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HENGSHI MINING INVESTMENTS LIMITED

恒實礦業投資有限公司

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

(Stock Code: 1370)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

The revenue of the Group for the Reporting Period was approximately RMB757.1 million, representing an increase of approximately RMB3.5 million or 0.5% as compared to the corresponding period last year. The Group's cost of sales for the Reporting Period was approximately RMB488.3 million, representing an increase of approximately RMB0.9 million or 0.2% as compared to the corresponding period last year. The gross profit of the Group for the Reporting Period was approximately RMB268.8 million, representing an increase of approximately RMB2.5 million or 0.9% as compared with the corresponding period last year.

For the Reporting Period, the profit attributable to the equity shareholders of the Company was approximately RMB85.7 million, while the loss attributable to the equity shareholders of the Company for the corresponding period last year was approximately RMB235.1 million.

For the Reporting Period, the basic and diluted earnings per share attributable to equity shareholders of the Company was RMB0.05, while the basic and diluted loss per share for the corresponding period last year were RMB0.16.

The board (the “**Board**”) of directors (the “**Directors**”) of Hengshi Mining Investments Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2016 (the “**Reporting Period**”), along with the relevant comparable figures for the year ended 31 December 2015, 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 2016 annual report (the “**2016 Annual Report**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2016

(Expressed in Renminbi)

	<i>Note</i>	2016 RMB'000	2015 RMB'000
Revenue	3	757,137	753,663
Cost of sales		<u>(488,291)</u>	<u>(487,343)</u>
Gross profit		268,846	266,320
Distribution costs		(13,144)	(19,989)
Administrative expenses		(97,240)	(115,183)
Impairment losses	12	<u>–</u>	<u>(393,637)</u>
Profit/(loss) from operations		158,462	(262,489)
Finance income	5(a)	4,065	3,466
Finance costs	5(a)	<u>(43,577)</u>	<u>(27,248)</u>
Net finance costs		<u>(39,512)</u>	<u>(23,782)</u>
Profit/(loss) before taxation	5	118,950	(286,271)
Income tax	6	<u>(33,284)</u>	<u>51,190</u>
Profit/(loss) for the year		85,666	(235,081)
Other comprehensive income for the year			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of group of companies outside of Mainland China		<u>1,395</u>	<u>106</u>
Total comprehensive income for the year		<u>87,061</u>	<u>(234,975)</u>
Profit/(loss) attributable to equity shareholders of the Company		<u>85,666</u>	<u>(235,081)</u>
Total comprehensive income attributable to equity shareholders of the Company		<u>87,061</u>	<u>(234,975)</u>
Earnings/(loss) per share			
Basic and diluted (RMB)	7	<u>0.05</u>	<u>(0.16)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2016

(Expressed in Renminbi)

		31 December 2016	31 December 2015
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment, net	8	838,579	724,458
Construction in progress		5,374	58,981
Lease prepayments	9	127,035	143,006
Intangible assets	10	753,758	602,673
Goodwill	11	73,410	–
Long-term receivables		53,960	40,960
Prepayments		3,576	3,382
Deferred tax assets		122,163	107,316
Total non-current assets		1,977,855	1,680,776
Current assets			
Inventories	13	106,147	115,052
Trade and other receivables	14	123,688	209,520
Other financial assets	15	48,000	–
Restricted deposits	16	298,048	–
Cash and cash equivalents		46,577	59,495
Total current assets		622,460	384,067
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	17	310,000	200,000
Trade and other payables	18	180,410	130,815
Current taxation		27,994	8,868
Current portion of long-term payables	19	45,501	5,786
Current portion of accrued reclamation obligations		5,720	6,399
Total current liabilities		569,625	351,868
Net current assets		52,835	32,199
Total assets less current liabilities		2,030,690	1,712,975

		31 December 2016	31 December 2015
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities			
Long-term payables, less current portion	19	197,707	229,885
Accrued reclamation obligations, less current portion		51,606	49,086
Deferred tax liabilities		50,090	—
Total non-current liabilities		299,403	278,971
NET ASSETS		1,731,287	1,434,004
CAPITAL AND RESERVES			
Share capital		131	120
Reserves		1,731,156	1,433,884
Total equity		1,731,287	1,434,004

NOTES

(Expressed in Renminbi unless otherwise indicated)

1 CORPORATION INFORMATION

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

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

On 13 July 2016, the Company acquired the 100% issued share capital of Xinan Investments Limited with details set out in note 4.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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. None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the 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.

3 REVENUE AND OPERATING SEGMENTS

(a) Revenue

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

	2016 RMB'000	2015 <i>RMB'000</i>
Mining Segment		
Iron ore concentrates	734,485	695,345
Preliminary concentrates	21,588	46,479
Iron ores	1,048	11,660
Others	4	179
	757,125	753,663
Medical Segment		
Hospital management service	12	–
	757,137	753,663

During the year ended 31 December 2016, there were three customers with whom transactions have exceeded 10% of the Group's revenue (2015: three customers) and revenue from sales of iron ore concentrates to these customers amounted to RMB603,936,000 (2015: RMB635,840,000).

(b) Operating Segments

The Group manages its businesses based on its business line, which are divided into mining, processing and sale of iron ore products and the provision of hospital management service. Before July 2016, the Group only has one business line, the mining, processing and sale of iron ore products. Operation of hospital management business was acquired by the Group in July 2016. For detailed information, please refer to note 4. Therefore, no segment reporting was presented in 2015.

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

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

(i) *Segment results, assets and liabilities*

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

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

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

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

Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2016 is set out below.

	Year ended 31 December 2016		
	Mining, processing and sale of iron ore segment <i>RMB'000</i>	Provision of hospital management, establishment of specialist clinics supply of consumables and nursing service <i>RMB'000</i>	Total <i>RMB'000</i>
Reportable segment revenue	757,125	12	757,137
Cost of sales	(485,174)	(3,117)	(488,291)
Reportable segment gross profit	271,951	(3,105)	268,846
Distribution costs	(13,144)	–	(13,144)
Administrative expenses	(92,380)	(1,129)	(93,509)
Net finance costs	(39,292)	–	(39,292)
Reportable segment profit/(loss) before taxation	127,135	(4,234)	122,901
Income tax	(34,037)	779	(33,258)
Reportable segment profit/(loss)	93,098	(3,455)	89,643

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

	2016 <i>RMB'000</i>
Revenue	
Reportable segment revenue	757,137
Consolidated revenue (note 3(a))	757,137
Profit	
Reportable segment profit	89,643
Unallocated head office and corporate expense	(3,977)
Consolidated profit	85,666

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

4 ACQUISITION OF BUSINESS

On 4 July 2016, the Group entered into a Sale and Purchase Agreement to acquire the 100% issued share capital of Xinan Investments Limited from Jovial Link Investments Limited (“Jovial Link”) at the consideration of approximately RMB213,000,000. The consideration was satisfied by the issuance of 127,486,892 shares (HK\$1.95 per share) of the Company on 13 July 2016 (the “Acquisition Date”). The consideration was HK\$248,600,000 in total, equivalent to RMB214,342,000 based on the Acquisition Date’s exchange rate. The Company indirectly holds 100% equity interest of Baoding Xinan Medical Management Consulting Company Limited (“Baoding Xinan”), which is principally engaged in the provision of hospital management service in the PRC. As at the date of the signing of the Sale and Purchase Agreement, Baoding Xinan has entered into the Agreement on Management of Rongcheng County Hospital of Traditional Chinese Medicine with the Healthcare and Family Planning Bureau of Rongcheng County, Baoding, Hebei Province relating to the management of the Rongcheng County Hospital of Traditional Chinese Medicine (hereafter referred to as “Rongcheng Hospital”) and the Management Agreement with Rongcheng Hospital relating to the management. Both agreements are collectively referred to as the “Hospital Management Agreements” hereafter.

