奥威控股
AOWEI HOLDING LIMITED

AOWEI HOLDING LIMITED
奧威控股有限公司

(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 2018

FINANCIAL HIGHLIGHTS

The revenue of the Group for the Reporting Period was approximately RMB854.8 million, representing a decrease of approximately RMB14.3 million or 1.6% as compared to the corresponding period of last year. The Group's cost of sales for the Reporting Period was approximately RMB562.5 million, representing a decrease of approximately RMB32.3 million or 5.4% as compared to the corresponding period of last year. The gross profit of the Group for the Reporting Period was approximately RMB292.3 million, representing an increase of approximately RMB17.9 million or 6.5% as compared with the corresponding period of last year.

For the Reporting Period, the profit attributable to the equity shareholders of the Company was approximately RMB41.5 million, while the loss attributable to the equity shareholders of the Company for the corresponding period last year was approximately RMB357.0 million.

For the Reporting Period, the basic and diluted earnings per share attributable to equity shareholders of the Company was RMB0.03, while the basic and diluted loss per share for the corresponding period last year were RMB0.22.

The board (the "**Board**") of directors (the "**Directors**") of Aowei Holding 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 2018 (the "**Reporting Period**" or the "**Year**"), along with the relevant comparable figures for the year ended 31 December 2017, 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 2018 annual report (the "**2018 Annual Report**").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

(Expressed in Renminbi)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2018

(Expressed in Renminbi)

	Note	31 December 2018 RMB'000	31 December 2017 RMB'000
Non-current assets			
Property, plant and equipment, net	7	**663,500**	755,528
Construction in progress		**–**	696
Lease prepayments	8	**93,508**	112,111
Intangible assets	9	**312,674**	369,709
Long-term receivables		**55,760**	55,760
Prepayments		**326,682**	59,412
Deferred tax assets		**146,375**	129,853
Total non-current assets		**1,598,499**	1,483,069
Current assets			
Inventories	11	**121,027**	91,570
Trade and other receivables	12	**436,245**	295,598
Restricted deposits	13	**–**	342,836
Cash and cash equivalents		**65,984**	65,745
Total current assets		**623,256**	795,749
Current liabilities			
Short-term borrowings	14	**280,000**	320,000
Trade and other payables	15	**112,297**	188,057
Current taxation		**69,491**	49,249
Current portion of long-term payables	16	**111,785**	77,889
Current portion of accrued reclamation obligations		**4,512**	7,316
Total current liabilities		**578,085**	642,511
Net current assets		**45,171**	153,238
Total assets less current liabilities		**1,643,670**	1,636,307

	Note	31 December 2018 RMB'000	31 December 2017 RMB'000
Non-current liabilities			
Long-term payables, less current portion	*16*	**123,113**	162,446
Accrued reclamation obligations, less current portion		**57,729**	52,260
Deferred tax liabilities		**42,854**	44,413
Total non-current liabilities		**223,696**	259,119
NET ASSETS		**1,419,974**	1,377,188
CAPITAL AND RESERVES			
Share capital		**131**	131
Reserves		**1,419,843**	1,377,057
TOTAL EQUITY		**1,419,974**	1,377,188

NOTES

(Expressed in Renminbi unless otherwise indicated)

1 CORPORATION INFORMATION

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for 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 2018 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.

(i) Disaggregation of revenue

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

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

During the year ended 31 December 2018, there were three customers with whom transactions have exceeded 10% of the Group's revenue (2017: three customers) and revenue from sale of iron ore concentrates to these customers amounted to RMB850,588,000 (2017: RMB703,676,000).

(b) Operating Segments

The Group manages its businesses based on its business line, which are divided into mining, processing and sale of iron ore products and the provision of hospital management service.

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

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

(i) Segment results, assets and liabilities

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

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

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

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2018 is set out below.

