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HENGSHI MINING INVESTMENTS LIMITED

恒實礦業投資有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1370)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2013:

- The revenue of the Group amounted to RMB1,286.08 million, representing an increase of 121.14% as compared with last year.
- The net profit attributable to equity holders of the Company amounted to RMB397.51 million, representing an increase of 720.46% as compared with last year.
- The profit before tax of the Group was RMB572.27 million, representing an increase of 638.80% as compared with last year.
- The basic earnings per share was RMB0.34 per share, representing an increase of RMB0.3 per share as compared with last year.

The board of directors (the “**Board**”) of Hengshi Mining Investments Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2013 (the “**Annual Results for 2013**”), along with the comparable figures for the year of 2012, which are extracted from the audited consolidated financial statements of the Group prepared in accordance with the International Financial Reporting Standards as set out in the Company’s 2013 annual report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

(Expressed in Renminbi)

	<i>Note</i>	2013 RMB'000	2012 RMB'000
Turnover	4	1,286,078	581,573
Cost of sales		(575,255)	(393,149)
Gross profit		710,823	188,424
Distribution costs		(4,739)	(1,920)
Administrative expenses		(107,519)	(101,538)
Profit from operations		598,565	84,966
Finance income	5(a)	280	115
Finance costs	5(a)	(26,574)	(7,621)
Net finance costs		(26,294)	(7,506)
Profit before taxation	5	572,271	77,460
Income tax	6	(146,659)	(22,666)
Profit for the year		425,612	54,794
Other comprehensive income for the year			
<i>Items that may be reclassified subsequently to profit and loss:</i>			
Exchange differences on translation of financial statements of group of companies outside of Mainland China		(5,597)	–
Total comprehensive income for the year		420,015	54,794
Profit attributable to:			
Equity shareholders of the Company		397,513	48,450
Non-controlling interests		28,099	6,344
Profit for the year		425,612	54,794
Total comprehensive income attributable to:			
Equity shareholders of the Company		391,916	48,450
Non-controlling interests		28,099	6,344
Total comprehensive income for the year		420,015	54,794
Earnings per share			
Basic and diluted (RMB)	7	0.34 cents	0.04 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2013

(Expressed in Renminbi)

		31 December 2013	31 December 2012
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment, net	9	450,729	271,340
Construction in progress		166,992	161,580
Lease prepayments		157,495	154,296
Intangible assets	10	420,045	218,484
Long-term receivables		33,960	11,420
Prepayments		3,257	5,291
Deferred tax assets		8,641	1,225
		1,241,119	823,636
Current assets			
Inventories	11	41,235	160,071
Trade and other receivables	12	83,649	39,401
Amounts due from related parties		–	386
Cash and cash equivalents		987,562	22,668
		1,112,446	222,526
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	13	40,000	–
Trade and other payables	14	201,562	237,805
Amounts due to related parties	15	–	483,581
Current taxation		11,918	2,222
Current portion of long-term payables	16	51,740	21,026
Current portion of accrued reclamation obligations		4,434	2,935
		309,654	747,569
Net current assets/(liabilities)		802,792	(525,043)
Total assets less current liabilities		2,043,911	298,593

		31 December 2013	31 December 2012
	<i>Note</i>	RMB'000	<i>RMB'000</i>
Non-current liabilities			
Interest-bearing borrowings, less current portion	13	270,000	–
Long-term payables, less current portion	16	218,779	90,454
Accrued reclamation obligations, less current portion		42,359	43,753
Deferred tax liabilities		–	56
		531,138	134,263
NET ASSETS		1,512,773	164,330
CAPITAL AND RESERVES			
Share capital		120	1
Reserves		1,458,959	138,734
Total equity attributable to equity shareholders of the Company		1,459,079	138,735
Non-controlling interests		53,694	25,595
TOTAL EQUITY		1,512,773	164,330

NOTES

(Expressed in Renminbi unless otherwise stated)

1 CORPORATE INFORMATION

Hengshi Mining Investments Limited (the “Company”) was incorporated in the British Virgin Islands (“BVI”) on 14 January 2011 and redomiciled to the Cayman Islands on 23 May 2013 as an exempted company with limited liability under the Companies Law, Chapter 22 (2012 Revision, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (together the “Group”) are principally engaged in the mining, processing and trading of iron ore products.

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

The figures in respect of the preliminary announcement of the Group’s results for the year ended 31 December 2013 have been compared by the Company’s auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group’s audited financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditor on this announcement.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. The Group has adopted all applicable new and revised IFRSs to the current and prior accounting periods reflected in these financial statements, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2013.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries.

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

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

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

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on the expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

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

(i) Reserves

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

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

(ii) Useful lives of property, plant and equipment

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

(iii) *Impairment of assets*

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

In relation to trade and other receivables (including the value added tax recoverables), a provision for impairment is made and an impairment loss is recognised in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Management uses judgement in determining the probability of insolvency or significant financial difficulties of the debtor.

An increase or decrease in the above impairment loss would affect the net profit in future years.

(iv) *Obligations for reclamation*

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

(v) *Recognition of deferred tax assets*

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

(vi) *Capitalised stripping costs*

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

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

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

(vii) *Exploration and evaluation expenditure*

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits will flow to the Group. It requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in profit or loss in the period when the new information becomes available.

(b) Sources of estimation uncertainty

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

4 TURNOVER

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

	2013 RMB'000	2012 RMB'000
Iron ore concentrates	702,093	315,180
Preliminary concentrates	116,029	71,445
Iron ore	467,503	193,856
Others	453	1,092
	<u>1,286,078</u>	<u>581,573</u>

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's turnover. During the year ended 31 December 2013, sales to this customer amounted to RMB320,726,000 (2012: RMB34,944,000).

5 PROFIT BEFORE TAXATION

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

(a) Net finance costs:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Interest income	(280)	(115)
Finance income	(280)	(115)
Interest on interest-bearing borrowings	9,954	–
Unwinding of interest on		
– long-term payables	13,562	4,751
– accrued reclamation obligations	3,058	2,870
Finance costs	26,574	7,621
Net finance costs	26,294	7,506

(b) Staff costs:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Salaries, wages, bonuses and benefits	61,975	54,272
Retirement scheme contributions	7,365	5,136
	69,340	59,408

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

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

(c) **Other items:**

	2013 RMB'000	2012 RMB'000
Cost of inventories [#]	575,255	393,149
Depreciation and amortisation	70,502	39,522
Auditors' remuneration		
– audit services	1,800	71
Listing expenses	30,477	–
Net losses on disposal of property, plant and equipment	440	8,086
Operating lease charges	573	555

[#] Cost of inventories includes RMB108,506,000 for the year ended 31 December 2013 (2012: RMB54,980,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges which are also included in the respective amounts disclosed separately above for each of these types of expenses.

