



中國罕王控股有限公司

CHINA HANKING HOLDINGS LIMITED

罕王
HANKING

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 03788

ANNUAL REPORT 2020

MISSION
As Emerging Key Player

VALUE
Always Beyond Expectations



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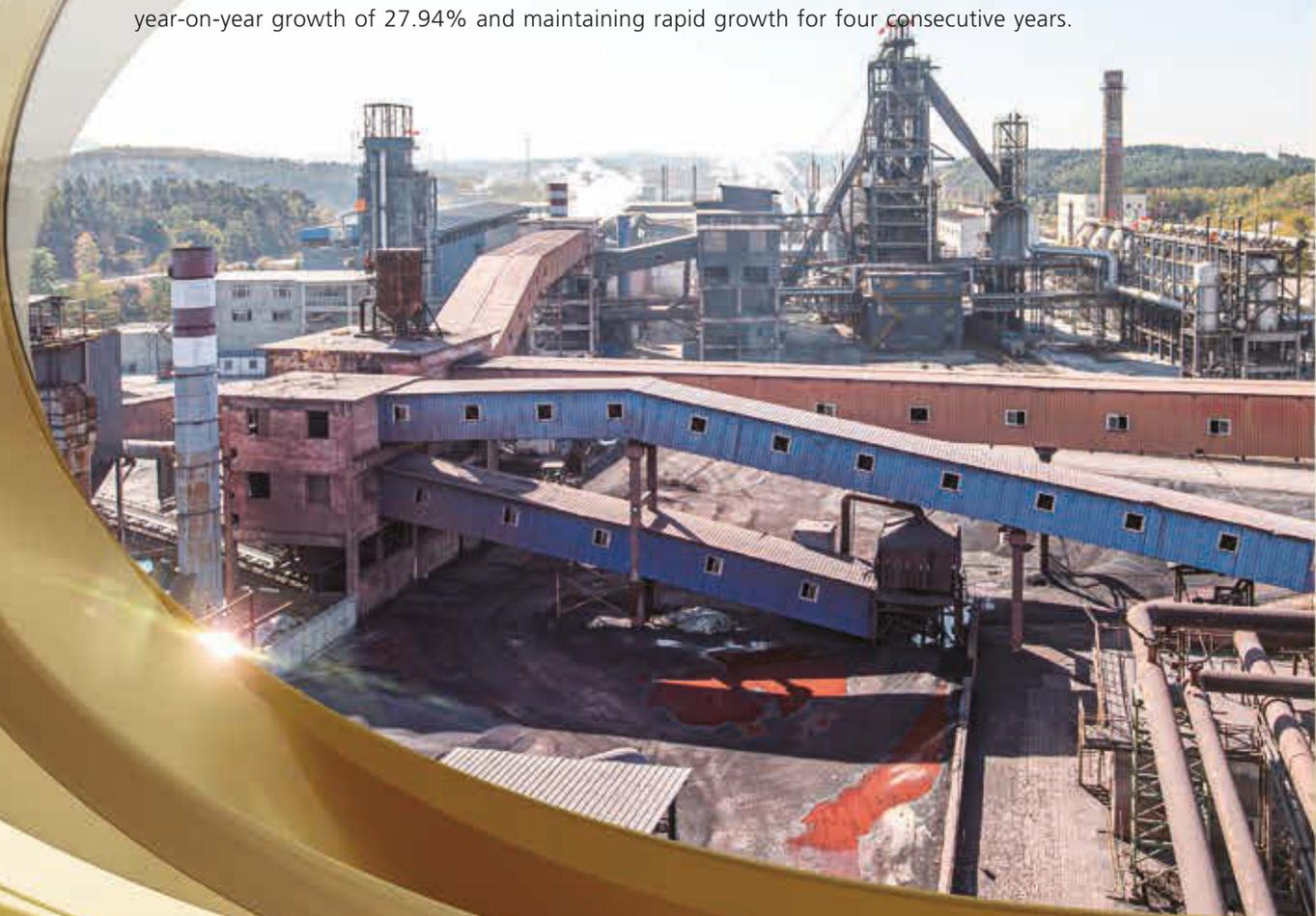
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CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2020, the most influential world event was the outbreak of the novel coronavirus (“**COVID-19**”) pandemic, which has taken many valuable lives and overturned the normal operation of the whole world. After the outbreak of the COVID-19 pandemic, we strictly implemented various containment measures in accordance with the pandemic prevention and control guidelines. We could not be more grateful that none of the Company's employees was infected with COVID-19 since the outbreak of the pandemic.

With careful arrangement of appropriate prevention and control measures, the Company's production activities had not been significantly affected in 2020. Benefiting from the strategy of asset portfolio optimization in the last few years, the Company's revenue hit an all-time high of RMB2.68 billion in 2020, registering a four-year compound growth rate of 36.34%. Net profit attributable to shareholders of the parent company was RMB380 million, representing a year-on-year growth of 27.94% and maintaining rapid growth for four consecutive years.



CHAIRMAN'S STATEMENT

In 2019, the Company acquired the high-purity iron business from its controlling shareholders, which further extended the Company's value chain in iron ore business to high-end manufacturing materials. The addition of high-purity iron business has changed the Company's revenue structure. In 2020, the Company's revenue from high-purity iron business accounted for 62% of its total revenue, marking the Company's transformation from a bulk resource manufacturer to a high-end manufacturing material supplier. As such, both the Company's influence over downstream enterprises and profitability have been further enhanced.

Under the guidance of the above strategy, in November 2020, the Company acquired a high-purity iron manufacturer in Benxi, Liaoning Province, the PRC by way of share issuance. The manufacturer has a production capacity of high-purity iron of 270,000 tons per annum, which, combined with our existing production facilities, expanded our production capacity of high-purity iron to 930,000 tons and further increased our market influence in this sector. Benefiting from the technological improvement of Lagu Factory in 2019 and the output from the newly acquired factory, the Company produced a total of 660,000 tons of high-purity iron in 2020, up by 129% year-on-year.

Mineral resources are the cornerstones of the Company's business. The Company always attaches great importance to the exploration of resources and constantly increases its investment in this regard, which has continued to make progress. From 2019 to 2020, a total of 68 holes were drilled in the exploration area of Maogong Mine, with a cumulative drilling footage of more than 39,000 meters. Major breakthroughs were made in terms of exploration. Six economically valuable ore bodies were discovered in the Eboling section of the exploration area, which has increased the resources by 16,320,000 tons (an increase of approximately 72% as compared to the end of 2019), and the average grade of TFe was 35.94%. The increase in resources from Maogong Mine has not only extended the service life of Maogong Mine, but also laid a solid resource foundation for the continuous operation of the Company's high-purity iron business. The Company will continue to devote resources to increase its exploration efforts in the remaining exploration areas of Maogong Mine with a view to securing more resources.

Prior to 2020, the Company adopted two underground mining techniques simultaneously, namely ramp and shaft. As ramp mining may not be suitable after reaching a certain depth of the mine, the raw ore output of Maogong Mine in 2020 decreased as compared with that of 2019, bringing the Company's iron ore concentrates output in 2020 to 1.48 million tons. However, based on the exploration of surrounding areas and expansion of mining areas over the past few years, the iron ore concentrates output may gradually rebound in the future. Meanwhile, the Company will step up its efforts in the expansion of its high-purity iron business. Hence, the iron ore concentrates from Maogong Mine will also be mainly used to satisfy the need of the production of high-purity iron of the Company.

CHAIRMAN'S STATEMENT

In 2020, the Company also made significant progress in the development of the PGO gold mine project in Australia. In March 2020, the Northern Territory Environment Protection Authority of Australia provided an approved assessment report on Tom's Gully gold mine, completing the final procedure of the environmental impact assessment. The environmental impact assessment procedures of Rustlers Roost gold mine have also commenced officially. Various works in relation to preliminary feasibility study such as processing tests (recovery rate of processing), milling tests and slope stability tests as well as estimation of operation costs and reserves have been basically completed, laying a solid foundation for Rustlers Roost gold mine to enter the stage of construction.

The Company continued to carry out exploration works in Coolgardie gold mine and Rustlers Roost gold mine. Among which, the total gold ore resources of Coolgardie gold mine project has increased by 73% from 201,000 ounces to 347,000 ounces, bringing the total gold ore resources of the Company to 2.14 million ounces. The analysis on exploration data of Rustlers Roost gold mine is still in progress. In 2021, the Company will edge up its efforts in the exploration of Rustlers Roost gold mine with a view to further extending the mine life of Rustlers Roost gold mine which is expected to commence construction.

Adhering to the principles of "safety, community harmony and green mine", China Hanking always attaches great importance to safety and environmental protection in its corporate governance. China Hanking has achieved zero fatality, casualty, environmental pollutions, occupational morbidity rate and fires for four consecutive years as of the end of 2020.

OUTLOOK

The Chinese government has set the goal for energy conservation and emission reduction to achieve carbon dioxide emission peak by 2030 and carbon neutrality by 2060. Under this grand mission and goal of carbon neutrality, China is accelerating the transformation of its energy structure. By 2030, China's carbon dioxide emissions per unit of GDP will decrease by over 65% from the level in 2005, and the proportion of non-fossil energy in primary energy consumption will reach about 25%, which will have a positive impact on the development of new energy industry, including wind power, in the long run.

CHAIRMAN'S STATEMENT

The emergence of large-scale wind turbines is a necessary step for lowering the cost of wind power. Wind turbines with rotary of longer diameter and wheel hub of higher height will gain more momentum in regions with lower wind speed and hence increasing the power capacity and the number of utilization hours of the wind turbines. The emergence of large-scale wind turbines has become a definite trend. Currently, onshore wind turbines with an average power capacity of over 3MW or 4MW are very common around the world, and it is planned that several types of wind turbines with a power capacity of over 5MW will be put into operation extensively in 2021 to 2022, while offshore wind turbines generally has a power capacity of over 5MW. Many manufacturers have successfully developed models with a power capacity of over 10MW, which are planned to be launched into the market extensively in the next few years. Amidst this development trend of large-scale wind turbines, with the increase of size, the wind turbines have higher requirements for the production of wind power castings, and thus have higher requirements in terms of the quality of pig iron used for ductile casting, a requisite process for producing such castings, which is conducive to enhancing the competitiveness of Hanking's high quality ductile casting pig iron in the industry.

Benefiting from the technological improvement of Lagu Factory in 2019 and the merger and acquisition in 2020, the Company's production capacity of high-purity iron has reached 930,000 tons. The Company will continue to leverage its advantages in the high-purity iron sector in terms of resources, technology, production capacity and market to increase the output and sales volume of its high-purity iron, thereby consolidating its status as the "largest supplier of wind power ductile casting iron in China's market".

CHAIRMAN'S STATEMENT

After over two years of preliminary development, the construction works of Rustlers Roost gold mine will officially commence in 2021 and is expected to commence production in 2022. We will make careful arrangements for the construction works to control the overall investment cost and shorten the overall construction period as far as possible.

APPRECIATION

Since 2016, the quality of assets and operating results of the Company have seen year-on-year improvements. This was attributable to the fact of forging ahead and striving to make best endeavors by all the employees of the Group despite the hardship and challenges. Such achievements would not be possible without the support from the Shareholders and various partners of the Company. On behalf of the Board, I hereby wish to express my heartfelt gratitude to the management and all staff of the Group for their efforts and contributions throughout the past year.

The Company always values the return to Shareholders. In order to further increase the return to our Shareholders, the Board of the Company has formulated the "Dividend Distribution Plan for Shareholders for the Next Three Years (2020-2022)" of the Company in 2020. In particular, it is stipulated that the Company will make interim and annual profit distribution, and the amount of dividend shall account for at least 30% of the Group's total net profit for the period. In 2019, the Company distributed a dividend of HK\$0.12 per Share. The Board recommended the payment of a final dividend of HK\$0.08 per Share for the year ended 31 December 2020. The Company will continue to put more efforts in creating value for the Shareholders and increasing the return to them through various means.

Mr. Yang Jiye
Chairman of the Board

FINANCIAL HIGHLIGHTS

<i>RMB'000</i>	2020	2019	2018 (Restated)	2018 (Unrestated)	2017 (Restated)	2016 (Restated)
Continuing operations:						
Revenue	2,675,912	2,251,882	2,828,272	1,165,491	2,573,734	1,921,046
Distribution and selling expenses	134,041	95,092	119,368	38,082	112,357	118,569
Administrative expenses	193,385	198,882	215,635	182,461	164,281	177,380
Finance costs	86,105	98,687	123,714	90,582	141,383	160,444
Profit (loss) for the year from continuing operations	377,772	332,161	403,796	184,922	305,312	(105,939)
Discontinued operation:						
(Loss) profit for the year from discontinued operation	-	(35,218)	(10,882)	(10,882)	734,926	(17,998)
Profit (loss) for the year	377,772	296,943	392,914	174,040	1,040,238	(123,937)
Net profit margin from continuing operations	14.12%	14.75%	14.28%	15.87%	11.86%	-5.51%
EBITDA from continuing operations	787,609	809,045	760,052	458,128	746,373	345,924
EBITDA margin from continuing operations	29.43%	35.93%	26.87%	39.31%	29.00%	18.01%
Earnings (loss) per share (RMB)	0.21	0.16	0.22	0.1	0.57	-0.06
Assets	3,259,423	2,335,869	4,950,083	3,683,601	5,339,729	5,013,918
Liabilities	2,095,468	1,520,208	3,405,184	2,142,751	3,669,980	4,107,831
Return on net assets from continuing operations ¹	38.17%	28.14%	25.12%	12.57%	23.71%	-10.92%
Return on net assets ²	38.17%	25.16%	24.45%	11.83%	80.77%	-12.78%
Return on total assets ³	13.50%	8.15%	7.64%	4.57%	20.09%	-2.11%
Gearing ratio	64.29%	65.08%	68.79%	58.17%	68.73%	81.93%
Capital expenditure	332,438	355,016	470,490	457,432	285,008	219,837
Profit (loss) before tax from continuing operations	475,084	484,606	384,678	132,130	414,601	(70,537)
Profit (loss) before interest and tax from continuing operations	561,189	583,293	508,392	222,712	555,984	89,907
Interest coverage ratio ⁴	6.52	5.91	4.11	2.46	3.93	0.56

¹ Return on net assets from continuing operations is calculated as the profit (loss) for the year from continuing operations divided by average net assets.