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

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

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

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

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

4 PROFIT/(LOSS) BEFORE TAXATION

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

(a) Net finance costs:

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

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

(b) Staff costs:

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

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

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

(c) Other items:

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories *(note (i))*	**546,934**	588,522
Depreciation and amortisation	**141,700**	142,884
Operating lease charges	**4,623**	5,036
Auditor's remuneration		
– audit services	**3,500**	3,060
– non audit services	**–**	470
Net (gains)/losses on disposal of property, plant and equipment	**(66)**	9
Impairment losses on property, plant, equipment and intangible asset *(note 10)*	**43,428**	449,055
Impairment losses on trade and other receivables *(note 12 (d))*	**12,448**	–

Note:

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

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

5 INCOME TAX

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

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

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

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

Notes:

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

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits.

(iii) For the year ended 31 December 2018, it represents mainly non-deductible timing difference arising from the impairment losses amounting to RMB10,857,000 (2017: RMB112,264,000).

(iv) According to the PRC Enterprise Income Tax Law and its implementation rules, interests receivable by non-PRC-resident corporate investors from PRC-resident enterprises are subject to withholding income tax at a rate of 7%.

(v) According to the PRC Enterprise Income Tax Law and its implementation rules, dividends receivable by non-PRC-resident corporate investors from PRC-resident enterprises for profits earned since 1 January 2008 are subject to withholding income tax at a rate of 10%, unless reduced by tax treaties or arrangements. Undistributed profits earned prior to 1 January 2008 are exempted from such withholding tax.

6 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2018 of earnings of RMB41,542,000 (2017: loss of RMB357,008,000) and the weighted average number of shares in issue during the year ended 31 December 2018 of 1,635,330,000 shares (2017: 1,635,330,000 shares).

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

7. PROPERTY, PLANT AND EQUIPMENT, NET

The Group's property, plant and equipment are substantially located in the PRC. As at 31 December 2018, the Group has not obtained title certificate of certain of its buildings and plants with an aggregate carrying amount of approximately RMB45,587,000 (31 December 2017: RMB48,872,000). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use of the above-mentioned properties.

As at 31 December 2018, mine properties include capitalised stripping activity asset with a carrying amount of RMB142,385,000 (31 December 2017: RMB163,528,000).

As at 31 December 2018, certain of the Group's borrowings were secured by the Group's property, plant and equipment (see note 14(c)) with a carrying amount of RMB43,055,000 (31 December 2017: RMB46,484,000).

8 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 RMB77,995,000 (31 December 2017: RMB95,936,000). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use of the above-mentioned leasehold land.

As at 31 December 2018, certain of the Group's borrowings were secured by the Group's land use rights (see note 14(c)) with a carrying amount of RMB10,662,000 (31 December 2017: RMB10,942,000).

9 INTANGIBLE ASSETS

Intangible assets represent mining rights and the related premium paid in relation to obtaining the mining rights, and the hospital management right acquired in 2016.

During the year ended 31 December 2018, the impairment provision on mining rights of Laiyuan Xinxin Mining Co., Ltd. ("**Xinxin Mining**") was RMB43,428,000 (see note 10(b)).

As at 31 December 2018, the Group's borrowings were secured by the mining right of Jiheng Mining (see note 14(c)) with a carrying amount of approximately RMB55,000 (31 December 2017: RMB28,106,000).

10 IMPAIRMENT LOSSES

(a) Property, plant and equipment

When any indication of impairment is identified, property, plant and equipment are reviewed for impairment based on CGU. The carrying values of the CGU was compared to the recoverable amount. The recoverable amount is the higher of the CGU's FVLCD and VIU. Given the nature of the Group's activities, information on the fair value of a CGU is usually difficult to obtain unless negotiations with potential purchasers or similar transactions are taking place. As such, the recoverable amount of CGU was determined based on VIU, which is the present value of the estimated future cash flows to be derived from the continuing use of the CGU and from its ultimate disposal. The cash flow was discounted using a discount rate that reflects current market assessment of the time value of money and the risks specific to the CGU.