(a) Identifiable assets acquired and liabilities assumed at the Acquisition Date:

	<i>Note</i>	Acquiree <i>RMB’000</i>
Intangible assets	10	187,000
Cash and cash equivalent		682
Deferred tax liabilities		(46,750)
Net identifiable assets		140,932

(b) Goodwill:

Goodwill was recognised as a result of acquisition as follows:

	<i>Note</i>	<i>RMB’000</i>
Total consideration		214,342
Less: fair value of identifiable net assets	4(a)	140,932
Goodwill	11	73,410

At the date of the acquisition, goodwill of RMB73,410,000 was determined provisionally based on the acquiree’s provisional fair value of net identifiable assets acquired.

5 PROFIT/(LOSS) BEFORE TAXATION

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

(a) Net finance costs:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Interest income	<u>(4,065)</u>	<u>(3,466)</u>
Finance income	<u>(4,065)</u>	<u>(3,466)</u>
Interest on interest-bearing borrowings	27,355	15,586
Unwinding of interest on		
– long-term payables	13,222	9,287
– accrued reclamation obligations	2,719	2,345
Foreign exchange loss, net	<u>281</u>	<u>30</u>
Finance costs	<u>43,577</u>	<u>27,248</u>
Net finance costs	<u>39,512</u>	<u>23,782</u>

During the year ended 31 December 2016, no borrowing costs were capitalised in relation to construction in progress (2015: RMB nil).

(b) Staff costs:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Salaries, wages and other benefits	65,523	77,405
Retirement scheme contributions	<u>4,820</u>	<u>7,673</u>
	<u>70,343</u>	<u>85,078</u>

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

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

(c) **Other items:**

	2016 RMB'000	2015 RMB'000
Cost of inventories (<i>note (i)</i>)	485,174	487,343
Depreciation and amortisation	118,342	111,676
Operating lease charges	3,589	4,003
Auditor's remuneration		
– audit services	3,000	3,180
– non audit services	680	–
Allowance for doubtful debts (<i>note 14</i>)	286	–
Net losses on disposal of property, plant and equipment	–	23,045
Impairment losses (<i>note 12</i>)	–	393,637

Note:

- (i) During the year ended 31 December 2016, cost of inventories includes RMB131,630,000 (2015: RMB153,262,000) relating to staff costs, depreciation and amortisation expenses which are also included in the respective amounts disclosed separately above for each of these types of expenses.

During the year ended 31 December 2016, production stripping costs recognised in profit or loss as part of cost of inventories amounted to RMB227,215,000 (2015: RMB213,674,000).

6 INCOME TAX

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

	2016 RMB'000	2015 RMB'000
Current tax		
Provision for PRC enterprise income tax	48,911	44,711
Deferred tax		
Origination and reversal of temporary differences	(15,627)	(95,901)
	<u>33,284</u>	<u>(51,190)</u>

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

	2016 RMB'000	2015 RMB'000
Profit/(loss) before taxation	<u>118,950</u>	<u>(286,271)</u>
Notional tax on profit/(loss) before taxation, calculated at tax rate of 25% (<i>note (i)</i>)	29,738	(71,568)
Differential tax rates on subsidiaries' income (<i>note (iii)</i>)	(3,436)	(2,482)
Tax effect of non-deductible expenses	586	2,439
Tax effect of unused tax losses not recognised	<u>6,396</u>	<u>20,421</u>
Actual tax expense/(credit)	<u>33,284</u>	<u>(51,190)</u>

Notes:

- (i) The PRC enterprise income tax rate is adopted as the Group's operations are mainly conducted in the PRC. Pursuant to the prevailing income tax rules and regulations of the PRC, the PRC enterprise income tax is at a rate of 25%.
- (ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The 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, interests receivable by non-PRC-resident corporate investors from PRC-resident enterprises are subject to withholding income tax at a rate of 7%.
- (iv) According to the PRC Enterprise Income Tax Law and its implementation rules, dividends 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/(LOSS) 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 2016 of RMB85,666,000 (2015: loss of RMB235,081,000) and the weighted average number of shares in issue during the year ended 31 December 2016 of 1,571,586,000 shares (2015: 1,507,843,000 shares).

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

8 PROPERTY, PLANT AND EQUIPMENT, NET

The Group's property, plant and equipment are substantially located in the PRC. As at 31 December 2016, the Group has not obtained title certificate of certain of its buildings and plants with an aggregate carrying amount of approximately RMB52,248,000 (31 December 2015: RMB108,247,000). 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 2016, mine properties include capitalised stripping activity asset with a carrying amount of RMB213,992,000 (31 December 2015: RMB305,456,000).

As at 31 December 2016, certain of the Group's borrowings were secured by the Group's property, plant and equipment (see note 17(c)) with a carrying amount of RMB49,913,000 (31 December 2015: RMB nil).

9 LEASE PREPAYMENTS

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in the PRC, with original lease periods over 5 to 50 years. Up to the issue of these financial statements, the Group is still in the process of applying for the title certificates of certain of its leasehold land with a carrying amount of approximately RMB110,198,000 (31 December 2015: RMB125,506,000). The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use of the above-mentioned leasehold land.

As at 31 December 2016, certain of the Group's borrowings were secured by the Group's land use rights (see note 17(c)) with a carrying amount of RMB11,301,000 (31 December 2015: RMB nil).

10 INTANGIBLE ASSETS

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

As at 31 December 2016, the Group is in process of renewing title certificates of two mining rights with an aggregate carrying amount of approximately RMB321,000,000 (31 December 2015: RMB nil). The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use of the above-mentioned mining rights.

In connection with the Acquisition of Business (note 4), the Group obtained hospital management right through the Hospital Management Agreements. The management right was recognised at its fair value amounting to RMB187,000,000, and is amortised on a straight-line basis over 30 years as agreed in the Hospital Management Agreements.

As at 31 December 2016, the Group's borrowings were secured by the mining right of Laiyuan County Jiheng Mining Co., Ltd. (see note 17(c)) with a carrying amount of approximately RMB57,065,000 (31 December 2015: RMB81,020,000).

11 GOODWILL

The business acquired as disclosed in note 4 is identified to be a CGU, to which the goodwill is allocated. The recoverable amount of this CGU is determined based on VIU calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a six-year period. Cash flows beyond the six-year period are extrapolated using an estimated weighted average growth rate of 3% which is consistent with the forecasts included in industry reports. The cash flows are discounted using a discount rate of 15.0%. The discount rate used is after-tax and reflect specific risks relating to the business. Management believes that any reasonably possible change in the key assumptions on which the CGU's recoverable amount is based would not cause the CGU's carrying amount to exceed its recoverable amount.

The determination of VIU was most sensitive to the following assumptions:

(i) Number of patient and average income earned from each patient

Forecast number of patient and average income are based on management's estimates and are derived from Rongcheng Hospital's performance in prior year and long-term development plan building upon industry trends and external sources.

