Mine	See below

Mr. Huang Jinfu, aged 60, is the director of Aoniu Mining and general manager of Aoniu Mine and Maogong Mine, responsible for the daily operation and management of the Group's iron ore business. Mr. Huang is a mineral processing engineer. He joined the Group in 2008 and has more than 32 years of experience in the mining industry.

The following table sets forth certain information in respect of our senior management who have tendered their resignation during this year:

Name	Age	Date of Resignation and the Position/Title Resigned	Biography
Mr. Liao Pin-Tsung	41	Resigned as Chief Financial Officer on 18 March 2016	–
Chen Yanshao	54	Resigned as Vice President of the Company on 1 April 2016	–

6. JOINT COMPANY SECRETARIES

Ms. Mok Ming Wai is a director of KCS Hong Kong Limited (a company secretarial services provider). She is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Mok has over 20 years of professional and in-house experience in the company secretarial field. Ms. Mok is currently company secretary or joint company secretary of several listed companies. During her term serving as the Joint Company Secretary of the Company, Ms. Mok Ming Wai kept connection with the Company, the Board and the key senior management through close communication with Mr. Xia Zhou, the other Joint Company Secretary of the Company.

Mr. Xia Zhuo is a Joint Company Secretary of the Company. For details regarding Mr. Xia's experience, please see "Biography of Executive Directors" above.

TO THE SHAREHOLDERS OF CHINA HANKING HOLDINGS LIMITED

(中國罕王控股有限公司)

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Hanking Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 90 to 167, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 2016, 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 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"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw your attention to note 2 to the consolidated financial statements which indicates that the Group incurred a net loss of RMB213,877,000 during the year ended 31 December 2016, and, as of that date, the Group's current liabilities exceeded its current assets by RMB745,254,000. In addition, the Group had capital commitments, contracted but not provided in the consolidated financial statements, amounting to RMB172,163,000 as disclosed in note 36 to the consolidated financial statements. As stated in note 2, the Group's utilisation of its available conditional banking facilities are subject to approval on a case-by-case basis. These conditions, along with other matters as set out in note 5, indicating that a material uncertainty on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Impairment of long-lived assets (including property, plant and equipment, mining rights and prepaid lease payments) *Refer to notes 18 to 21*	
We identified impairment assessment of property, plant and equipment, mining rights and prepaid lease payments, being the major assets engaged in iron ore segment, as a key audit matter because these assets have been impacted by sustained volatility in commodity prices and assessment of impairment involved significant estimation of uncertainty. The management of the Group reviews the recoverable amounts of those assets (which is the higher of its value-in-use and its fair value of disposal) to determine whether there is any impairment loss. The recoverable amount of those tangible and intangible assets were determined based on a value-in-use calculation required significant management judgement and forward looking estimates with respect to the discount rate, iron ore selling price and the assumptions adopted in the underlying cash flows of each asset or cash generating unit. As stated in note 21, an impairment loss of RMB61,197,000 for one of the suspended iron ore mines has been recognized for the year ended 31 December 2016.	Our procedures in relation to management's impairment assessment included: • Understanding the management's approach on identification of indicators on impairment of long-lived assets and checking whether the approach is reasonable and supportable; • Assessing whether the model used by the management in calculating the value-in-use of the individual cash generating units were in compliance with IAS 36 Impairment of Assets; • Understanding the projected cash flows, evaluating the assumptions related to the production volumes, commodity selling prices, revenue growth rates, market outlook and industry trend, and comparing those inputs against available market data and externally available benchmarks as well as historical performance; • Agreeing operating and future capital expenditure to the latest approved plans and budgets. Assessing the historical accuracy of the plans and budgets.

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter *(CONTINUED)*	**How our audit addressed the key audit matter** *(CONTINUED)*
Closure and rehabilitation provisions *Refer to note 32* We identified the closure and rehabilitation provision as key audit matter due to the complexity and uncertainty in estimating such future costs in respect of the Group's gold mine in Australia. In accordance with the relevant legislative requirements in Australia, the Group incurs significant obligation to close, restore and rehabilitate in operating its gold mine there. In assessing the provision, the Group exercises key judgement on the estimation over the life of mine, future costs of rehabilitation and restoration, timing of payments of these costs and discount rates.	Our audit procedures in relation to the closure and rehabilitation provisions included: • Understanding the management's approach and procedures performed on closure and rehabilitation provisions; • Testing the key controls over the management's estimation of closure and rehabilitation provisions and compliance with the Group's accounting policies; • Assessing the competences, capability and objectivity of the independent professional valuer, verifying its qualification; discussing the scope of work of the valuer with management and reviewing its terms of engagement to determine that there were no matters that affected objectivity or imposed scope limitations upon it; • Challenging the key assumptions used in the calculation, including the discount rate applied to calculate the net present value of the provision; and • Involving internal valuation specialists in assessing the reasonableness of estimates of reserve life used by the Group in its closure and rehabilitation provisions based on their experiences and use of industry accepted methodology.

OTHER INFORMATION

The directors of the company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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.

OTHER INFORMATION *(CONTINUED)*

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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible 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 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. 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 judgment 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.

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

- 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.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 those charged with governance, 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 the independent auditor's report is David Leung Ho Ming.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	6	**1,707,198**	1,219,751
Cost of sales		**(1,411,618)**	(929,221)
Gross profit		**295,580**	290,530
Investment and other income	8	**18,768**	33,389
Other gains and losses	9	**(163,044)**	(292,763)
Distribution and selling expenses		**(37,603)**	(38,386)
Administrative expenses		**(182,048)**	(230,786)
Finance costs	10	**(138,576)**	(169,319)
Loss before tax	11	**(206,923)**	(407,335)
Income tax (expense) credit	12	**(6,954)**	5,657
Loss for the year		**(213,877)**	(401,678)
Other comprehensive income (expense):			
Items that may be subsequently reclassified to profit or loss:			
Fair value gain on available-for-sale financial assets		**10,442**	5,066
Exchange differences on translation of financial statements of foreign operations		**38,642**	(33,258)
Remeasurement of defined benefit pension plans		**(30)**	326
Reclassification adjustment for cumulative gain included in profit or loss on disposal		**(4,300)**	–
Other comprehensive income (expense) for the year, net of income tax		**44,754**	(27,866)
Total comprehensive expense for the year		**(169,123)**	(429,544)
Loss for the year attributable to:			
Owners of the Company		**(207,408)**	(381,596)
Non-controlling interests		**(6,469)**	(20,082)
		(213,877)	(401,678)
Total comprehensive expense attributable to:			
Owners of the Company		**(164,409)**	(407,113)
Non-controlling interests		**(4,714)**	(22,431)
		(169,123)	(429,544)
LOSS PER SHARE			
– Basic and diluted (RMB cent per share)	17	**(11.3)**	(20.9)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

	Notes	31/12/2016 RMB'000	31/12/2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	18	**1,381,364**	1,510,095
Intangible assets	19	**995,487**	1,075,186
Prepaid lease payments	20	**245,263**	285,636
Available-for-sale financial assets	27	**19,628**	11,362
Deferred tax assets	22	**16,942**	22,694
Loan receivable	23	**11,300**	11,300
Deposit on acquisition of property, plant and equipment		**33,668**	17,486
Restricted deposits	24	**17,054**	23,112
		2,720,706	2,956,871
CURRENT ASSETS			
Inventories	25	**144,779**	147,606
Prepaid lease payments	20	**38,760**	42,873
Trade and other receivables	26	**456,058**	647,357
Tax recoverable		**4,198**	4,342
Available-for-sale financial assets	27	**402,007**	110,727
Pledged bank deposits	28	**43,692**	913,785
Bank balances and cash	28	**70,162**	99,223
		1,159,656	1,965,913
CURRENT LIABILITIES			
Trade and other payables	29	**468,033**	535,572
Borrowings	30	**1,341,599**	2,761,947
Consideration payable	31	**68,006**	69,608
Tax liabilities		**27,272**	32,131
		1,904,910	3,399,258
NET CURRENT LIABILITIES		**(745,254)**	(1,433,345)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,975,452**	1,523,526

(Continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

	Notes	31/12/2016 RMB'000	31/12/2015 RMB'000
CAPITAL AND RESERVES			
Share capital	34	**149,137**	149,137
Reserves		**452,939**	615,026
Equity attributable to owners of the Company		**602,076**	764,163
Non-controlling interests	35	**203,093**	204,172
TOTAL EQUITY		**805,169**	968,335
NON-CURRENT LIABILITIES			
Borrowings	30	**831,400**	211,405
Consideration payable	31	**226,228**	223,007
Rehabilitation provision	32	**110,628**	115,017
Retirement benefit obligations	33	**1,525**	1,023
Deferred tax liabilities	22	**502**	4,739
		1,170,283	555,191
		1,975,452	1,523,526

The consolidated financial statements on pages 90 to 167 were approved and authorised for issue by the board of directors on 22 March 2017 and are signed on its behalf by:

Pan Guocheng
Director

Zheng Xuezhi
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Attributable to owners of the Company													
	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	Translation reserve RMB'000	Share-based payment reserve RMB'000	Special reserve RMB'000 (note c)	Actuarial reserve on retirement benefit plan RMB'000	Other 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 2015	149,137	495,537	84,970	456,667	–	(56,830)	–	(557,161)	–	–	598,956	1,171,276	228,458	1,399,734
Loss for the year	–	–	–	–	–	–	–	–	–	–	(381,596)	(381,596)	(20,082)	(401,678)
Other comprehensive (expense) income for the year	–	–	–	–	5,066	(30,811)	–	–	228	–	–	(25,517)	(2,349)	(27,866)
Total comprehensive (expense) income for the year	–	–	–	–	5,066	(30,811)	–	–	228	–	(381,596)	(407,113)	(22,431)	(429,544)
Transfer to future development funds reserve, net of utilisation	–	–	–	18,738	–	–	–	–	–	–	(18,738)	–	–	–
Disposal of a subsidiary (note 13)	–	–	–	–	–	–	–	–	–	–	–	–	(1,855)	(1,855)
Balance at 31 December 2015	149,137	495,537	84,970	475,405	5,066	(87,641)	–	(557,161)	228	–	198,622	764,163	204,172	968,335
Loss for the year	–	–	–	–	–	–	–	–	–	–	(207,408)	(207,408)	(6,469)	(213,877)
Other comprehensive income (expense) for the year	–	–	–	–	11,001	36,319	–	–	(21)	–	–	47,299	1,755	49,054
Disposal of available-for-sale investments	–	–	–	–	(4,300)	–	–	–	–	–	–	(4,300)	–	(4,300)
Total comprehensive income (expense) for the year	–	–	–	–	6,701	36,319	–	–	(21)	–	(207,408)	(164,409)	(4,714)	(169,123)
Transfer to future development funds reserve, net of utilisation	–	–	–	36,693	–	–	–	–	–	–	(36,693)	–	–	–
Ordinary shares of a subsidiary issued (note 38)	–	–	–	–	–	–	–	–	–	–	–	–	3,021	3,021
Effect of share awards (note d)	–	–	–	–	–	–	–	–	–	(614)	–	(614)	614	–
Recognition of equity-settled share based payments (note 38)	–	–	–	–	–	–	2,936	–	–	–	–	2,936	–	2,936
Balance at 31 December 2016	149,137	495,537	84,970	512,098	11,767	(51,322)	2,936	(557,161)	207	(614)	(45,479)	602,076	203,093	805,169

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

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, certain PRC subsidiaries of the Company are required to transfer an amount to a future development fund at RMB5-10 (2015: RMB5-10) 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.

The future development fund provided during the year ended 31 December 2016 amounted to RMB46,331,000 (2015: RMB46,303,000). The amount utilised during the year was RMB9,638,000 (2015: RMB27,565,000).