As a result of continuing and weaker iron ore product price forecasts and consequent deferral of mine development plan in the second half of 2015, the Group identified indications of impairment in relation to Laiyuan County Jingyuancheng Mining Co., Ltd. ("**Jingyuancheng Mining**") and Xinxin Mining. Consequently, a formal estimate of the recoverable amounts of the related CGUs were performed. For the purpose of the impairment testing, each of Jingyuancheng Mining and Xinxin Mining is regarded as a CGU. For the year ended 31 December 2015, impairment losses totally RMB393,637,000 was recognised in respect of the Group's property, plant and equipment, construction in progress and intangible assets amounting to RMB184,384,000, RMB25,091,000 and RMB184,162,000, respectively.

Since then the directors have been closely monitoring the market situation and the indication of variance to those key assumptions used in the estimation of carrying amounts of related CGUs. During the year ended 31 December 2017, the directors carried out the review of the recoverable amounts of each CGU of which indications of impairment were identified. The Group recognised impairment loss of RMB54,645,000 of which RMB37,294,000 in property, plant and equipment and RMB17,351,000 in intangible assets.

During the year ended 31 December 2018, the Group anticipates a further deferral of production resumption of Xinxin Mining after taking into account the fact that it will continue to remain production halt. The directors carried out the review of the recoverable amount of this CGU and such review led to the recognition of an impairment loss of RMB43,428,000, which has been recognised in the profit or loss for the year ended 31 December 2018, of which RMB29,458,000 was recognised in the property, plant and equipment and RMB13,970,000 was recognised in intangible assets, and this CGU has been reduced to its recoverable amount of RMB99,194,000.

The determination of VIU was most sensitive to iron ore concentrate prices, sales and production volumes and discount rate. The Group adopts a pre-tax rate of 11.4% (2017: 13.9%) that reflects specific risks related to the CGUs as discount rates. Other key assumptions for the VIU calculations reflect management's judgements and expectations regarding the past performance of the relevant assets, as well as future industry conditions and operations.

(b) Mining rights

In August and December 2014, the Group acquired two mining rights with an aggregate carrying amount of approximately RMB321,000,000 from two third parties. These two mining rights fall within the local government's resources integration plan. In accordance with the plan, the local government intends to grant one mining right certificate in replace of a few separate mining right certificates. As at 31 December 2018, the Group is still in process of negotiating with the local government to renew title certificates of these two mining rights as part of the planned consolidation works. Given the fact that the local government has carried out policies such as gradually closing down and ceasing new license of open-pit under scale recently, the directors considered indication of impairment exist and carried out the review of the recoverable amount of the above-mentioned mining rights.

Further to the impairment assessment made by the Company, an impairment loss of RMB321,000,000 has been recognised in the profit or loss for the year ended 31 December 2017 after taking into account the uncertainties associated with the consolidation works in the foreseeable future. For the year ended 31 December 2018, the management considered no further impairment or reversal for the above-mentioned mining rights.

11 INVENTORIES

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

	2018	2017
	RMB'000	*RMB'000*
Iron ores	**67,611**	46,383
Preliminary concentrates	**22,572**	20,130
Iron ore concentrates	**5,837**	2,147
	96,020	68,660
Consumables and supplies	**25,007**	22,910
	121,027	91,570

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2018	2017
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**546,934**	588,522

12 TRADE AND OTHER RECEIVABLES

	2018 *RMB'000*	2017 *RMB'000*
Accounts receivable	**72,702**	89,599
Bills receivable	**–**	300
	72,702	89,899
Less: allowance for doubtful debts	**12,358**	286
Trade receivables *(note (a))*	**60,344**	89,613
Other receivables *(note (c))*	**375,901**	205,985
	436,245	295,598

(a) Ageing analysis

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

	2018 *RMB'000*	2017 *RMB'000*
Within 6 months	**59,975**	71,336
Over 1 year	**369**	18,277
	60,344	89,613

(b) Trade receivables that are not impaired

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

	2018 *RMB'000*	2017 *RMB'000*
Neither past due nor impaired *(note (i))*	**59,975**	71,336
Over 1 year past due *(note (ii))*	**369**	18,277
	60,344	89,613

Notes:

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

(ii) Receivables that were past due but not impaired relate to independent customers that have a good track record with the Group.