(ii) Gross margin on supply chain business

Average gross margin on sales of pharmaceutical products, medical devices and medical consumables is derived from publicly available market data of comparable peer companies, with appropriate adjustments made to reflect the risks and benefits specific to sales of traditional Chinese medicines and medical devices in remote counties.

(iii) Discount rate

In arriving at the VIU, an after-tax discount rate of 15.0% was applied to the estimated future cash flows of the CGU as at 31 December 2016. This discount rate is derived from the acquired business's weighted average cost of capital ("WACC", with appropriate adjustments made to reflect the risks specific to the CGU). The WACC takes into account both debt and equity, weighted based on the comparable peer companies' average capital structure. The cost of equity is derived from the expected return on investment by the Group's investors based on publicly available market data of comparable peer companies. The cost of debt is based on the borrowing cost of interest-bearing borrowings of the Group that reflects the credit rating of the Group.

12 IMPAIRMENT LOSSES

As a result of continuing and weaker iron ore product price forecasts and consequent deferral of mine development plan in the second half of 2015, the Group identified indications of impairment in relation to Laiyuan County Jingyuancheng Mining Co., Ltd. (“Jingyuancheng Mining”) and Laiyuan Xinxin Mining Co., Ltd. (“Xinxin Mining”). Consequently, a formal estimate of the recoverable amounts of the related CGUs was performed. For the purpose of the impairment testing, each of Jingyuancheng Mining and Xinxin Mining is regarded as a CGU.

In assessing whether an impairment is required, the carrying value of a CGU is compared with its recoverable amount. The recoverable amount is the higher of the CGU’s FVLCD and VIU. Given the nature of the Group’s activities, information on the fair value of a CGU is usually difficult to obtain unless negotiations with potential purchasers or similar transactions are taking place. As such, the recoverable amount of each CGU was determined based on VIU, which is the present value of the estimated future cash flows to be derived from the continuing use of the CGU and from its ultimate disposal. These cash flows were discounted using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the CGU.

For the year ended 31 December 2015, impairment losses of RMB184,384,000, RMB25,091,000 and RMB184,162,000 were recognised for property, plant and equipment, construction in progress and intangible assets, respectively.

The directors have been closely monitoring the market situation since then, and believe that there has been no indication of significant variance with those key assumptions used in the estimation made as at 31 December 2015. The directors are of the opinion that the impairment provision is adequate as at 31 December 2016 and no additional or reversal of impairment provision is needed in respect of the Group’s non-financial assets.

13 INVENTORIES

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

	2016 RMB’000	2015 RMB’000
Weakly mineralised wall rock [#]	11,861	19,467
Iron ores	22,949	37,759
Preliminary concentrates	40,687	8,431
Iron ore concentrates	9,339	28,120
	<u>84,836</u>	<u>93,777</u>
Consumables and supplies	21,311	21,275
	<u>106,147</u>	<u>115,052</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 profit or loss is as follows:

	2016 RMB’000	2015 RMB’000
Carrying amount of inventories sold	<u>485,174</u>	<u>487,343</u>

14 TRADE AND OTHER RECEIVABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Accounts receivable	64,652	92,252
Bills receivable	4,000	–
	68,652	92,252
Less: allowance for doubtful debts (<i>note 5(c)</i>)	286	–
	68,366	92,252
Trade receivables (<i>note (a)</i>)	68,366	92,252
Other receivables (<i>note (d)</i>)	55,322	117,268
	123,688	209,520

(a) Ageing analysis

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 6 months	54,057	91,966
Over 6 months but less than 1 year	14,230	286
Over 1 year	79	–
	68,366	92,252

(b) Impairment of trade receivables

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

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	68,287	91,966
Over 6 months past due	79	286
	<u>68,366</u>	<u>92,252</u>

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to an independent customer that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is 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.

(d) **Other receivables**

	2016 RMB'000	2015 RMB'000
Prepayments and deposits [#]	49,532	114,759
Value added tax recoverable	1,152	1,810
Amounts due from related parties	422	3
Others	4,216	696
	<u>55,322</u>	<u>117,268</u>

[#] Prepayments and deposits mainly represent advance payments made to the Group's mining contractors. As at 31 December 2016, prepayments to Tangshan Hengsheng Blasting Engineering Co., Ltd. for blasting services, to Laiyuan County Huiguang Logistics Co., Ltd. for on-site loading services and to Laiyuan County Ao Tong Transportation Co., Ltd. for transportation services amounted to RMB5,583,000, RMB17,065,000 and RMB14,697,000, respectively (31 December 2015: RMB31,723,000, RMB23,693,000 and RMB45,435,000, respectively).

Based on agreements with the respective mining contractors, all of which are independent third parties, the prepaid amounts are interest free and the Group anticipates the amounts to be subsequently utilised along with the provision of related services within one year.

As at 31 December 2016, other than deposits amounted to RMB2,685,000 (31 December 2015: RMB1,935,000), which are included in prepayments and deposits, all of the other receivables were aged within one year and were expected to be recovered or expensed off within one year.

15 OTHER FINANCIAL ASSETS

As at 31 December 2016, the Group had investment in a wealth management product issued by a reputable bank in the PRC with an aggregated principle amount of RMB48,000,000. There are no fixed or determinable returns of this bank wealth management product and the principal is not protected. The financial assets are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. On 3 January 2017, the Group redeemed such investment with no material gain or loss recognised.

16 RESTRICTED DEPOSITS

As at 31 December 2016, restricted deposits mainly represent six-month bank deposits, deposits pledged as guarantee for bills payable and other deposits amounting to RMB257,018,000, RMB40,000,000 and RMB1,030,000, respectively (31 December 2015: RMB nil).

17 BORROWINGS

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

	2016 Interest rate per annum %	RMB'000	2015 Interest rate per annum %	RMB'000
Renminbi denominated				
Short-term borrowings:				
– secured bank loans [#]	4.35~6.53	310,000	5.36	100,000
Current portion of long-term borrowings:				
– secured bank loans [#]	–	–	5.93	100,000
		310,000		200,000

[#] As at 31 December 2016, the Group's bank loans of RMB200,000,000 and RMB110,000,000 were secured by the Group's mining right, land use rights and properties (see notes 8, 9, and 10) and by the land use rights and properties of a related party of the Group, respectively. As at 31 December 2015, the Group's bank loans were secured by the Group's mining right.

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

	2016 RMB'000	2015 RMB'000
Within 1 year	310,000	200,000

(c) **The Group's banking facilities comprise:**

	2016 RMB'000	2015 <i>RMB'000</i>
Secured by:		
Mining rights, land use rights and properties of the Group (<i>notes 8, 9 and 10</i>)	243,000	220,000
Land and properties of a related party	160,000	160,000
	403,000	380,000

As at 31 December 2016, the above banking facilities of the Group were utilised to the extent of RMB350,000,000, including bank loan facilities of RMB310,000,000 and bank acceptance bill facilities of RMB40,000,000, respectively (31 December 2015: RMB200,000,000, including bank loan facilities of RMB200,000,000 and bank acceptance bill facilities of RMB nil).

The Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's financial statement ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As of the end of 2016, none of the covenants relating to drawn down facilities had been breached.