During the year ended 31 December 2013, production stripping costs recognised in profit and loss as part of cost of inventories amounted to RMB266,722,000 (2012: RMB246,169,000).

6 INCOME TAX

(a) **Income tax in the consolidated statement of comprehensive income represents:**

	2013 RMB'000	2012 RMB'000
Current tax		
Provision for the year	154,131	23,604
Deferred tax		
Origination and reversal of temporary difference	(7,472)	(938)
	<u>146,659</u>	<u>22,666</u>

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

	2013 RMB'000	2012 RMB'000
Profit before taxation	<u>572,271</u>	<u>77,460</u>
Notional tax on profit before taxation, calculated at tax rate of 25% (note (i))	143,068	19,365
Tax effect of non-deductible items	64	241
Tax effect of unused tax losses not recognised	<u>3,527</u>	<u>3,060</u>
Actual tax expense	<u>146,659</u>	<u>22,666</u>

Note:

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

- (ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the years presented.
- (iii) According to the PRC Enterprise Income Tax Law and its implementation rules, dividends receivable by non-PRC-resident corporate investors from PRC-resident enterprises for profits earned since 1 January 2008 are subject to withholding income tax at a rate of 10%, unless reduced by tax treaties or arrangements. Undistributed profits earned prior to 1 January 2008 are exempted from such withholding tax.

7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2013 of RMB397,513,000 (2012: RMB48,450,000) and the weighted average number of shares in issue during the year ended 31 December 2013 of 1,160,189,359 shares (2012: 1,125,000,000 shares, on the assumption that a total of 1,125,000,000 shares of the Company are in issue pursuant to the capitalisation issue), pursuant to the capitalisation issue of 1,125,000,000 shares on 3 November 2013, the initial public offering of 375,000,000 shares on 28 November 2013 and the partial exercise of over-allotment option of 7,843,000 shares on 20 December 2013, respectively.

The shares issued under the initial public offering and the partial exercise of over-allotment option are included in the weighted average number of shares in issue during the year from their respective date of issuance.

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

8 SEGMENT REPORTING

The Group has one business segment, the mining, processing, and sale of iron ore, preliminary concentrates and iron ore concentrates. All of its customers are located in China. Based on information reported to the chief operating decision maker for the purpose of resource allocation and performance assessment, the Group's only operating segment is the mining, processing, and sale of iron ore and iron ore products. Accordingly, no additional business and geographical segment information are presented.

9 PROPERTY, PLANT AND EQUIPMENT, NET

The Group's property, plant and equipment are substantially located in the PRC. Up to the issue of these financial statements, the Group is still in the process of applying for the title certificates of certain of its buildings and plants with carrying amount of approximately RMB55,625,000 (31 December 2012: RMB51,690,000). The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use of the above-mentioned properties.

As at 31 December 2013, mine properties include RMB nil of capitalised stripping activity asset (31 December 2012: RMB nil).

10 INTANGIBLE ASSETS

Intangible assets represent the mining right acquired by Laiyuan County Jiheng Mining Co., Ltd. from Hebei Provincial Department of Land and Resources in 2012, the mining rights acquired by Laiyuan County Jingyuancheng Mining Co., Ltd. and Laiyuan County Xinxin Mining Co., Ltd. from Hebei Provincial Department of Land and Resources in 2013, and the premium paid in relation to obtaining the mining rights by Laiyuan County Jingyuancheng Mining Co., Ltd. from nearby iron ore mines in 2010 and 2011.

During the year ended 31 December 2013, the Group acquired the mining rights from Hebei Provincial Department of Land and Resources at a total consideration of RMB223,247,000 (2012: RMB142,330,000).

As at 31 December 2013, the Group's borrowings were secured by the mining right of Laiyuan County Jiheng Mining Co., Ltd. with carrying amount of approximately RMB123,297,000 (31 December 2012: RMB nil).

11 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	2013 RMB'000	2012 RMB'000
Weakly mineralised wall rock [#]	10,977	116,857
Iron ore	1,826	1,460
Preliminary concentrates	7,342	4,138
Iron ore concentrates	3,302	24,976
	<u>23,447</u>	<u>147,431</u>
Consumables and supplies	17,788	12,640
	<u>41,235</u>	<u>160,071</u>

[#] Weakly mineralised wall rock represents sub-graded mineral materials.

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

	2013 RMB'000	2012 RMB'000
Carrying amount of inventories sold	<u>575,255</u>	<u>393,149</u>

12 TRADE AND OTHER RECEIVABLES

	2013 RMB'000	2012 RMB'000
Accounts receivable	25,273	12,152
Bills receivable	29,710	–
	<u>54,983</u>	<u>12,152</u>
Trade receivables (note (a))	54,983	12,152
Other receivables (note(d))	28,666	27,249
	<u>83,649</u>	<u>39,401</u>

(a) Ageing analysis

The ageing analysis of trade receivables is as follows:

	2013 RMB'000	2012 RMB'000
Current	54,983	–
Within 3 months	–	12,152
	<u>54,983</u>	<u>12,152</u>

(b) Impairment of trade receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2013 RMB'000	2012 RMB'000
Neither past due nor impaired	54,983	–
Within 3 months	–	12,152
	54,983	12,152

Receivables that were past due but not impaired relate to certain independent parties that have a good track record with the Group. Based on past experience, management believes that no impairment allowances are necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group seeks to maintain tight control over its outstanding trade receivables in order to minimise credit risk. Overdue balances are regularly monitored by management.

(d) Other receivables

	2013 RMB'000	2012 RMB'000
Prepayments and deposits (<i>note (i)</i>)	24,057	15,018
Income tax recoverable	3,191	8,648
Value added tax receivables	–	2,554
Others	1,418	1,029
	28,666	27,249

Note:

- (i) As at 31 December 2013, prepayments and deposits mainly represented prepayments made to the Group's suppliers.

As at 31 December 2013, other than deposits amounted to RMB1,935,000 (31 December 2012: RMB1,485,000), which are included in prepayments and deposits, all other receivables were aged within one year and were expected to be recovered or expensed off within one year.