(c) Other receivables

	2018	2017
	RMB'000	*RMB'000*
Prepayments and deposits[#]	**371,045**	195,723
Value added tax recoverable	**1,651**	1,120
Amounts due from related parties	**–**	15
Others	**3,581**	9,127
	376,277	205,985
Allowance for doubtful debts	**(376)**	–
	375,901	205,985

\# *Prepayments and deposits mainly represent advance payments made to the Group's mining contractors. As at 31 December 2018, prepayments to Tangshan Hengsheng Blasting Engineering Co., Ltd. for blasting services, Laiyuan County Huiguang Logistics Co., Ltd ("Laiyuan Huiguang") for on-site loading services and Laiyuan County Ao Tong Transportation Co., Ltd. ("Laiyuan Aotong") for transportation services amounted to RMB9,515,000, RMB361,397,000 and RMB308,605,000, respectively (31 December 2017: RMB10,378,000, RMB87,539,000 and RMB142,345,000).*

The Group plans to expand into the business of manufacturing and sales of gravel materials for construction through Jiheng Mining ("gravel materials business"), in view of which the Group has entered into a cooperation agreement with Laiyuan Aotong and has prepaid for its transportation services on 24 December 2018.

Based on agreements with the respective companies, all of which are external third parties, the prepaid amounts are interest-free and the Group anticipates the amounts to be subsequently utilised along with the provision of related services. Pursant to the negotiation between the Group and Laiyuan Huiguang, the Group collected the payments from Laiyuan Huiguang amounted to RMB170,000,000 on 8 January 2019 along with the reallocation of resources to develop the gravel materials business.

As at 31 December 2018, other than deposits amounted to RMB2,685,000 (31 December 2017: RMB2,685,000), which are included in prepayments and deposits, all of the other receivables were aged within one year and were expected to be recovered or expensed off within one year.

(d) Impairment of trade and other receivables

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

	2018	2017
	RMB'000	*RMB'000*
At 1 January	**286**	286
Impairment loss recognised on trade receivables		
– trade receivables	**12,072**	–
– other receivables	**376**	–
At 31 December	**12,734**	286

13 RESTRICTED DEPOSITS

As at 31 December 2018, there is no restricted deposits (31 December 2017: bank deposits within one year of RMB279,800,000, deposits pledged as guarantee for bills payable of RMB60,000,000 and other deposits of RMB3,036,000).

14 BORROWINGS

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

	2018		2017	
	Interest rate per annum		Interest rate per annum	
	%	***RMB'000***	%	*RMB'000*
Renminbi denominated				
Short-term borrowings:				
– secured bank loans#	**4.35 ~ 6.53**	**280,000**	4.35 ~ 6.53	320,000
		280,000		320,000

As at 31 December 2018, the Group's bank loans of RMB180,000,000 and RMB100,000,000 (2017: RMB200,000,000 and RMB120,000,000) were secured by the Group's mining right, land use rights, properties and equipment (see notes 7, 8 and 9) and by the land use rights and properties of a related party of the Group, respectively.

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

	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**280,000**	320,000

(c) The Group's banking facilities comprise:

	2018	2017
	RMB'000	*RMB'000*
Secured by:		
Mining rights, land use rights and properties of the Group *(notes 7, 8 and 9)*	**243,000**	243,000
Land and properties of a related party	**160,000**	160,000
	403,000	403,000

As at 31 December 2018, the above banking facilities of the Group were utilised to the extent of RMB280,000,000, including bank loan facilities of RMB280,000,000 and bank acceptance bill facilities of RMB nil, respectively (31 December 2017: RMB380,000,000, including bank loan facilities of RMB320,000,000 and bank acceptance bill facilities of RMB60,000,000).

The Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's financial statement ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As of the end of 2018, none of the covenants relating to drawn down facilities had been breached.

15 TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**43,655**	50,398
Bills payables	**–**	60,000
Other taxes payable	**14,038**	24,607
Receipts in advance	**3,528**	10,199
Payables for construction work, equipment purchase and others	**7,363**	7,792
Amounts due to related parties	**107**	100
Interest payables	**444**	556
Others#	**43,162**	34,405
	112,297	188,057

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

As at 31 December 2018, all trade payables are due and payable on presentation or within one year. All of the other payables were expected to be settled within one year or are repayable on demand.