18 TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 <i>RMB'000</i>
Trade payables	66,713	39,974
Bills payables	40,000	–
Other taxes payable	21,431	12,359
Receipts in advance	18,267	18,052
Payables for construction work, equipment purchase and others	8,263	30,284
Amounts due to related parties	–	1,780
Interest payables	440	–
Others [#]	25,296	28,366
	180,410	130,815

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

As at 31 December 2016, all trade payables are due and payable on presentation or within one year. All of the other payables were expected to be settled within one year or are repayable on demand.

19 LONG-TERM PAYABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Consideration payables for the acquisition of mining rights	243,208	235,671
Less: Current portion of long-term payables	45,501	5,786
	<u>197,707</u>	<u>229,885</u>

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

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

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 1 year	45,501	5,786
After 1 year but within 2 years	45,624	43,084
After 2 years but within 5 years	130,043	127,188
After 5 years	22,040	59,613
	<u>243,208</u>	<u>235,671</u>

20 COMMITMENTS AND CONTINGENCIES

- (a) Capital commitments outstanding at 31 December 2016 not provided for in the financial statements were as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Contracted for		
– property, plant and equipment	<u>3,982</u>	<u>3,168</u>

- (b) **At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:**

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 1 year	4,463	3,827
After 1 year but within 5 years	9,008	–
	13,471	3,827

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 clean-up 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 and pollutant discharge fee, etc.) imposed by relevant government authorities in accordance with relevant PRC laws and regulations. Under such laws and regulations, the Group has fully fulfilled their responsibilities in paying the respective levies during the years presented. The directors are of the opinion that the Group had no other material obligations or liabilities of such levies at the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

MINING SERVICE

MARKET REVIEW

In 2016, facing the complex economic environment at home and abroad, the domestic economy has experienced a slow yet steady growth, which has achieved a positive start of the “Thirteenth Five-year Plan”. In February 2016, the State Council announced the Opinions on the Steel Industry to Resolve Overcapacity and Relief (《關於鋼鐵行業化解過剩產能實現脫困發展的意見》), which focused on the structural reform of the supply side of the steel industry, relieving the problems of surplus of productivity positively and properly. According to the State Council’s Work Report of 2017, China’s steel industry has reduced a productivity of approximately 65.0 million tons in total during the year of 2016, which has exceeded the annual target.

The compounded effect under the supply side reform to cut backward productivity, infrastructure construction of the downstream industries and turnaround of the real estate industry has led to an overall recovery in the steel industry, with an evident improvement of the industry’s profitability. The national crude steel output was approximately 808.4 million tons, representing an increase of 1.2% compared with that of last year, while it was a decrease of 2.3% in 2015. The steel output was 113.8 million tons, representing an increase of 2.3%, a growth rate 1.7 percentage points higher than last year.

The continuous recovery of the steel industry, together with the elimination of domestic mine productivity and the slowing growth of the supply of international low-cost iron ores have also stimulated the iron ore price to rise continuously, which brought positive influence to the Group’s operating performance.

BUSINESS REVIEW

During the Reporting Period, as the Chinese government continued to implement the supply side structural reform and the policy of resolving overcapacity of the steel industry, the domestic steel and iron ore price has experienced a continuous rise, with Platts Index rose from US\$42/ton at the beginning of the year to US\$80/ton at the end of the year. The Group has fully grasped the market opportunity to cut costs by measures of technology upgrade to enhance production efficiency, cutting administrative staff and improving meticulous management, and to improve working cash flow conditions by positive sales strategy to tackle with changes in market conditions.

During the Reporting Period, the production and sale volume of iron ore concentrates of the Group reached a record high, while the average unit cash operating cost have reached a record low. The output of iron ore concentrates was approximately 1,798.0 thousand tons (corresponding period in 2015: 1,608.0 thousand tons), representing a year-on-year growth of 11.8%. The sales of iron ore concentrates was approximately 1,855.6 thousand tons (corresponding period in 2015: 1,642.2 thousand tons), representing a year-on-year growth of 13.0%. The average per unit cash operating cost was RMB233.0/ton, with the average per unit cash operating cost of approximately RMB172.3/ton for Jiheng Mining and approximately RMB327.6/ton for Jingyuancheng Mining.

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

	As at 31 December			As at 31 December			As at 31 December		
	Output (Kt)		% of change	Sales volume (Kt)		% of change	Average sales price (RMB)		% of change
The Group	2016	2015		2016	2015		2016	2015	
Jiheng Mining									
Iron ores	3,744.1	3,804.8	–1.6%	16.6	124.0	–86.6%	63.0	94.0	–33.0%
Preliminary concentrates	2,577.6	2,106.6	22.4%	193.0	460.6	–58.1%	111.9	100.9	10.9%
Iron ore concentrates ⁽¹⁾	1,091.7	943.0	15.8%	1,122.5	982.4	14.3%	373.6	406.1	–8.0%
Jingyuancheng Mining									
Iron ore concentrates ⁽²⁾	706.3	522.8	35.1%	724.9	488.1	48.5%	431.2	459.2	–6.1%
Xinxin Mining									
Iron ore concentrates ⁽²⁾	<u>–</u>	<u>142.2</u>	<u>–100%</u>	<u>8.2</u>	<u>171.7</u>	<u>–95.2%</u>	<u>320.0</u>	<u>420.6</u>	<u>–23.9%</u>
Total									
Iron ore concentrates	<u>1,798.0</u>	<u>1,608.0</u>	<u>11.8%</u>	<u>1,855.6</u>	<u>1,642.2</u>	<u>13.0%</u>	<u>395.8</u>	<u>423.4</u>	<u>–6.5%</u>

Notes:

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

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

RESOURCES AND RESERVES

During the Reporting Period, the Group has conducted drilling of three holes in total of 1,000 meters to assist daily production, with exploration expenses increased by approximately RMB0.5 million in total.

Based on the most recent estimation results on the reserves less the consumption for the current period, the iron ore reserves which complied with JORC Code (2004 Edition) in respect of each mine of the Group as at 31 December 2016 are shown in the following table:

Company	Mine	Exploration approach	Reserve category	Depleted reserve ¹			Ore reserves ²		
				(Kt)	TFe (%)	mFe (%)	(Kt)	TFe (%)	mFe (%)
Jiheng Mining	Zhijiazhuang	Open-pit	Probable	3,744	24.36	23.02	8,845	26.45	25.18
	Subtotal		Probable	3,744	24.36	23.02	8,845	26.45	25.18
Jingyuancheng Mining	Wangergou	Open-pit	Probable	10,399	11.43	4.10	21,431	12.85	5.69
		Underground	Probable (graded 12% or above)	–	–	–	18,077	15.87	8.50
	Subtotal		Probable	10,399	11.43	4.10	39,508	13.62	6.41
	Shuanmazhuang	Open-pit	Probable	797	11.66	4.23	87,869	13.53	5.53
		Underground	Probable (graded 12% or above)	–	–	–	35,723	16.00	7.11
	Subtotal		Probable	797	11.66	4.23	123,592	14.23	5.98
Xinxin Mining	Gufen	Open-pit	Probable	0	0.00	0.00	50,672	12.76	6.25
		Underground	Probable (graded 12% or above)	–	–	–	58,750	15.35	8.50
	Subtotal		Probable	0	0.00	0.00	109,422	14.12	7.43
Total		Open-pit	Probable	14,940	14.68	8.85	168,817	14.62	7.92
		Underground	Probable (graded 12% or above)	–	–	–	112,550	15.64	8.06
		Total	Probable	14,940	14.68	8.85	281,367	14.96	7.96

Notes:

- (1) Consumption of reserves represents the production statistical results of the mines for the current period, which are reviewed by the internal experts of the respective mining companies and internal experts of the Group.
- (2) The outcome of the ore reserves in this announcement was based on the estimated results of the ore reserves stated in the Competent Person's Report by SRK in November 2013 less the consumption from 1 July 2013 to 31 December 2016, the estimated assumptions in the report published in 2014 has not been changed.