² Return on net assets is calculated as the profit (loss) for the year divided by average net assets.

³ Return on total assets is calculated as the profit (loss) for the year divided by average total assets.

⁴ Interest coverage ratio is calculated as the profit (loss) before interest and tax from continuing operations divided by finance costs.

Note 1: Due to the suspension of production for almost six months in 2019 for technological improvement of capacity expansion of high-purity iron business, the consolidated revenue and profit for the year from continuing operations of the Group for the year of 2019 decreased as compared with the restated data for 2018.

Note 2: In 2019, the Group has successfully acquired the high-purity iron business. As the acquisition represented a business combination involving entities under common control, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity as well as the consolidated statement of cash flow for 2018 and the previous years and the consolidated statement of financial position as at 31 December 2018 and the previous years have all been restated so as to include the profit, assets and liabilities since the date when the combined entities first came under common control.

SUMMARY OF THE COMPANY'S BUSINESS

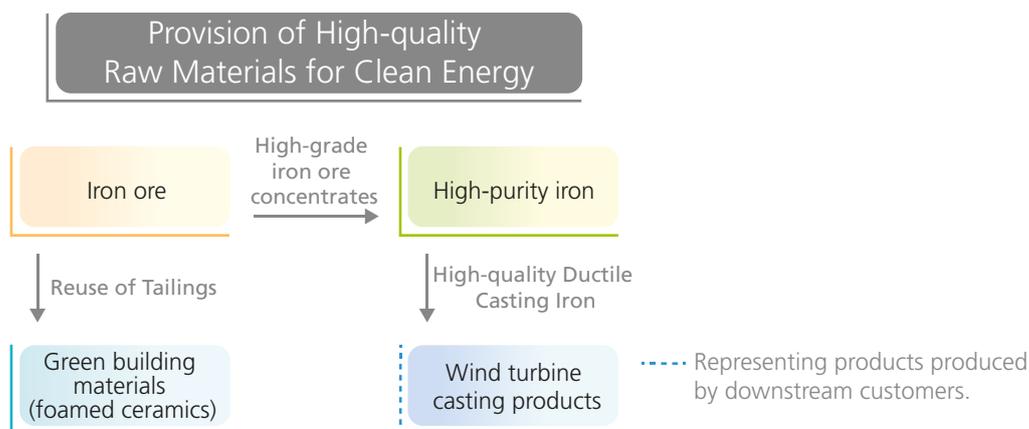
China Hanking Holdings Limited was incorporated in the Cayman Islands on 2 August 2010, and was listed on the Hong Kong Stock Exchange on 30 September 2011 (stock code: 03788).

Being a fast-growing international mining and metals group of companies, China Hanking Holdings Limited is principally engaged in the exploration and development of iron ore, gold mining and precious metal mineral resources in China and Australia, and relies on its own high-quality iron ore resources to produce wind power ductile casting iron.

The Group has three business segments: iron ore, high-purity iron and gold mining. Upholding the core value of "people-first and business integrity" and adhering to the principles of "safety, community harmony and green mine", the Group strives to perform the enterprises' social responsibilities.

• DOMESTIC IRON ORE AND HIGH-PURITY IRON BUSINESS IN CHINA

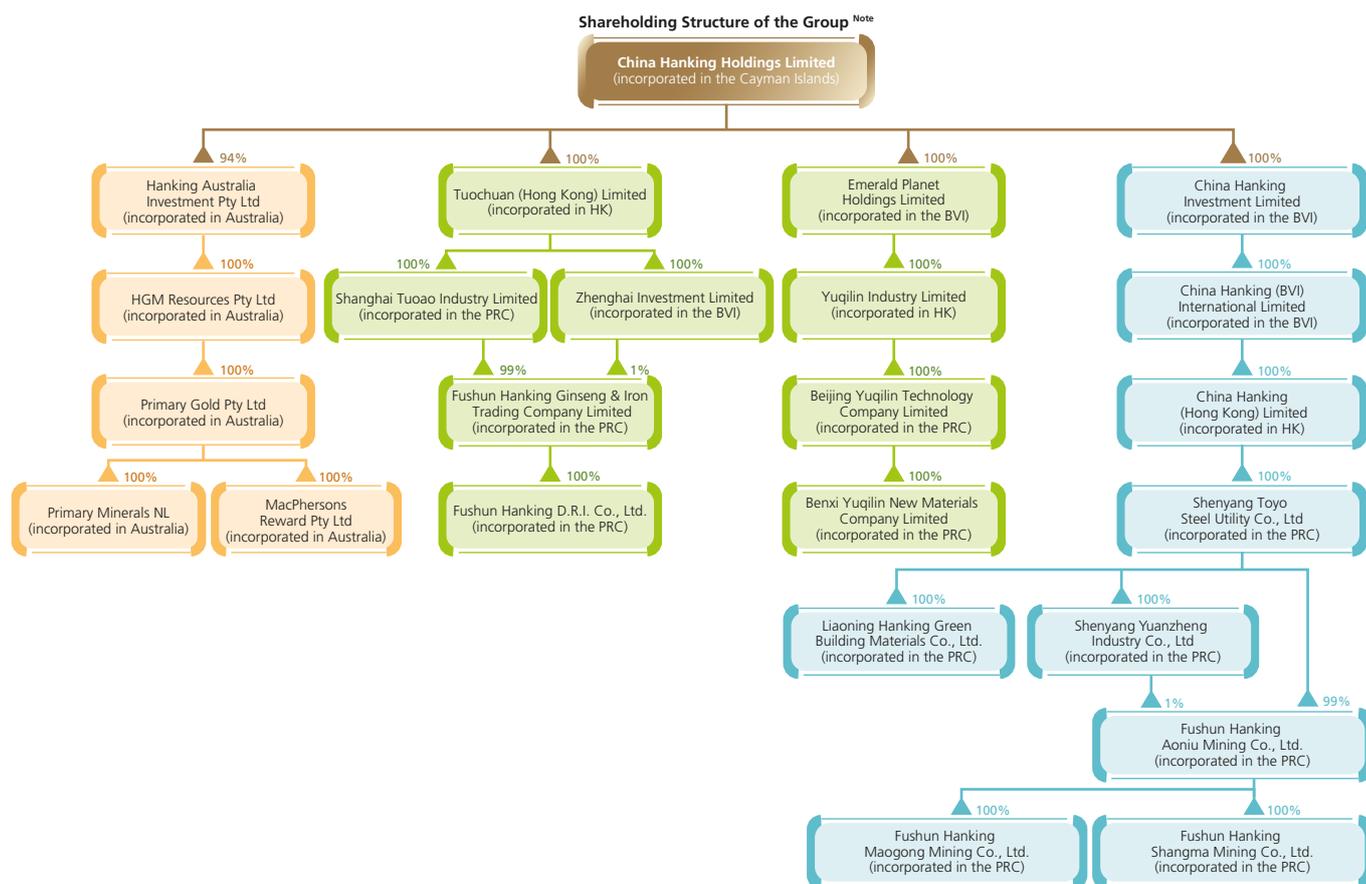
Thanks to the advantages of its own high-quality iron ore resources and unique technical process, the average grade of iron ore concentrate produced by Hanking is over 68%. Due to the minimal impurity contents of sulfur, phosphorus and titanium, together with the technical advantages accumulated over the years, high-purity iron products smelted by Hanking enjoy strong corrosion resistance and high tensile strength, thereby well meeting the casting requirements of major equipment in wind power, marine engineering and other sectors. Therefore, the Company's domestic iron ore and high-purity iron business in China provides high-quality raw materials for clean energy wind power component casting enterprises. As at the end of the reporting period, Hanking had an annual production capacity of high-purity iron of 930 thousand metric tons, making it the largest supplier of wind power ductile casting iron in China's market.



SUMMARY OF THE COMPANY'S BUSINESS

- GOLD MINING BUSINESS IN AUSTRALIA**

The Company has commenced setting up teams in Western Australia since 2010, and established the subsidiary Hanking Australia in 2011, which is headquartered in Perth, the capital of Western Australia. Over the last 10 years, by completing the complete closed loop of acquisition, resource exploration, relaunched production and operation and capitalization in respect of SXO Gold Project, Hanking Australia has developed a gold mining and operation team with outstanding performance and applied its experience to the existing PGO gold project, in an effort to create maximum value for the shareholders.



Note This shareholding structure chart reflects the Group's shareholding structure as at 31 December 2020.



MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

1. OPERATION REVIEW

1. Significant increase in profit for the year, with a proposed dividend of HKD0.08 per Share

In 2020, due to the substantial increase in the output and sales volume of high-purity iron and the year-on-year increase in the average selling price of iron ore concentrates, the Group's profit for the year increased significantly to RMB377,772,000, representing an increase of RMB80,829,000 or 27.22% as compared with the profit for the year of 2019. According to the "Dividend Distribution Plan for Shareholders for the Next Three Years (2020-2022)" of the Company, the Board recommended the payment of a final dividend of HKD0.08 per Share for the year ended 31 December 2020 to shareholders.

2. Mergers and acquisitions enhance production capacity, and the high-purity iron business further extends its leading position in the industry

Hanking is the largest supplier in the wind power ductile casting iron market in China for its high-purity iron^{Note}, and the ductile casting high-purity iron produced contains minimal impurity contents and non-ductile elements such as sulfur, phosphorus, titanium and manganese, and features high tensile strength and high corrosion resistance. The downstream customers are mainly domestic manufacturing enterprises of parts and components for high-end equipment such as wind turbines, automobiles, marine engines, and nuclear equipment in China. In December 2020, the Company completed the acquisition of Benxi Yuqilin New Materials Company Limited, which enhanced the annual production capacity of high-purity iron from 660 thousand metric tons to 930 thousand metric tons accordingly, thereby continuously consolidating the Group's leading position in the raw material market for wind power ductile casting iron.

3. Both gold and iron ore resources have increased significantly to ensure sustainable development

In 2020, the Company implemented multiple drilling explorations for the PGO gold project, which increased the gold resources of the Coolgardie project by 73% to 347,000 ounces, thereby increasing the Company's total gold resources to 2,142,000 ounces. Based on the preliminary exploration and other preparatory efforts, the gold business is undergoing a feasibility study, and it plans to commence construction in 2021.

Upon exploration, Maogong Mine increased its resources by 16,320 thousand metric tons, representing a year-on-year increase of 72%. Some of the six newly-added ore bodies are seen extending upward and have not yet closed. There is still more room for increasing reserves. The Group has conducted mining and production at Maogong Mine since 1996, and it has been continuously extending the service life of the mine by increasing the amount of resources through exploration over the years. Maogong Mine is one of the important sources of profit for the Group. The increase in resources in this exploration will further guarantee the Group's profitability and the sustainable development of Hanking's high-purity iron segments.

Note: According to the industrial report provided by Hatch Associates Ltd., Hanking D.R.I. is the largest manufacturing enterprise in the wind power ductile casting iron market in China. The sales volume of its main product, namely wind power ductile casting iron, accounts for more than 50% of total sales volume in China.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Providing assistance in the fight against the pandemic, safety and environmental protection

In the face of the pandemic, China Hanking will continue to practice its “people-first” social responsibility. On one hand, it has overcome the significant impact of the COVID-19 pandemic to solve production problems. On the other hand, with great efforts in containing the COVID-19 pandemic, it has recorded zero infection among all employees of the Company, and made a donation of RMB9,085,000 for the provision of assistance in the pandemic fight.

Remaining true to its original aspirations, the Group has always adhered to the principles of “safety, community harmony and green mine” and always attaches great importance to safety and environmental protection in its corporate governance. The Group has achieved zero fatality, casualty, environmental pollutions, occupational morbidity rate and fires for four consecutive years.

2. MACRO AND INDUSTRY SITUATION

- In 2020, the COVID-19 pandemic swept the globe, which not only caused a “once-in-a-century” global public health disaster, but also triggered multiple economic, social, political and other crises in various countries. The world economy and globalisation landscape have been extensively reshaped, with various countries generally putting “national security” as a higher priority.
- Benefitting from the proactive pandemic fighting measures, China’s economic returned to positive growth in the second quarter and the annual GDP growth rate was 2.3%, rendering it the only major economy in the world with positive economic growth. Mineral resources are the key guarantee for economic development. In 2020, the global metal mining market ushered in a full recovery. Since the pandemic, the enhanced global stimulus policies and the confirmed relatively pessimistic global economy in the medium and long-term have driven the gold price up constantly to the highest level since 2011, while the global gold ETFs (exchange traded fund) have recorded net inflows for 10 consecutive months with the total number of positions reaching a new high. Boosted by fiscal stimulus measures, China’s market demand is stronger than expected. However, the unstable supply side has exacerbated the imbalance between supply and demand. As at the end of 2020, the price of iron ore also reached a new high, while the price of iron ore futures on China’s Dalian Commodity Exchange exceeded RMB1,000 (US\$152.95 equivalent) per metric ton for the first time.
- In 2020, the newly installed grid-connection annual capacity of wind power amounted to approximately 71.7GW, representing a year-on-year increase of 178.4%. With the mission and goal of carbon neutrality in mind, the newly installed capacity of wind power will further increase. Meanwhile, wind power generation is gradually developing toward high-power wind power, and the demand for high-quality raw materials will further increase as well.

MANAGEMENT DISCUSSION AND ANALYSIS

3. IRON ORE BUSINESS

1. Operation status

Benefitting from the advantages of natural resources and technology, the average grade of iron ore concentrates produced by the Group is 68%, with low contents of impurities such as sulfur, phosphorus and titanium, enabling downstream customers to significantly reduce their production costs. In 2020, due to the impact of the COVID-19 pandemic and the closure of ramp in Maogong Mine, the Group's output and sales volume of iron ore concentrates declined. However, by enhancing management efficiency through smart mine construction, the average cash operation cost of iron ore concentrates per metric ton was controlled at RMB331 (2019: RMB330). Benefitting from the increase in the overall price of iron ores and the high quality of the Company's iron ore concentrates which earned additional price increases from downstream customers, the Group's average selling price of iron ore concentrates was RMB819 per metric ton (2019: RMB773 per metric ton), representing an increase of RMB46 per metric ton or 5.95% as compared with that for the corresponding period of last year.