13 BORROWINGS

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

	2013 RMB'000	2012 RMB'000
Current portion of long-term borrowings		
– secured bank loans (<i>note (i)</i>)	<u>40,000</u>	<u>–</u>

(b) The Group's long-term interest-bearing borrowings comprise:

	2013 RMB'000	2012 RMB'000
Bank loans – secured (<i>note (i)</i>)	160,000	–
Entrusted bank loans (<i>note (ii)</i>)	<u>110,000</u>	<u>–</u>
	<u>270,000</u>	<u>–</u>

Note:

- (i) As at 31 December 2013, bank loans of the Group were denominated in RMB and bore an interest of 6.15% per annum. The borrowings were secured by the mining right of Laiyuan County Jiheng Mining Co., Ltd. with carrying amount of approximately RMB123,297,000 (31 December 2012: RMB nil).
- (ii) As at 31 December 2013, entrusted bank loans of the Group were denominated in RMB and bore an interest of 6.15% per annum.

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

	2013 RMB'000	2012 RMB'000
Within 1 year	40,000	–
After 1 year but within 2 years	<u>270,000</u>	<u>–</u>
	<u>310,000</u>	<u>–</u>

As at 31 December 2013, the Group had banking facilities secured by the mining right of Laiyuan County Jiheng Mining Co., Ltd. with a carrying amount of approximately RMB123,297,000 (31 December 2012: RMB nil). Such banking facilities amounted to RMB220,000,000 (31 December 2012: RMB nil). The facilities were utilised to the extent of RMB200,000,000 (31 December 2012: RMB nil).

As at 31 December 2013, no borrowing from bank was subject to financial covenants.

14 TRADE AND OTHER PAYABLES

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Trade payables (<i>note (i)</i>)	53,026	58,936
Receipt in advance (<i>note (ii)</i>)	15,774	36,069
Payables for purchase of equipment	67,247	88,618
Other taxes payable	13,153	6,587
Others (<i>note (iii)</i>)	52,362	47,595
	<u>201,562</u>	<u>237,805</u>

Note:

- (i) All trade payables are due and payable on presentation or within one year.
- (ii) Receipts in advance represent payments in advance made by the Group's customers in accordance with the terms set out in respective sales agreements.
- (iii) Others mainly represent accrued expenses, payables for staff related costs and other deposits.

As at 31 December 2013, all of the other trade and other payables were expected to be settled within one year or are repayable on demand.

15 AMOUNTS DUE TO RELATED PARTIES

These represented advances obtained from a related party, Hebei Aowei Industrial Group Co., Ltd., which were fully repaid during the year ended 31 December 2013.

16 LONG-TERM PAYABLES

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Payables for acquiring mining rights (<i>note (i)</i>)	270,519	111,480
Less: Current portion of long-term payables	<u>51,740</u>	<u>21,026</u>
	<u>218,779</u>	<u>90,454</u>

Note:

- (i) In March 2012, the Group acquired a mining right from Hebei Provincial Department of Land and Resources for a consideration of RMB142,330,000 that are repayable over five years from 2012.

In January 2013, the Group acquired three mining rights from Hebei Provincial Department of Land and Resources for an aggregate consideration of RMB223,247,000 that are repayable over five to seven years from 2013.

The carrying amounts of the mining right payables have been determined using a discount rate of 5.98% per annum.

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

	2013 RMB'000	2012 <i>RMB'000</i>
Within 1 year	51,740	21,026
After 1 year but within 2 years	51,703	21,029
After 2 years but within 5 years	137,323	69,425
After 5 years	29,753	–
	270,519	111,480

17 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

Capital commitments outstanding at 31 December 2013 not provided for in the financial statements were as follows:

	2013 RMB'000	2012 <i>RMB'000</i>
Contracted for		
– property, plant and equipment	–	11,950
Authorised but not contracted for		
– property, plant and equipment	302,287	48
– stripping activity asset	180,631	–
– exploration and evaluation asset	–	–
	482,918	48
	482,918	11,998

(b) Operating lease commitments

- (i) As at 31 December 2013, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2013 RMB'000	2012 <i>RMB'000</i>
Within 1 year	2,460	361
After 1 year but within 5 years	4,692	1,349
	7,152	1,710

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

(c) Environmental contingencies

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

- (i) the exact nature and extent of the contamination at the mines and processing plants;
- (ii) the extent of required cleanup efforts;
- (iii) varying costs of alternative remediation strategies;
- (iv) changes in environmental remediation requirements; and
- (v) the identification of new remediation sites.

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

(d) Governmental and regulatory levies

The Group is subject to certain levies (mineral resources compensation, water and soil loss compensation, pollutant discharge fee and etc.) imposed by relevant government authorities in accordance with the relevant PRC laws and regulations. Under such laws and regulations, the Group has fully fulfilled their responsibilities in paying the respective levies during the years presented. In the opinion of the directors, based on legal advice, the Group had no other material obligations or liabilities of such levies as at 31 December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group was officially listed on the Hong Kong Stock Exchange on 28 November 2013. It is the first time the Group publishes a result report after its listing in Hong Kong. The Group is primarily engaged in mining of iron ores, processing of ores and manufacturing and sales of iron ore concentrates. The Group owns and operates four iron ore mines, namely Gufen Mine, in respect of which Laiyuan County Xinxin Mining Ltd (“**Xinxin Mining**”, our wholly owned subsidiary) has one mining license, Wang’ergou Mine and Shuanmazhuang Mine, in respect of which Laiyuan County Jingyuancheng Mining Ltd (“**Jingyuancheng Mining**”, our wholly owned subsidiary) has two mining licenses, and Zhijiazhuang Mine, in respect of which Laiyuan County Jiheng Mining Ltd (“**Jiheng Mining**”, owned as to 90% by us) has one mining license. All of our subsidiaries are located in Hebei Province, the province with the largest steel production capacity and iron ore consumption volumes in China.

Development Strategies

The Group will adhere to its core strategy of iron ore development, aiming at showing its development concept of “low cost, fast expansion.” Through the expansion of production capacities of self-owned mines, the integration of surrounding mines, as well as merger and acquisition and reorganization in core iron ore demand regions, continuous development, and strive to be the leading mining group in China.

Growth of Significant Project and Production Capacities

In order to meet the production expansion plan of the Group, we plan to steadily increase our mining and processing capacities across all of our mines.