Based on the most recent estimation results on resources less the consumption for the current period, as at 31 December 2016, the iron ore resources which complied with JORC Code (2004 Edition) in respect of each mine of the Group are as follows:

Company	Mine	Resource class	Depleted resource for the period ¹			Resource at the end of the period ²		
			(Kt)	TFe (%)	mFe (%)	(Kt)	TFe (%)	mFe (%)
Jiheng Mining	Zhijiazhuang	Indicated resource	3,706	26.95	25.50	12,226	24.22	23.15
		Inferred resource	–	–	–	9,426	27.58	25.82
Jingyuancheng Mining	Wangergou	Indicated resource	10,292	13.96	5.96	52,962	13.69	6.54
		Inferred resource	–	–	–	39,250	13.03	5.85
	Shuanmazhuang	Indicated resource	789	14.45	6.13	150,021	13.96	5.72
		Inferred resource	–	–	–	73,935	12.81	4.92
Xinxin Mining	Gufen	Indicated resource	0	13.39	6.69	153,413	13.21	6.50
		Inferred resource	–	–	–	101,100	12.44	6.03
Total		Indicated resource	14,787	17.24	10.86	368,622	14.30	6.96
		Inferred resource	–	–	–	223,711	13.30	6.46
		Total resources	<u>14,787</u>	<u>17.24</u>	<u>10.86</u>	<u>592,333</u>	<u>13.92</u>	<u>6.77</u>

Notes:

- (1) Consumption of resources is based on the production statistical results of the mines for the current period, which are reviewed by the internal experts of the respective mining companies and the internal experts of the Company.
- (2) The resources at the end of the year include a proportion of resources which are not covered by the mining license. There is no estimation on new resources during the year ended 31 December 2016, which does not give rise to any changes on the estimation and assumption of the resources completed by SRK in 2013.

MINES IN OPERATION

Zhijiazhuang Mine

Zhijiazhuang Mine, which is wholly owned and operated by Jiheng Mining, is located in Yangjiazhuang Village, Laiyuan County. It has an area of 0.3337 sq.km covered by its mining permit and has comprehensive basic infrastructures such as water, electricity, highway and railway, etc. The annual mining capacity of Zhijiazhuang Mine was 2.4 Mtpa, and the dry processing capacity and the wet processing capacity were 4.20 Mtpa and 1.80 Mtpa respectively, as at 31 December 2016.

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

Iron ore concentrates

Unit: RMB per tonne of iron ore concentrates	As at the end of 31 December		
	2016	2015	% change
Mining costs	64.9	59.8	8.5%
Dry-processing costs	14.6	21.1	−30.8%
Wet-processing costs	46.2	54.3	−14.9%
Administrative expenses	26.0	12.4	109.7%
Distribution costs	6.1	8.6	−29.1%
Taxation	14.5	16.7	−13.2%
Total	172.3	172.9	−0.3%

During the Reporting Period, the unit cash operating cost of the iron ore concentrates of Zhijiazhuang Mine remained flat compared with that of last year. The rising of the mining cost was primarily due to increased stripping ratio; the decrease of dry processing and water processing costs were primarily due to the higher iron ore grade and operating efficiency. The significant increase of administrative expense compared with that of last year was primarily due to the administrative costs paid to local government; the decrease of taxation was primarily due to the cut of resource tax rate by the local taxation authorities.

During the Reporting Period, Zhijiazhuang Mine recognized mining cost in profit and loss accounts of approximately RMB109.8 million in total. The capital expenditure of Zhijiazhuang Mine during the Reporting Period was approximately RMB17.1 million, which mainly involved the final payment of approximately RMB8.5 million to purchase the assets of tailings reservoir and transformer substation, the expenditure of approximately RMB5.3 million on the construction of a new tailings reservoir, the payment of approximately RMB2.4 million on mining rights and interest and approximately RMB0.8 million on other sporadic constructions.

Wang'ergou Mine and Shuanmazhuang Mine

Wang'ergou Mine and Shuanmazhuang Mine, which are both wholly owned and operated by our wholly owned subsidiary, Jingyuancheng Mining, are located in Zoumayi Village, Laiyuan County. The areas covered by the mining licenses for Wang'ergou Mine and Shuanmazhuang Mine are 1.5287 sq.km. and 2.1871 sq.km respectively. Wang'ergou and Shuanmazhuang have comprehensive basic infrastructures such as water, electricity and highway. As at 31 December 2016, the aggregate annual mining capacity of Wang'ergou Mine and Shuanmazhuang Mine was 14.0 Mtpa, and the dry processing capacity and wet processing capacity were 17.6 Mtpa and 3.5 Mtpa, respectively.

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

Iron ore concentrates

Unit: RMB per tonne of iron ore concentrates	As at the end of 31 December		
	2016	2015	% change
Mining costs	140.5	107.1	31.2%
Dry-processing costs	76.6	71.1	7.7%
Wet-processing costs	51.8	108.3	-52.2%
Administrative expenses	32.4	38.1	-15.0%
Distribution costs	8.6	20.2	-57.4%
Taxation	17.7	19.4	-8.8%
Total	327.6	364.2	-10.0%

During the Reporting Period, the unit cash operating cost of the iron ore concentrate of Wangergou and Shuanmazhuang Mine decreased slightly, with the rising cost brought by increased stripping ratio offset by the decreased cost brought by the high-pressure drill mill in dry processing. Effective cost control and the decreased percentage of the iron ore concentrates that the Company took charge of transportation resulted in a further decrease of cash costs.

During the Reporting Period, Wangergou Mine and Shuanmazhuang Mine recognized mining cost in profit and loss accounts of approximately RMB117.4 million in total. The capital expenditure of Wangergou Mine and Shuanmazhuang Mine were approximately RMB144.2 million, which mainly involved payment of approximately RMB135.7 million on new construction of dry processing plant and dry processing technology upgrade, the expenditure of approximately RMB3.2 million on the construction of Dabugou tailings reservoir, the payment of approximately RMB2.1 million on mining rights and interest, the payment of approximately RMB2.0 million on deposit of environment and geomorphic restoration, and approximately RMB1.3 million on purchase of vehicles, other office supplies and sporadic constructions.

Gufen Mine

Gufen Mine, which is owned and operated by our wholly owned subsidiary, Xinxin Mining, is located in Shuibao Village, Laiyuan County and the area covered by the mining right for Gufen Mine is 1.3821 sq.km. Gufen Mine has comprehensive basic infrastructures such as water, electricity and highway, etc. As at 31 December 2016, Gufen Mine's annual mining capacity was 3.90 Mtpa, and the dry processing capacity and the wet processing capacity were 5.75 Mtpa and 1.60 Mtpa, respectively.

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

During the Reporting Period, though the iron ore price experienced a significant increase, based on the reasons above and a comprehensive consideration of the benefits and risks of the resumption of production the relatively small-scale Xinxin Mining, the management of the Group decided to continue the suspension of production of Xinxin Mining's mining and processing activities. The management of the Group will make prudent business arrangement on the basis of market change and business development.