(c) Special reserve mainly represented the contribution from distribution to the then equity shareholders when the Company has the business combination involving entities under common control in 2013.

(d) Other reserve represents the dilution impact to the Group's interest in Hanking Australia as a result of the Share Subscription transaction as more fully explained in note 38.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
OPERATING ACTIVITIES			
Loss before tax		**(206,923)**	(407,335)
Adjustments for:			
Finance costs		**138,576**	169,319
Interest income		**(9,427)**	(27,685)
Impairment of property, plant and equipment, intangible assets and prepaid lease payments		**61,197**	227,533
(Gain) loss on disposal of property, plant and equipment		**(1,000)**	12,777
Reversal of allowance on inventories		**(4,708)**	(4,440)
Impairment loss on available-for-sale assets		**–**	441
Depreciation of property, plant and equipment		**389,195**	226,249
Release of prepaid lease payments		**28,215**	32,573
Amortisation of intangible assets		**108,360**	53,100
Loss on disposal of a subsidiary	13	**47,194**	2,266
Disposal of available-for-sale financial assets		**(4,300)**	–
Net foreign exchange loss		**31,452**	46,073
Recognition of equity-settled share-based payment		**2,936**	–
Operating cash flows before movements in working capital		**580,767**	330,871
Decrease (increase) in inventories		**4,641**	(7,159)
Increase (decrease) in trade and other receivables		**129,308**	(72,418)
Increase in trade and other payables		**36,146**	60,808
Increase in retirement benefit obligations		**472**	409
Cash generated from operations		**751,334**	312,511
Interest paid		**(154,089)**	(157,027)
Income tax (paid) refunded		**(2,910)**	4,142
NET CASH FROM OPERATING ACTIVITIES		**594,335**	159,626
INVESTING ACTIVITIES			
Payment of consideration payable for acquisition of a subsidiary		**–**	(11,670)
Interest received		**28,954**	22,871
Payments for property, plant and equipment		**(385,613)**	(350,599)
Decrease in deposit paid for acquisition of property, plant and equipment		**(16,182)**	4,284
Disposal of a subsidiary	13	**(91)**	(571)
Disposal of available-for-sale financial assets		**107,000**	–
Payments for available-for-sale financial assets		**(400,000)**	(108,769)
Payments for intangible assets		**(64,945)**	(86,781)
Payments for prepaid lease payments		**(7,534)**	(25,357)
Proceeds on disposal of property, plant and equipment		**11,190**	9,538
Increase (decrease) in restricted deposits		**6,058**	(19,098)
NET CASH USED IN INVESTING ACTIVITIES		**(721,163)**	(566,152)

(Continued)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
FINANCING ACTIVITIES			
Withdrawal of pledged bank deposits		**913,785**	–
Placement of pledged bank deposits		**(43,692)**	(411,332)
New borrowings raised		**2,370,784**	1,680,400
Repayment of borrowings		**(3,149,786)**	(1,067,855)
Capital injection from non-controlling interest		**3,021**	–
NET CASH GENERATED FROM FINANCING ACTIVITIES		**94,112**	201,213
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(32,716)**	(205,313)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**99,223**	299,587
Effect of foreign exchange rate changes		**3,655**	4,949
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash		**70,162**	99,223

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

1. GENERAL

China Hanking Holdings Limited (the "Company") is a public limited company incorporated in the Cayman Islands on 2 August 2010 with its shares listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 September 2011.

The address of registered office of the Company in Cayman Islands is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The address of principal place of business of the Company in Hong Kong is 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

The Company is an investing holding company. The Company and its subsidiaries ("the Group") is engaged in three principal activities:

(i) iron ore exploration, mining, processing and sale;

(ii) nickel ore exploration, mining, smelting and sale;

(iii) gold exploration, mining, processing, smelting and sale.

Details of the Company's subsidiaries are set out in note 35.

2. BASIS OF PREPARATION

The directors of the Company (the "**Director**") have given careful consideration to the going concern of the Group in light of the fact that the Group reported a net loss of RMB213,877,000 for the year ended 31 December 2016 and as of that date, the current liabilities exceeded its current assets by RMB745,254,000. In addition, as at 31 December 2016, the Group had capital commitments, contracted for but not provided in the consolidated financial statements, amounting to RMB172,163,000 disclosed in note 36.

As at 31 December 2016, the Group had available conditional banking facilities amounted to RMB1,652,530,000 ("**Conditional Facilities**"). The utilisation of these Conditional Facilities are subject to approval on a case-by-case basis. The Directors are confident that the Group would be successful in obtaining approval in respect of these Conditional Facilities, considering that the Group has successfully renewed bank borrowings of totally RMB425,092,000 upon their maturities during the year. The Directors believe that those short term bank borrowings outstanding as of 31 December 2016 can be successfully renewed upon maturity. Accordingly, the Directors are of the opinion that, together with the internal financial resources of the Group, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months commencing from the end of the reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

Amendments to IFRS 11	*Accounting for Acquisitions of Interest in Joint Operations*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Amendments to IFRS 10, IFRS12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRSs	*Annual Improvements to IFRSs 2012-2014 Cycle*

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to IAS 1 Disclosure Initiative

The Group has applied the amendments to IAS 1 *Disclosure Initiative* for the first time in the current year. The amendments to IAS 1 clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Group has applied these amendments retrospectively. The grouping and ordering of capital risk management, financial instruments, revenue and segment information have been revised to give prominence to the areas of the Group's activities that management considers to be most relevant to an understanding of the Group's financial performance and financial position. Specifically, capital risk management, financial instruments, information in relation to revenue and segment information were reordered to notes 41, 42, 6 and 7 respectively. Other than the above presentation and disclosure changes, the application of the amendments to IAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 9	*Financial Instruments*[1]
IFRS 15	*Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 7	*Disclosure Initiative*[4]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[4]
Amendments to IAS 40	*Transfers of Investment Property*[1]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2014-2016 Cycle*[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at Fair Value Through Other Comprehensive Income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

New and amendments to IFRSs in issue but not yet effective *(continued)*

IFRS 9 Financial Instruments *(continued)*

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of IFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured amortised cost.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

New and amendments to IFRSs in issue but not yet effective *(continued)*

IFRS 15 Revenue from Contracts with Customers *(continued)*

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the Directors do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

New and amendments to IFRSs in issue but not yet effective *(continued)*

IFRS 16 Leases *(continued)*

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB8,351,000 as disclosed in note 37. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a "net settlement feature", such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

   (i) the original liability is derecognised;

   (ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and

   (iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The Directors assess that there will be no material impact on the application of Amendments to IFRS 2.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

New and amendments to IFRSs in issue but not yet effective *(Continued)*

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The Directors anticipate that the application of IAS 7 in the future may result in more disclosures, however, the Directors do not anticipate that the application of IAS 7 will have a material impact on the financial statement.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date(see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Business combinations *(continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquisition-date amounts of identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than its functional currency (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Government grants *(continued)*

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit plans, state-managed retirement benefit schemes and Mandatory Provident Fund Scheme ("MPF Scheme"), are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two component of defined benefit costs in profit or loss. Curtailment gains and losses are accounted for as past service costs. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plan. Any surplus resulting from the calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contribution to the plans.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Retirement benefit costs *(continued)*

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring cost.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transaction are set out in note 38.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payment reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment

Property, plant and equipment including building and freehold land held for use in the production or supply of good or services, or for administrative purpose (other than construction in progress and freehold land) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Freehold land is carried at cost less any recognised impairment loss.

Properties in the course of construction for production, supply or administrative purposes (i.e. construction in progress) are carried at cost, less any recognised impairment loss. Cost include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Prepaid lease payments

Upfront prepayments made for the land use rights and leasehold land are initially recognised in the consolidated statement of financial position as "prepaid lease payments" and are amortised over the lease term on a straight line base.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives, or recognised using the units of production method. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Intangible assets *(continued)*

Internally-generated intangible assets-exploration and evaluation assets

Exploration and evaluation costs incurred where such expenditure is considered likely to be recoverable through future extraction activity or sale, or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves, is capitalised and recorded on the consolidated statements of financial position within exploration and evaluation assets at the exploration stage.

Exploration and evaluation assets comprise costs directly attributable to:

- Research and analysing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods;
- Compiling pre-feasibility and feasibility studies;

Exploration rights are stated at cost less any impairment losses. Exploration and evaluation costs include expenditure incurred to secure further mineralisation in existing ore bodies. Exploration and evaluation rights will be transferred to mining rights once the mining rights certificates obtained. The carrying amount of exploration and evaluation rights is assessed for impairment when facts or circumstances suggest the carrying amount of the asset may exceed its recoverable amount.

Mining rights

Mining rights are stated at cost less amortisation and any recognised impairment loss. The mining rights are amortised over the shorter of the unexpired period of the rights on the straight-line basis or the estimated useful lives of the mines, in accordance with the production plans of the entities concerned and the proved and probable reserves of the mines using the units of production method.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Closure and rehabilitation

The mining, extraction and processing activities of the Group normally give rise to obligations for site closure or rehabilitation. Closure and rehabilitation works can include facility decommissioning and dismantling; removal or treatment of waste materials and restoration; site and land rehabilitation. The extent of work required and the associated costs are dependent on the requirements of relevant authorities and the Group's environmental policies.

Provisions for the cost of each closure and rehabilitation program are recognised at the time that environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly. Costs included in the provision encompass all closure and rehabilitation activity expected to occur progressively over the life of the operation and at the time of closure in connection with disturbances at the reporting date. Routine operating costs that may impact the ultimate closure and rehabilitation activities, such as waste material handling conducted as an integral part of a mining or production process, are not included in the provision. Costs arising from unforeseen circumstances, such as the contamination caused by unplanned discharges, are recognised as an expense and liability when the event gives rise to an obligation which is probable and capable of reliable estimation.

The timing of the actual closure and rehabilitation expenditure is dependent upon a number of factors such as the life and nature of the asset, the operating licence conditions, the principles of the Group's charter and the environment in which the mine operates. Expenditure may occur before and after closure and can continue for an extended period of time dependent on closure and rehabilitation requirements.

Closure and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. When provisions for closure and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of closure and rehabilitation activities is recognised in mining related assets as included in property, plant and equipment and depreciated accordingly. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognised in financial expenses.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets

Financial assets are classified into loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. The Group designated listed equity investments and unlisted managed investment funds as available-for-sale financial assets.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method, and changes in foreign exchange rates are recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loan receivable from a third party, restricted deposits, trade and other receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial investment have been affected.

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

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 7 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets *(continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, borrowings and consideration payable are subsequently measured at amortised cost, using the effective interest method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCE OF ESTIMATION UNCERTAINTY

Amortisation of mining rights

As at 31 December 2016, mining rights of RMB883,100,000 (31 December 2015: RMB990,115,000) has been recognised in the Group's consolidated statement of financial position. Mining rights are amortised over the shorter of the unexpired period of the rights or the estimated useful lives of the mines using the units of production method.

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated on regular intervals taking into account recent production and technical information about each mine. This change is considered as a change in estimate for accounting purposes and is reflected on a prospective basis in amortisation rates. Changes in the estimate of mine reserves are also taken into account in impairment assessment of non-current assets.

Depreciation of property, plant and equipment

The Group estimates useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and actions of its competitors. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will record reserve for technically obsolete assets. The carrying amount of property, plant and equipment at 31 December 2016 were RMB1,381,364,000 (31 December 2015: RMB1,510,095,000).