Increase mining capacity through on-going slope correction and stripping engineering

The Group’s target is to increase our mining capacity from 10.4 Mtpa in 2013 to 21.4 Mtpa by the end of 2015 (based on JORC Code compliant reserves with a cut-off grade of 8%). In order to meet our planned mining capacity, our estimated total investment for related slope correction and stripping engineering projects is approximately RMB346.40 million. In 2013, the Group’s annual mining capacity was increased from 10.4 Mtpa to 13.2 Mtpa, and has incurred an expense of RMB165.78 million in the relevant projects.

According to the Feasibility Study on the Construction Project of Laiyuan Aowei Mining Investment Co., Limited (Xinxin Mining, Jingyuancheng Mining and Laiyuan County Jiheng Mining Ltd) (“**FS Report**”) compiled by Sinosteel Ma’anshan Engineering Investigations and Design Co., Ltd in December 2012, the designed stripping engineering project at Zhijiazhuang Mine was completed in 2013. The stripping engineering of Gufen Mine, Wang’ergou Mine and Shuanmazhuang Mine will continue until the end of 2015, to ensue that the mining capacity of mines would reach its designed capacity.

The following table illustrates the growth of mining capacity for various mines during the period when such stripping engineering was executed:

	Existing capacity (kt/p.a.)	Planned capacity (kt/p.a.)	
	(As at 31 December 2013)	(As at 31 December 2014)	(As at 31 December 2015)
Mining capacity			
Gufen Mine	2,900	3,900	5,000
Wang'ergou Mine and Shuanmazhuang Mine	8,000	11,000	14,000
Zhijiazhuang Mine	2,300	2,400	2,400
Total	13,200	17,300	21,400

Expand processing capacity by technical renovation and construction of new processing plants

For XinXin Mining, the technical renovation works for dry processing and wet processing plants have been completed in 2013.

For Jingyuancheng Mining, the new wet processing plant with a processing capacity of 2.4 Mtpa has been put into operations in March 2013. In 2014, a new dry processing plant with a processing capacity of 8 Mtpa will be constructed, and technical renovation will be made to the existing processing plant to elevate production capacity. In 2015, a new wet processing plant with a processing capacity of 1.2 Mtpa will be constructed.

For Jiheng Mining, the new dry processing plant of a processing capacity of 2.5 Mtpa has been put into operations in January 2013. Technical renovation and upgrade of the old dry processing plant has been completed in the third quarter. In 2014, a new wet processing plant with a processing capacity of 1.6 Mtpa and auxiliary tailings pond will be constructed.

The following table illustrates the growth of processing capacity derived from such technical renovation and construction plans:

	Existing capacity (kt/p.a.) (As at 31 December 2013)	Planned capacity (kt/p.a.) (As at 31 December 2014) (As at 31 December 2015)	
Dry processing capacity			
Gufen Mine	5,750	5,750	5,750
Wang'ergou Mine and Shuanmazhuang Mine	9,600	17,600	17,600
Zhijiazhuang Mine	4,200	4,200	4,200
Total	19,550	27,550	27,550
Wet processing capacity			
Gufen Mine	1,600	1,600	1,600
Wang'ergou Mine and Shuanmazhuang Mine	2,400	3,500	4,700
Zhijiazhuang Mine	N/A	1,600	1,600
Total	4,000	6,700	7,900

Significant Financing

In May 2013, a maximum mortgage agreement was entered into between the Group and China Construction Bank Corporation Rongcheng Sub-branch. Pursuant to such mortgage agreement, a bank credit facility of RMB220 million of two years was secured by the mining license owned by Jiheng Mining. In June and July 2013, the Group has entered into borrowing contracts with China Construction Bank Corporation Rongcheng Sub-branch and utilized such credit agreements to the extent of RMB101.6 million and RMB98.4 million through secured bank loans, respectively, each with a lending period of two years.

In September 2013, the Group borrowed and utilized three entrusted loans with (i) Hebei Jinhai Industry Group Co., Ltd. (河北津海實業集團有限公司) as an entrusted lender and China Construction Bank Corporation Baoding Branch as the trustee lender; (ii) Baoding Aosen Clothing Making Co., Ltd. (保定澳森製衣有限公司) as an entrusted lender and China CITIC Bank Co., Ltd. Shijiazhuang Branch as the trustee lender; and (iii) Hebei Fuye Property Development Co., Ltd. (河北福業房地產開發有限公司) as an entrusted lender and China Construction Bank Corporation Baoding Branch as the trustee lender, respectively, for an aggregate amount of RMB190.0 million. In December 2013, the Group fully repaid the entrusted loan of RMB80 million due to 河北津海實業集團有限公司 through operating cash flows.

MARKET OVERVIEW

In the past ten years, the demand for steel in China has continued to grow drastically driven by the urbanization and the construction of infrastructures. Being one of the key raw materials for steel refining, the demand for iron ores in China has shown the strongest growth trend.

According to the National Bureau of Statistics of China, the output of crude ores in China amounted to 779,041 Kt in 2013, representing an increase of 7.6% over last year. Despite an increase in the steel production and demand in iron ore in 2013, the continuous pervasion of smog in winter in Northern China and the excess supply in the steel market made the Chinese government endeavour to solve the problems of air pollution and excess supply. The Chinese government introduced a number of policies to eliminate steel capacity and strictly restrict the operation of additional capacity in 2013.

According to the information provided by China Iron and Steel Association, the steel demand in China is expected to maintain its upward trend in 2014 as a result of the continuous urbanization and the subsequent steady increase in demand. It is expected that the crude ore output in China would reach 810,000 Kt in 2014, representing an increase of 4% over the previous year.

In the meantime, according to the statistics provided by the National Bureau of Statistics of China, iron ore imports for the year amounted to 819,310 Kt, representing a year-on-year increase of 10.2%.

In the face of the market environment that domestic demand slows down and foreign supply continues to boost, the Group will enhance production management and sales by leveraging on (i) lower cash operating costs of business units; (ii) premium and high-graded iron ore concentrates; (iii) flexible sales strategy and nearby major customers; and (iv) strategic advantages such as larger production scale with steady supply, to maintain its competitiveness.

OPERATION REVIEW

Production

The following table sets out the production of iron ores, preliminary concentrates and iron ore concentrates by the Group in 2013:

	For the year ended 31 December		
	2013	2012	Change
	<i>Output (Kt)</i>		
Iron ores	10,022	3,804	163.46%
Preliminary concentrates	4,081	2,194	86.01%
Iron ore concentrates	852	393	116.79%

In 2013, the Group continued to focus on capacity expansion and cost control by optimizing transportation of mining area, reducing transportation costs as well as strictly monitoring the quality of outsourced projects, thus remarkably increased the operating efficiency of our mines.