STRIPPING ACTIVITIES

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

MEDICAL SERVICE

Business Review

On 4 July 2016, the Company, as purchaser, and Jovial Link Investments Limited (連欣投資有限公司) ("Jovial Link"), as vendor, entered into the Sale and Purchase Agreement with Mr. Li Chung Tai (李忠泰), Ms. Lee Sam Mui (李三妹) and Mr. Li Shunfa (李順發) (the "Guarantor"), to acquire the entire issued share capital of Xinan Investments Limited (熹南投資有限公司) and its subsidiaries (the "Target Group") at the consideration of approximately RMB213.0 million. On 13 July 2016 (the "Acquisition Date"), the consideration was settled by issuing 127,486,892 Shares of the Company. The Company indirectly holds the entire equity of Baoding Xinan Medical Management Consulting Limited* (保定熹南醫療管理諮詢有限公司) ("Baoding Xinan"), which is principally engaged in the provision of hospital custody services in China.

Pursuant to the Sale and Purchase Agreement, Jovial Link and the Guarantor jointly and severally made irrevocable commitment and guarantee to the purchaser, the audited consolidated profit after tax of the Target Group for the financial years ended 31 December 2016 and 31 December 2017 (the “Guaranteed Period”) shall not be less than RMB2.5 million and RMB7.75 million (the “Guaranteed Amount”) respectively. If the actual amount of the audited consolidated profit after tax of the Target Group (the “Actual Profit”) was less than the Guaranteed Amount of that financial year during the Guaranteed Period, Jovial Link and the Guarantor shall pay the Guaranteed Amount difference of that financial year to the purchaser in cash.

For the financial year ended 31 December 2016, the audited consolidated profit after tax of the Target Group recorded a loss of approximately RMB0.9 million. The vendor and the Guarantor made up for the Guaranteed Amount difference through cash payment on 14 March 2017.

During the second half of 2016, the Group was committed to establishing a medical management team, and at the same time, continued to employ teams of experts for Rongcheng County Hospital of Traditional Chinese Medicine (容城縣中醫醫院) (the “Entrusted Hospital”) entrusted by Baoding Xinan (保定熹南), in order to strengthen the management and operation capabilities of the medical institution, enhance the overall medical technology level of the Entrusted Hospital and provide better and quality services to the patients, so as to create long-term stable return for shareholders.

Meanwhile, the Group lent RMB11.0 million at nil consideration to the Entrusted Hospital for the purpose of medical equipment procurement and business improvement, and strove to conduct the preparation work for the renovation and expansion project of the Entrusted Hospital. In 2016, the Entrusted Hospital achieved an increase in the number of patient consultation visits from approximately 71,800 to 72,300 annually, while incomes from clinic and hospital fees increased from approximately RMB25.0 million to approximately RMB25.8 million.

The Group tapped into the medical service market in 2016, which laid a solid foundation for the Group’s further development of the medical industry business.

SAFETY AND ENVIRONMENTAL PROTECTION

The Group established a production safety management department specifically responsible for production safety and management. This department had been consistently promoting safety standards and strengthening environmental protection policies so as to develop the Group into a socially responsible enterprise with high safety awareness. During the Reporting Period, the Group recorded no significant safety accident.

Owing to the deteriorating air quality in Mainland China, especially in Beijing and Hebei Province, it is anticipated that the government will inevitably tighten the relevant environmental policies over resource mining, steelmaking, cement production and other high-pollution industries. To mitigate the potential impact of the policies to our business, the Group will closely monitor the latest regulatory requirements and introduce appropriate environmental measures to our operation and production from time to time.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group had 915 employees in total (1,026 employees in total as at 31 December 2015). The total remuneration expenses and the amounts of other employees' benefit were approximately RMB70.3 million (the corresponding period in 2015: approximately RMB85.1 million). Employee costs include basic remuneration, incentive salary, social pension insurance, medical insurance, work-related injury insurance and other insurances required by the government. According to the Group's remuneration policy, the employees' income is linked to the performance of individual employee and the operation performance of the Group. The Group carried out performance assessment to stimulate employee initiatives, so as to enhance the operation efficiency of the Group.

FINANCIAL REVIEW

Revenue

The revenue of our Group for the Reporting Period was approximately RMB757.1 million, representing a slight increase of approximately RMB3.5 million as compared to the corresponding period last year. During the Reporting Period, the sales volume of iron ore concentrates increased 13.0% as compared to the corresponding period last year, but the increase of sales volume was offset by the decrease of the yearly average selling price of iron ore concentrates.

Cost of Sales

The Group's cost of sales for the Reporting Period was approximately RMB488.3 million, representing a slight increase of approximately RMB0.9 million as compared to the corresponding period last year, which was attributable to the fact that the increase of the sales volume of iron ore concentrates was offset by the decrease of the unit cash cost which caused the decrease of unit cost of sales.

Gross Profit and Gross Profit Margin

The gross profit of the Group for the Reporting Period was approximately RMB268.8 million, representing an increase of approximately RMB2.5 million or 0.9% as compared to the corresponding period last year. The Group's gross profit margin remained stable during the Reporting Period and increased from 35.3% to 35.5% as compared to the corresponding period last year.

Sales and Distribution Expenses

The Group's sales and distribution expenses for the Reporting Period were approximately RMB13.1 million, representing a decrease of approximately RMB6.8 million or 34.2% as compared to the corresponding period last year, which was mainly due to the decrease of the total sales volume of the products which the Group were responsible for the delivery to the customers and the related transportation cost. Sales and distribution expenses included transportation expenses, labour cost and other expenses.

Administrative Expenses

The Group's administrative expenses for the Reporting Period were approximately RMB97.2 million, representing a decrease of approximately RMB17.9 million or 15.6% as compared to the corresponding period last year, which was mainly due to the fact that the Group did not have a net loss on the disposal of property, plant and equipment in 2016. 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, the bank charges, provision for impairment of inventories, the provision for bad debts and other expenses.

Impairment Losses

The Group has not recorded impairment losses for the Reporting Period. In the second half of 2015, since the weak price for iron ore products was expected and the consequent delay of mine development plan, the Group identified indications of impairment loss in relation to Jingyuancheng Mining and Xinxin Mining. Hence, a formal estimate of the recoverable amount of the relevant cash generating unit ("cash generating unit") was conducted and the impairment losses of approximately RMB393.6 million was recognized for the corresponding period in 2015.

The Group has been monitoring the market conditions closely and believes that there is no indication of significant differences from the key assumptions used in the estimation conducted on 31 December 2015. Hence, the Group considers that the provision for impairment as at 31 December 2016 is sufficient and it is unnecessary to make provision for additional impairment or reversals of impairment provisions of the Group's long-term assets.

Finance Costs

The Group's finance cost for the Reporting Period was approximately RMB43.6 million, representing an increase of approximately RMB16.3 million or 59.9% as compared to the corresponding period last year, which was mainly due to increased interests charges as a result of increase in bank borrowings. Finance cost included interest expenses of bank borrowings, discounted expenses, other finance expenses and the amortization of discounted expenses of long-term payables.