16 LONG-TERM PAYABLES

	2018 *RMB'000*	2017 *RMB'000*
Consideration payables for the acquisition of mining rights	**234,898**	240,335
Less: current portion of long-term payables	**111,785**	77,889
	123,113	162,446

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

In accordance with Ji Guo Tu Zi Han No. [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:

	2018 *RMB'000*	2017 *RMB'000*
Within 1 year	**111,785**	77,889
After 1 year but within 2 years	**49,428**	47,314
After 2 years but within 5 years	**73,685**	115,132
	234,898	240,335

17 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

	2018 *RMB'000*	2017 *RMB'000*
Contracted for		
– property, plant and equipment	**–**	–

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**4,408**	4,793
After 1 year but within 5 years	**–**	4,408
	4,408	9,201

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

(c) Environmental contingencies

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

(i) the exact nature and extent of the contamination at the mines and processing plants;

(ii) the extent of required clean-up efforts;

(iii) varying costs of alternative remediation strategies;

(iv) changes in environmental remediation requirements; and

(v) the identification of new remediation sites.

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 BUSINESS

Market review

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

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

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

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

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

MAJOR BUSINESS RISKS

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

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

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

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

BUSINESS REVIEW

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

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

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

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

Notes:

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

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

RESOURCES AND RESERVES

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

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

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

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

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

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

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

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

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

MINES IN OPERATION

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

Zhijiazhuang Mine

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

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

Iron ore concentrates

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

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

Wang'ergou Mine and Shuanmazhuang Mine

Wang'ergou Mine and Shuanmazhuang Mine, which are both wholly-owned and operated by our wholly-owned subsidiary, Jingyuancheng Mining, are located in Zoumayi Village, Laiyuan County. The areas covered by the mining licenses for Wang'ergou Mine and Shuanmazhuang Mine are 1.5287 sq.km and 2.1871 sq.km, respectively. Wang'ergou and Shuanmazhuang have comprehensive basic infrastructures such as water, electricity and highway. As at 31 December 2018, the aggregate annual mining capacity of Wang'ergou Mine and Shuanmazhuang Mine was 14.0 Mtpa, and the dry processing capacity and wet processing capacity were 17.6 Mtpa and 3.5 Mtpa, respectively.

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

Iron ore concentrates

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

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

Gufen Mine

Gufen Mine, which is owned and operated by our wholly-owned subsidiary, Xinxin Mining, is located in Shuibao Village, Laiyuan County and the area covered by the mining right for Gufen Mine is 1.3821 sq.km. Gufen Mine has comprehensive basic infrastructures such as water, electricity and highway. As at 31 December 2018, Gufen Mine's annual mining capacity was 3.90 Mtpa, and the dry processing capacity and the wet processing capacity were 5.75 Mtpa and 1.60 Mtpa, respectively.

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

MEDICAL SERVICE

Business Review

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

Baoding Xinan is principally engaged in the hospital entrustment management business of Rongcheng County Hospital of Traditional Chinese Medicine (容城縣中醫醫院) (the "**Entrusted Hospital**") in Baoding, Heibei Province. The Entrusted Hospital was established in 1987. In 1994, the Entrusted Hospital set up a 120 Emergency Call Center in Rongcheng County. The Entrusted Hospital has a total area of approximately 9,000 square meters, of which approximately 8,550 square meters are floor area. The Entrusted Hospital has 192 employees in total, among which 156 employees are healthcare personnel. The Entrusted Hospital has 150 beds in total and 13 first-level clinical departments.

The Group was committed to establishing a medical management team, and at the same time, it continued to employ teams of experts for the Entrusted Hospital, in order to strengthen the management and operation capabilities of the medical institution, enhance the overall medical technology level of the Entrusted Hospital and provide better and quality services to the patients, so as to create long-term stable return for the shareholders.