Table 1 – Cash operation costs of the iron ore business

	For the year ended 31 December		Change
	2020 (RMB/metric ton of iron ore concentrate)	2019 (RMB/metric ton of iron ore concentrate)	
Mining	166	159	4.40%
Processing	67	74	-9.46%
Transportation	21	26	-19.23%
Tax	49	45	8.89%
Mine management	28	26	7.69%
Total	331	330	0.30%

MANAGEMENT DISCUSSION AND ANALYSIS

Science and innovation-based smart mine construction

In 2020, the Company's iron ore business optimized the energy-saving management system with the three-pronged energy-saving approach, namely concepts, technologies and organization, and adopted reasonable and effective measures of energy-saving technology retrofits. The Company's comparable comprehensive energy consumption indicators of two unit products of mineral processing and underground mining both outperformed the advanced standard value of the industry. Among them, the comparable comprehensive energy consumption of underground mining unit product was 1.69kgce/t, which is superior to the advanced standard value of 2.05kgce/t, while the comparable comprehensive energy consumption of the mineral processing unit product was 1.76kgce/t, which is superior to the advanced standard value of 2.4kgce/t.

In 2020, the Company's iron ore business was approved to establish a "Professional Technological Innovation Center of Liaoning Province for Iron Ore Resource Development and Utilization". While enhancing product quality and extending its industrial chain, the Company has promoted technological innovation with industrialization through the establishment of a technological innovation system for the utilization of all-component resources, aiming to achieve overall breakthroughs in the iron ore resource development industry in Liaoning Province and even across the country. During the year, the iron ore business has been authorized to obtain certificate patents for 10 inventions, including 9 utility models and 1 invention patent. Continuous research and development efforts have promoted the innovation and upgrade of the iron ore business.

In 2020, the smart management and control system of the Company's iron ore business has achieved smart production management and control, and continued to promote smart corporate management. Leveraging advanced sensor equipment and big data related technologies to save manpower, enhance efficiency, and improve safety management standards, the Company has also laid the foundation for digital modeling, simulation, evaluation, early warning and optimization of resources, planning, design, production and management, eventually achieving a clean, efficient, green, and intrinsically safe smart mine.

Benefitting from constant scalization, standardization, mechanization, informationization and scientification of mine construction of Hanking's iron mine for years, Maogong Mine was awarded the honor of "Top Ten Plant and Mine" of the 7th Metallurgical Mining, while Mr. Sun Guangxue, General Manager of Maogong Mine was elected as the "Top Ten Plant and Mine Managers" of the 7th Metallurgical Mining.

MANAGEMENT DISCUSSION AND ANALYSIS

Table 2 – Operation breakdown of iron ore business

	For the year ended 31 December		Change
	2020	2019	
Output of iron ore concentrates (thousand metric tons)	1,483	1,860	-20.27%
Of which: Output of Maogong Mine (thousand metric tons)	1,283	1,600	-19.81%
Output of Aoni Mine (thousand metric tons)	200	260	-23.08%
Sales volume of iron ore concentrates (thousand metric tons)	1,462	1,840	-20.54%
Revenue (RMB thousand)	1,196,907	1,422,623	-15.87%
Average selling price (RMB per metric ton)	819	773	5.95%
Average cost of sales (RMB per metric ton)	401	374	7.22%
Gross profit (RMB thousand)	610,208	734,612	-16.93%
Gross margin	50.98%	51.64%	Down by 0.66 percentage point

As part of the iron ore concentrates produced by the iron ore business was sold to Hanking D.R.I., a subsidiary of the Company, the sales revenue of the iron ore business accounted for 37.06% of the revenue before elimination during the reporting period while the gross profit accounted for 64.73% of the Group's gross profit before elimination.

MANAGEMENT DISCUSSION AND ANALYSIS

Development and capital expenditure

The iron ore resources of the iron ore business are situated at the well-known iron ore metallogenic belt of Anshan to Benxi where iron ore resource is rich and in good quality. Therefore, the Company is committed to identifying new ores in the existing mines and surrounding areas in order to have high-quality resources at a lower cost. In 2020, the capital expenditure of the iron ore business was mainly for the extension of mining rights, expansion expenditure and equipment investment. The expansion and extension of the mining rights certificates of Maogong Mine and Shangma Mine were completed while the infrastructure construction of Shangma Mine was pushed forward as planned, thereby providing guarantee for sustainable development.

For the year ended 31 December 2020, the capital expenditure of iron ore business was approximately RMB136,517,000 (2019: RMB146,624,000), mainly representing expenditure for intangible assets corresponding to the increase in mining rights as well as expenditure for plants, machines and equipment and properties. The capital commitment amounted to approximately RMB7,969,000 (2019: RMB15,523,000).

2. Operating mines

1) Maogong Mine

Maogong Mine is located in the township of Shiwen, Fushun County, Fushun City, and has extensive infrastructures, with an annual ore processing capacity of 3 million tons for its processing plant. Maogong Mine was awarded the title of National Green Mine. Maogong Mine currently owns approximately 1.98 square kilometers of mining rights and 5.55 square kilometers of exploration rights licenses, and is applying for expansion of the mining rights with a view to expanding the scope of iron ore resources explored through exploration rights into the mining rights certificates.

The average grade of iron ore concentrates produced in Maogong Mine is 69.16%. In the first half of 2020, the minimum stoping section of the main ore body of Maogong Mine was -80m section, while the minimum construction section of mining preparation was -100m section. In an effort to avoid cross operations focused in subsequent excavation, deep drilling, and stoping, Maogong Mine planned in advance to carry out the downward extension of the ramp in a timely manner, and the construction has been completed to -120m section.

2) Aoni Mine

Aoni Mine is located in the township of Hou'an, Fushun County, Fushun City, and is operated by the Company through its subsidiary Aoni Mining. Aoni Mine owns mining licenses covering areas totaling approximately 1.81 square kilometers and has extensive infrastructures including paved roads, electricity and water supplies. Aoni Mine was awarded the title of National Green Mine.

In 2020, Aoni Mine filling project officially entered the production stage, which was also the first filling project in the iron ore system of Liaoning Province. Aoni Mine has increased its ore volume by approximately 0.30 million metric tons through exploration and recovery at the bottom of boundary residual mine, and certain ore bodies will continue to be recycled in 2021 with a view to extending the service life of the mine.

MANAGEMENT DISCUSSION AND ANALYSIS

3) Shangma Mine

Shangma Mine is located at the center of the iron ore belt in Fushun City, adjacent to Aoni Mine, with approximately 6.72 square kilometers of mining rights certificates and approximately 30.13 million metric tons of iron ore resources. In 2020, the first phase of the infrastructure construction of Shangma Mine was carried out as planned, with a total of 3,650 meters of excavation length completed throughout the year, and the construction is expected to be completed in early 2022, when the production of iron ore concentrates will be initiated.

3. Resources and reserves

The Company delineates prospecting areas for exploration in the surrounding area of the existing mining areas and within the scope of prospecting rights. In 2020, Maogong Mine completed a total of 31 surface drilling holes and drilled over 19,800 meters, which increased ore resources of approximately 16.32 million metric tons, and certain ore bodies have not stopped going upward, and there is still more room for increasing reserves; Aoni Mine and Shangma Mine completed a total of 31 surface drilling holes and drilled over 8,703 meters. Exploration expenditure was approximately RMB12,486,000 in total.

As of the end of 2020, the Group owned approximately 100,234 thousand metric tons of iron ore resources.

Table 3 – Iron ore resources as at the end of 2020

Mines	Indicated		Inferred		Total	
	Metric ton	TFe (%)	Metric ton	TFe (%)	Metric ton	TFe (%)
Aoni Mine	13,492,733	30.44	20,762,810	31.89	34,255,543	31.32
Maogong Mine	19,498,690	34.75	16,352,560	35.18	35,851,250	34.95
Shangma Mine	16,575,310	31.77	13,552,060	31.98	30,127,370	31.87
Total	49,566,733 ¹	32.58	50,667,430 ²	32.98	100,234,163	32.78

¹ The resources amount includes 29,666,099 metric tons of the resources amount which does not show on the mining licenses.

² The resources amount includes 37,333,240 metric tons of the resources amount which does not show on the mining licenses.

Note 1: For the estimation of iron ore resources, firstly, the industrial parameters were determined in accordance with the requirements of the general standard of the geological exploration profession in the PRC "Geological and Exploration Standards for Iron, Manganese and Chrome Deposits" (DZ/T0200-2002); and then the "Geological Block" method was selected based on the geological characteristics of the ore bodies to estimate the amount of ore resources using the volume and specific gravity of ore body in each block. The resources category classification is based on the extent of geological exploration work carried out and comparable to the JORC Code.

Note 2: The figures do not imply precision and may not add up due to rounding. Mineral resources are quoted inclusive of mineral reserves.

As of the end of 2020, the Group owned approximately 31,142 thousand metric tons of JORC Code-compliant iron ore reserves.

MANAGEMENT DISCUSSION AND ANALYSIS

Table 4 – Iron ore reserves as at the end of 2020

Mines	Resources category	Increased amount for 2020 (metric ton)	Reserves at the end of 2020 (metric ton)	TFe (%)
Aoniu Mine	Probable Ore Reserve	936,432	2,128,694	31.91
Maogong Mine	Probable Ore Reserve	0	12,437,950	33.45
Shangma Mine	Probable Ore Reserve	-1,548,730	16,575,310	31.77
Total	Probable Ore Reserve	-612,298	31,141,954	32.45

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

4. HIGH-PURITY IRON BUSINESS

After the completion of capacity expansion and technological upgrade for the high-purity iron business in 2019, the production has been stable since 2020. In 2020, the output of high-purity iron amounted to approximately 640 thousand metric tons, representing an increase of approximately 352 thousand metric tons, or 122.22%, as compared to that of last year; the sales volume amounted to 651 thousand metric tons, representing an increase of approximately 363 thousand metric tons, or 126.04%, as compared to that of last year, among which, the sales volume of wind power iron accounted for approximately 84% of the total sales volume. We have become the largest supplier in the wind power ductile casting iron market in China. In terms of downstream customers, apart from domestic enterprises producing wind turbine casts in China, there are also parts and components manufacturers for high-end equipment such as automobiles, marine engine and nuclear equipment. Hanking D.R.I. (a subsidiary of the Company) was granted national invention patents for its high-purity iron products and was qualified as National high and new technology enterprise (國家高新技術企業) and shall be eligible to pay enterprise income tax at a preferential rate of 15%.

During the last 12 months, the price movement of high-purity iron and major raw materials were converging overall with different level of variations. Since the pandemic outbreak in February 2020, the prices of high-purity iron and raw materials have been staying low. The price of raw materials saw a significant increase starting from May and June 2020. Subsequently, the price of high-purity iron also slowly increased. As such, the price hike of raw materials has caused an increase in costs. However, the increase in production volume has led to the decrease in fixed costs of the units, and the technology improvement has resulted in the decrease in unit consumption, the impact on costs from the increase of raw materials price was hence partially offset, with the average cost of sales representing a year-on-year decrease of 3.85% in 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Table 5 – Operation breakdown of high-purity iron business

High-purity iron business	For the year ended 31 December		
	2020	2019	Change
Sales volume (thousand metric tons) ^{Note 1}	651	288	126.04%
Average selling price (RMB per metric ton)	3,085	3,319	-7.05%
Average cost of sales (RMB per metric ton)	2,569	2,672	-3.85%
Revenue (RMB thousand)	2,007,278	956,583	109.84%
Gross profit (RMB thousand)	335,605	186,404	80.04%
			Down by 2.77 percentage points
Gross margin	16.72%	19.49%	points

Note 1: The suspension of operation for about six months due to technological improvement in 2019 has resulted in a significant decrease in the output and sales volume.

Mergers and acquisitions and development

At the end of 2020, the Company completed the acquisition of Emerald Planet Holdings Limited (“**Emerald Planet**”). Emerald Planet indirectly holds 100% equity interests in Benxi Yuqilin New Materials Company Limited (“**Benxi Yuqilin**”). Benxi Yuqilin has achieved its production capacity indicator of annual production capacity of 270 thousand metric tons of pig iron, which creates synergy with the Company’s existing businesses soon after the acquisition. As such, from 2021, the Company’s annual production capacity of high-purity iron will increase from 660 thousand metric tons to 930 thousand metric tons, thereby further amplifying its leading advantages in the high-purity iron market in China. The consideration of the acquisition is HKD224 million and shall be paid by issuing additional 140 million shares of the Company to the existing shareholders of Emerald Planet. The lock-up period of the issued shares will be lifted by phases in three years.

For the year ended 31 December 2020, the capital expenditure of the high-purity iron business amounted to approximately RMB158,887,000 (2019: RMB179,479,000), mainly due to the increase in plants, machines and equipment, properties and right-of-use assets resulting from the acquisition of Benxi Yuqilin. The capital commitments amounted to approximately RMB3,120,000 (2019: RMB3,694,000).

MANAGEMENT DISCUSSION AND ANALYSIS

5. GOLD BUSINESS IN AUSTRALIA

1. Operation overview

The gold mine business of Hanking in Australia is a platform established by the Company in Australia for the development of and investment in gold mines. The currently owned PGO gold project was acquired in 2018. Major assets of the PGO project and the progress during the reporting period are as follows:

The Coolgardie gold deposit

The Coolgardie gold deposit is on a 3,000ha tenement package in the heart of the Western Australia Goldfields and has obtained all approvals for mine production. Hanking Australia designed and implemented two drill-hole programs in 2020. The programs not only increased the project's gold resource by 73% to 347,000 ounces but also significantly improved the confidence in the resource and the continuity of gold mineralization. Furthermore, the gold mineralization is open along strike and depth and most of the holes were drilled to a depth of less than 200 meters from surface. The near surface multiple lodes are suitable for open-cut bulk mining. Hanking Australia will seek opportunities to develop this project.