Income Tax (Expenses)/Credits

The Group's income tax expenses for the Reporting Period were approximately RMB33.3 million, while the income tax credits for the corresponding period last year were approximately RMB51.2 million. Income tax expenses comprise the aggregate of current tax and deferred tax, among which current tax was approximately RMB48.9 million.

Profit/(Loss) for the Year and Total Comprehensive Income for the Year

Based on the above reasons, the Group's profit for the Reporting Period amounted to approximately RMB85.7 million, while the loss for the corresponding period last year was approximately RMB235.1 million. The Group's total comprehensive income for the Reporting Period was approximately RMB87.1 million, while the total comprehensive loss for the corresponding period last year was approximately RMB235.0 million.

Property, Plant and Equipment

The property, plant and equipment, net of the Group for the year ended 31 December 2016 were approximately RMB838.6 million, representing an increase of approximately RMB114.1 million or 15.8% as compared to that for the same period last year. The change was mainly attributable to the completed project for construction in progress was transferred to property, plant and equipment, including the project of fine crushing oppressive polishing technology in Jingyuancheng Mining, the engineering of new plant with annual processing capability 8,000 kilotonnes and the engineering of Dabugou Tailings Dam and Daxigou Tailongs Dam.

Intangible Assets and Goodwill

Intangible Assets of the Group mainly includes mining rights and related premium paid to obtain the mining rights, and the hospital management right newly acquired. Goodwill of the Group arose from acquisition of Xinan Investments Limited (熹南投資有限公司) and its subsidiaries. As at 31 December 2016, the net intangible assets of the Group were approximately RMB753.8 million (the net intangible assets for the corresponding period in 2015 were approximately RMB602.7 million). Goodwill was approximately RMB73.4million (goodwill for the corresponding period in 2015 was nil).

Inventories

As at 31 December 2016, inventories of the Group amounted to approximately RMB106.1 million, representing a decrease of approximately RMB8.9 million or 7.7% as compared to that of 2015. The decrease in inventories was mainly attributable to the adjustment in the Group's sales strategy as a result of the recovery in the price of iron ore concentrates in late 2016.

Trade and Other Receivables

As at 31 December 2016, trade receivables of the Group amounted to approximately RMB68.4 million, representing a decrease of approximately RMB23.9 million as compared to that of 2015. The decrease in trade receivables was mainly attributable to the fact that Group adopted the positive sale and recovery strategies in view of current market conditions. As of 31 December 2016, other receivables of the Group amounted to approximately RMB55.3 million, representing a decrease of approximately RMB61.9 million as compared to that of 2015. The decrease in other receivables was mainly attributable to the decrease in prepayment to third party contractors.

Trade and Other Payables

As of 31 December 2016, trade payables of the Group amounted to approximately RMB106.7 million, representing an increase of approximately RMB66.7 million as compared to that of the corresponding period of last year. The increase in trade payables was mainly attributable to the increase in trade payables to major suppliers.

As of 31 December 2016, other payables of the Group amounted to approximately RMB73.7 million, representing a decrease of approximately RMB17.1 million as compared to that of corresponding period of last year. The decrease in other payables was mainly attributable to the decrease in payables for equipment procurement for constructions in progress and decrease in other payables.

The analysis of cash usage

The summary of our Group consolidated cash flow statement for 2016 is set out as follows.

	For the year ended	
	31 December	
	2016	2015
	RMB'000	RMB'000
Net cash generated from operating activities	369,186	123,665
Net cash used in investing activities	(466,519)	(216,121)
Net cash generated from/(used in) financing activities	83,085	(15,586)
Net decrease in cash and cash equivalents	(14,248)	(108,042)
Cash and cash equivalents at beginning of the year	59,495	167,431
Effect of foreign exchange rate changes to cash and cash equivalents	1,330	106
Cash and cash equivalents at the end of the year	46,577	59,495

Net cash flow generated from operating activities

The Group's net cash flow generated from operating activities for the Reporting Period amounted to approximately RMB369.2 million, which mainly included the profit before tax of approximately RMB119.0 million, certain non-cash expenses in aggregate of approximately RMB118.3 million (e.g. impairment losses, depreciation and amortization and net loss from disposal of assets), decrease of approximately RMB82.4 million of trade and other receivables because of active operating, sale and rebate strategies, increase of approximately RMB31.2 million of trade and other payables, decrease of approximately RMB8.9 million of inventories, and net interest expense of approximately RMB39.2 million and income tax paid of approximately RMB29.8 million.

Net cash flow used in investing activities

The Group's net cash flow used in investing activities for the Reporting Period was approximately RMB466.5 million, which primarily represented payment of approximately RMB160.6 million for purchase of property, plant and equipment and construction in progress due to expansion of productivity improvement and technology transformation, and purchase of short-term wealth management products of bank and the fixed deposits for six months in aggregate of approximately RMB305.0 million.

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

The Group's net cash inflow from financing activities for the Reporting Period was approximately RMB83.1 million, which mainly represented new loans raised of RMB110.0 million and payment of bank interests of approximately RMB26.9 million.

Cash and borrowings

As at 31 December 2016, cash balance of the Group amounted to approximately RMB46.6 million, representing a decrease of approximately RMB12.9 million or approximately 21.7% as compared with the corresponding period of last year.

As at 31 December 2016, bank loans of the Group was approximately RMB310.0 million, representing an increase of approximately RMB110.0 million or 55.0% as compared with the end of last year. The interest rates of the borrowings as at 31 December 2016 ranged from 4.35%-6.53% (corresponding period of last year was 5.36%-5.93%) per annum. All of the borrowings were accounted for as current liabilities of the Group (2015: 50%). The above borrowings were denominated in RMB.

Save as disclosed above, the Group has no outstanding mortgages, pledges, bonds or other loan capital (issued or agreed to be issued), bank overdrafts, borrowings, acceptance liabilities or other similar liabilities, hire purchase and finance lease commitments, or any guarantees or other material contingent liabilities. The Directors have confirmed that there was no material change in the liabilities and contingent liabilities of the Group since 31 December 2016 and up to the date of this announcement.

As at 31 December 2016, the overall financial status of the Group was in a good condition.

Restricted deposits

As at 31 December 2016, the Group's restricted deposits mainly represented the bank deposits for six months, deposits pledged as guarantees of bills payable and other deposits amounted to RMB257.0 million, RMB40.0 million and RMB1.0 million, respectively (31 December 2015: RMB nil).

Gearing ratio

The gearing ratio of the Group increased from approximately 30.6% as at 31 December 2015 to approximately 33.4% as at 31 December 2016. The gearing ratio is calculated by dividing the total debts by total assets.

Interest rate risk and foreign currency risk

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

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

Significant acquisitions and disposals of subsidiaries and affiliated companies

On 4 July 2016, the Company (as the Purchaser), Jovial Link Investments Limited (as the Vendor), and Mr. Li Chung Tai, Mr. Li Shunfa and Ms. Lee Sam Mui (as the Guarantors) entered into the sale and purchase agreement (the "Sale and Purchase Agreement") in respect of the Vendor selling the entire interest of its subsidiary Xinan Investments Limited (the Target Company). Pursuant to which, the Company conditionally agreed to purchase, and the Vendor conditionally agreed to sell the Sale Interest at the consideration of HK\$248.6 million (equivalent to approximately RMB214.3 million based on the Acquisition Date's exchange rate). The Consideration for the Acquisition was settled by the issuance of the Consideration Shares under the General Mandate. The Consideration Shares comprise a total of 127,486,892 Shares. The Consideration Shares, when issued, represent approximately 7.80% of the issued share capital of the Company as enlarged by issue of the Consideration Shares.