5. KEY SOURCE OF ESTIMATION UNCERTAINTY *(CONTINUED)*

Provision of closure and rehabilitation

The Group's accounting policy for the recognition of closure and rehabilitation provisions requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework; the magnitude of possible contamination; and the timing, extent and costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the consolidated statement of financial position by adjusting both the closure and rehabilitation asset and provision. For closed sites, changes to estimated costs are recognised immediately in the consolidated statement of profit or loss and other comprehensive income.

Impairment of non-financial assets (property, plant and equipment, intangible assets and prepaid lease payments)

Assets such as property, plant and equipment, intangible assets and prepaid lease payments are reviewed at each balance sheet date to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is recognised.

The recoverable amount of an asset is the greater of its fair value less costs to sell and its present value of expected future cash flows. Since a market price of the asset cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing value in use, significant judgments on preparation of future cash flows are exercised over the selling price, the production estimation, related operating expenses and discount rate to calculate the present value. All relevant information and materials which can be obtained are used for estimation of the recoverable amount, including the selling price, estimation of the production and related operating expenses based on reasonable and supportable assumptions.

Impairment of trade and other receivables

When there is an objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed an initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the carrying amount of trade and other receivables is approximately RMB456,058,000 (net of allowance for doubtful debt of RMB9,931,000) (2015: RMB647,357,000 (net of allowance for doubtful debt of RMB8,742,000)).

Allowance for inventories

The Group reviews the carrying amount of inventories at each balance sheet date to determine whether the inventories are carried at the lower of cost and net realisable value. The Group estimates the net realisable value, based on current market situation and historical experience on similar inventories. Any change in the assumption would increase or decrease the amount of inventories allowance or the related reversal. The change in allowance would affect the Group's loss for the year.

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6. REVENUE

Revenue analysed by major products of the Group during the year ended 31 December 2016 and 2015 are as follows:

	2016 **RMB'000**	2015 RMB'000
Iron ore concentrates	**810,234**	925,311
Gold	**893,483**	291,947
Silver	**1,498**	585
Sales of raw and leftover materials	**1,983**	1,908
	1,707,198	1,219,751

7. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately according to the geographical information of the operations and products. The principal activities of the Group are iron ore, nickel ore and gold mining businesses in the PRC, Indonesia and Australia respectively. 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 chief executive officer, being the chief operating decision maker ("CODM"), to make decisions about resources allocation and performance assessment.

During the both years, the Group did not generate revenue from the sales of raw nickel as the Group intends to undertake mineral processing and refining within the territory of Indonesia for exporting the refined products. As of 31 December 2016, the smelting project is still under construction.

7. SEGMENT INFORMATION *(CONTINUED)*

Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable and operating segment.

For the year ended 31 December 2016

	Iron RMB'000	Nickel RMB'000	Gold RMB'000	Total RMB'000
Segment revenue (all from external sales)	**812,217**	**–**	**894,981**	**1,707,198**
Segment (loss) profit	**(160,365)**	**(24,956)**	**3,853**	**(181,468)**
Central administration costs and directors' salaries				**(19,465)**
Finance costs				**(14,667)**
Other income, gains and losses				**8,677**
Group's loss before tax				**(206,923)**

For the year ended 31 December 2015

	Iron RMB'000	Nickel RMB'000	Gold RMB'000	Total RMB'000
Segment revenue (all from external sales)	927,219	–	292,532	1,219,751
Segment (loss) profit	(369,605)	(41,843)	50,276	(361,172)
Central administration costs and directors' salaries				(21,266)
Finance costs				(19,031)
Other income, gains and losses				(5,866)
Group's loss before tax				(407,335)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit (loss) represents the profit earned by/loss from each segment without allocation of central administration costs, investment and other income, other expenses or losses (except for impairment loss on property, plant and equipment, intangible assets and prepaid lease payments), and certain finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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7. SEGMENT INFORMATION *(CONTINUED)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

Segment assets

	31/12/2016 RMB'000	31/12/2015 RMB'000
Iron	**3,354,203**	4,408,332
Nickel	**844,807**	824,891
Gold	**754,757**	741,246
Total segment assets	**4,953,767**	5,974,469
Elimination	**(1,080,374)**	(1,060,268)
Bank balance and cash	**6,927**	8,526
Property, plant and equipment	**42**	57
Consolidated assets	**3,880,362**	4,922,784

Segment liabilities

	31/12/2016 RMB'000	31/12/2015 RMB'000
Iron	**2,170,521**	2,373,415
Nickel	**404,657**	382,370
Gold	**681,959**	686,396
Total segment liabilities	**3,257,137**	3,442,181
Elimination	**(346,537)**	(325,383)
Borrowings	**157,470**	829,106
Other payables	**7,123**	8,545
Consolidated liabilities	**3,075,193**	3,954,449

7. SEGMENT INFORMATION *(CONTINUED)*

Other segment information

2016

Amounts included in the measure of segment profit or loss or segment assets:

	Iron RMB'000	**Nickel RMB'000**	**Gold RMB'000**	**Total RMB'000**
Addition to non-current assets	**69,654**	**8**	**307,443**	**377,105**
Depreciation and amortisation	**201,850**	**16,591**	**307,314**	**525,755**
Impairment loss of intangible assets	**29,878**	**–**	**–**	**29,878**
Impairment loss of property, plant and equipment	**14,355**	**–**	**–**	**14,355**
Impairment loss of prepaid lease payments	**16,964**	**–**	**–**	**16,964**
Gain on disposal of property, plant and equipment	**950**	**50**	**–**	**1,000**

2015

Amounts included in the measure of segment profit or loss or segment assets:

	Iron RMB'000	Nickel RMB'000	Gold RMB'000	Total RMB'000
Addition to non-current assets	259,690	22,333	354,203	636,226
Depreciation and amortisation	186,428	17,256	75,654	279,338
Impairment loss of intangible assets	66,086	–	–	66,086
Impairment loss of property, plant and equipment	119,573	–	–	119,573
Impairment loss of prepaid lease payments	41,874	–	–	41,874
Loss on disposal of property, plant and equipment	12,777	–	–	12,777

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7. SEGMENT INFORMATION *(CONTINUED)*

Geographical information

The Group's operations are located in PRC, Indonesia and Australia.

Revenue from external customers, based on locations of customers, and information about the Group's non-current assets attributable to the Group by geographical areas are as follows:

	Revenue from external customers Year ended		Non-current assets	
	31/12/2016 RMB'000	31/12/2015 RMB'000	**31/12/2016 RMB'000**	31/12/2015 RMB'000
PRC	**812,217**	927,219	**1,244,269**	1,543,012
Indonesia	**–**	–	**767,114**	752,351
Australia	**894,981**	292,532	**610,731**	575,554
	1,707,198	1,219,751	**2,622,114**	2,870,917

Note: Non-current assets excluded available-for-sale financial assets, deferred tax assets, loan receivable from a third party, deposit on acquisition of property, plant and equipment and restricted deposits.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2016 RMB'000	2015 RMB'000
Customer A (revenue from gold and silver sales)	**894,981**	292,532
Customer B (revenue from iron ore concentrates sales)	**319,508**	460,430
Customer C (revenue from iron ore concentrates sales)	**216,439**	101,740
Customer D (revenue from iron ore concentrates sales)	**209,430**	230,105

8. INVESTMENT AND OTHER INCOME

	2016 RMB'000	2015 RMB'000
Bank interest income	**9,427**	27,685
Fair value gain recognised on disposal of available-for-sale investments	**4,300**	–
Government grants (note)	**1,915**	962
Management fee	**1,621**	3,961
Others	**1,505**	781
	18,768	33,389

Note: Government grants represent unconditional incentive subsidies granted by the PRC local government authorities.

9. OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000
(Gain) loss on disposal of property, plant and equipment	**(1,000)**	12,777
Net foreign exchange losses	**31,452**	46,073
Loss on disposal of a subsidiary (note 13)	**47,194**	2,266
Impairment loss on property, plant and equipment, intangible assets and prepaid lease payments recognised (note 21)	**61,197**	227,533
Loss on termination of gold forward contract (note)	**18,269**	–
Impairment loss on financial assets		
– available-for-sale equity investments	**–**	441
Others	**5,932**	3,673
	163,044	292,763

Note: As part of its risk management policies, the Group enters into gold forward contracts to manage the gold price of a proportion of anticipated gold sales. The counterparty to the gold forward contract was the Commonwealth Bank of Australia (CBA) during the year. The facility was closed out on 11 July 2016 and a loss of AUD3,700,000 (equivalent to RMB18,269,000) was resulted from this early termination.

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10. FINANCE COSTS

	2016	2015
	RMB'000	RMB'000
Interests on bank and other borrowings	**118,705**	131,189
Interests on bills discounted	**9,915**	21,135
Imputed interest of consideration payable	**7,679**	14,950
Unwinding of discounts on rehabilitation provisions	**2,277**	2,045
	138,576	169,319

11. LOSS BEFORE TAX

Loss before taxation has been arrived at after charging:

	2016	2015
	RMB'000	RMB'000
Cost of inventories recognised as an expense	**1,334,726**	859,159
Auditors' remuneration	**2,500**	2,400
Release of prepaid lease payments	**28,215**	32,573
Reversal of allowance on inventories (included in cost of sales)	**(4,708)**	(4,440)
Impairment loss on other receivables recognised	**1,189**	5,949
Depreciation and amortisation:		
– Property, plant and equipment	**389,195**	226,249
– Intangible assets (included in cost of sales and administrative expenses)	**108,360**	53,100
	497,555	279,349
Staff costs (including directors):		
– Salary and other benefits	**94,708**	127,098
– Retirement benefits scheme contributions	**17,795**	27,483
	112,503	154,581

12. INCOME TAX EXPENSE (CREDIT)

	2016 **RMB'000**	2015 RMB'000
Current tax		
PRC enterprise income tax ("**EIT**") – current	**3,896**	823
Under provision in prior years	**668**	4,128
	4,564	4,951
Deferred tax		
Deferred tax – current year (note 22)	**2,390**	(10,608)
Total income tax expense (credit) recognised in the current year	**6,954**	(5,657)

The subsidiaries established in the PRC are subject to PRC EIT at a statutory tax rate of 25%.

Certain subsidiaries located in Hong Kong, Australia and Indonesia are subject to tax rates of 16.5%, 30% and 25% respectively. Other than PRC EIT, no provision for corporate tax for other jurisdictions has been made as there were no assessable profits for both years.

The tax credit for the year can be reconciled to the loss per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 **RMB'000**	2015 RMB'000
Loss before tax	**(206,923)**	(407,335)
Tax at the PRC income tax rate of 25% (2015: 25%)	**(51,731)**	(101,834)
Tax effect of expenses that are not deductible for tax purpose	**2,288**	18,234
Tax effect of income not taxable for tax purposes	**(2,129)**	–
Effect of different tax rate of subsidiaries	**–**	1,815
Tax effect of tax losses not recognised	**49,993**	33,055
Tax effect of deductible temporary differences not recognised	**10,672**	45,680
Utilisation of tax loss not recognised in prior years	**(9,226)**	(6,735)
Under provision in prior years	**668**	4,128
Others	**6,419**	–
Tax expense (credit) for the year	**6,954**	(5,657)

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13. DISPOSAL OF A SUBSIDIARY

During the year, the Group entered into a share transfer agreement with a third party for disposal of its entire 100% equity interest in a subsidiary, Benxi Hanking Mining Co., Ltd ("Benxi Mining") at a cash consideration of RMB1 (the "Disposal"). The Disposal was completed on 7 July 2016, on which date the Group lost control of Benxi Mining.