Mt Bundy gold deposit

The Mt Bundy gold deposit in the Northern Territory has 1.80 million ounces of gold resources with an average grade of 1.0 grams per metric ton. As both the strike direction and deep extension of the ore body are not closed, there is a potential for resources expansion. We own the Tom's Gully gold deposit and the Rustlers Roost gold deposit. Tom's Gully gold deposit was approved by the environmental review in 2020 and commenced the process of obtaining mining approval. The Rustlers Roost gold deposit has a single ore body resource of 1.332 million ounces, 77% of which are JORC resources of the control level. In 2020, Hanking Australia Investment has carried out exploration works and commenced the environmental assessment, and basically completed various works in relation to preliminary feasibility study such as processing tests (recovery rate of processing), milling tests and slope stability tests as well as estimation of operation costs and reserves. The Company has planned to commence construction for the Rustlers Roost gold deposit in 2021.

For the year ended 31 December 2020, the capital expenditure of the gold business was RMB29,626,000 (2019: RMB11,506,000), which was mainly used in the environmental impact assessment and exploration expenses of the gold mines.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Resources and reserves

As of the end of 2020, the Group had JORC Code-compliant resources of approximately 2.14 million ounces of gold at an average grade of 1.0 gram/ton and ore reserve of approximately 0.23 million ounces of gold at an average grade of 3.9 gram/ton.

Table 6 – Gold mine resources as at the end of 2020

	Measured		Indicated		Inferred		Total					
	thousand metric tons	gram/ton	thousand ounces	thousand metric tons	gram/ton	thousand ounces	thousand metric tons	gram/ton	thousand ounces			
Coolgardie project	431	1.3	18	5,957	1.0	193	3,500	1.2	136	9,889	1.1	347
Mt Bundy project												
Rustlers Roost	-	-	-	36,611	0.9	1,028	12,990	0.7	304	49,601	0.8	1,332
Tom's Gully	-	-	-	835	9.0	242	265	8.5	73	1,100	8.9	315
Quest 29	-	-	-	2,190	1.4	98	1,205	1.3	50	3,395	1.4	148
Sub-total	-	-	-	39,636	1.1	1,368	14,460	0.9	427	54,096	1.0	1,795
Total	431	1.3	18	45,593	1.1	1,561	17,960	1.0	563	63,985	1.0	2,142

Note: The figures do not imply precision and may not add up due to rounding.

Table 7 – Gold mine reserves as at the end of 2020

	Resource Category	thousand	gram/ton	thousand ounces
		metric tons		
Coolgardie project	Proved	267	1.5	13
	Probable	802	1.8	45
	Total	1,069	1.7	58
Mt Bundy project	Proved	-	-	-
	Probable	775	6.9	175
	Total	775	6.9	175
Total	Proved	267	1.5	13
	Probable	1,577	4.3	220
	Total	1,844	3.9	233

MANAGEMENT DISCUSSION AND ANALYSIS

3. Share Option Scheme

In order to motivate the employees to participate in the development of the Company in concerted efforts, the Company adopted the share option scheme of Hanking Australia Investment (the “**Scheme**”) on 25 January 2019. The Scheme will be expired on 25 January 2023. The Scheme mandate limit is 10% of the shares of Hanking Australia Investment in issue on the date on which the Scheme was adopted. The maximum number of shares of Hanking Australia Investment to be issued upon the exercise of options that may be granted under the Scheme is 21,000,000 shares.

On 27 April and 10 December 2020, Hanking Australia Investment granted 3,950,000 and 1,800,000 options (the “**Options**”), respectively, to subscribe for 5,750,000 shares in the share capital of Hanking Australia Investment (each an “**HAI Share**”) to certain employees of Hanking Australia Investment (the “**Grantees**”). Among the Options, the exercise price for 2,950,000 Options is AUD0.286 per HAI Share, the exercise price for 1,000,000 Options is AUD0.3 per HAI Share and the exercise price for 1,800,000 Options is AUD0.39 per HAI Share. The exercise price was determined and approved by the board of directors of Hanking Australia Investment based on the recommendation of the independent tax adviser, the fair market price and the performance of the staff. The number of shares accounts for approximately 2.67% of the total share capital upon the exercise of the Options of Hanking Australia Investment after the full exercise of the Options. The Options granted have an exercisable term of four years from the date of grant.

Subject to Shareholders’ approval, no Option may be granted to any person if the total number of HAI Shares issued and to be issued upon the exercise of Options granted and to be granted under the Scheme and any other share option scheme of Hanking Australia Investment to such grantee in any 12-month period exceeds 1% of the total issued HAI Shares from time to time.

Subject to any specification at the time of grant of the Options, the Scheme does not contain any minimum period(s) for which an Option must be held before it can be exercised.

No amount is required to be paid by the Grantee for acceptance of an offer for the grant of an Option.

None of the Grantees is a Director, chief executive or substantial shareholders or any of their respective associates (as defined under the Listing Rules).

6. OTHER BUSINESSES – GREEN BUILDING MATERIALS PROJECT

In 2020, Hanking Green Building Materials continued to increase its efforts in scientific research and obtained 1 invention patent, 5 new utility patents and applied for 6 new patents. The tailings and foamed ceramics engineering center in Liaoning Province and the postdoctoral innovative experiment base in Liaoning Province established a cooperative laboratory and technology application center with Northeast University and Shenyang Jianzhu University. In 2020, Hanking Green Building Materials participated in the compilation of industry standards, such as participating in the compilation and amendment of the GB23451 National Standard for foamed ceramics and composite panels and the partitions atlas in 10J113 National Standard, as well as serving as the editor-in-chief for compilation of the technological codes for CECS foamed ceramics composite wall panels, and participating in the compilation of the technological codes for the application of CECS lightweight foamed ceramics exterior wall cladding and the technological codes for the application of CECS foamed ceramics decoration components.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2020, the total production volume of qualified foamed ceramics products of green building materials project is 15,090 cubic meters, thereby gradually building a domestic sales network and achieving a sales revenue of approximately RMB25,686,000 (2019: RMB13,200,000).

7. PROSPECT AND COUNTERMEASURES

2021 is the first year of the commencement of the Fourteenth Five-Year Plan and Vision 2035. According to the proposed Fourteenth Five-Year Plan, the manufacturing industry shall meet the requirement of “autonomous and controllable, safe and efficient”. President Xi Jinping stated in his speech at the United Nations General Assembly that China will strive to achieve carbon neutrality by 2060, which is a further stepped-up goal compared to the commitment previously made in Paris Agreement about reaching a peak in carbon emission in 2030 and the target of achieving 50% of non-fossil energy consumption in 2050 as expected in the Energy Production and Consumption (2016-2030) promulgated by the State Council. As the overall long-term goal towards the development of non-fossil energy in China has been stepped up, wind power, which is a type of energy that has already achieved grid parity in many regions, will play an important role. The development of wind power industry has a promising prospect. Along with its large-scale development and use, wind power requires high-quality raw materials. As the largest supplier in the wind power ductile casting, the Group will benefit from the overall industry development in the long run.

The Group has high-quality iron ore resources and will continue to increase its resources reserve through exploration of self-owned mines and the surrounding areas. In 2021, the Group plans to produce 1,000 thousand metric tons of iron ore concentrates and stabilize the production cost of the iron ore business, so as to facilitate the construction of Shangma Mine. It plans to produce 900 thousand metric tons of high-purity iron, in order to provide high-quality raw materials for the large-scale wind turbines in China.

In 2021, the gold business of the Group will proceed with exploration to increase the resources reserves of existing mines. At the same time, the feasibility study for the projects will be completed. The construction for the projects is expected to commence in 2021.

The Board would like to emphasize that due to the uncertainties in metal prices, the domestic raw materials market and the production environment, the above plans are made solely on the basis of the current market situation and the existing conditions of the Group. The Board may adjust the relevant production plan according to the changes in the situation.

MANAGEMENT DISCUSSION AND ANALYSIS

SAFETY, ENVIRONMENTAL PROTECTION, EMPLOYEE AND REMUNERATION POLICY

As of 31 December 2020, the Group had a total of 1,576 employees (as of 31 December 2019: a total of 1,534 employees). For the year ended 31 December 2020, the aggregate remuneration expenses and other employee benefits costs of the Group amounted to approximately RMB148,798,000 (2019: RMB155,302,000). Employee costs included basic salary, commission and bonus, housing allowance, pension, medical insurance, occupational injury insurance and other insurances required by the government. In accordance with the remuneration policy of the Company, the income of employees is related to the performance of individual employees and the operating performance of the Company. The Company carried out performance assessment to motivate employees, so as to enhance its operating performance. In order to improve the overall quality and professional skills of the employees, the Group has developed and implemented the Administrative System on Training.

For details on safety, environmental protection and employee development of the Group for the year 2020, please refer to the Environmental, Social and Governance Report of the Company for the year 2020 to be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and the Company's website at www.hankingmining.com.

FINANCIAL REVIEW

1. Revenue, Cost of Sales, Gross Profit

For the year of 2020, revenue from the Group's continuing operations was RMB2,675,912,000, representing an increase of RMB424,030,000, or 18.83% as compared to last year, mainly due to: 1) the increase of approximately 363 thousand metric tons in sales volume of high-purity iron during the year and the increase in revenue of approximately RMB1,202,853,000 as a result of the increase in output following the completion of the technological improvement of the high-purity iron business in 2019 but the decrease of approximately RMB234/metric ton in selling price of high-purity iron as compared to last year resulted in a decrease in revenue of approximately RMB152,158,000; 2) the sales volume of iron ore concentrates in 2020 amounted to 1,462 thousand metric tons, representing a decrease of 378 thousand metric tons as compared to last year, resulting in a decrease in revenue of RMB292,517,000 but the increase of RMB46/metric ton in selling price of iron ore concentrates as compared to last year resulted in an increase in revenue of RMB66,801,000; and 3) the fact that following the Group's successful acquisition of high-purity iron business last year, revenue from iron ore concentrates sold to the high-purity iron business has become the Group's internal revenue and is required to be eliminated at the group consolidation level. In 2020, the internal sales volume of iron ore concentrates in the Group was 679 thousand metric tons, representing an increase of 505 thousand metric tons as compared to last year, resulting in an increase in eliminated revenue of RMB413,435,000 under intersegment elimination for the year as compared to last year.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year of 2020, cost of sales incurred by the Group's continuing operations amounted to RMB1,757,929,000, representing an increase of RMB396,724,000 or 29.15% as compared to last year, among which, 1) cost of sales incurred by high-purity iron business increased by approximately RMB901,494,000, mainly attributable to the fact that sales volume of high-purity iron increased by approximately 363 thousand metric tons as compared to last year; 2) cost of sales incurred by iron ore concentrates decreased by approximately RMB101,312,000, mainly attributable to the fact that sales volume of iron ore concentrates decreased by approximately 378 thousand metric tons as compared to last year; and 3) the fact that following the Group's successful acquisition of high-purity iron business in the corresponding period of last year, revenue from iron ore concentrates sold to the high-purity iron business has become the Group's internal revenue and is required to be eliminated at the group consolidation level. In 2020, the internal sales volume of iron ore concentrates of the Group was 679 thousand metric tons, representing an increase of 505 thousand metric tons as compared to last year, resulting in an increase in eliminated cost of sales of RMB409,135,000 under intersegment elimination for the year as compared to last year.

For the year of 2020, gross profit of the Group's continuing operations was RMB917,983,000, representing an increase of RMB27,306,000 or 3.07% over last year. As compared to last year, gross margin of the Group's continuing operations decreased from 39.55% to 34.31% in 2020.

Analysis on the revenue by major products

	For the year ended 31 December 2020					For the year ended 31 December 2019				
	Iron Ore Concentrates	High-purity Iron	Others	Intersegment elimination	Total	Iron Ore Concentrates	High-purity Iron	Others	Intersegment elimination	Total
Revenue	1,196,907	2,007,278	25,686	-553,959	2,675,912	1,422,623	956,583	13,200	-140,524	2,251,882
Cost of sales	586,699	1,671,673	28,753	-529,196	1,757,929	688,011	770,179	23,076	-120,061	1,361,205
Gross profit	610,208	335,605	-3,067	-24,763	917,983	734,612	186,404	-9,876	-20,463	890,677
Gross margin	50.98%	16.72%	-11.94%	-	34.31%	51.64%	19.49%	-74.82%	-	39.55%

2. Other Income, Other Gains and Losses, Expected Credit Losses

For the year of 2020, other income from the Group's continuing operations was RMB9,559,000, representing an increase of RMB2,852,000 or 42.52% over last year. Other income mainly represented interest income.

For the year of 2020, other losses of the Group's continuing operations were RMB22,629,000, representing an increase of RMB15,172,000 or 203.46% over last year. The increase was mainly attributable to the increase in the Group's donation expenses under the impact of the pandemic in 2020. Other losses mainly consisted of the impairment loss of assets, foreign exchange losses, disposal gains or losses of available-for-sale financial assets, net income or loss from disposal of properties, plants and equipment, and other overheads, etc.

For the year of 2020, the expected credit loss of the Group's continuing operations was RMB5,079,000, representing an increase of RMB2,663,000 or 110.22% as compared to last year, mainly due to the fact that the Group has, upon more due consideration, made provision for an impairment loss on receivables under expected credit loss model as affected by the pandemic in 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Distribution and Selling Expenses, Administrative Expenses

For the year of 2020, the distribution and selling expenses of the Group's continuing operations were RMB134,041,000, representing an increase of RMB38,949,000 or 40.96% as compared to last year, which was mainly due to 1) the increase in sales volume of high-purity iron business of approximately 363 thousand metric tons as compared to last year resulted in an increase of RMB54,410,000 in the distribution and selling expenses; and 2) the decrease in sales volume of iron ore concentrates of approximately 378 thousand metric tons as compared to last year resulted in a decrease of RMB16,326,000 in the distribution and selling expenses. Selling and distribution expenses consisted of transportation expenses, labour expenses and others.

For the year of 2020, the administrative expenses of the Group's continuing operations were RMB193,385,000, representing a decrease of RMB5,497,000 or 2.76% as compared to last year. Administrative expenses included remuneration paid to the management and administrative staff of the Group, depreciation and amortization, leasing and office expenses, business development expenses, professional consultation and service expenses, taxation expenses, bank charges and others.