Stripping activities

Gufen Mine

Gufen Mine, which is owned and operated by our wholly owned subsidiary, Xinxin Mining, is located in Shuibao Village, Laiyuan County. The area covered by the mining right for Gufen Mine is 1.3821 sq.km.

According to the feasibility study on Gufen Mine, the mine will carry out a three-year infrastructure and stripping project from 2013 to 2015, in order to increase mining capacity. The total investment is expected to be approximately RMB132.81 million. In 2013, Xinxin Mining has already invested approximately RMB53.41 million.

Wang'ergou Mine and Shuanmazhuang Mine

Wang'ergou Mine and Shuanmazhuang Mine are both wholly owned and operated by our wholly owned subsidiary, Jingyuancheng Mining. Wang'ergou Mine and Shuanmazhuang Mine are located in Zoumayi Village, Laiyuan County. The area covered by the mining right for Wang'ergou Mine is 1.5287 sq.km. The area covered by the mining right for Shuanmazhuang Mine is 2.1871 sq.km.

According to the feasibility study on Wang'ergou Mine and Shuanmazhuang Mine, the mines will carry out a three-year infrastructure and stripping project from 2013 to 2015, in order to increase mining capacity. The total investment is expected to be approximately RMB161.69 million. In 2013, Jingyuancheng Mining has already invested approximately RMB58.39 million.

Zhijiazhuang Mine

Zhijiazhuang Mine, which is wholly owned and operated by Jiheng Mining, a 90% owned subsidiary of the Group with the remaining 10% equity interest owned by an independent third party, Laiyuan County Construction and Investment Co., Ltd, is located in Yangjiazhuang Village, Laiyuan County. The mining rights of Zhijiazhuang Mine cover an area of 0.3337 sq.km.

According to the feasibility study on Zhijiazhuang Mine, the mine will carry out a one-year infrastructure and stripping projects in 2013, in order to increase mining capacity. The total investment is expected to be approximately RMB51.90 million. In 2013, Jiheng Mining has completed related infrastructure and stripping project.

Resources Reserves

During the periods between July to September 2011 and June to July 2012, Baoding Institute of Geological and Prospecting Engineering (the “**BIGPE**”) finished the exploration of Gufen Mine, Wang'ergou Mine, Shuanmazhuang Mine and Zhijiazhuang Mine under the supervision of SRK Consulting China Limited.

The estimation of resources covered 150 trenches and 207 drill holes, among which 65 trenches and 71 drill holes were from Gufen Mine, 33 trenches and 47 drill holes from Wang'ergou Mine, 31 trenches and 33 drill holes from Shuanmazhuang Mine and 21 trenches and 56 drill holes from Zhijiazhuang Mine. 5,262, 6,629, 4,087 and 3,636 samples were extracted from Gufen Mine, Wang'ergou Mine, Shuanmazhuang Mine and Zhijiazhuang Mine respectively, with an exploitation track of 10,251, 13,456, 8,073 and 6,607 meters respectively. TFe and mFe analysis were carried out in respect of each of the samples.

No exploration-related expense was incurred in 2013 as no exploration work was carried out in respect of the mines in the year.

As at the end of 2013, the Group owned approximately 396 million tonnes of JORC Code (2012) Compliant iron ore indicated resources:

Company	Mine	Cut-off grade	Indicated mineral resource			Inferred mineral resource		
			<i>Tonne</i> <i>(TFe%)</i>	<i>TFe</i> <i>(%)</i>	<i>mFe</i> <i>(%)</i>	<i>Tonne</i> <i>(1000t)</i>	<i>TFe</i> <i>(%)</i>	<i>mFe</i> <i>(%)</i>
Xinxin Mining	Gufen Mine	8	157,312	13.23	6.51	101,100	12.44	6.03
Jingyuancheng Mining	Wang'ergou Mine	8	66,127	13.77	6.36	39,250	13.03	5.85
	Shuanmazhuang Mine	8	153,010	13.99	5.73	73,935	12.81	4.92
Jiheng Mining	Zhijiazhuang Mine	8	19,367	27.26	26.22	9,426	27.58	25.82
Total		8	395,816	14.30	7.15	223,711	13.30	6.46

As at the end of 2013, the Group owned approximately 322 million tonnes of JORC Code (2012) Compliant iron ore reserves.

Company	Mine	Exploration Approach	Type	Ore reserves (Kt)	TFe (%)	mFe (%)
Xinxin Mining	Gufen	Open-pit	Probable	55,390	12.81	6.3
		Underground	Probable (Graded 12% or above)	<u>58,750</u>	<u>15.35</u>	<u>8.5</u>
		Total	Probable	<u>114,140</u>	<u>14.11</u>	<u>7.43</u>
Jingyuancheng Mining	Wang'ergou	Open-pit	Probable	43,657	13.38	6.24
		Underground	Probable (Graded 12% or above)	<u>18,077</u>	<u>15.87</u>	<u>8.5</u>
		Total	Probable	<u>61,734</u>	<u>14.11</u>	<u>6.9</u>
Jingyuancheng Mining	Shuanmazhuang	Open-pit	Probable	91,619	13.56	5.55
		Underground	Probable (Graded 12% or above)	<u>35,723</u>	<u>16</u>	<u>7.11</u>
		Total	Probable	<u>127,342</u>	<u>14.24</u>	<u>5.99</u>
Jiheng Mining	Zhijiazhuang	Open-pit	Probable	<u>19,206</u>	<u>27</u>	<u>25.78</u>
		Total	Probable	<u>19,206</u>	<u>27</u>	<u>25.78</u>
Total		Open-pit	Probable	209,872	14.55	7.74
		Underground	Probable (Graded 12% or above)	<u>112,550</u>	<u>15.64</u>	<u>8.06</u>
		Total	Probable	<u>322,422</u>	<u>14.93</u>	<u>7.85</u>

Transportation

On our mining sites, we engage third-party transportation teams to deliver the iron ores and weakly mineralized wall rocks to on-site dry processing plants and preliminary concentrates to our wet processing plants. All the on-site dry processing plants of our mines are within 0.5 km of the corresponding mining site, and the associated wet processing plants for Gufen Mine, Wang'ergou Mine and Shuanmazhuang Mine are within approximately 6 to 11 km of their respective mining sites.

Our iron ore concentrates are primarily sold to steel mills in Hebei Province. A majority of our current iron ore concentrates customers are in Hebei Province and within 500 km of our mines. Under most of the sales agreements with these customers, it is our customers' responsibility to arrange the transportation of the products by contracting with third-party transporting companies.