The above-mentioned Entrusted Hospital is located in the new administrative district of the Xiong'an New Area. Before implementation of the planning for the Xiong'an New Area, the local government prohibited the approval and construction of non-relevant projects. As a result, the renovation and expansion of the Entrusted Hospital have not been proceeded so far. During the Reporting Period, the entrustment fee of the Group is about RMB0.8 million, which is confirmed based on the income generated by the above-mentioned Entrusted Hospital in the same period of 2015, that's, about RMB12.7 million. 6% of the increased income of the income generated by the Entrusted Hospital during the Reporting Period compared to the same period of 2015 is counted as the entrustment fee. During the Reporting Period, the number of patient consultation visits of the Entrusted Hospital was approximately 90,034 times, which increased by approximately 4,354 times compared to the corresponding period of the last year; incomes from clinic and hospital fees were approximately RMB38.3 million, which increased by approximately RMB7.5 million compared to the corresponding period of the last year.

The following table sets forth the specific operating data of our medical institutions managed by the Group:

Rongcheng County Hospital of Traditional Chinese Medicine

		For the year ended 31 December		
	Unit	**2018**	**2017**	**Rate of increase**
Patient visits	times	**90,034**	85,680	5.1%
Inpatient visits	times	**3,616**	3,073	17.7%
Outpatient visits	times	**86,418**	82,607	4.6%
Average spending per inpatient visit	RMB	**5,609**	5,272	6.4%
Average spending per outpatient visit	RMB	**209**	177	17.8%
Average length of stay	day	**7**	7	1.3%
Number of beds in operation	bed	**150**	150	–

SAFETY AND ENVIRONMENTAL PROTECTION

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

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had 830 full-time employees in total (31 December 2017: 888 employees). For the year ended 31 December 2018, expenses of employees' benefit (including salaries, wages, pension plan contributions and other benefits) were approximately RMB75.2 million (2017: RMB75.5 million).

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

FINANCIAL REVIEW

Revenue

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

Cost of sales

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

Gross profit and gross profit margin

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

Sales and distribution expenses

The Group's sales and distribution expenses for the Reporting Period were approximately RMB21.1 million, representing an increase of approximately RMB10.4 million or 96.6% as compared to the corresponding period of last year, which was mainly due to the increase of the total sales volume of the products which the Group were responsible for the delivery to 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 RMB91.8 million, representing an increase of approximately RMB17.7 million or 23.9% as compared to RMB74.1 million in the corresponding period of last year. The increase of administrative expenses was mainly attributable to that administrative expenses were offset by margin guarantee of RMB8.5 million obtained by the Group according to profit guarantee terms in the share purchase agreement signed by the Group and Jovial Link Investments Limited (the "**Guarantor**") in 2017. The Guarantor has no profit guarantee obligation in favour of the Group for the 2018 financial year.

Impairment losses

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

Xinxin Mining

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

In 2016, although the iron ore price experienced a significant increase, after considering the market outlook, the production and operation of Xinxin Mining, especially the relationship between the mining, processing costs and the expected selling price and its percentage in the whole business and a comprehensive consideration of the benefits and risks of the resumption of production of 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. As the iron ore price increased continuously at the end of 2016, no impairment loss in respect of the assets in relation to Xinxin Mining was recognized for the year ended 31 December 2016.

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

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

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

(a) Basis and assumptions which were adopted of 2018 Xinxin Valuation:

1. Transaction assumption

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

2. Open market assumption

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

3. Assumption on continuing operation of the assets

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

4. No material change of external environment

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

5. No material change of social-economic environment

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

6. Valuation based on actual amount of stocks and prevailing market prices

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

7. Accuracy and completeness of information

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

8. Scope of valuation

   The scope of the valuation was based only on the declaration lists provided by the instructing party and the entity being appraised, without taking into account the contingent assets or contingent liabilities which may have existed but were not listed by the instructing party and the entity being appraised.

9. Exclusion of the effect of inflation

   Inflation was not considered in the estimation of parameters in the valuation.