4. Finance Costs and Income Tax Expense

For the year of 2020, the finance costs of the Group's continuing operations were RMB86,105,000, representing a decrease of RMB12,582,000 or 12.75% as compared to last year. Finance costs included interest expenses on bank borrowing, discount expenses and other finance expenses. The decrease in finance costs for the year as compared to last year was mainly due to a decrease in interest expenses as a result of a decrease in borrowings.

For the year of 2020 the income tax expense of the Group's continuing operations was RMB97,312,000, representing a decrease of RMB55,133,000 or 36.17% as compared to the income tax charge last year. Income tax expense included the total amount of current tax payable and deferred tax. The decrease in income tax charge for the year was mainly attributable to the payment of RMB44,481,000 made last year for the underprovision relating to the prior years.

5. Profit for the Year and Total Comprehensive Income

Based on the aforesaid reasons, the profit for the year from the Group's continuing operations for the year of 2020 was RMB377,772,000, representing an increase of RMB45,611,000, or 13.73% as compared to last year.

Loss for the year from the Group's discontinued operations for the year of 2019 was RMB35,218,000, which mainly represented the operating loss made before the completion of disposal of the nickel mine project and the nickel mine project's cumulative translation reserve reclassified to profit or loss upon disposal.

Based on the profit for the year, and affected by the changes in fair values of financial assets measured at fair value through other comprehensive income and foreign currency translation etc., the total comprehensive income of the Group for the year of 2020 was RMB385,423,000, representing an increase of RMB36,034,000 or 10.31% as compared to last year.

MANAGEMENT DISCUSSION AND ANALYSIS

6. Property, Plant and Equipment, Inventories, Intangible Assets

As at 31 December 2020, the net value of property, plant and equipment of the Group was RMB957,108,000, representing a decrease of RMB900,000 or 0.09% as compared to the end of last year.

As at 31 December 2020, the inventories of the Group were RMB322,973,000, representing an increase of RMB86,793,000 or 36.75% as compared to the end of last year, mainly due to the increase in inventories of finished goods in the high-purity iron segment.

As at 31 December 2020, the intangible assets of the Group were RMB400,206,000, representing an increase of RMB83,094,000 or 26.20% as compared to the end of last year. The increase was mainly due to the mining rights of the iron ore concentrates obtained and the exploration expense of the gold mines during the year.

7. Trade and Other Receivables, Trade and Other Payables

As at 31 December 2020, trade receivables of the Group were RMB91,083,000, representing a decrease of RMB8,379,000 as compared to the end of last year.

As at 31 December 2020, other receivables of the Group were RMB126,628,000, representing a decrease of RMB108,937,000 as compared to the end of last year, which was mainly due to the recovery of the remaining disposal proceeds of Xingzhou Mining of RMB105,000,000 during the year.

According to the requirements of IFRS 9 Financial Instruments, the Group has classified the bills receivables as the receivables at fair value through other comprehensive income based on the characteristics of the business model and contractual cash flow. The fair value and expected credit losses were assessed by the Group at the end of the reporting period, with the changes in the fair value included in other comprehensive income and the expected credit losses included in other income or profit or loss.

As at 31 December 2020, bills receivables of the Group (bank acceptance bills) were RMB86,246,000, representing an increase of RMB57,586,000 as compared to the end of last year, of which undiscounted and unendorsed bank acceptance bills were RMB32,666,000. Such bills can be discounted at any time to satisfy the capital requirement.

As at 31 December 2020, trade payables of the Group were RMB87,565,000, representing a decrease of RMB8,380,000 as compared to the end of last year. As at 31 December 2020, other payables of the Group were RMB201,166,000, representing an increase of RMB52,851,000 as compared to the end of last year, mainly attributable to the debts to third parties that shall be assumed upon the acquisition of Benxi Yuqilin.

MANAGEMENT DISCUSSION AND ANALYSIS

8. Cash Use Analysis

The summary of the Group's consolidated statement of cash flows for the year of 2020 is set out below.

	For the year ended	
	31 December	
	2020	2019
	RMB'000	RMB'000
Net cash flows from operating activities	939,571	665,437
Net cash flows from investing activities	(497,179)	71,724
Net cash flows from financing activities	(301,262)	(1,081,020)
Net increase (decrease) in cash and cash equivalents	141,130	(343,859)
Cash and cash equivalents at the beginning of the year	38,146	381,256
Effect of changes in foreign exchange rate on cash and cash equivalents	1,968	749
Cash and cash equivalents at the end of the year	181,244	38,146

The net cash inflow from operating activities during the year of 2020 was RMB939,571,000. The amount was mainly attributed to the profit before tax of RMB475,084,000, together with depreciation and amortization of RMB228,467,000, finance costs of RMB86,105,000 and net changes in trade and other receivables and payables of RMB235,398,000, which were offset by income tax expenses paid of RMB89,128,000.

For the year of 2020, the net cash outflow from investing activities amounted to RMB497,179,000. The amount mainly included the amount of RMB61,667,000 paid for the addition of plant and equipment as well as acquisition of properties in order to achieve expansion of production capacity and technological upgrade, the amount of RMB55,417,000 paid for the acquisition of intangible assets, the amount of RMB56,100,000 paid for the acquisition of subsidiaries, the net placement of borrowings and bills deposits of RMB431,167,000 and the recovered amount of RMB105,000,000 from the remaining sales of Xingzhou Mining.

For the year of 2020, the net cash outflow from financing activities was RMB301,262,000, which was mainly from the new bank borrowings of RMB780,000,000, the repayment of bank borrowings of RMB747,500,000, the settlement of loan interest of RMB83,566,000, the payment made for share repurchase of RMB19,244,000 and the payment of dividend of RMB193,837,000.

MANAGEMENT DISCUSSION AND ANALYSIS

9. Cash and Borrowings

As at 31 December 2020, the available cash and cash equivalents of the Group amounted to RMB213,910,000, representing an increase of RMB158,254,000 or 284.34% as compared to the end of last year.

Breakdown of Available Cash and Cash Equivalents

	31 December 2020 RMB'000	31 December 2019 RMB'000	Changes Amount RMB'000	Ratio
Bank balance and cash	181,244	38,146	143,098	375.13%
Bank acceptance bills (undiscounted)	32,666	17,510	15,156	86.56%
Available cash and cash equivalents	213,910	55,656	158,254	284.34%

As at 31 December 2020, bills payables and borrowings of the Group amounted to RMB707,900,000 and RMB733,763,000, respectively, and the amount net of borrowings and bills deposits was RMB821,352,000, representing a decrease of RMB17,767,000 or 2.12% as compared to the end of the last year.

Breakdown of Borrowings and Bills Payables

	31 December 2020 RMB'000	31 December 2019 RMB'000	Changes Amount RMB'000	Ratio
Borrowings – due within one year	591,000	662,500	-71,500	-10.79%
Borrowings – due after one year	142,763	38,763	104,000	268.30%
Subtotal	733,763	701,263	32,500	4.63%
Bills payables	707,900	327,000	380,900	116.48%
Total	1,441,663	1,028,263	413,400	40.20%
Less: borrowings and bills deposits	620,311	189,144	431,167	227.96%
Net borrowings and bills payables	821,352	839,119	-17,767	-2.12%

MANAGEMENT DISCUSSION AND ANALYSIS

Save for the information disclosed above or otherwise in this report, the Group has no outstanding mortgage, pledge, debentures or other loan capital issued or agreed to be issued, bank overdrafts, loans, liabilities under acceptance or other similar liabilities, hire purchase and finance lease commitments, or any guarantees or other material contingent liabilities. The Directors have confirmed that, save as disclosed above, there was no material change in the debts or contingent liabilities of the Group since 31 December 2019.

10. Gearing Ratio and Net Gearing Ratio

The gearing ratio, as calculated by dividing total liabilities by total assets, of the Group decreased from 65.08% as at 31 December 2019 to 64.29% as at 31 December 2020.

As at 31 December 2020, the net gearing ratio of the Group was 54.99%. The net gearing ratio is calculated by dividing net borrowings and bills payables net of borrowings and bills deposits as well as bank balance and cash by owners' equity.

11. Major Risks

Commodity price risk: The prices of the Group's products are influenced by international and domestic market prices and changes in global supply and demand for such products. Price volatility of non-ferrous metals is also affected by the global and PRC economic cycles as well as the fluctuations of the global currency markets. Both the international and domestic market prices of non-ferrous metals as well as the volatility of their supply and demand are beyond the control of the Company. Therefore, the volatility of commodity prices may materially affect the turnover and the comprehensive income of the Group.

State policy risk: The Group owns assets in China and Australia, which may amend their policies according to any changes in the macro environment from time to time. Changes in policies are beyond the control of the Group, which will have a material effect on the operation of the Group.

Interest rate risk: The interest rate risk in the fair value of the Group mainly relates to the bank borrowings. The management of the Group will continue to monitor the loan portfolio and interest rate risks of the Group, and may consider taking appropriate measures to hedge material interest rate risks when necessary.

Foreign exchange risk: As of the date of this report, the reporting currency of the Group was RMB. Since RMB is not freely convertible, the risk that the Chinese government may take measures to interfere exchange rates may bring effects to the Group's net asset value, profit and the dividends declared to the extent that such dividends are subject to foreign exchange. In addition, the Group owns assets in Australia. Their assets and liabilities are denominated in AUD, which are subject to fluctuation in the foreign exchange rate and may affect the net assets value and profit of the Group to some extent. The management of the Group will continue to monitor the currency matching between the revenue and costs of the Group and exchange risks, and may consider taking appropriate measures to hedge material exchange risks when necessary.

MANAGEMENT DISCUSSION AND ANALYSIS

12. Pledge of Assets and Contingent Liabilities

Some of the bank borrowings and bills payables of the Group are secured by bank deposits, property, plant and equipment as well as right-of-use assets. As at 31 December 2020, the net carrying value of the pledged bank deposits, property, plant and equipment and right-of-use assets amounted to RMB620,311,000, RMB48,038,000 and RMB5,681,000, respectively.

As at 31 December 2020, the Group had no material contingent liabilities.

13. Capital Commitment

As at 31 December 2020, the capital commitment of the Group was RMB19,094,000, representing a decrease of RMB7,355,000 or 27.81% as compared to last year. The capital commitment mainly consisted of the amount of RMB7,969,000 for the underground mining works of Shangma Mine, the amount of RMB4,446,000 for the exploration expense of the gold mine in Australia, the amount of RMB3,120,000 for the minor works in the high-purity iron business segment and the amount of RMB3,559,000 for the technological upgrade project with regard to green building materials.

14. Capital Expenditure

The Group's capital expenditure decreased from approximately RMB355,016,000 in 2019 to approximately RMB332,438,000 in 2020. Expenditure incurred in 2020 mainly included (i) expenditure for plants, machines and equipment and properties amounting to RMB178,528,000; (ii) expenditure for intangible assets amounting to RMB105,890,000; and (iii) increase of RMB48,020,000 in right-of-use assets.

15. Significant Foreign Investments Held

As at 31 December 2020, the Group did not hold any significant investments.

16. Material Acquisitions and Disposals of Subsidiaries and Associated Companies

On 12 November 2020, the Company entered into an agreement with the then shareholders of Emerald Planet to acquire the entire equity interest in Emerald Planet and its subsidiaries at a consideration of HKD224,000,000 (equivalent to RMB186,538,000) which will be settled by allotment and issuance of the Consideration Shares under general mandate. Emerald Planet and its subsidiaries are principally engaged in the production and sale of high-purity iron in China. The acquisition of Emerald Planet was completed on 30 November 2020. This acquisition has given rise to a goodwill of RMB209,132,000. Please refer to note 13 to the consolidated financial statements for particulars.

Save as aforesaid, the Group had no other material acquisitions or disposals of subsidiaries and associated companies during the year of 2020.

REPORT OF THE DIRECTORS

1. PRINCIPAL ACTIVITIES

Being a fast-growing international mining and metals group of companies, the Group is principally engaged in the exploration and development of iron ore, gold mining and precious metal mineral resources in China and Australia, and relies on its own high-quality iron ore resources to produce wind power ductile casting iron. Details of the principal subsidiaries of the Company are set out in note 39 to the consolidated financial statements.

2. BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the future business development are provided in the section headed "Chairman's Statement" of this annual report. Description of possible risks and uncertainties that the Group may be facing can be found in paragraph 11 "Major Risks" of the section headed "Financial Review". Also, the financial risk management objectives and policies of the Group can be found in note 47 to the consolidated financial statements. A financial summary of the Group is provided on page 7 of this annual report, setting out an analysis of the Group's performance during the year using key financial performance indicators. In addition, discussions on the Group's environmental policies, relationships with its stakeholders and the Group's compliance with the relevant laws and regulations which have a significant impact on the Group are contained in the sections headed "Corporate Governance Report" and "Report of the Directors" of this annual report respectively, which can also be found in the Environmental, Social and Governance Report of the Company.

3. RESULTS

The profit of the Group for the year ended 31 December 2020, and the position of the Company and the Group as at that date are set out on pages 74 to 77 of this annual report.

4. PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company for the year ended 31 December 2020 are set out in note 19 to the consolidated financial statements.

5. SHARE CAPITAL

As at 31 December 2020, the total number of authorized Shares of the Company was 10,000,000,000 Shares with a par value of HK\$0.1 each, the total authorized capital was HK\$1,000,000,000, and the number of Shares in issue was 1,960,000,000 Shares. During the year, the Company issued a total of 140,000,000 Shares.

REPORT OF THE DIRECTORS

6. PRE-EMPTION RIGHT

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

7. DISTRIBUTABLE RESERVE

The share premium of the Company is available for paying distributions or dividends to the Shareholders subject to the provisions of the Articles of Association and provided that immediately following the distribution or dividend payment the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Articles of Association, dividends can be distributed out of the profits, special reserve and share premium of the Company. The Company's reserve available for distribution to the Shareholders as at 31 December 2020 amounted to approximately RMB158,908,000.

8. DIVIDEND

During the reporting period, the Company declared and distributed a dividend of HK\$0.08 per Share for the year ended 31 December 2019 to the owners of the Company whose names appeared on the register of members on 8 June 2020, totaling HK\$145,600,000 (equivalent to RMB132,430,000). The Company declared and distributed a dividend of HK\$0.04 per Share for the six months ended 30 June 2020 to the owners of the Company whose names appeared on the register of members on 3 November 2020, totaling HK\$72,800,000 (equivalent to RMB61,407,000). Details of which are set out in the interim results announcement of the Company dated 19 August 2020.