Given the continuing deterioration in the performance of Benxi Mining, the Group estimates that the free cash flow to be generated during the mining life of Benxi Mining's iron ore mine would not suffice for the repayment of its operating debt already incurred as of 30 June 2016. The management of the Group is of the view that the Disposal can reduce the expense of the Group, reduce risk exposure pertaining to the volatility in the iron ore price, and enable the Group to focus on developing and operating its quality resources.

In 2015, the Group entered into a share transfer agreement with the non-controlling interest for dispose of its entire 55% equity interest in a subsidiary, Yingkou Xinwang Alloy Furnace Charge Co., Ltd ("Yingkou Xinwang"). The disposal was completed on 28 February 2015, on which date the Group lost control of Yingkou Xinwang.

Analysis of assets and liabilities over which control was lost over the subsidiaries in 2016 and 2015 are presented below:

	2016 **RMB'000**	2015 RMB'000
Property, plant and equipment	**76,614**	8,565
Intangible assets	**15,517**	–
Prepaid lease payments	**6,912**	–
Inventories	**2,894**	1,300
Trade and other receivables	**7,137**	1,893
Bank balances and cash	**91**	571
Trade and other payables	**(54,727)**	(5,035)
Tax liabilities	**(7,244)**	–
Loans payable to non-controlling interest of a subsidiary	**–**	(3,173)
Net assets disposed of (note)	**47,194**	4,121
Consideration received	**–**	–
Non-controlling interest	**–**	1,855
Net assets disposed of	**(47,194)**	(4,121)
Loss on disposal	**(47,194)**	(2,266)

13. DISPOSAL OF A SUBSIDIARY *(CONTINUED)*

Net cash outflow arising on disposal:

	2016 RMB'000	2015 RMB'000
Cash consideration	–	–
Bank balances and cash	(91)	(571)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(91)	(571)

Note: In arriving at the net assets of Benxi Mining, an amount of RMB43,330,000, represented balance due to the Group, was waived by the Group entities upon the Disposal.

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 13 (2015: 14) directors were as follows:

	For the year ended 31 December 2016					
	Directors' fees RMB'000	Retirement benefit scheme contributions RMB'000	Salary, wages and other allowance RMB'000	Performance incentive payments RMB'000	Share-based payment RMB'000	Total RMB'000
Executive directors:						
– Yang Min (note a)	372	–	–	–	–	372
– Yang Jiye (note b)	1,171	141	–	15	–	1,327
– Pan Guocheng (note c)	–	122	3,000	11	–	3,133
– Zheng Xuezhi (note e)	–	95	945	–	–	1,040
– Xia Zhuo	–	34	855	132	–	1,021
– Qiu Yumin	–	260	2,736	–	2,936	5,932
– Liao Pin-tsung (note d)	–	6	484	134	–	624
Non-executive directors:						
– Yang Jiye (note b)	217	–	–	–	–	217
– Kenneth Jue Lee	173	–	–	–	–	173
Independent non-executive directors:						
– Wang Ping	217	–	–	–	–	217
– Wang Anjian	173	–	–	–	–	173
– Jiang Zhouhua (note j)	28	–	–	–	–	28
– Victor Yang (note g)	11	–	–	–	–	11
– Ma Qingshan (note i)	78	–	–	–	–	78
	2,440	658	8,020	292	2,936	14,346

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14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(CONTINUED)*

	For the year ended 31 December 2015				
	Directors' fees RMB'000	Retirement benefit scheme contributions RMB'000	Salary, wages and other allowance RMB'000	Performance incentive payments RMB'000	Total RMB'000
Executive directors:					
– Yang Min (note a)	933	–	–	–	933
– Yang Jiye (note b)	326	61	438	438	1,263
– Pan Guocheng (note c)	–	150	3,000	–	3,150
– Xia Zhuo	–	36	1,008	–	1,044
– Qiu Yumin	–	180	1,892	–	2,072
– Liao Pin-tsung (note d)	–	11	1,350	675	2,036
– Zheng Xuezhi (note e)	–	50	426	305	781
Non-executive directors:					
– Yang Min (note a)	667	–	–	–	667
– Kenneth Jue Lee	163	–	–	–	163
– Yang Jiye (note b)	24	–	–	–	24
– Lan Fusheng (note f)	156	–	–	–	156
– Zheng Xuezhi (note e)	41	–	–	–	41
Independent non-executive directors:					
– Wang Ping	203	–	–	–	203
– Wang Anjian	163	–	–	–	163
– Jiang Zhouhua (note j)	117	–	–	–	117
– Victor Yang (note g)	119	–	–	–	119
– Johnson Fu (note h)	85	–	–	–	85
	2,997	488	8,114	1,418	13,017

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(CONTINUED)*

Note:

(a) Yang Min was re-designated from a Non-Executive Director to an Executive Director with effect from 28 May 2015. She was resigned as the Executive Director on 18 March 2016.

(b) Yang Jiye was the Chief Executive Officer ("CEO") for the period from 26 August 2014 to 28 May 2015. He was re-designated from an Executive Director to a Non-Executive Director with effect from 17 December 2015 and further re-designated as an Executive Director of the Company on 18 march 2016. The director's fee entitled by Yang Jiye is for serving as a Director of the Company.

(c) Pan Guocheng was the CEO from the Listing date of the Company and resigned as CEO and was appointed as the Chairman of the Board on 26 August 2014. He was re-designated as the CEO with effect from 28 May 2015. His emoluments disclosed above include those for services rendered by him as the CEO.

(d) Liao Pin-tsung was appointed as the Chief Financial Officer ("CFO") with effect from 1 April 2015 and Executive Director with effect from 16 July 2015 and resigned as CFO and Executive Director of the Company on 18 March 2016. His emoluments disclosed above are those for services renders by him as the CFO.

(e) Zheng Xuezhi was the CFO from 1 January 2014 and resigned as CFO on 1 April 2015. He was appointed as Vice President of the Company with effect from 1 April 2015 and was re-designated from an Executive Director and Vice President to a Non-Executive Director with effect from 16 July 2015. He was resigned as Non-executive Director on 17 December 2015. He was re-appointed as CFO and Executive Director of the Company on 18 March 2016. His emoluments disclosed above include those for services rendered by him as the CFO.

(f) Lan Fusheng was resigned on 17 December 2015.

(g) Victor Yang was appointed on 28 May 2015 and resigned on 20 January 2016.

(h) Johnson Chi-King Fu was resigned on 28 May 2015.

(i) Ma Qingshan was appointed on 30 March 2016.

(j) Jiang Zhouhua was appointed on 30 October 2014 and resigned on 18 March 2016.

The performance related payment is mainly determined on the basis of the Group's and individual performance for each of years ended 31 December 2016 and 2015.

During the year, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2015: None). None of the directors has waived any remuneration in the year ended 31 December 2016 (2015: None).

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15. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included 4 directors (2015: 4 directors), details of whose emoluments are set out in note 14. The emoluments of the remaining one highest paid individual of 2016 were as follows:

	Emoluments were within the following bands	Salaries and other benefits RMB'000	Share-based payments RMB'000	Retirements benefits scheme contributions RMB'000	Performance incentive payments RMB'000	Total RMB'000
2016	HK$1,000,001 to HK$1,500,000	**1,060**	**–**	**34**	**48**	**1,142**
2015	HK$2,000,001 to HK$2,500,000	1,858	–	33	–	1,891

16. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Dividends recognised as distribution during the year: 2015 Final – RMB nil cent per share (2015: 2014 Final – RMB nil cent per share)	**–**	–

The Directors did not propose final dividend in respect of the year ended 31 December 2016 (2015: final dividend of nil per share in respect of the year ended 31 December 2015).

17. LOSS PER SHARE

The calculation of loss per share is based on the loss for the year attributable to owners of the Company and the 1,830,000,000 shares in issue during the current year (2015: 1,830,000,000 shares).

Diluted loss per share presented is the same as basic loss per share as the Company did not have dilutive potential ordinary shares in issue in both 2016 and 2015.

18. PROPERTY, PLANT AND EQUIPMENT

	Freehold lands RMB'000	Buildings RMB'000	Mining structure RMB'000	Plant and machinery RMB'000	Other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At 1 January 2015	4,457	455,712	264,136	584,449	22,475	224,757	341,882	1,897,868
Additions	–	493	292,506	19,905	2,376	3,560	139,217	458,057
Transfer	–	1,072	20,499	109,061	–	–	(130,632)	–
Disposals	–	(18,089)	–	(33,944)	(1,407)	(28,824)	–	(82,264)
Disposals of subsidiary	–	(4,384)	–	(12,511)	(32)	(82)	(1,824)	(18,833)
Effect of foreign currency exchange differences	(192)	(2,111)	(8,698)	(8,717)	(292)	(662)	(4,766)	(25,438)
At 31 December 2015	4,265	432,693	568,443	658,243	23,120	198,749	343,877	2,229,390
Additions	–	23	253,559	2,533	1,067	5,080	42,164	304,426
Transfer	–	17,478	59,112	25,374	129	1,440	(103,533)	–
Disposals	–	–	–	(8,851)	(117)	(19,561)	–	(28,529)
Disposals of a subsidiary	–	(20,454)	(201,677)	(51,680)	(968)	(18,167)	–	(292,946)
Effect of foreign currency exchange differences	388	3,769	24,792	14,443	658	1,229	27,003	72,282
At 31 December 2016	4,653	433,509	704,229	640,062	23,889	168,770	309,511	2,284,623
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2015	–	67,684	58,092	168,742	13,470	137,798	1,098	446,884
Provided for the year	–	24,418	103,193	62,651	3,747	32,240	–	226,249
Impairment losses recognised in profit or loss (note 21)	–	76,536	10,731	19,891	107	846	11,462	119,573
Impairment eliminated on disposals	–	(3,497)	–	(3,175)	(11)	(128)	(1,098)	(7,909)
Accumulated depreciation eliminated on disposals	–	(7,989)	–	(27,233)	(1,066)	(23,661)	–	(59,949)
Disposal of a subsidiary	–	(405)	–	(1,910)	(15)	(29)	–	(2,359)
Effect of foreign currency exchange differences	–	(243)	(1,393)	(1,302)	(87)	(169)	–	(3,194)
At 31 December 2015	–	156,504	170,623	217,664	16,145	146,897	11,462	719,295
Provided for the year	–	21,865	(261,684)	77,121	3,511	25,014	–	389,195
Impairment losses recognised in profit or loss (note 21)	–	6,724	–	3,988	9	–	3,634	14,355
Impairment eliminated on disposals	–	(61,477)	(8,625)	(10,864)	(38)	–	–	(81,004)
Accumulated depreciation eliminated on disposals	–	4	–	(3,903)	(61)	(14,379)	–	(18,339)
Disposal of a subsidiary	–	(4,033)	(95,028)	(19,586)	(756)	(15,925)	–	(135,328)
Effect of foreign currency exchange differences	–	691	9,639	3,990	304	461	–	15,085
At 31 December 2016	–	120,278	338,293	268,410	19,114	142,068	15,096	903,259
CARRYING VALUES								
At 31 December 2016	4,653	313,231	365,936	371,652	4,775	26,702	294,415	1,381,364
At 31 December 2015	4,265	276,189	397,820	440,579	6,975	51,852	332,415	1,510,095

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18. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

The Group is in the process of applying for the title certificates for certain properties with carrying amount of RMB291,267,000 as at 31 December 2016 (31 December 2015: RMB242,740,000).

The above items of property, plant and equipment, after taking into account their estimated residual value, are depreciated on a straight-line basis within the following period:

Buildings	13 to 20 years
Plant and machinery	3 to 10 years
Other equipment	3 to 5 years
Motor vehicles	3 to 8 years

The freehold lands are located in Indonesia.