Our iron ores and preliminary concentrates are sold to local iron ore processing companies. According to the sales agreements with these customers, the customer is responsible for arranging the collection of the products at our mining sites or processing plants themselves.

Strict control on land costs

As the economy develops and urbanization speeds up, land resources become increasingly scarce, resulting in a rapid surge in land costs. At the same time, mining activities demand for abundant land resources. In order to reduce the pressure of production and operating costs, the Group has completed the application for the quota and rights in relation to the use of relevant Land for mining purpose for the coming years in 2013 through scientific mining planning. In view of rising land costs and the higher proportion of land costs to production costs, our Group reserved its land for future production in advance based on reasonable planning, which significantly lowered the total operating costs of mines, thus strengthening risk prevention capability against market fluctuations.

Sales

In 2013, the Group achieved the sale of 2,101 Kt of iron ores, 533 Kt of preliminary concentrates and 844 Kt of iron ore concentrates. The Group's iron ores and preliminary concentrates were mainly sold to nearby wet processing plants while iron ore concentrates products were sold mainly to steel mills in central and southern Hebei, maximizing the advantages on low transportation costs.

Meanwhile, the Group further developed new customers and reduced the sales generated from our top five largest customers. In 2013, the sales generated from our top five largest customers accounted for 49.5% (2012: 65.4%) of our revenue. Sales to our largest customer represented 24.9% (2012: 44.6%) of the annual total sales of the Group.

Safety and environmental protection

During the year, our Group facilitated infrastructure engineering and enhanced on-site control. It launched “Safety Production Year” event to promote safety production law enforcement, governance and education campaigns in an active manner, innovate safety management, implement safety and environmental responsibility in various levels and prevent major personal casualties accident throughout the year.

Our Group adopted a wide range of environmental protection measures, strived to reduce the environmental impact arising from production and devoted to promoting eco and environmentally friendly green mining construction. As for reclamation, the Group conducted soil restoration and tree planning activities. In relation to recycled economy, processing plants and tailings dam maximized the recovery and recycling of drainage. In connection to noise reduction, the Group adopted closed processing and additional sound insulation equipment to reduce noise. As for energy saving and emission reduction, the Group applied new technologies and techniques to minimize the consumption of electricity and other materials.

Employees and remuneration policy

As of 31 December 2013, the Group had a total of 1,259 employees. During the year, the total staff cost of the Group was approximately RMB69,340,000 (2012: RMB59,408,000). The Group determined the staff remuneration based on their performance, experience and prevailing market practice. Other benefits provided to employees included retirement benefit scheme, medical benefit scheme and housing provident scheme.

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

Staff training scheme

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

FINANCIAL REVIEW

Revenue

In 2013, the revenue of our Group was approximately RMB1,286,078,000, up by RMB704,505,000 as compared to last year, representing a year-on-year increase of 121.14%, which was primarily due to our trial production and commercial production officially commenced in 2013, with a significant increase in the sales volume of various products.

Sales volume, average price and revenue by products:

	For the year ended 31 December		
	2013	2012	Growth
Sales Volume (Kt)			
Iron ores	2,101	1,019	106.18%
Preliminary concentrates	553	366	51.09%
Iron ore concentrates	884	372	137.63%
Unit price (RMB)			
Iron ores	223	190	17.37%
Preliminary concentrates	210	195	10.53%
Iron ore concentrates	794	847	-6.25%
Total revenue generated (RMB in thousand)			
Iron ores	467,503	193,856	141.16%
Preliminary concentrates	116,029	71,445	62.40%
Iron ore concentrates	702,093	315,180	122.76%
Others	453	1,092	-58.52%
Total	<u>1,286,078</u>	<u>581,573</u>	<u>121.14%</u>

Product Mix

Since April 2013, Xinxin Mining has been engaged by Jiheng Mining for the processing, manufacturing and selling of iron ore concentrates. At the same time, Xinxin Mining and Jingyuancheng Mining have commenced trial production and the growth of iron ore concentrates increased remarkably. Revenue generated from the sale of iron ore concentrates therefore contributed a greater proportion to the total income.

Cost of Sales

The Group's cost of sales mainly included costs associated with hired labour, public utilities, transportation, mining and processing operations. Changes in production output and the costs of mining, transporting and processing iron ore products are key factors that affect the Group's operating costs. During the year of 2013, the Group's cost of sales was approximately RMB575,255,000, up by RMB182,106,000 as compared to last year, representing a year-on-year increase of 46.32%, which was primarily due to a significant increase in the sales volume in 2013 than that of 2012.

Gross Profit and Gross Profit Margin

The Group's gross profit was approximately RMB710,823,000 in 2013, up by RMB522,399,000 as compared to last year, representing a year-on-year increase of 277.25%. The Group's gross profit margin in 2013 soared to 55.27% from 32.40% of 2012, primarily due to the increase in selling price arising from the higher grade of iron ores and preliminary concentrates as well as the effective cost control of the Group.

Sales and distribution expenses

Our Group's sales and distribution expenses in 2013 were approximately RMB4,739,000, up by RMB2,819,000 as compared to last year, representing a year-on-year increase of 146.82%. Sales and distribution expenses included the loading expense of vehicles arising from the sales of iron ores and preliminary concentrates by Jiheng Mining.

Administrative expenses

The Group's administrative expenses in 2013 were RMB107,519,000, up by RMB5,981,000 as compared to last year, representing a year-on-year increase of 5.89%. Administrative expenses included salaries paid to the management and administrative staff of the Group, depreciation and amortization, rental and office expenses, business development expenses, professional consulting and services expenses, taxation expenses and others, among which the one-off effect arising from listing expenses amounted to RMB30,477,000.

Finance costs

The Group's finance costs in 2013 were approximately RMB26,574,000, up by RMB18,953,000 as compared to last year, representing a year-on-year increase of 248.69%. Finance costs included interest expenses of bank borrowings, discounted interest expenses, interest expenses of other finance loans. Such increase was primarily due to the increase in finance costs arising from increased bank borrowings by RMB200,000,000 and entrusted loans by RMB190,000,000 in 2013 as the Company had no bank borrowings in 2012.