THE "DIVIDEND DISTRIBUTION PLAN FOR SHAREHOLDERS FOR THE NEXT THREE YEARS (2020-2022)" OF THE COMPANY

1. Principle of Formulation

The profit distribution policy of the Company should be consistent and stable. The Company's profit distribution shall focus on providing investors with reasonable investment return as well as maintaining the sustainable development of the Company. In the next three years, the Company will actively distribute profits in form of cash. This plan is formulated in compliance with the relevant laws, regulations and the Articles of Association, and on the premise that the consistency and stability of the profit distribution policy have been maintained.

2. Formulation of Dividend Plan

The Board shall comprehensively consider factors such as the characteristics of the industry in which the Company operates, conditions of business operation, profitability and the strategic development plan for the future, and formulate dividend plan upon the conclusion of each accounting year according to the procedures stipulated in the Articles of Associations, provided that the amount of dividend shall account for at least 30% of the Group's total net profit for the period.

REPORT OF THE DIRECTORS

3. Forms of profit distribution

The Company will make interim and annual profit distribution. The Company may distribute profits in form of cash, shares, a combination of cash and shares or other forms that may be permitted by the laws and regulations. Where the conditions for cash dividends are satisfied, the Company shall prioritize the distribution of cash dividends. Where the Company distributes profits by way of dividends on shares, the decision shall be made based on genuine and reasonable grounds such as the Company's growth potentials and dilution of net assets per share.

Subsequent to the end of the reporting period, the Board recommended the payment of a final dividend of HK\$0.08 per Share for the year ended 31 December 2020 to Shareholders. The payment of the dividend will be conditional upon the approval of the Shareholders at the annual general meeting of the Company to be held on Thursday, 27 May 2021. It is expected that the final dividend will be paid to the Shareholders by 15 June 2021.

Closure of Register of Members

The annual general meeting of the Company is scheduled to be held on Thursday, 27 May 2021. The register of members of the Company will be closed from Thursday, 20 May 2021 to Thursday, 27 May 2021 (both days inclusive) to determine the entitlement to attend and vote at the annual general meeting. In order to attend and vote at the 2021 annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 18 May 2021.

In order to determine the Shareholders who are entitled to receive the final dividend, the register of members of the Company will also be closed from Wednesday, 2 June 2021 to Monday, 7 June 2021, both days inclusive, during which period no transfer of Shares will be registered. For unregistered Shareholders who wish to be eligible to receive the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 1 June 2021. Shareholders whose names appear on the register of members of the Company on Monday, 7 June 2021 will be entitled to receive the final dividend.

REPORT OF THE DIRECTORS

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

For the year ended 31 December 2020, the Company or its subsidiaries did not purchase, sell or redeem any listed securities of the Company.

10. MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, according to the Listing Rules, the purchase from the Company's five largest suppliers in aggregate accounted for 58.78% of the Company's total purchase for the year. In particular, the total purchase from the largest supplier accounted for 39.96% of the Company's total purchase for the year.

For the year ended 31 December 2020, the sales to the Company's five largest customers in aggregate contributed 36.36% to the Company's total sales for the year. In particular, the sales to the largest customer contributed 13.24% to the Company's total sales for the year.

So far as the Directors are aware, none of the Directors and close associates (as defined in the Listing Rules) of the Directors or Shareholders (who, to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the five largest suppliers or customers during the year.

11. BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group as at 31 December 2020 are set out in note 34 to the consolidated financial statements.

REPORT OF THE DIRECTORS

12. DIRECTORS AND SENIOR MANAGEMENT

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

Name	Position in the Company	Date of Appointment/Re-election	Position and Date of Resignation
Yang Jiye	Executive Director, Chairman of the Board and Chief Executive Officer and President	Appointed as Chief Executive Officer and President on 20 March 2018 Re-elected as executive Director on 30 May 2019	N/A
Zheng Xuezhi	Executive Director, Chief Financial Officer and Vice President	Re-elected as executive Director on 24 May 2018	N/A
Qiu Yumin	Executive Director, Vice President and chief executive officer and president of Hanking Australia Investment	Appointed as chief executive officer and president of Hanking Australia Investment on 25 July 2016 Re-elected as executive Director on 28 May 2020	N/A
Xia Zhuo	Non-executive Director	Re-elected as executive Director on 30 May 2019 Re-designated from executive Director to non-executive Director on 29 August 2019	N/A
Kenneth Lee	Non-executive Director	Re-elected as non-executive Director on 28 May 2020	N/A
Wang Ping	Independent non-executive Director	Re-elected as independent non-executive Director on 30 May 2019	N/A
Wang Anjian	Independent non-executive Director	Re-elected as independent non-executive Director on 28 May 2020	N/A
Ma Qingshan	Independent non-executive Director	Re-elected as independent non-executive Director on 24 May 2018	N/A
Huang Jinfu	Vice President, director and president of Aoni Mining	Appointed as president of Aoni Mining on 15 September 2017 Appointed as Vice President of the Company on 24 August 2018	N/A

REPORT OF THE DIRECTORS

According to the requirement under Article 84(1) of the Articles of Association, at each annual general meeting, one third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The retiring Directors, being eligible, may offer themselves for re-election. Mr. Yang Jiye, Mr. Zheng Xuezhi and Mr. Ma Qingshan will retire as Directors at the annual general meeting to be held on 27 May 2021 and, being eligible, will offer themselves for re-election as Directors.

13. BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Detailed biographies of Directors and senior management of the Company are set out on pages 63 to 66 of this annual report.

14. DIRECTORS' SERVICE CONTRACT

The Company has entered into a director service contract and letter of appointment with each of the Directors, the major terms of which are that the service contracts and the letters of appointment shall be: (1) for a term of three years commencing from 17 March 2021 (in the case of Mr. Yang Jiye, Mr. Zheng Xuezhi, Dr. Qiu Yumin, Mr. Kenneth Lee, Mr. Xia Zhuo, Mr. Wang Ping, Dr. Wang Anjian and Mr. Ma Qingshan); and (2) terminated or renewed in accordance with their respective contract terms.

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

15. CONFIRMATION OF INDEPENDENCE

The Company has received the written confirmation of their independence of 2020 from each of the independent non-executive Directors and considered them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgment.

16. REMUNERATION FOR DIRECTORS AND TOP 5 HIGHEST PAID EMPLOYEES

Detailed information on remuneration for Directors and top 5 highest paid employees are provided in notes 15 and 16 to the consolidated financial statements.

For the year ended 31 December 2020, none of the Directors has agreed with the Company to waive any remuneration.

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

REPORT OF THE DIRECTORS

17. RESTRICTED SHARE AWARD SCHEME

The Company adopted a restricted share award scheme on 29 August 2019, which shall be valid and effective for a period of 10 years. The maximum number of award shares that may be granted under this scheme in aggregate shall be no more than 90,000,000 Shares.

The purpose and objective of this scheme is (i) to recognize and motivate the contribution of the key management personnel and core employees of the Group; (ii) to help the Group retain and attract the Selected Participants in attaining the long term business objectives of the Company; and (iii) to further align the interests of the Selected Participants directly to the Shareholders through ownership of Shares.

As of the date of this report, the trustee, as instructed by the Board of the Company, purchased a total of 15,596,000 Shares on the market at a total consideration of HK\$26,357,180. The trustee holds these Shares pursuant to the rules of the scheme and the terms of the deed of trust.

As of the date of this report, no Shares have been granted to the Selected Participants under this scheme.

18. CONTRACTS OF SIGNIFICANCE

During the year ended 31 December 2020, the Company has not directly or indirectly entered into transactions, arrangements or contracts of significance, in which any Director had material interests, and which were relevant to the business of the Company and remained valid at any time during the year or at the end of the year.

Neither the Company nor any of its subsidiaries have signed a significant contract with the Controlling Shareholders or any of its subsidiaries other than the Group, and no significant contract for delivery of service has been signed between the Group and the Controlling Shareholders or any of its subsidiaries other than the Group.

REPORT OF THE DIRECTORS

19. INDEMNITIES MADE TO THE DIRECTORS

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

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

(1) Excluded Businesses

All excluded businesses disclosed in the prospectus were sold to the independent third parties by the Controlling Shareholders. However, Hanking Group controlled by a Controlling Shareholder acquired Fushun Majuncheng Iron Co., Ltd. ("**Majun Mining**") in 2016. Majun Mining engages in the mining and processing of iron ore, which compete against the businesses of the Company. Nevertheless, the Directors of the Company are of the opinion that the Majun iron ore resources owned by Majun Mining have lower quality than the iron ore resources of the Company. Therefore, the Company currently does not intend to acquire Majun Mining.

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

	For the year ended 31 December (Unit: RMB'000)		
	2020	2019	2018
Total assets	454,713	430,752	416,442
Total liabilities	508,222	495,453	453,823
Profit/loss	8,620	-27,319	-20,174

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

As at 31 December 2020, save as disclosed below, the Directors and their associates did not hold any interests in any business which, either directly or indirectly, competes or is likely to compete against the business of the Group:

Name of Director	Positions in the Company	Positions in Competing Business
Xia Zhuo	Non-executive Director	director of Hanking Group

REPORT OF THE DIRECTORS

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

So far as the Company is aware, as at 31 December 2020, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions taken or deemed to have under such provisions of the SFO), or was, pursuant to Section 352 of the SFO, required to be recorded in the register referred to therein, or was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(1) Interests in the shares of the Company:

Name of Director and Chief Executive	Status/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Yang Jiye ¹	Interest in controlled corporation	1,114,061,666 (long position)	56.84%
		7,500,000 (short position)	0.38%
Xia Zhuo ²	Interest in controlled corporation	19,130,589 (long position)	0.98%
		Beneficial owner (long position)	60,000 Less than 0.01%
Zheng Xuezhi	Beneficial owner (long position)	4,741,000 (long position)	0.24%

REPORT OF THE DIRECTORS

Notes:

1. Mr. Yang Jiye holds 100% interest in Bisney Success Limited and Tuochuan Capital Limited, respectively. As a result, Mr. Yang Jiye is deemed to be interested in 494,360,500 Shares held by Bisney Success Limited and 619,701,166 long position Shares and 7,500,000 short position Shares held by Tuochuan Capital Limited.
2. Mr. Xia Zhuo holds 54.38% interest in Splendour Ventures Limited. As a result, Mr. Xia Zhuo is deemed to be interested in 19,130,589 Shares held by Splendour Ventures Limited. The accurate percentage of the 60,000 Shares beneficially owned by Mr. Xia Zhuo is 0.00306122%.

(2) Interests in the shares of associated corporations of the Company:

Name of Director and Chief Executive	Name of Associated Corporation	Status/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Qiu Yumin ¹	Hanking Australia Investment Pty Ltd	Interest in controlled corporation	6,300,000 (long positions)	3.00%
Yang Jiye ²	Hanking Australia Investment Pty Ltd	Interest in controlled corporation	6,300,000 ³ (long positions)	3.00%
Zheng Xuezhi ²	Hanking Australia Investment Pty Ltd	Interest in controlled corporation	6,300,000 ³ (long positions)	3.00%

Notes:

1. Dr. Qiu Yumin and his spouse jointly hold 100% equity interests in Golden Resource Pty Ltd. Hence, Dr. Qiu Yumin is deemed to be interested in 6,300,000 shares in Hanking Australia Investment held by Golden Resource Pty Ltd.
2. Each of Mr. Yang Jiye and Mr. Zheng Xuezhi holds 33.33% equity interests in Best Fate Limited. Hence, each of Mr. Yang Jiye and Mr. Zheng Xuezhi is deemed to be interested in 6,300,000 shares in Hanking Australia Investment held by Best Fate Limited.
3. These 6,300,000 shares are the same block of shares.

Save as disclosed above, as at 31 December 2020, none of the Directors and chief executives of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position taken or deemed to have under such provisions of the SFO), or which was required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

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

As at 31 December 2020, as far as the Directors of the Company, having made all reasonable enquires, are aware, the following persons (other than the Directors and chief executives of the Company) had interests or short positions in the Shares or underlying shares of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholders	Status/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Yang Min ¹	Interest in controlled corporation	206,025,000 (long positions)	10.51%
China Hanking (BVI) Limited	Beneficial owner	206,025,000 (long positions)	10.51%
Bisney Success Limited	Beneficial owner	494,360,500 (long positions)	25.22%
Tuochuan Capital Limited	Beneficial owner	619,701,166 (long positions)	31.62%
		7,500,000 (short positions)	0.38%
Fushun Branch, China Citic Bank Corporation Limited	Person having a security interest in Shares	280,000,000 (long positions)	14.29%
Xinfu Branch, Bank of Fushun Co., Ltd.	Person having a security interest in Shares	500,000,000 (long positions)	25.51%

REPORT OF THE DIRECTORS

Note:

1. Ms. Yang Min holds 100% interest in China Hanking (BVI) Limited. Thus Ms. Yang Min is deemed to be interested in 206,025,000 Shares held by China Hanking (BVI) Limited.

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

23. MANAGEMENT CONTRACTS

For the year ended 31 December 2020, there is no contract entered into by the Company or subsisting relating to the management and administration of the entire or any part of business of the Company.

24. CONNECTED TRANSACTIONS

Related party transactions of the Group for the year ended 31 December 2020 are set out in note 49 to the consolidated financial statements. Such related party transactions constituted connected transactions of the Group as defined in the Listing Rules, but are fully exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Saved as those related party transactions, the Group did not carry out other connected transactions for the year ended 31 December 2020.

25. COMPLIANCE WITH NON-COMPETITION AGREEMENT

The Company signed a non-competition agreement (the "**Non-Competition Agreement**") with the Controlling Shareholders on 16 June 2011. In accordance with the Non-Competition Agreement, the independent non-executive Directors of the Company are responsible for reviewing and considering whether to exercise such option and pre-emptive right, as well as entitled to conduct annual review on the compliance with the undertakings under the Non-Competition Agreement on behalf of the Company. During the year of 2020, each Controlling Shareholder has made annual confirmation of compliance with the Non-Competition Agreement, and the independent non-executive Directors of the Company have also reviewed the implementation of the Non-Competition Agreement, and confirmed that the Controlling Shareholders have fully abided by the agreement without any breach of the agreement.