The mining structures are infrastructures include mainly the main and auxiliary mine shafts and underground tunnels, and other mining costs capitalised for future economic benefits of the operation. Depreciation is provided to write off the cost of the mining structures using the units of production method based on the estimated production volume for which the structure was designed and the estimated mining lives.

19. INTANGIBLE ASSETS

	Software RMB'000	Mining rights RMB'000	Exploration and evaluation assets RMB'000	Total RMB'000
COST				
At 1 January 2015	8,472	1,151,848	36,992	1,197,312
Addition	388	138,885	26,351	165,624
Transfer	–	(21,361)	21,361	–
Effect of foreign currency exchange differences	(159)	(9,285)	(1,437)	(10,881)
At 31 December 2015	8,701	1,260,087	83,267	1,352,055
Addition	14	39,564	25,367	64,945
Disposal of a subsidiary	(128)	(63,031)	–	(63,159)
Effect of foreign currency exchange differences	181	8,599	3,611	12,391
At 31 December 2016	8,768	1,245,219	112,245	1,366,232
AMORTISATION AND IMPAIRMENT				
At 1 January 2015	4,200	154,226	–	158,426
Amortisation for the year	1,148	51,952	–	53,100
Impairment provided for the year (note 21)	–	64,488	1,598	66,086
Effect of foreign currency exchange differences	(49)	(694)	–	(743)
At 31 December 2015	5,299	269,972	1,598	276,869
Amortisation for the year	836	106,576	948	108,360
Impairment eliminated on disposals	–	(88)	–	(88)
Impairment provided for the year (note 21)	–	29,878	–	29,878
Disposal of a subsidiary	(128)	(47,426)	–	(47,554)
Effect of foreign currency exchange differences	73	3,207	–	3,280
At 31 December 2016	6,080	362,119	2,546	370,745
CARRYING VALUES				
At 31 December 2016	2,688	883,100	109,699	995,487
At 31 December 2015	3,402	990,115	81,669	1,075,186

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19. INTANGILBE ASSETS *(CONTINUED)*

The above intangible assets have definite useful lives. Software is amortised on a straight-line basis over five years; mining rights are amortised over the estimated useful lives of the mines in accordance with the production plans of the entities concerned and the proved and probable reserves of the mines under the relevant mining rights using the units of production method.

Exploration and evaluation assets include iron-ore mining located in the PRC and a gold mine located in Australia. Certain areas of gold mine were still in the stage of geological prospecting and the cost was still recorded as exploration and evaluation assets as at 31 December 2016.

20. PREPAID LEASE PAYMENTS

	31/12/2016 RMB'000	31/12/2015 RMB'000
Analysed for the reporting purpose as:		
Current portion	**38,760**	42,873
Non-current portion	**245,263**	285,636
	284,023	328,509

The prepaid lease payments were amortised over the benefit periods from 5 to 50 years. Amount of RMB275,095,000 (31 December 2015: RMB287,316,000), represented the pre-paid rental to various farmers and no land certificates for these pre-paid rental have been obtained.

21. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

In 2015, owing to the continuous drop in the selling price of iron ore concentrates in the international market, the Group assessed the recoverable amount of the assets engaged in the iron segment of the Group. The related assets are being classified into property, plant and equipment, intangible assets and prepaid lease payments in accordance to respective nature of the assets. An impairment loss recognised on these assets of RMB227,533,000 was recognised.

21. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS *(CONTINUED)*

In 2016, selling price of iron ore concentrates in the international market was rising with no significant upturn in other operating environment, thus the Directors consider that no further impairment of assets (apart from Fushun Hanking Xingzhou Mining Co., Ltd (the "Xingzhou Mining") as explained below) is required.

As Xingzhou Mining continued to suspend throughout the year, the Directors consider that the pro-longed suspension will further deteriorate the carrying amount of the assets in Xingzhou Mining. After reviewing the cash flow projection of Xingzhou Mining, an impairment loss of RMB61,197,000 was recognised for the year ended 31 December 2016.

The impairment loss recognised in the current and prior years are as follows:

	2016 **RMB'000**	2015 RMB'000
Property, plant and equipment	**14,355**	119,573
Intangible assets	**29,878**	66,086
Prepaid lease payments	**16,964**	41,874
	61,197	227,533

The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The key assumptions for the value in use calculations are related to discounts rates, growth rates, and expected change in selling price of iron ore concentrates and direct cost during the forecast period. Those calculations use cash flow projections based on financial budgets approved by management covering a five-year period with a discount rate of 12%-14%. The cash flow beyond the five-year period are extrapolated using a 2.5% growth rate per annum. The growth rate is based on the growth rate of mining industry and does not exceed the growth rate of the mining industry to average long term.

Cash flow projection during the budget period for the iron segment (Cash-generating Unit "CGU") is based on reasonable expected gross margin and considering the expected changes in the selling price of iron ore concentrates in the international market and the direct costs in the production of iron ore concentrates. The Directors believe that any reasonably possible change in these key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of this CGU.

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22. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	31/12/2016 RMB'000	31/12/2015 RMB'000
Deferred tax assets	**16,942**	22,694
Deferred tax liabilities	**(502)**	(4,739)
	16,440	17,955

The following are the major deferred tax balances recognised and movements thereon during the current and prior years:

	Doubtful debts RMB'000	**Accelerated accounting depreciation** RMB'000	**Accrued expenses** RMB'000	**Tax loss** RMB'000	**Fair Value adjustment** RMB'000	**Deferred revenue** RMB'000	**Total** RMB'000
At 1 January 2015	745	3,239	2,763	1,728	–	–	8,475
Credit (charge) to profit or loss	1,486	1,637	1,759	9,533	(932)	(3,807)	9,676
Effect foreign currency exchange difference	–	(170)	(13)	(13)	–	–	(196)
At 31 December 2015	2,231	4,706	4,509	11,248	(932)	(3,807)	17,955
Credit (charge) to profit or loss	(343)	(756)	(4,154)	(1,096)	430	3,807	(2,112)
Effect foreign currency exchange difference	–	452	100	45	–	–	597
At 31 December 2016	**1,888**	**4,402**	**455**	**10,197**	**(502)**	**–**	**16,440**

At 31 December 2016, the Group has unused tax losses of RMB516,879,000 (31 December 2015: RMB505,907,000) available for offset against future profits. Amounts of RMB471,489,000 (31 December 2015: RMB485,042,000) of deferred tax asset has not been recognised due to the unpredictability of future profit streams.

22. DEFERRED TAXATION *(CONTINUED)*

The unrecognised tax losses which are not recognised as deferred tax assets will expire in the following years:

	31/12/2016	31/12/2015
	RMB'000	RMB'000
2016	**–**	14,849
2017	**39,759**	39,178
2018	**106,352**	104,978
2019	**91,988**	108,087
2020	**85,757**	140,089
2021	**99,308**	–
Unlimited	**48,325**	77,861
	471,489	485,042

Except for the above temporary differences, at the end of the reporting period the Group has other deductible temporary differences of RMB225,498,000 (31 December 2015: RMB182,495,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary difference attributable to accumulated profit of the PRC subsidiaries amounting to RMB1,159 million (2015: RMB1,278 million), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

23. LOAN RECEIVABLE FROM A THIRD PARTY

The amount mainly represented advance to the government of Shangma Township, Fushun County (撫順縣上馬鄉政府) for the purpose of reallocation of local farmers. The amount was unsecured, interest free and expected to be collected after one year.

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24. RESTRICTED DEPOSITS

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Unconditional performance bonds (note)	**1,505**	4,692
Gold forward contracts	**8,479**	11,820
Bank borrowings	**7,070**	6,600
	17,054	23,112

Note: It represents unconditional performance bonds which is administered by the Environment Division of the Department of Mines and Petroleum of Australia as security for mine operators to meet the rehabilitation requirements on its tenements.

25. INVENTORIES

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Finished goods	**32,227**	32,415
Work in progress	**50,230**	57,686
Auxiliary materials	**62,322**	57,505
	144,779	147,606

During the year, there has been a reversal of allowance on inventories of RMB4,078,000 (2015: RMB8,518,000) as a result of rising of selling price of iron ore concentrates in the international market. In 2015, an allowance on inventories of RMB4,078,000 has been recognised in cost of sales.

26. TRADE AND OTHER RECEIVABLES

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Trade receivables		
Related parties	**124,741**	98,097
Third parties	**132,873**	238,326
	257,614	336,423
Bills receivables	**30,500**	92,326
	288,114	428,749
Other receivables		
Advance to suppliers	**13,750**	12,992
Interest receivable on bank deposits	**–**	15,227
Deposits (note)	**22,871**	30,015
Deposit for resource tax	**81,997**	113,699
Value-added tax recoverable	**21,061**	16,014
Staff advances	**8,342**	8,958
Others	**19,923**	21,703
	167,944	218,608
Total trade and other receivables	**456,058**	647,357

Note: The amount represented various environment protection deposits required under the relevant PRC regulations for fulfilling the environment obligation during the mining process.

26. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

Included in the Group's bills receivables are amounts of RMB9,000,000 as at 31 December 2016, being transferred to certain banks by discounting the bills on a full recourse basis. If the bills receivables are not paid on maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to the bills receivables, it continues to recognise the full carrying amount of the bills receivables and has recognised the cash received as bank borrowings from discounting of the bills receivables with full recourse. The financial asset is carried at amortised cost in the consolidated statements of financial position.

The Group allows an average credit period of 7 days to its customers of iron ore concentrates and gold. 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.

	31/12/2016 **RMB'000**	31/12/2015 RMB'000
Within 7 days	**70,378**	49,809
8 days to 90 days	**113,053**	96,328
91 days to 1 year	**74,183**	190,286
	257,614	336,423

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The credit quality of the trade receivables that are neither past due nor impaired had not been changed during the current period.

Movement of the allowance for trade receivable

	2016 **RMB'000**	2015 RMB'000
Opening and closing balance	**182**	182

According to the credit period policy of the Group, the trade receivables for sales to related and third parties has an ageing over 7 days for sales of iron ore concentrates and gold, and trade receivables due from third parties on sales of nickel ore which has an ageing over 15 days were regarded as past due.

26. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

Ageing of trade receivables which are past due but not impaired is analysed as follows:

	31/12/2016 RMB'000	31/12/2015 RMB'000
Related parties		
8 days to 90 days	**38,448**	20,286
91 days to 1 year	**51,230**	77,811
	89,678	98,097
Third parties		
8 days to 90 days	**74,605**	76,042
91 days to 1 year	**22,953**	112,475
	97,558	188,517

The Group did not provide an allowance on the remaining past due receivables due from related parties and third parties as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience and settlements collected subsequent to the year end date. The Group does not hold any collateral over these balances. The related parties are those controlled by Mrs. Yang Min and Mr. Yang Jiye, who are the controlling shareholders (the "**Controlling Shareholders**") of the Group and have a very long history of business transactions with the Group. Settlements are collected on a regular basis. The management is closely monitoring the settlement position and those receivables are still considered collectible as Mr. Yang Jiye, a director of the Company, is able to exert control over these companies.

Movement of allowance for doubtful debts on other receivables

	2016 RMB'000	2015 RMB'000
Opening balance	**8,742**	2,793
Impairment losses recognised	**1,189**	5,949
Closing balance	**9,931**	8,742

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27. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31/12/2016 RMB'000	31/12/2015 RMB'000
Non-current		
Listed equity investments, at fair value	**19,628**	11,362
Current		
Unlisted managed investment funds, at fair value	**402,007**	110,727
	421,635	122,089

The listed equity investments represent the Group's equity interests in three (2015: three) companies listed on Australian Securities Exchange. The investments are measured at fair value at the end of the reporting period.