Income tax expenses

The Group's income tax expenses in 2013 amounted to approximately RMB146,659,000, up by RMB123,993,000 as compared to last year, representing a year-on-year increase of 547.04%. Income tax expenses included the income tax calculated by the total revenue of each subsidiary at the income tax rate of 25%. For the year ended 31 December 2012 and 2013, the Group's effective tax rates were 29.26% and 25.63% respectively. Our effective tax rates were higher than the statutory PRC enterprise income tax rate of 25%, which is primarily due to losses incurred by certain non-operating subsidiaries of the Group that were not deductible for tax purposes for the relevant periods in accordance with the relevant PRC laws and regulations.

Profit for the year

The Group's profit for the year of 2013 amounted to approximately RMB425,612,000, up by RMB370,818,000 as compared to last year, representing a year-on-year increase of 676.75%. The Group's net profit ratio during the reporting period was 33.09% while that of 2012 was 9.42%. The increase was primarily due to the fact the Group was mainly engaged in tasks such as resources integration and slope correction before 2013. Upon the completion of consolidation, the Company commenced trial production and commercial production and the production and sales volume of the Group increased, resulting in a greater increase in income in 2013 as compared with that of 2012. Besides, the growth in sales income was higher than that of the cost of sales, resulting in a greater increase in net profit in 2013 as compared with that of 2012.

Property, plant and equipment and inventories

Our Group's property, plant and equipment amounted to RMB450,729,000 as at the end of 2013, with an increase of RMB179,389,000 as compared to last year, representing a yearly increase of 66.11%. Such increase was primarily due to the fact that the Group's constructions and programs were converted to fixed assets and the Group purchased new equipments.

The inventories of the Group as at the end of 2013 was approximately RMB41,235,000, with a decrease of RMB118,836,000 as compared to 2012, representing a yearly decrease of 74.24%. Such decrease was primarily due to a substantial decrease in the inventory of weakly mineralized wall rocks of Jiheng Mining with the increase in operation consumption.

Trade and other receivables, and payables and other payables

Our Group's trade receivables as at the end of 2013 were approximately RMB54,983,000, representing an increase of RMB42,831,000. Such increase was primarily due to: (i) the notes receivables of RMB29,710,000 in 2013; (ii) the increase of RMB13,121,000 in trade receivables in 2013 over that of 2012 was primarily due to the fact that Jiheng Mining sold iron ores/preliminary concentrates to its customers who were mainly local processing plants with good reputation and agreed credit term.

Our Group's other receivables as at the end of 2013 were approximately RMB28,666,000, representing an increase of RMB1,417,000 over last year. Such increase was primarily due to a slight increase in prepayments to suppliers as compared with 2012.

Our Group's trade payables as at the end of 2013 were approximately RMB53,026,000, down by RMB5,910,000 as compared to last year, representing a year-on-year decrease of 10.03%. Such decrease was primarily due to the decrease in payables as the Company strengthened its repayment of trade payables.

Our Group's other payables as at the end of 2013 were approximately RMB148,536,000, down by RMB30,333,000 as compared to last year, representing a year-on-year decrease of 16.96%. Such decrease was primarily due to the combined effects arising from the decrease in sales prepayment as well as the decrease in equipment payables regarding the fixed asset investment of the Company.

Cash flow analysis

Summary of our Group's consolidated cash flow statement in 2013 is set out as follows:

	For the year ended	
	31 December	
	2013	2012
	RMB'000	RMB'000
Net cash flow from operating activities	109,549	277,306
Net cash flow used in investing activities	(337,036)	(216,478)
Net cash flow from/(used in) financing activities	1,197,997	(80,000)
Net increase/(decrease) in cash and cash equivalents	970,510	(19,172)
Cash and cash equivalents at beginning of year	22,668	41,840
Effect of foreign exchange rate changes on cash and cash equivalents	(5,616)	—
Cash and cash equivalents at end of year	987,562	22,668

The net cash inflow from operating activities in 2013 was RMB109,549,000, which was mainly attributable to the net amount calculated by the cash and cash equivalents from the ordinary sales of the Company less the expenses on cash and cash equivalents from sales and the entire repayment of the advances from Hebei Aowei Industrial Group Co., Ltd.

The net cash outflow from investing activities in 2013 was approximately RMB337,036,000, which primarily used in exploring engineering and investments in fixed assets.

The net cash inflow from financing activities in 2013 was approximately RMB1,197,997,000, which was mainly attributable to the financing proceeds from the listing of the Company.

Bank Borrowings

At the end of 2013, the Group's bank borrowings were approximately RMB310 million (2012: nil). Other than the above or otherwise disclosed in this annual report, the Group did not have any outstanding mortgages, pledges, bonds or other loan capital (issued or agreed to be issued), bank overdrafts, borrowings, acceptance liabilities or other similar liabilities, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities. In January 2014, the Group utilized the operating cash flow for early repayment of the entrusted loans of RMB110,000,000 in aggregate due to Baoding Aosen Clothing Making Co., Ltd. and Hebei Fuye Property Development Co., Ltd. The Directors have confirmed that, save as disclosed above, there is no material change in the liabilities or contingent liabilities of the Group since 31 December 2013.

Financial Instruments

The Group did not issue or grant any convertible bonds, options, debentures or other similar rights in the year.

Gearing Ratio, Interest Rate Risk and Foreign Currency Risk

The Group's debt to total assets ratio decreased from 84.29% on 31 December 2012 to 35.72% on 31 December 2013. Debt to total assets ratio is calculated by dividing the total debts by total assets.

The Group did not have any material fair value interest rate risk. All the bank borrowings and entrusted loans of the Group were loans at fixed interest rates and there was no material interest rate risk. Meanwhile, the assets of the Group were principally measured in terms of historical cost and there was no material fair value risk. As such, the Group did not have any material fair value interest rate risk.

The business of the Group is located in China and the principal operation and transactions are carried out in RMB. The assets and liabilities of the Group are denominated in RMB. We had no hedging in respect of the exchange rate risk as the net assets and profits of the Group may be affected by the exchange rate fluctuations, and if any dividends are translated into foreign exchange, such dividends declared will also be affected.

Material Acquisitions and Disposals

In 2013, the Group had not entered into any material acquisitions and disposals.

Pledge of Assets, Contingent Liabilities

The bank loans of the Group are secured by the mining rights of Zhijiazhuang Mine. As at 31 December 2013, the aggregate net book value of the pledged assets was RMB123,297,000.

As at 31 December 2012 and 31 December 2013, the Group had no material contingent liabilities.