The Target Company is an investment holding company incorporated in the BVI on 3 January 2013 with limited liability and is wholly-owned by the Vendor. Save and except for the 100% equity interest in Xinan Limited, the Target Company had no other material assets and liabilities as at the date of the Sale and Purchase Agreement; Xinan Limited is an investment holding company incorporated in Hong Kong on 9 October 2014 with limited liability and is wholly-owned by the Target Company. Save and except for the 100% equity interest in the PRC Company, Xinan Limited had no other material assets and liabilities as at the date of the Sale and Purchase Agreement; Baoding Xinan Medical Management Consulting Limited (保定熹南醫療管理諮詢有限公司) is a company incorporated in Hebei Province, China on 20 June 2016 with limited liability and is principally engaged in medical management consulting (excluding medical diagnosis) and corporate management consulting (excluding intermediary services) business.

The announcement relating to transaction details was uploaded to the website of the Stock Exchange by the Company on 5 July 2016.

Save as disclosed above, the Group had no other significant acquisitions and disposals of subsidiaries and affiliated companies as at 31 December 2016.

Pledge of assets and contingent liabilities

As at 31 December 2016, the Group's bank loans of RMB200,000,000 and RMB110,000,000 were secured by the Group's mining rights, land use rights and properties and by the land use rights and properties of a related party of the Group, respectively. As at 31 December 2015, the Group's bank loans were secured by the Group's mining rights.

The carrying amounts of the Group's mining rights, land use rights and properties pledged for bank loans were approximately RMB57.1 million, approximately RMB11.3 million, and approximately RMB49.9 million respectively as at 31 December 2016.

The Group had no material contingent liabilities as at 31 December 2016.

FUTURE OUTLOOK

Iron Ore Industry

Looking forward to 2017, the Group is of the view that the Chinese steel industry is still facing huge challenge. As one of the key areas in resolving overcapacity and implementing the supply side structural reform, it is expected that the Chinese government in 2017 will continue to announce series of measures to ensure the enterprises' survival of the fittest, and resolve the overcapacity of the steel industry by measures of merge, acquisition and bankruptcy.

However, as the measures to resolve the overcapacity of the steel industry move on, the infrastructure construction remains stable and the real estate market continues to prosper, the steel price is expected to stabilize in 2017, with the profit of steel enterprises continuing to recover, which led the price of iron ore to remain stable.

Meanwhile, the domestic input of iron ore will probably continue to increase, mainly attributable to the Australian and Brazilian large mine enterprises' continuous expansion of productivity and decrease of cost, the effect of which was doubled by the elimination of domestic high-cost mine enterprises.

The Group also need to fully leverage on its advantage of low cash cost to find development opportunities positively. The Plan for Coordinated Development of Beijing, Tianjin and Hebei will also bring more infrastructure investment opportunities in the future, and resources industries including the steel industry will benefit from this plan.

Medical Industry

As the accelerating ageing population in the society in China continues to drive a greater growth of demand for the medical industry, and medical spending per capita in China is still at a relatively low level, there is a great potential of growth in the medical service market. However, the regional imbalance development brings about an increasing discrepancy between the demand and supply of medical service, and the payment pressure of public medical insurance is also increasingly tense. In the process of development of the medical service industry in China in the future, it is expected that the development will rely on the core medical resources of the public hospitals to combine the commercial insurance, pension and rehabilitation under a public-private medical system. Amidst the current macro environment, the change in population structure, accelerating ageing population and favorable policies after new health care reform, which encourages hospital establishment by private sector, all of these bring forth a golden development period for the medical service industry, especially the private hospitals.

The pharmaceutical distribution industry in the PRC is more complicated and diversified when comparing with the developed countries. Based on the international standards, the pharmaceutical distribution industry in China is still immature and is in the period of rapid change, which may bring opportunities and challenges to all stakeholders of the distribution industry.

The following factors will continue to drive the industry consolidation: 1) government policies such as “two vote system”, which only allows interaction between single level of distributor and the supply side (manufacturer) and the demand side (hospital); 2) stricter regulation requirements (for instance, GSP standard) will eliminate incompliant and small distributors; 3) the growth of chain pharmacies; and 4) new distribution mode such as e-commerce.

BUSINESS STRATEGY

Iron Ore Industry

According to the previous analysis, the management believes that, although the long term relationship between supply and demand is not optimistic in iron ore industry, but in the predictable period, the price of iron ore will remain stable. Facing the above market conditions, the management has taken series of measures to improve the overall operating efficiency and return in order to maintain shareholders' value, including:

1. Plan every mine's annual productivity properly and keep up with the changes of market conditions to continuously improve operation cash flow.
2. Continue to improve the level of the Group's meticulous management by adjustment of administrative branches, reduction of personnel, control of operating expenditures and cut of investment to save costs in an effort to further control cash costs.

MEDICAL INDUSTRY

The Group is committed to taking the medical industry as the future direction of the Group's business, and will expand the Group's medical service through the following strategies:

1. The Group will leverage the construction of the Beijing-Tianjin-Hebei integration, and take the advantages of capital platform in the Beijing-Tianjin-Hebei region through mergers and acquisitions and other cooperative measures to actively expand the hospital management network;
2. The Group is committed to entering the pharmaceutical logistics and retail industry, entering the field of pharmaceutical supply chain through the mergers and acquisitions of pharmaceutical logistics and retail enterprises in the region and a variety of other cooperative measures, improving operational performance through the exclusive provision of medicine to the downstream hospital management network, positive development of retail medicine and other measures;
3. Leveraging the pharmaceutical retail business and pharmaceutical electrical business, improving operational performance and accumulating industry data through the combination of pharmaceutical logistics industry and the Internet medicine sales business;
4. Actively exploring the development potential of informational medical service relying on the medical institution network of the Group, and the industry data of pharmaceutical logistics and retail business.

DIVIDENDS

The Board does not recommend the distribution of a final dividend for the year ended 31 December 2016.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2016, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS 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 as its own code of conduct regarding the Directors' dealings in the Company's securities. Specific enquiry has been made to all Directors of the Company and all Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2016.

COMPLIANCE OF THE CORPORATE GOVERNANCE CODE

As a listed company on the main board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), the Company is committed to maintaining high level of corporate governance. Throughout the year, the Company has fully complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group’s annual results for 2016 and the consolidated financial statements for the year ended 31 December 2016.

The figures in respect of the preliminary announcement of the Group’s results for the year ended 31 December 2016 have been compared by the Company’s auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group’s audited consolidated 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.

COMPLIANCE OF DEED OF NON-COMPETITION

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

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

SUBSEQUENT EVENTS

Other than as disclosed elsewhere in this announcement, from 1 January 2017 to the date of this announcement, there are no major subsequent events affecting the Group.

PUBLICATION OF 2016 ANNUAL REPORT

The 2016 Annual Report containing all relevant information 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.hengshimining.com) in due course.

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

Beijing, 16 March 2017

As at the date of this announcement, the executive directors of the Company are Mr. Li Yanjun, Mr. Leung Hongying Li Ziwei (also known as Li Ziwei), Mr. Huang Kai, Mr. Sun Jianhua, Mr. Li Jinsheng 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.

* *For identification purposes only*