The unlisted managed investment represents funds advanced to a licensed financial institution in the PRC with fixed maturity and a variable yield based on underlying investments. The investments are mature in one year and the return of these investments is not guaranteed.

28. PLEDGED BANK DEPOSITS AND 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 0.15%-0.35% (2015: 0.15%-0.35%) per annum.

As at 31 December 2016, pledged bank deposits of RMB38,414,000 (31 December 2015: RMB333,313,000) were security deposit for bills. The pledged bank deposits carried fixed interest rate of 0.35%-1.95% (2015: 0.30%-3.30%) per annum.

The bank balances which are denominated in the United States Dollars ("USD"), Hong Kong Dollars ("HKD") and Australian Dollars ("AUD"), foreign currency of the respective group entities, are as follows:

	31/12/2016 RMB'000	31/12/2015 RMB'000
USD	**6,321**	43,367
HKD	**2,463**	1,140
AUD	**–**	17

29. TRADE AND OTHER PAYABLES

	31/12/2016 RMB'000	31/12/2015 RMB'000
Trade payables		
Related parties	**354**	7,186
Third parties	**133,007**	98,265
	133,361	105,451
Bills payables	**5,760**	4,550
	139,121	110,001
Other payables		
Advance from a customer	**149**	563
Other tax payables	**44,515**	52,211
Payable for acquisition of property, plant and equipment	**144,518**	212,332
Payable for acquisition of prepaid lease payments	**18,758**	4,000
Outsourced service payable	**3,829**	3,792
Transportation fee payable	**11,703**	11,369
Accrued expenses	**57,498**	80,839
Salary and bonus payables	**24,871**	38,791
Interest payable	**2,192**	2,970
Others	**20,879**	18,704
	328,912	425,571
	468,033	535,572

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:

	31/12/2016 RMB'000	31/12/2015 RMB'000
0 to 90 days	**123,501**	95,787
91 days to 365 days	**6,987**	7,935
1 year to 2 years	**1,423**	346
2 years to 3 years	**270**	21
Over 3 years	**1,180**	1,362
	133,361	105,451

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30. BORROWINGS

	31/12/2016 RMB'000	31/12/2015 RMB'000
Bank loans	**2,056,836**	2,894,509
Other loans (note a)	**116,163**	78,843
	2,172,999	2,973,352
Secured	**1,815,910**	2,603,352
Unsecured	**357,089**	370,000
	2,172,999	2,973,352
Fixed-rate	**1,735,089**	1,562,455
Floating-rate	**437,910**	1,410,897
	2,172,999	2,973,352
Carrying amount repayable (note b):		
Due within one year	**1,341,599**	2,761,947
More than one year, but not more than two years	**176,101**	146,504
More than two years, but not more than five years	**655,299**	64,901
	831,400	211,405
	2,172,999	2,973,352

Note:

(a) It represents loans advanced from a government authority for purchase of mining rights. The loan carries interest at the benchmark interest rate issued by the People's Bank of China ("**PBOC**") and is repayable within five years.

(b) The amounts are based on scheduled repayment dates set out in the respective loan agreements.

30. BORROWINGS *(CONTINUED)*

The ranges of effective interest rate of the Group's interest-bearing borrowings are as follows:

	2016	2015
	%	%
Fixed-rate borrowings	**4.83-6.09**	4.83-8.00
Variable-rate borrowings	**3.70-4.75**	1.32-5.00

At 31 December 2016 and 2015, the Group had variable rate borrowings which carried interest based on the benchmark interest rate issued by PBOC or London Interbank Offered Rate ("**LIBOR**"). Interest was reset monthly or quarterly.

The unsecured bank borrowings of approximately RMB357,089,000 (31 December 2015: RMB370,000,000) at 31 December 2016 were guaranteed by the Controlling Shareholders of the Group and the companies issuing guarantees to the Group are those controlled by them.

Save as the assets pledged as security for bank borrowings as set forth in note 40, the Controlling Shareholders, together with the companies controlled by them, provided guarantee to secured bank borrowings of the Group of approximately RMB1,129,277,000 (2015: RMB1,715,403,000).

31. CONSIDERATION PAYABLE

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Analysed for the reporting purpose as:		
Current portion	**68,006**	69,608
Non-current portion	**226,228**	223,007
	294,234	292,615

The amount as at 31 December 2016 and 2015 represented:

Denway Development Limited, a subsidiary of Hanking (Indonesia) Mining Limited (Hanking Indonesia), acquired 75% equity interest of PT Konutara Sejati ("KS") and PT Karyatama Kona Utara ("KKU") from the independent third parties during the year of 2011. City Globe Limited, which is also a subsidiary of Hanking Indonesia, acquired 75% equity interest of PT Konutara Prima ("KP") from the independent third parties during the year of 2012.

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31. CONSIDERATION PAYABLE *(CONTINUED)*

As at 31 December 2016, the consideration payable of RMB294,234,000 (31 December 2015: RMB292,615,000) was recognised at amortised cost using the effective interest method at the date of acquisition. According to the acquisition agreements, it will be repaid on installment basis by reference to the progress of mining development with last payment fall due in the year of 2032. The amount of RMB68,006,000 (31 December 2015: RMB69,608,000) repayable within the next twelve months is classified under current portion which is calculated based on directors' estimation on the project development progress.

32. REHABILITATION PROVISION

	2016 **RMB'000**	2015 RMB'000
At 1 January	**115,017**	68,090
Unwind of discount	**2,277**	2,045
(Reversal) provisions made during the year	**(12,739)**	48,815
Disposal of a subsidiary	**(635)**	–
Effect of foreign currency exchange differences	**6,708**	(3,933)
At 31 December	**110,628**	115,017

33. RETIREMENT BENEFIT OBLIGATIONS

The Group provides post-employment benefits for qualifying employees in its subsidiaries located in Indonesia in accordance with Indonesia Labor Law. The number of employees entitled to the benefits are 10 employees in 2016 and in 2015.

Amounts of post-employment benefit expenses are recognised in profit and loss as follows:

	31/12/2016 **RMB'000**	31/12/2015 RMB'000
Current service cost	**357**	379
Interest expense	**96**	73
Total	**453**	452

33. RETIREMENT BENEFIT OBLIGATIONS *(CONTINUED)*

The post-employment benefits included in the consolidated statement of financial position arising from the Group's obligation in respect of these post-employment benefits are as follows:

	31/12/2016 RMB'000	31/12/2015 RMB'000
Present value of defined benefit obligations	**1,408**	1,148
Unrecognised actuarial losses (gains)	**117**	(125)
Net liabilities	**1,525**	1,023

Movement in the present value of employee benefits obligation are as follow:

	31/12/2016 RMB'000	31/12/2015 RMB'000
Balance at beginning of year	**1,023**	940
Expense in current year	**453**	452
Other comprehensive expense (income)	**30**	(326)
Effect of foreign currency exchange differences	**19**	(43)
Balance at end of year	**1,525**	1,023

The cost of providing post-employment benefit is calculated by independent actuary for the year ended 31 December 2016 and 2015, respectively. The actuarial valuation was carried out using the following key assumptions:

	2016	2015
Discount rate	**8.75%**	9%
Salary increment rate	**10%**	10%
Mortality rate	**100% TMI3**	100% TMI3
Morbidity rate	**5% TMI3**	5% TMI3
Resignation rate	**2% per annum until age 30 years, then decreasing**	2% per annum until age 30 years, then decreasing
Normal retirement rate	**100%**	100%

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34. SHARE CAPITAL

The amount as at 31 December 2016 and 2015 represented the issued share capital of the Company. Details of movement of share capital of the Company are as follows:

	Number of shares		Share capital	
	2016	2015	**2016**	2015
	'000	'000	**RMB'000**	RMB'000
Ordinary shares of HK$0.1 each				
Authorised				
At 1 January and 31 December	**10,000,000**	10,000,000	**1,000,000**	1,000,000
Issued				
At 1 January and 31 December	**1,830,000**	1,830,000	**149,137**	149,137

All shares in issue rank pari passu in all respects.

35 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

General information of subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are set out below.

Name of subsidiary	Principal activity	Place of Incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of ownership interest and voting power held by the Group 31 December 2016	31 December 2015
				%	%
Directly held:					
China Hanking Investment Limited	Investment holding	The British Virgin Island ("BVI")	Ordinary shares USD1.00	100.00	100.00
Hanking Australia Pty Ltd	Investment holding	Australia	Ordinary shares AUD100.00	97.00	100.00
Hanking (Indonesia) Mining Limited	Investment holding	BVI	Ordinary shares USD10.00	70.00	70.00
Hanking Australia Investment Pty Ltd.	Investment holding	Australia	Ordinary shares AUD100.00	100.00	100.00
Indirectly held:					
China Hanking (Hong Kong) Limited	Investment holding	Hong Kong	Ordinary shares HKD1.00	100.00	100.00
China Hanking (BVI) International Limited	Investment holding	BVI	Ordinary shares USD1.00	100.00	100.00

35 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(CONTINUED)*

General information of subsidiaries *(continued)*

Name of subsidiary	Principal activity	Place of Incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of ownership interest and voting power held by the Group 31 December 2016 %	31 December 2015 %
Shenyang Toyo Steel Utility Co., Ltd 瀋陽東洋煉鋼公用設施有限公司	Sales of iron ore mining products	PRC	Registered and paid-in capital USD84,000,000	100.00	100.00
Shenyang Yuanzheng Industry Co., Ltd 瀋陽元正實業有限公司	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB5,000,000	100.00	100.00
Fushun Hanking Aoniu Mining Co., Ltd 撫順罕王傲牛礦業股份有限公司	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB100,000,000	100.00	100.00
Fushun Hanking Maogong Mining Co., Ltd 撫順罕王毛公鐵礦有限公司	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB5,000,000	100.00	100.00
Fushun Hanking Xingzhou Mining Co., Ltd 撫順罕王興洲礦業有限公司	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB2,000,000	100.00	100.00
Benxi Hanking Mining Co., Ltd 本溪罕王礦業有限公司	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB20,000,000	–	100.00
Fushun Hanking Shangma Mining Co., Ltd 撫順罕王上馬礦業有限公司	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB5,000,000	100.00	100.00
Fushun Hanking Forest Farm Co., Ltd. 撫順罕王林場有限公司	Sales of agricultural and forestry products	PRC	Registered and paid-in capital RMB500,000	100.00	100.00
City Globe Limited	Investment Holding	Hong Kong	Ordinary shares HKD10,000	70.00	70.00

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35 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(CONTINUED)*

General information of subsidiaries *(continued)*

Name of subsidiary	Principal activity	Place of Incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of ownership interest and voting power held by the Group 31 December 2016 %	31 December 2015 %
PT Konutara Prima	Investment holding	Indonesia	Ordinary shares IDR27,600,000,000	52.50	52.50
Denway Development Limited	Investment Holding	Hong Kong	Ordinary shares HKD10,000	70.00	70.00
PT Konutara Sejati	Sales of nickel ore mining products	Indonesia	Ordinary shares IDR66,800,000,000	52.50	52.50
PT Karyatama Kona Utara	Investment holding	Indonesia	Ordinary shares IDR66,800,000,000	52.50	52.50
Harvest Globe Limited	Investment holding	Hong Kong	Ordinary shares HKD10,000	52.50	52.50
Harvest (Shenyang) Trading Limited	Sales of nickel ore mining products	PRC	Ordinary shares USD2,000,000	52.50	52.50
PT Hanking Makmur Nickel Smelt	Metal Processing	Indonesia	Ordinary shares IDR28,177,500,000	75.00	75.00
Hanking Gold Mining Pty Ltd.	Investment holding	Australia	Ordinary shares AUD100.00	97.00	100.00
Marvel Loch Hotel Pty Ltd	Investment holding	Australia	Ordinary shares AUD100.00	100.00	100.00

35 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(CONTINUED)*

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of Subsidiary	Place of Incorporation and principle place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interest		Accumulated non-controlling interests	
		31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
				RMB'000	RMB'000	RMB'000	RMB'000
Hanking Indonesia (Note)	BVI Indonesia	30%	30%	(1,123)	(8,401)	206,932	204,172

Note: The principal activity of Hanking Indonesia and its subsidiaries is sales and mining of nickel ore.