26. RETIREMENT AND EMPLOYEES' BENEFIT PLAN

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

REPORT OF THE DIRECTORS

27. COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE

Save as disclosed herein, during the period from 1 January 2020 to 31 December 2020, the Company has complied with the remaining code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules and, meanwhile, complied with most of the best practices as recommended therein. Please refer to the Corporate Governance Report of this annual report for details.

With effect from 20 March 2018, Mr. Yang Jiye, the chairman of the Board, has assumed the role of the Chief Executive Officer and the President of the Company. Although this is not in compliance with the requirements under Code Provision A.2.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the Company believes that vesting the roles of both the chairman of the Board and the Chief Executive Officer in Mr. Yang Jiye provides strong and consistent leadership and enables more effective planning and better execution of long-term business strategies, which is beneficial to the overall development of the Company. The Company will decide whether to appoint another person as the Chief Executive Officer based on the business operation if and when appropriate. As required under the decision-making framework of the Company, all significant decisions shall be made by all Directors to ensure balance of power and authority.

28. ENVIRONMENTAL PROTECTION AND SOCIAL RESPONSIBILITY

The Company strives to fulfil its social responsibilities in all major areas, including environmental protection. It promotes energy-efficient business model which emphasizes conservation and efficient use of resources, and enhances efforts in recycling and reuse to avoid wastage. The Group regards emission reduction and meeting the emission standards as its major tasks in undertaking environmental protection responsibilities. Through technical measures and recycling initiatives, it lowers the generation and emission of wastes. In order to minimize emission of greenhouse gas, the Group has implemented the policy designed to reduce business travel and encourages employees to hold telephone conferences in place of overseas business trips (if possible) and travel with public transport. For details, please refer to the Environmental, Social and Governance Report of the Company.

29. PUBLIC FLOAT

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

30. SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2020, the Group was not involved in any significant legal proceedings or arbitration. To the knowledge of the Directors, there are no significant legal proceedings or claims pending or threatened.

REPORT OF THE DIRECTORS

31. AUDIT COMMITTEE

The Audit Committee has reviewed the announcement of Annual Results for 2020 and the consolidated financial statements for the year ended 31 December 2020.

32. AUDITOR

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

33. FINANCIAL HIGHLIGHTS

The operating performance, assets and liability highlights of the Group for the last five fiscal years are stated on page 7 of this annual report.

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

For the year ended 31 December 2020, the Company has not granted financial assistance and guarantee to its affiliated company.

35. LOAN TO A GIVEN ENTITY

For the year ended 31 December 2020, the Group has not granted a loan to a given entity.

36. CONTINUING DISCLOSURE UNDER THE LISTING RULES

On 8 June 2020, China Hanking (BVI) Limited and Tuochuan Capital Limited pledged 200,000,000 Shares and 300,000,000 Shares (representing approximately 10.99% and 16.48% of the issued share capital of the Company as at 8 June 2020, respectively) in favour of Bank of Fushun Co., Ltd., Xinfu Branch ("**Fushun Bank**"), respectively, as securities for their certain loans and loans for a subsidiary of the Company. Of the aforementioned pledged shares, 100,000,000 Shares (representing approximately 5.49% of the issued share capital of the Company as at 8 June 2020) were pledged by Tuochuan Capital Limited in favour of Fushun Bank as security for a loan in the amount of RMB125,000,000 for Hanking D.R.I., a subsidiary of the Company as general working capital under the loan agreement dated 8 June 2020. Details of which are set out in the announcement of the Company dated 10 June 2020.

REPORT OF THE DIRECTORS

On 18 September 2020, Tuochuan Capital Limited pledged 280,000,000 Shares, which represented approximately 15.38% of the issued share capital of the Company as at 18 September 2020, in favour of China Citic Bank Corporation Limited, Fushun Branch (“**Citic Bank**”) as security for a term loan facility of a maximum aggregate amount of RMB97,500,000 provided by the Citic Bank to Aoni Mining, a subsidiary of the Company. Details of which are set out in the announcement of the Company dated 18 September 2020.

Saved as disclosed above, the Company had no other disclosure obligations under Rule 13.20, Rule 13.21 and Rule 13.22 of the Listing Rules as at 31 December 2020.

37. TAXATION RELIEF

The Company is not aware of any relief from taxation available to Shareholders by reason of their holding of the Shares.

38. DEBENTURES

For the year ended 31 December 2020, the Company did not issue any debentures.

39. EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2020, no equity-linked agreements were entered into by the Company or subsisted at the end of that year.

40. CHARITABLE DONATIONS

The Group made donation for charitable purposes in an aggregate amount of RMB9,085,000 during the year ended 31 December 2020.

41. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

Save as disclosed in the report, there were no other significant events taken place subsequent to the end of the year ended 31 December 2020.

By order of the Board

Mr. Yang Jiye

Chairman of the Board and Executive Director

25 March 2021

CORPORATE GOVERNANCE REPORT

The Company believes that good corporate governance provides a framework that is essential for ensuring effective management, business growth and shareholder value. On 19 March 2013, the Board approved and adopted the Corporate Governance Policies developed by the Company. The Corporate Governance Policies of the Company, which is prepared in accordance with the principles, code provisions and certain recommended best practices of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, is in the best interest of the Company and its Shareholders. During the period from 1 January 2020 to 31 December 2020, save as disclosed in paragraph 27 “Compliance with Code on Corporate Governance” of the section headed “Report of the Directors” above, the Company has complied with the Corporate Governance Policies as well as the remaining code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Meanwhile, it has also complied with most of the recommended best practices of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Details of the code provisions adopted and complied with by the Company during the period are set out below.

BOARD COMPOSITION

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

For the period from 1 January 2020 to the date of this annual report, the re-designation, resignation and appointment of Directors are set out as follows:

At the annual general meeting of the Company held on 28 May 2020, in accordance with Article 84(1) of the Articles of Association, Dr. Qiu Yumin (executive Director), Mr. Kenneth Lee (non-executive Director) and Dr. Wang Anjian (independent non-executive Director) retired by rotation at the annual general meeting. Dr. Qiu Yumin, Mr. Kenneth Lee and Dr. Wang Anjian, being eligible, offered themselves for re-election.

CORPORATE GOVERNANCE REPORT

During the period from 1 January 2020 to 31 December 2020, the Board comprised the following members:

Non-executive Director	Executive Director	Independent non-executive Director
Mr. Kenneth Lee	Mr. Yang Jiye (<i>Chairman, Chief Executive Officer and President</i>)	Mr. Wang Ping
Mr. Xia Zhuo	Mr. Zheng Xuezhong (<i>Chief Financial Officer</i>)	Dr. Wang Anjian
	Dr. Qiu Yumin	Mr. Ma Qingshan

During the reporting period, the Company has appointed a sufficient number of independent non-executive Directors who are equipped with relevant qualification in accordance with the requirements of the Listing Rules.

As of 31 December 2020, the Company had three independent non-executive Directors in total, representing more than one-third of the total number of Directors. Mr. Wang Ping has over 24 years' experience in corporate finance, audit, accounting and taxation; Dr. Wang Anjian has extensive experience in research of resource strategy; and Mr. Ma Qingshan has over 19 years of extensive experience in management and consultation.

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

CORPORATE GOVERNANCE REPORT

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

For the year ended 31 December 2020, the Directors have participated in the following training on a director of a listed company, so as to continuously develop their expertise and professional skills.

Directors	Training Scope		
	Corporate Governance	Listing Rules	Business/ Management
Non-executive Directors			
Mr. Kenneth Lee	✓	✓	✓
Mr. Xia Zhuo	✓	✓	✓
Executive Directors			
Mr. Yang Jiye	✓	✓	✓
Mr. Zheng Xuezhi	✓	✓	✓
Dr. Qiu Yumin	✓	✓	✓
Independent non-executive Directors			
Mr. Wang Ping	✓	✓	✓
Dr. Wang Anjian	✓	✓	✓
Mr. Ma Qingshan	✓	✓	✓

In order to gain the latest information of their specialized fields, each of the Directors proactively attended seminars related to various industries.

COMPANY SECRETARY

For the year ended 31 December 2020, the joint company secretaries of the Company were Ms. Zhang Jing and Ms. So Lai Shan and both of them have participated in not less than 15 hours of relevant professional training. Ms. So Lai Shan's primary contact person at the Company was Ms. Zhang Jing.

LIABILITY INSURANCE

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

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

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

CORPORATE GOVERNANCE REPORT

The appointment of independent non-executive Directors strictly adheres to the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. The Company has received the written confirmation of their independence for 2020 from each of the independent non-executive Directors and considers them to be independent of the management and not having any relationship that could materially interfere with the exercise of their independent judgment.

During the reporting period, the independent non-executive Directors of the Company actively took part in the meetings held by the Board and all specialized committees, during which independent professional comments and suggestions were given in respect of the business development, significant decisions, risk management and internal control of the Company. On 11 November 2020, the independent non-executive Directors and the Chairman of the Board held a meeting without the presence of other Directors, so as to evaluate the results of the Company for 2020 and the overall operating management capacity of the senior management in 2020.

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

SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules, and also formulated the Written Guideline on Dealings in the Securities of the Company by Directors and the Relevant Employees (the “**Company Guideline**”), which adopted the standards equivalent to the provisions of Appendix 10 to the Listing Rules as the model code regarding dealings in the Company’s securities by the Directors and the relevant employees. After making specific enquiries to all Directors and the relevant employees of the Company, all of them have confirmed that they have complied with the Model Code and the Company Guideline throughout the year ended 31 December 2020.

THE CHAIRMAN OF THE BOARD AND THE CHIEF EXECUTIVE OFFICER

Pursuant to the Guidelines regarding the Division of Functions between the Board and Senior Management (“**Guidelines**”) formulated by the Company, the Chairman of the Board is responsible for the management of the Board to ensure its effective operation. The Chief Executive Officer is responsible for daily operational activities of the Group and responsible to the Board for the overall operations of the Group. The management shall provide the Directors and the members of the specialized committees under the Board with information and materials related to the operation on a monthly basis, so as to update them with the latest developments of the Company and facilitate the discharge of duties better.

With effect from 20 March 2018, Mr. Yang Jiye, the chairman of the Board of the Company, has assumed the role of Chief Executive Officer and President of the Company. Although this is not in compliance with the requirements under Rule A.2.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the Company is of the view that the corporate governance structure will prevent the lack of checks and balances with strong independent elements on the Board, delegation of authorities to management to undertake operation and supervision by the Board committee. Besides, the Company believes that the vesting of roles of both chairman of the Board and Chief Executive Officer in Mr. Yang Jiye provides strong and consistent leadership and enables more effective planning and better execution of long-term business strategies, which is beneficial to the overall development of the Company. The Company will decide whether to appoint another person as the Chief Executive Officer based on the business operation if and when appropriate. As required under the decision-making framework of the Company, all significant decisions shall be made by all Directors to ensure balance of power and authority.

CORPORATE GOVERNANCE REPORT

GENERAL MEETING, BOARD MEETING AND SPECIALIZED COMMITTEE MEETING

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

The Company convened one general meeting and five Board meetings in 2020. During the reporting period, details of Directors' attendance of the Board meetings, meetings of the specialized committees under the Board and general meeting are as follows:

Directors	Board of Directors	Specialized Committees under the Board				General Meeting
		Audit Committee	Remuneration Committee	Nomination Committee	HSEC Committee	
Non-executive Directors						
Kenneth Lee	5/5	2/2	1/1	N/A	N/A	1/1
Xia Zhuo	5/5	N/A	N/A	N/A	N/A	1/1
Executive Directors						
Yang Jiye	5/5	N/A	N/A	1/1	1/1	1/1
Zheng Xuezhong	5/5	N/A	N/A	N/A	N/A	1/1
Qiu Yumin	5/5	N/A	N/A	N/A	1/1	1/1
Independent non-executive Directors						
Wang Ping	5/5	2/2	1/1	N/A	N/A	1/1
Wang Anjian	5/5	2/2	N/A	1/1	1/1	1/1
Ma Qingshan	5/5	N/A	1/1	1/1	N/A	1/1

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

CORPORATE GOVERNANCE REPORT

(A) Audit Committee

During the period from 1 January 2020 to 31 December 2020, the Audit Committee comprised the following members:

Non-executive Director	Independent non-executive Directors
Mr. Kenneth Lee	Mr. Wang Ping (<i>Chairman</i>) Dr. Wang Anjian

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

The terms of reference of the Audit Committee shall at least include: to supervise the financial reporting system, risk management and internal control system of the Company; to review the financial control of the Company as well as, to review the risk management and internal control system of the Company; to discuss the risk management and internal control system with the management and to ensure that the management has performed its duties in establishing an effective system; to consider major investigation findings on risk management and internal control matters and the response of the management on these investigation findings on its own initiative or as delegated by the Board.

During the year of 2020, the Audit Committee held a total of two meetings, at which the Audit Committee reviewed the annual and half-year financial results and financial reports of the Group for the year 2019 and the first half of 2020 respectively, the 2019 internal control report and the 2020 audit plan of the Company's internal audit department, the implementation of non-competition agreement by the Controlling Shareholders and the annual statement made by them, terms of the connected transactions and other issues, and also discussed the appointment of auditors and the determination of their remuneration. All members of the Audit Committee and the external auditors have both attended the above meetings.

(B) Remuneration Committee

During the period from 1 January 2020 to 31 December 2020, the Remuneration Committee comprised the following members:

Non-executive Director	Independent non-executive Directors
Mr. Kenneth Lee	Mr. Wang Ping (<i>Chairman</i>) Mr. Ma Qingshan

CORPORATE GOVERNANCE REPORT

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

During the year of 2020, the Remuneration Committee held one meeting, at which the committee mainly reviewed the remuneration of the Directors and senior management of the Company for the year of 2019 as well as the remuneration policies and structure for the year of 2020.