Use of Proceeds from the Fund Raised

A total of HKD1,225,097,600 (equivalent of RMB969,098,000) was raised from the listing of the Company. Expenses including commissions paid to the sponsor, underwriting fees and related professional fees amounted to RMB71,147,000 approximately. The intended use of the remaining proceeds is as follows: (i) approximately 70% of the net proceeds will be used as the fund for our expansion plan; (ii) approximately 20% of the net proceeds will be used as the repayment of the bank loan due to China Construction Bank Corporation Rongcheng Sub-branch; and (iii) approximately 10% of the net proceeds will be used as working capital for general corporate purpose.

Future Outlook

In 2014, the Group will continue to abide by the core strategy that focuses on the expansion of iron ore business. The Group will emphasize on the development idea of “quick expansion with low costs” in the progress of production and operation. First, we will expand the production capacity and scale of the existing mines, enhance industrial techniques, optimize management modes, improve the management capabilities and lower the production costs. Second, we will carry out consolidation and exploration work in the surrounding mines by fully leveraging the consolidation principal status in the respective zones in order to lay a solid foundation for further expansion in the future production capacity. Third, we will implement the external exploration strategy, aim at the surrounding the core zones in terms of the iron ore demands, actively explore the high-quality mines with low costs by leveraging the corporate strengths and commence merger and acquisition.

Enhancing Mining Capabilities and Processing Facilities

In 2014, the Group will continue to push forward the developing engineering of the four mines as planned. In the first half of the year, we will complete the technical enhancement of the Jingyuancheng processing plant; in July, we will complete the construction of a new Jiheng Mining’s wet processing plant with an annual capacity of 1,600 kt. In November, we will complete the construction of Jingyuancheng Mining’s third dry processing plant with an annual processing capacity of 8,000 kt iron ores.

Expanding Resources and External Exploration

In 2014, the Group will carry out consolidation and exploration work in the surrounding high-quality mines by fully leveraging its consolidation principal status. We will seek to accumulate the storage of iron ore resources in order to lay a solid foundation for further capacity expansion.

At the same time, the Group will actively carry out the strategy of expanding outward. Centered in Hebei Province, which was in high demand in iron ore resources, we will actively explore high-quality and low-cost mines in the surrounding provinces for merger and acquisition. First, we have to consolidate high-quality resources by fully leveraging the Group’s regional brand strengths and extensive experience in consolidation and production expansion. Second, we have to choose an in-production mine with exploration and capacity expansion potential in order to guarantee to achieve the strategic target of commencing merger, acquisition and production in the same year as well as quick expansion in capacity.

Enhancing Corporate Management

Further enhancement on corporate cost management is another management focus of the Group in 2014. First, we have to further expand the corporate production capacity, strengthen the level of mechanization and technical skill inputs, lower the costs with capacity and technical strengths. Second, we have to engage more talents in respect of corporate management and strengthen the technical skills, improve the corporate management level and accelerate the pace of corporate development.

Establishment of a Green Mining Enterprise

In 2014, the Group will be dedicated to establishing a green mining enterprise with safety production, resource-saving and recycling development. We will further raise the safety awareness of all the staffs, implement safety management and enforcement, and adopt one-vote-down system in respect of major physical injury accidents in the mines. We will set a basic target in respect of creating green ecology for the new types of mines. We will achieve green and low-carbon development by compliance with the strict environmental monitoring system and leveraging a series of specific measures, such as street sprinkling, resumption of growing green plants and tailings dewatering. We will strengthen the cultural development of the corporation for driving the sustainable development of the Group.

DIVIDEND

The Board did not propose the distribution of a final dividend for the year ended 31 December 2013.

MANAGEMENT CONTRACTS

For the year ended 31 December 2013, 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 the business of the Group.

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 since 28 November 2013 (being the listing date) and up to 31 December 2013.

NON-COMPETITION AGREEMENT COMPLIANCE

As disclosed in the prospectus published by the Company on 18 November 2013, the Company signed a deed of non-competition ("**Deed of Non-Competition**") with the controlling shareholders on 12 November 2013. In accordance with the Deed of Non-Competition, the independent non-executive directors of the Company are responsible for reviewing and considering whether exercising the option for new business opportunities, preemptive right and the option for acquisitions as well as entitled to conduct annual review of implementation of the deed on behalf of the Company. During the year of 2013, each controlling shareholder of the Company has made annual confirmation of compliance of Deed of the Non-Competition, and the independent non-executive directors of the Company have also reviewed the implementation of Deed of the Non-Competition, and confirmed that the controlling shareholders have fully abided by the deed without any breach of the Deed of Non-Competition.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Save as disclosed below, during the period between 28 November 2013 (being the listing date) to 31 December 2013, the Company has fully complied with each of the principles and code provisions of the Code on Corporate Governance Practices 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**”) and a substantial majority of the recommended best practices set forth thereunder. Upon the listing, our Company has been considering arranging the liability insurance for our Directors, while due to certain unforeseeable delays caused by procedures and formalities, such liability insurance has not been in place as at 31 December 2013. Given that the related procedures and formalities have been nearly completed as of the date of issuance of this announcement, the liability insurance is expected to be given to our Directors no later than May 2014.

MODEL CODE FOR SECURITIES TRANSACTIONS

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. Having made specific enquiry to all the directors of the Company, all the directors have confirmed that they have complied with the Model Code throughout the period from the date of Listing of the Company to 31 December 2013.

MAJOR SUBSEQUENT EVENTS

From 1 January 2014 to the latest practicable date before publication of this announcement, there are no major subsequent events occurring to the Group.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2013, 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 claim pending or threatened.

AUDIT COMMITTEE

The audit committee under the Board of the Company has reviewed the annual results for 2013 and the financial statements for the year ended 31 December 2013.

PUBLICATION OF ANNUAL REPORT

The 2013 annual report for the year containing all applicable data required by the Listing Rules will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hengshiminig.com) in due course.

APPRECIATION

The Board of the Company would like to express sincere gratitude to all the employees of the Group, for their persistent effort in working, which contributed to the competitive advantage of the Group among the challenging market. We also would like to express our thanks to the government, shareholders of the Company and other related parties for their consistent support and trust to the Group.

By order of the Board
Hengshi Mining Investments Limited
Mr. Li Yanjun
Chairman

Beijing, 19 March 2014

As at the date of this announcement, the executive directors of the Company are Mr. Li Yanjun, Mr. Leung Hongying Li Ziwei, Mr. Xia Guoan, Mr. Sun Jianhua, Mr. Huang Kai and Mr. Tu Quanping and the independent non-executive directors of the Company are Mr. Ge Xinjian, Mr. Meng Likun and Mr. Kong Chi Mo.