The summarised financial information in respect of the Group's subsidiary that has material non-controlling interests, namely Hanking Indonesia at the end of the reporting period are set out below. The summarised financial information below represents amounts before intragroup elimination.

Hanking Indonesia and its subsidiaries

	As At 31/12/2016 RMB'000	As At 31/12/2015 RMB'000
Current assets	**59,851**	57,413
Non-current assets	**784,956**	767,478
Current liabilities	**404,656**	382,370
Non-current liabilities	**–**	–
Equity attributable to owners of the Company	**339,977**	340,498
Non-controlling interests	**100,174**	102,023

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35 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(CONTINUED)*

Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

Hanking Indonesia and its subsidiaries *(continued)*

	For the year ended 31/12/2016 RMB'000	For the year ended 31/12/2015 RMB'000
Revenue	**–**	–
Expenses	**(24,271)**	(39,562)
Loss for the year	**(24,271)**	(39,562)
Loss attributable to owners of the Company	**(22,755)**	(28,002)
Profit (loss) attributable to the non-controlling interests	**(1,516)**	(11,560)
Loss for the year	**(24,271)**	(39,562)
Other comprehensive income (expense) attributable to owners of the Company	**18,537**	–
Other comprehensive expense attributable to the non-controlling interests	**3,364**	–
Other comprehensive income (expense) for the year	**21,901**	–
Total comprehensive income (expense) attributable to owners of the Company	**(4,219)**	(28,002)
Total comprehensive expense attributable to the non-controlling interests	**1,849**	(11,560)
Total comprehensive income (expense) for the year	**(2,370)**	(39,562)
Dividends paid to non-controlling shareholders	**–**	–

36. CAPITAL COMMITMENTS

	2016 **RMB'000**	2015 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**172,163**	159,901

37. OPERATING LEASES

The Group as lessee

	2016 **RMB'000**	2015 RMB'000
Minimum lease payments paid under operating leases during the year:		
– Plant and machinery	**8**	20
– Premises	**5,100**	5,551
	5,108	5,571

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 **RMB'000**	2015 RMB'000
Within one year	**3,148**	2,919
In the second to fifth years inclusive	**5,203**	3,140
	8,351	6,059

Operating lease payments represent rentals payable by the Group for certain of its office premises with fixed rental under the leases.

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for the year ended 31 December 2016

38. SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to an agreement dated 23 June 2016 entered into between the Company, Hanking Australia Pty Ltd ("Hanking Australia"), a wholly-owned subsidiary of the Company and Dr. Qiu Yumin ("Dr. Qiu"), an Executive Director and Chief Executive Officer of Hanking Australia and an Executive Director of the Company, Hanking Australia agreed to allot and issue to Dr. Qiu (or his nominee(s)) 6,185,567 new shares of Hanking Australia (the "Subscription Shares"), of which (i) 4,123,711 new shares of Hanking Australia shall be issued at cash consideration of AUD610,825 (equivalent to RMB3,075,000); and (ii) 2,061,856 new shares of Hanking Australia will be awarded to Dr. Qiu as a gift by Hanking Australia after having considered the contribution of Dr. Qiu in the acquisition of the gold mine in Western Australia and his continuous efforts in developing and expanding the Group's gold business in Australia. Upon completion of the Agreement, the total number of issued shares of Hanking Australia will be held by the Company and Dr. Qiu as to approximately 97% and 3%, respectively.

Dr. Qiu and/or his nominee(s) who hold(s) the Subscription Shares is/are prohibited from (i) disposing any of the Subscription Shares for a period of three years from the completion date of the agreement (the "Escrow Period"); and (ii) disposing of more than one-third of the total number of the subscription shares in any given year after the Escrow Period has expired. When Hanking Australia is the subject of a takeover offer or scheme of arrangement or when prior written approval is obtained from Hanking Australia to dispose the Subscription Shares, Dr. Qiu and/or his nominee(s) will not be subject to the aforementioned restrictions.

The Subscription Shares were allocated and issued to Dr. Qiu on 4 August 2016, which was taken as the completion date of this Subscription Shares transaction.

The total fair value of the Subscription Shares less the cash consideration of approximately AUD611,000 (equivalent to RMB3,075,000) received by Hanking Australia on completion of the Subscription Shares was estimated to be AUD7,420,000 (equivalent to RMB37,355,000), which was determined by reference to the enterprise value of Hanking Australia. Total staff cost in respect of this Subscription Shares transaction of RMB2,936,000 was recognised as an expense for the year ended 31 December 2016.

39. RETIREMENT BENEFIT PLANS

The employees of the Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a specified percentage of its payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

The amounts of contributions made by the Group in respect of the retirement benefit scheme are disclosed in note 33.

40. PLEDGE OF ASSETS

At the end of reporting period, the Group has pledged certain assets as security for bank borrowings. Details of the pledged assets and the corresponding carrying amounts are set out below:

	Carrying amounts	
	2016	2015
	RMB'000	RMB'000
Mining rights	**248,915**	359,651
Available-for-sale financial assets	**400,000**	110,727
Trade receivables	**–**	35,304
Bank deposits	**43,692**	913,785
Restricted deposits	**7,070**	6,600
Prepaid lease payments	**64,271**	–
Property, plant and equipment	**111,759**	–

41. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged.

The capital structure of the Group consists of restricted deposits, pledged bank deposits, bank balances and cash, borrowings, consideration payable and equity which includes capital and reserves.

The management of the Group reviews the capital structure on an annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital and will balance its overall structure through the payment of dividends, issue of capital as well as the issue of new debt or the redemption of existing debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

42. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	31/12/2016 RMB'000	31/12/2015 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**473,116**	1,543,114
Available-for-sale financial assets	**421,635**	122,089
	894,751	1,665,203
Financial liabilities:		
Liabilities measured at amortised costs	**2,808,233**	3,667,926

(b) Financial risk management objectives and policies

The Group's major financial assets and liabilities include loan receivable from a third party, restricted deposits, trade and other receivables, pledged bank deposits, bank balances and cash, available-for-sale financial assets, trade and other payables, borrowings and consideration payable. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to the market risks (including currency risk and interest risk), credit risk and liquidity risk. There has been no change to the Group's exposure to these risks or the manner in which it manages and measures the risks.

Interest risk

The Group is exposed to fair value interest rate risk mainly from its fixed-rate bank borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to floating-rate bank and other borrowings (see note 30 for details of these borrowings) and floating-rate bank balances.

42. FINANCIAL INSTRUMENTS *(CONTINUED)*

(b) Financial risk management objectives and policies *(continued)*

Interest risk *(continued)*

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for its floating-rate borrowings. The analysis is prepared assuming the floating rate borrowings outstanding at the end of the reporting period were outstanding for the whole year. 50 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2016 would increase/decrease approximately by RMB1,642,000 (2015: increase/decrease approximately by RMB5,291,000). This is mainly attributable to the Group's exposure to interest rates on its floating-rate bank borrowings.

The sensitivity analyses below have been determined based on the exposure to interest rates for its floating rate bank balances (including restricted deposits, pledged bank deposits and bank balances). The analysis is prepared assuming the floating rate bank balances outstanding at the end of the reporting period were outstanding for the whole year. 10 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 10 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2016 would decrease/increase approximately by RMB98,000 (2015: decrease/increase approximately by RMB1,058,000). This is mainly attributable to the Group's exposure to interest rates on its floating-rate bank balances.

Currency risk

The Group has bank balance denominated in USD, HKD and AUD, which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	USD	
	Assets	**Liabilities**
	RMB'000	RMB'000
As at 31 December 2016	6,321	321,747
As at 31 December 2015	43,367	1,352,054

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for the year ended 31 December 2016

42. FINANCIAL INSTRUMENTS *(CONTINUED)*

(b) Financial risk management objectives and policies *(continued)*

Currency risk *(continued)*

	HKD	
	Assets	**Liabilities**
	RMB'000	RMB'000
As at 31 December 2016	2,463	–
As at 31 December 2015	1,140	–

	AUD	
	Assets	**Liabilities**
	RMB'000	RMB'000
As at 31 December 2016	–	–
As at 31 December 2015	17	–

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in RMB against USD. 5% (2015: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% (2015: 5%) change in foreign currency rates. A positive number below indicates a decrease in post-tax loss where a RMB strengthen 5% (2015: 5%) against USD. For a 5% (2015: 5%) weakening of RMB against USD, there would be an equal and opposite impact on the post-tax loss and the balances below would be negative. The impact of AUD and HKD is not presented, since the outstanding monetary items denominated in AUD and HKD are not significant and their impact is immaterial.

	USD impact	
	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Profit or loss	**11,420**	49,076

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

42. FINANCIAL INSTRUMENTS *(CONTINUED)*

(b) Financial risk management objectives and policies *(continued)*

Other price risk

Available-for-sale investments

The Group is required to estimate the fair value of its investments in unlisted managed investment funds, which therefore exposed the Group to the price risk as at 31 December 2016. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in the expected yield of the investments. No sensitivity analysis of other price risk has been prepared as the management estimates the actual yield would not significantly deviate from the expected yield.

Credit risk

As at the end of reporting date, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the Directors has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Directors review the recoverability of each trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group has concentration of credit risk in relation to its trade receivables as follows:

	As At	
	31/12/2016	31/12/2015
Amount due from the largest debtor as a percentage to trade receivables	**40.83%**	68.14%
Total amounts due from the five largest debtors as a percentage to trade receivables	**99.76%**	99.90%

The Group keeps exploring new customers to diversify and strengthen its customer base to reduce the concentration of credit risk.

The Group managed its concentration of credit risk so as to spread over to various customers. In order to minimise the credit risk, the Directors continuously monitor the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover the overdue debts.

The Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances is limited because the majority of the counterparties are banks with good reputation and/or good credit rating.

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for the year ended 31 December 2016

42. FINANCIAL INSTRUMENTS *(CONTINUED)*

(b) Financial risk management objectives and policies *(continued)*

Liquidity risk

The Directors have built an appropriate liquidity risk management framework for the management of the Group's short-term and long-term funding and liquidity management requirements. The Group manages liquidity risk by closely and continuously monitoring the Group's consolidated financial position. The Directors maintain the sufficiency of cashflows with availability of unutilised banking facilities as set out in note 2 and internally generated funds. The Directors also review the forecasted cashflows on an on-going basis to ensure that the Group will be able to meet its financial obligations falling due and have sufficient capital for operation and expansion. Maturity of financial obligations will be re-negotiated with banks and changes on capital expansion plan will be made should the need arise.