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

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

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

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

Trade receivables and expected credit loss

The main reason for the impairment loss of trade receivables is due to the default of Laiyuan County Xiongxin Mining Co., Ltd. ("**Xiongxin Mining**") on the trade receivables generated by Jiheng Mining for its supply of preliminary concentrates. As at 31 December 2016, Xiongxin Mining owed about RMB27.3 million in arrears to Jiheng Mining on preliminary concentrates and as at 31 December 2017 the default balance was about RMB17.3 million. During this period, the Group has reclaimed the relevant arrears in various ways, and as at 31 December 2018, RMB 11.7 million has not been recovered. In view of the current solvency of Xiongxin Mining, the Group has calculated and withdrawn the trade receivable to bad debt reserve in a prudent manner. Although such expenses have been withdrawn to bad debt reserve, the Group will still make greater efforts to recover the relevant arrears, including but not limited to the legal actions.

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

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

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

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

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

Finance costs

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

Income tax expenses

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

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

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

Property, plant and equipment

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

Intangible assets

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

Inventories

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

Trade and other receivables

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

Trade and other payables

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

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

The analysis of cash usage

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

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

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

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

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

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

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

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

Cash and borrowings

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

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

Save as disclosed above, the Group has no outstanding mortgages, pledges, bonds or other loan capital (issued or agreed to be issued), bank overdrafts, borrowings, acceptance liabilities or other similar liabilities, hire purchase and finance lease commitments, or any guarantees or other material contingent liabilities. The Directors have confirmed that there was no material change in the liabilities and contingent liabilities of the Group since 31 December 2018 and up to the date of this announcement. As at 31 December 2018, the overall financial status of the Group remained in a good condition.

Restricted deposits

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

Gearing ratio

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

Capital expenditure

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

Interest rate risk and foreign currency risk

The fair value interest rate risk of the Group is primarily related to the bank borrowings. Most of the bank borrowings of the Group expire within one year, therefore their fair value interest rate risk is low.

The Company currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate risk and will consider to hedge significant interest rate risk when necessary.

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

Significant acquisitions and sales of subsidiaries and affiliated companies

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

Pledge of assets and contingent liabilities

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

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

Significant investments held

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

FUTURE OUTLOOK

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

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

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

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

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

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

BUSINESS STRATEGY

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

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

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

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

DIVIDENDS

The Board does not recommend the distribution of a final dividend for the year ended 31 December 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2018, 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 enquiries have 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 2018.

COMPLIANCE OF THE CORPORATE GOVERNANCE CODE

As a company with its shares listed 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 Reporting Period, 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 2018 and the consolidated financial statements for the year ended 31 December 2018.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2018 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. The auditor of the Company, KPMG, has agreed that the figures in respect of the Group's preliminary annual results for the year ended 31 December 2018 contained in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the Year prepared in accordance with its engagement under Hong Kong Standard on Related Services 4400 "Engagements to perform agreed upon procedures regarding financial information" and with reference to Practice Note 730 "Guidance for auditors regarding preliminary announcements of annual results" issued by the Hong Kong Institute of Certified Public Accountants. 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 for 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 confirmed its/his 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

During the period from 1 January 2019 to the date of this announcement, according to geological information and waste rock index test result of Jiheng Mining, it is found that the waste rock of Jiheng Mining could be used to produce gravel materials for construction and manufactured sand and the Group has actively carried out the relevant businesses. And also due to the capability for further development and utilization of the storage scale and supply capacity of gravel materials of Jiheng Mining, and the requirements of high standards for green transport in Xiong'an New Area, Hebei province and Beijing, the Group has entered into a cooperation agreement with Laiyuan County Ao Tong Transportation Co., Ltd. with which the Company has established a long-term cooperative relationship in respect of transportation, with an aim to ensure the Group complies with the requirements of high standards for green transport.

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

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

PUBLICATION OF 2018 ANNUAL REPORT

The 2018 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.aoweiholding.com) in due course.

By order of the Board
Aowei Holding Limited
Mr. Li Yanjun
Chairman

Beijing, 27 March 2019

As at the date of this announcement, the executive directors of the Company are Mr. Li Yanjun, Mr. Li Ziwei, 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.