The following tables detail the remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows, include both principal and interest, on non-derivative financial liabilities based on the earliest date in which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity table

	Weighted average interest rate	On demand or less than 3 months	3 months to 1 year	1 year to 2 years	>2 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2016							
Trade and other payables		**341,000**	**–**	**–**	**–**	**341,000**	**341,000**
Consideration payable	**14**	**–**	**95,789**	**120,000**	**517,000**	**732,789**	**294,234**
Borrowings – floating rate	**4.13**	**4,390**	**360,275**	**62,493**	**30,972**	**458,130**	**437,910**
Borrowings – fixed rate	**5.66**	**200,655**	**923,870**	**111,225**	**729,218**	**1,964,968**	**1,735,089**
		546,045	**1,379,934**	**293,718**	**1,277,190**	**3,496,887**	**2,808,233**
As at 31 December 2015							
Trade and other payables		401,959	–	–	–	401,959	401,959
Consideration payable	14	–	95,789	120,000	517,000	732,789	292,615
Borrowings – floating rate	3.52	332,241	891,119	152,546	71,198	1,447,104	1,410,897
Borrowings – fixed rate	6.58	404,872	1,198,121	–	–	1,602,993	1,562,455
		1,139,072	2,185,029	272,546	588,198	4,184,845	3,667,926

42. FINANCIAL INSTRUMENTS *(CONTINUED)*

(c) Fair value of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

The Group's listed equity investments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at 31/12/2016	Fair value as at 31/12/2015	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Listed equity investments	**Listed equity securities in Australia: RMB19,628,000**	Listed equity securities in Australia: RMB11,362,000	Level 1	Quoted bid prices in an active market.	N/A	N/A
Unlisted managed investment funds	**Unlisted managed investment funds in the PRC: RMB402,007,000**	Unlisted managed investment funds in the PRC: RMB110,727,000	Level 3	Discounted cash flow was used to capture the present value of the expected future economic benefit that will flow to the Group.	Expected yield from the investment	The higher the expected yield, the higher the fair value.

The Directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximates their fair value.

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43. RELATED PARTY TRANSACTIONS

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

	2016 **RMB'000**	2015 RMB'000
Sales of goods to Dalian Huaren Trade Co., Ltd. 大連華仁貿易有限公司 (note a & c)	**235,677**	230,105
Sales of Raw Material to Benxi Hanking Iron Processing Co., Ltd. 本溪罕王鐵選有限公司 (note a & d)	–	1,423
Processing fee charged by: Benxi Hanking Iron Processing Co., Ltd. 本溪罕王鐵選有限公司 (note a & d)	**1,629**	23,006
Rental expense charged by: Shenyang Shengtai Property Management Co., Ltd. 瀋陽盛泰物業管理有限公司 (note a)	**2,247**	3,551
Transportation fee charged by: Fushun Mingyang Transport Co., Ltd. 撫順名揚運輸有限公司 (note b)	–	3,027

Notes:

(a) These companies are the related parties which are controlled by Mrs. Yang Min, a controlling shareholder of the Company.

(b) Fushun Mingyang Transport Co., Ltd. was wholly owned by Mr. Yang Xinhuan, the nephew of Mrs. Yang Min, till 28 January 2015. After then, the shareholder of Fushun Mingyang has been changed to a third party.

(c) Dalian Huaren Trade Co., Ltd. acted as an agent of Fushun Hanking D.R.I Co., Ltd., which is controlled by Mrs. Yang Min, to purchase the iron ore concentrates from the Group.

(d) The Group does not have connected transaction with Benxi Hanking Iron Processing Co., Ltd. since 30 June 2016. After then, the shareholder of Benxi Hanking Iron Processing Co. Ltd. has been changed to a third party.

All compensation paid/payable by the Group for key management personnel has been disclosed in notes14 and 15.

44. SUBSEQUENT EVENT

On 15 February 2017, the Company and the non-controlling interests (the "Other Vendors") of a subsidiary, Hanking Australia, entered into a binding agreement with Shandong Tianye Group Bid Co Pty Ltd (the "Purchaser"), an independent third party, pursuant to which the Company and the Other Vendors conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, 100% of the shares in Hanking Australia at a purchase price of AUD330 million, which is based on the agreed enterprise value of Hanking Australia. This share disposal transaction is classified as a Very Substantial Disposal under the Listing Rules of The Stock Exchange of Hong Kong Limited.

The completion of this share disposal transaction is expected to occur on or before 21 April 2017 and is subject to the shareholder approval in an extraordinary general meeting, which to be convened on a later date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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45. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	31/12/2016 RMB'000	31/12/2015 RMB'000
Non-current Assets		
Property, plant and equipment	**42**	57
Investment in subsidiaries	**425,220**	376,896
Amounts due from subsidiaries	**203,996**	613,665
	629,258	990,618
Current Assets		
Bank balances and cash	**6,927**	8,526
Current Liabilities		
Borrowings	**157,470**	829,106
Other payables	**7,123**	8,544
Amount due to a subsidiary	**412,635**	–
	577,228	837,650
Net Current Liabilities	**(570,301)**	(829,124)
Total Assets less Current Liabilities	**58,957**	161,494
Capital and Reserves		
Share capital (see note 34)	**149,137**	149,137
Reserves	**(90,180)**	12,357
Total equity	**58,957**	161,494
	58,957	161,494

Note: As of 31 December 2016 and 2015, the Company had investment of one ordinary share of USD$1 each in Hanking Investment.

45. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(CONTINUED)*

Movement in reserve

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2015	149,137	495,537	193,064	(421,543)	416,195
Loss and total comprehensive expense for the year	–	–	–	(254,701)	(254,701)
At 31 December 2015	149,137	495,537	193,064	(676,244)	161,494
Loss and total comprehensive expense for the year	–	–	–	(317,451)	(317,451)
At 31 December 2016	**149,137**	**495,537**	**193,064**	**(993,695)**	**(155,957)**

DEFINITIONS

"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 the Company
"Articles of Association"	the articles of association approved by the Company at the general meeting held on 16 September 2012, effective as from the time when the trading of the Company's shares commenced on the Stock Exchange of Hong Kong Limited and as amended from time to time
"AUD"	the lawful currency of Australia
"Audit Committee"	the audit committee of the Board
"Australia"	The Commonwealth of Australia
"Benxi Iron Processing"	Benxi Hanking Iron Processing Co., Ltd. (本溪罕王鐵選有限公司), a limited liability company established in the PRC
"Benxi Mine"	located at Benxi City, an iron mine operated through Benxi Mining
"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
"Board"	the board of Directors of the Company
"China" or "PRC"	the People's Republic of China. For the purpose of this report, references in this report to the PRC or China do not include Hong Kong, Macau Special Administrative Region and Taiwan
"City Globe"	City Globe Limited, a limited liability company incorporated in Hong Kong which holds 75% equity interest in KP
"Companies Ordinance"	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong (as amended from time to time)
"the Company" or "our Company" or "we"	China Hanking Holdings Limited

"Controlling Shareholders"	has the meaning ascribed to it in the Listing Rules and unless the context requires otherwise, refers to Ms. Yang Min, Mr. Yang Jiye, China Hanking (BVI) Limited, Bisney Success Limited and Best Excellence Limited
"Dalian Huaren"	Dalian Huaren Trade Co., Ltd. (大連華仁貿易有限公司), a limited liability company established in the PRC
"Denway Development"	Denway Development Limited, a limited liability company incorporated in Hong Kong which holds 75% equity interest in KS and KKU
"Directors"	the directors of the Company
"EBITDA"	the abbreviation of earnings before interest, taxes, depreciation and amortization
"Equity Interest Transfer Agreement"	the equity interest transfer agreement dated 7 July 2016 entered into between Aoniu Mining and Mr. Wang Wen, as the purchaser relating to the disposal of 100% equity interest in Benxi Mining
"Fushun Hanking D.R.I."	Fushun Hanking D.R.I. Co., Ltd. (撫順罕王直接還原鐵有限公司), a limited liability company established in the PRC
"Fushun Shangma"	Fushun Hanking Shangma Mining Company Limited, a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
"the Group" or "Hanking"	China Hanking Holdings Limited and its subsidiaries
"Hanking Australia"	Hanking Australia Pty Ltd, a limited liability company established in Australia and a wholly-owned subsidiary of the Company
"Hanking Gold"	Hanking Gold Mining Pty Ltd, a limited liability company established in Australia and a wholly-owned subsidiary of the Company
"Hanking Group"	Hanking Group Co., Limited (罕王實業集團有限公司), a limited liability company established in the PRC on 4 April 1996, whose shares are held by Ms. Yang Min (88.96%) and other individuals. Hanking Group is a holding company and is controlled by a controlling shareholder
"Hanking (Indonesia)"	Hanking (Indonesia) Mining Limited, a limited company established in the BVI and a non wholly-owned subsidiary of the Company

DEFINITIONS

"Harvest Globe"	Harvest Globe Limited, a limited liability company established in Hong Kong, a non wholly-owned subsidiary of Denway Development
"HSEC Committee"	the health, safety, environmental protection and community committee of the Board
"HMNS"	PT Hanking Makmur Nickel Smelt (罕王富域鎳冶煉有限公司), a limited company established in Indonesia and a non wholly-owned subsidiary of the Company
"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
"Indonesia"	The Republic of Indonesia
"Indonesia nickel ore project"	laterite nickel project operated by the Company through KKU, KP and KS in North Konawe, the South-East Sulawesi of Indonesia
"Indonesian Rupiah"	the lawful currency of Indonesia
"JORC"	Australasian Joint Ore Reserves Committee
"JORC Code"	JORC Code, 2012 Edition
"KKU"	PT Karyatama Konawe Utara, a limited company established in Indonesia, an indirectly non wholly-owned subsidiary of the Company
"km"	kilometers
"km^2"	square kilometers
"KP"	PT Konutara Prima, a limited company established in Indonesia, an indirectly non wholly-owned subsidiary of the Company
"KS"	PT Konutara Sejati, a limited company established in Indonesia, an indirectly non wholly-owned subsidiary of the Company
"Latest Practicable Date"	11 April 2017, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report prior to its publication

"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"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 the Company
"Mingcheng Transportation"	Fushun Mingcheng Transportation Co., Ltd. (撫順名城運輸有限公司), a limited liability company established in the PRC
"Mingyang Transport"	Fushun Mingyang Transport Co., Ltd. (撫順名揚運輸有限公司), a limited liability company established in the PRC, an affiliate of Fushun Mingcheng Transportation Co., Ltd. (撫順名城運輸有限公司)
"mm"	Millimeters
"m"	Meters
"m^2"	Square meters
"m^3"	Cubic meters
"Nomination Committee"	the nomination committee of the Board
"Northeastern Lion"	Northeastern Lion Limited, a limited company established in the BVI and currently renamed as Hanking (Indonesia) Mining Limited, which indirectly holds 75% equity interest in KKU, KS and KP
"Prospectus"	the prospectus of the Company published on 20 September 2012
"Remuneration Committee"	the remuneration committee of the Board
"RMB"	Renminbi Yuan, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (as amended from time to time)
"Shangma Mine"	located at Fushun Shangma, an iron mine operated through Fushun Shangma, a subsidiary of the Company

DEFINITIONS

"Share(s)"	ordinary share(s) of nominal value of HK$0.1 each in the share capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Shengtai Property"	Shenyang Shengtai Properties Management Co., Ltd (瀋陽盛泰物業管理有限公司), a limited liability company established in the PRC
"SXO"	located at the center of Yilgarn goldfield in Western Australia (Southern Cross Operation, abbreviated as SXO)
"SXO Gold Project" or "Southern Cross Operation"	the Southern Cross Operation Gold Project located at the center of Yilgarn goldfield in Western Australia and operated through the Company's subsidiary Hanking Gold
"United States"	the United States of America
"US$" or "USD" or "US dollars"	United States dollars, the lawful currency of the United States
"STSU"	Shenyang Toyo Steel Utility Co., Ltd (瀋陽東洋煉鋼公用設施有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
"Xingzhou Mine"	located at Dongzhou District, Fushun City, an iron mine operated through Xingzhou Mining, a subsidiary of the Company
"Xingzhou Mining"	Fushun Hanking Xingzhou Mining Limited (撫順罕王興洲礦業有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company