(C) Nomination Committee

During the period from 1 January 2020 to 31 December 2020, the Nomination Committee comprised the following members:

Executive Director	Independent non-executive Directors
Mr. Yang Jiye (<i>Chairman</i>)	Dr. Wang Anjian Mr. Ma Qingshan

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

Nomination procedures for Directors

The Nomination Committee shall recommend to the Board on the appointment of Directors (including independent non-executive Directors) in accordance with the following selection criteria and nomination procedures:

1. the Nomination Committee shall make proactive communications with relevant departments of the Company, study the Company's demand for new Directors, and make reports in writing in respect thereof;
2. the Nomination Committee may seek candidates for Directors in a broad scope in the Company and the Group, and from the talent market;
3. collect and assess the following information and aspects about the candidates, and form writing materials, including but not limited to:
 - 3.1 diversity in all aspects, including gender, age, cultural and educational background, professional experience, skills, knowledge and work experience;
 - 3.2 qualifications, including the achievements and experience in relevant industries related to the business of the Group;

CORPORATE GOVERNANCE REPORT

- 3.3 willingness to devote sufficient time to perform the duties as member of the Board and other responsibilities as a Director;
 - 3.4 integrity and reputation;
 - 3.5 independence of candidates for independent non-executive Directors, which is assessed with reference to the factors as set out in Rule 3.13 of the Listing Rules and any other factors deemed as appropriate by the Nomination Committee or the Board;
 - 3.6 potential contributions to the Board; and
 - 3.7 other relevant aspects that apply to the business of the Group.
4. seek the nominee's consent to nomination, otherwise, the nominee cannot be a candidate for a Director;
 5. convene a Nomination Committee meeting to examine the qualifications of the candidate against the criteria for the Directors;
 6. make recommendations to the Board regarding the candidates for Directors and submit the relevant information to the Board one to two weeks prior to the election of new Directors;
 7. take other follow-up actions according to the decision and feedback from the Board.

Diversity Policies

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

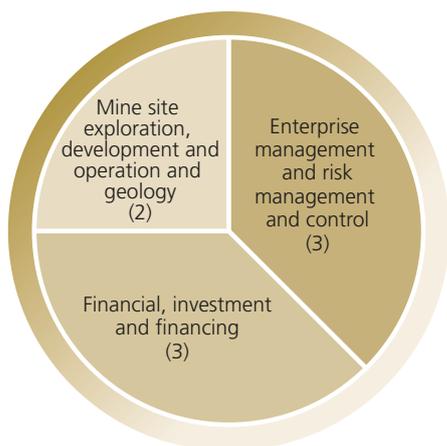
With a view that "diversity" is a broad concept, the Company may consider the board diversity in designing the Board's composition from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service.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

CORPORATE GOVERNANCE REPORT

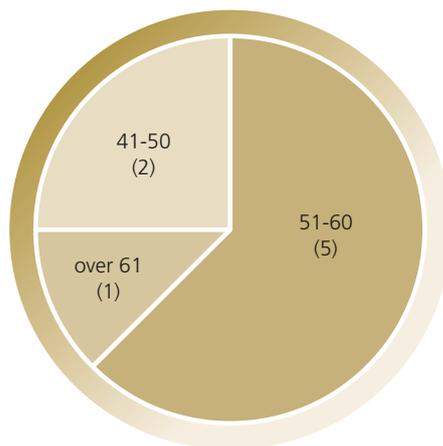
Measurable Objectives of Diversity Policy

Selection of candidates for directorship is based on a range of diversity perspectives, and the ultimate decision is based on the merit and contribution that the selected candidates will bring to the Board. As at 31 December 2020, the composition of the Board comprising eight Directors is as follows:

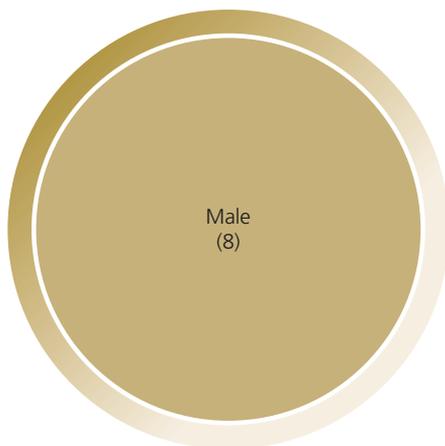
Professions



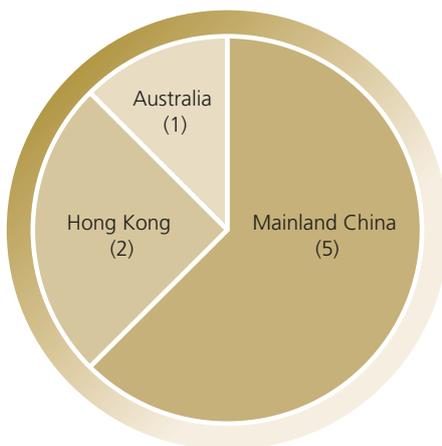
Age



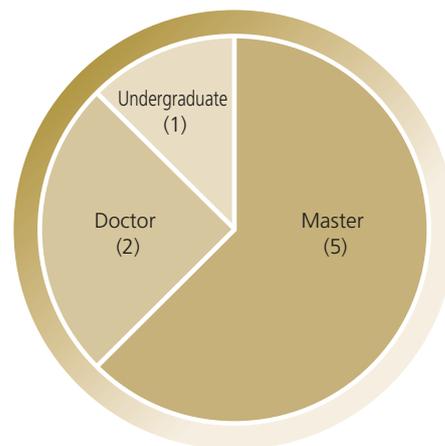
Gender



Geographical Region



Level of Education



CORPORATE GOVERNANCE REPORT

During the year of 2020, the Nomination Committee held one meeting, at which the retiring Director Dr. Qiu Yumin was nominated for re-election as executive Director, Mr. Kenneth Lee as non-executive Director and Dr. Wang Anjian as independent non-executive Director. The independence of Mr. Wang Ping, Dr. Wang Anjian and Mr. Ma Qingshan was assessed. The members, structure and composition of the Board were reviewed, and the sufficiency of time and efforts contributed by the Directors of the Company for the performance of their duties was also discussed. The committee was of the opinion that the extensive experiences and skills of the Directors in various fields and the rational structure of the Board may enable the Company to maintain high standard operation.

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

During the period from 1 January 2020 to 31 December 2020, the HSEC Committee comprised the following members:

Executive Directors**Independent non-executive Director**

Dr. Qiu Yumin (*Chairman*)
Mr. Yang Jiye

Dr. Wang Anjian

The Health, Safety, Environmental Protection and Community Committee is responsible for leading the works regarding health, safety, environmental protection and community across the Group, and making recommendations on the significant decisions or material issues in relation to the health of staff, the safety and environmental protection of the Company and the relationship within the community to the Board.

In 2020, the HSEC Committee held one meeting, at which the committee considered and recommended the draft of the Environmental, Social and Governance Report 2019 of the Company to the Board.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

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

- (a) to develop and review the Group's policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to review and monitor the Group's policies and practices in compliance with the laws and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual applicable to employees and the Directors; and
- (e) to review the Group's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

The Company compiled the existing corporate governance system and dispatched it to the Directors in 2020. The Board reviews the corporate governance initiatives of the Group on an annual basis.

REMUNERATION OF AUDITORS

The Shareholders of the Company approved the resolution for the re-appointment of Deloitte Touche Tohmatsu as the auditor of the Company for 2020 and authorizing the Board to determine its remuneration at the annual general meeting held on 28 May 2020. The Company re-appointed Deloitte Touche Tohmatsu as the auditor of the Company for the year of 2020 with a term of one year ending on the date of the 2021 annual general meeting. As of 31 December 2020, details of the audit and non-audit services provided by the auditor to the Group are as follows:

Audit Service	The total fee charged for the audit service in 2020 was approximately RMB3,800,000, among which, the total fee charged for providing the Group with the review of the interim financial statements as of 30 June 2020 and audit of the financial statements for the year ended 31 December 2020 was RMB3,500,000 (excluding taxation and sundries). The fee charged for providing services for the acquisition of Benxi Yuqilin was approximately RMB300,000 (excluding taxation and sundries).
Non-audit Service	The total fee charged for providing the Group with the consulting services on taxation was approximately HK\$15,800 (excluding taxation and sundries).

CORPORATE GOVERNANCE REPORT

DIRECTORS AND AUDITOR'S RESPONSIBILITY FOR PREPARATION OF THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for preparing the financial statements for the year ended 31 December 2020, which gave a true and fair view of the state of affairs of the Group and of the results and cash flows for that year. The Company allocated sufficient resources to prepare the audited account. Senior management was required to present and explain the financial reporting and matters that materially affected or may have material impact on the financial performance and operations of the Company to the Audit Committee and the Board and respond to the queries and concerns raised by the Audit Committee and the Board to their satisfaction. The consolidated financial statements have been prepared in accordance with the IFRS. In addition, the financial statements included appropriate disclosure made in accordance with the Listing Rules and the Companies Ordinance. The responsibility of the independent auditor engaged by the Company for the preparation of the financial statements of the Group was set out in the independent auditor's report of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the risk management and internal control system of the Group, including setting management structure and granting the appropriate authorization, identifying proper accounting policy and providing reliable financial information for internal and external use. The measures above were designed to provide reasonable (but not absolute) assurance against material misstatement or loss, and to manage (but not fully eliminate) risks of failure in operational systems and in achieving the Group's objectives. The Board authorized the Audit Committee to supervise the financial reporting system, risk management and internal control system of the Company; to review the financial control of the Company and to review the risk management and internal control system of the Company; to discuss the risk management and internal control system with the management and to ensure that the management has performed its duties in establishing an effective system; to consider major investigation findings on risk management and internal control matters and the response of the management on investigation findings on its own initiative or as delegated by the Board. In 2020, the Board reviewed the effectiveness of the risk management and internal control system of the Company and its major subsidiaries, which covered financial control and non-financial control.

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

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

The Group has formulated the Information Disclosure Management System and the Administrative Measures on Connected Transactions, and also formulated the Inside Information Disclosure System to identify and process the inside information. The Board has assessed the effectiveness of the procedures for identifying and processing inside information on due course, so as to maintain the confidentiality of inside information prior to the disclosure with proper approval and disseminate such information in an effective and consistent manner.

CORPORATE GOVERNANCE REPORT

The Group has established a specialized internal audit organ (“**Audit Department**”), formulated relevant mechanism, and set up proper internal control procedures to ensure the effectiveness of internal control and risk management, and extend its application to all subsidiaries controlled by the Group. The Audit Department was directly under the leadership of the Audit Committee, thus the annual audit report and plan of the Audit Department were approved by the Audit Committee. The Audit Department independently carried out the internal audit and monitoring work of the Company. Pursuant to the work program approved by the Audit Committee, based on the internal control, daily monitoring and project monitoring as well as focusing on the probability of risks and impact on the Company’s objectives, in 2020, the Audit Department conducted effectiveness test and evaluation with a focus on key aspects including the procurement and payment procedures, sales and payment collection procedures, cash on hand and at bank, and review of construction costs, and expressed assessment opinions on risk management and internal control.

The internal control assessment procedures of the Company implemented by the Audit Department mainly include: formulation of the assessment work plan, implementation of on-site testing, identification of control deficiencies, compilation of assessment results, preparation of assessment report, etc. During the assessment process, the Audit Department widely collects evidences regarding the effectiveness of internal control design and operation, fills in the internal control risk assessment paper in a truthful manner and analyses the internal control deficiencies through a combination of methods and approaches such as individual interview, questionnaire survey, panel discussion, sampling inspection, walk through testing, on-site inspection and comparative analysis. When internal control deficiencies are identified in the audit, monitoring and assessment of the Company’s risk management system, the Audit Department takes rectification measures after communication with the management.

By doing so, the Board is of the opinion that the Company has maintained effective internal control over the financial reporting process in all material aspects with reference to the requirements under the enterprise internal control regulation system and the relevant provisions. According to the assessment of deficiencies in the internal control over the non-financial reporting process of the Company, as at the reference date of the internal control assessment report, no material deficiencies or major deficiencies in the internal control over the non-financial reporting process were identified.

ARTICLES OF ASSOCIATION

For the year 2020, there were no material changes to the Articles of Association.

COMMUNICATION POLICY WITH SHAREHOLDERS

The Company attached great importance to the communication with Shareholders and promoted understanding and communication with Shareholders through various channels, including general meetings, results briefings, road show activities, receiving guests and telephone counselling. In 2020, the Company organized two results briefings, and a number of investor meetings and media interviews.

CORPORATE GOVERNANCE REPORT

(A) The rights of Shareholders

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

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

There are no provisions allowing Shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision). However, pursuant to the Articles of Association, any member or members holding not less than one-tenth of paid-up capital of the Company, which entitled them to vote at the meeting, as at the date of submitting the request is or are entitled to give written request to the Board or the Company Secretary of the Company to request the Board to convene an extraordinary general meeting at any time and to handle the matters set out in the above request. The above meeting shall be convened within two (2) months after submitting the relevant request to the Company's principal place of business in Hong Kong, at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong and for the attention of the Company Secretary. If the Board has not convened the meeting within twenty-one (21) days after receiving the request, the requesting persons can convene the meeting by which all the reasonable expenses of petitioners so caused should be compensated by the Company.

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

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

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

Address: 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong

Tel: +852 3188 8333

Fax: +852 3188 8222

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

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

CORPORATE GOVERNANCE REPORT

(C) Shareholders' enquiries

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

Address: Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Tel: +852 2862 8628

Fax: +852 2865 0990 and +852 2529 6087

Website: www.computershare.com.hk

(D) Investor relations and communication

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

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

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

In addition, the Company duly issues company consultation documents and other related financial information, including detailed information related to the Company's business performance and development as disclosed in annual reports, interim reports, press releases and announcements.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

1. COMPOSITION OF DIRECTORS

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

Name	Age	Position/Title in the Group	Date of Appointment/Re-election	Roles and Responsibilities
Mr. Yang Jiye	43	Executive Director, Chairman of the Board, Chief Executive Officer and President	appointed as Chief Executive Officer and President on 20 March 2018 re-elected as executive Director on 30 May 2019	responsible for the formulation and implementation of the overall operation and development strategy of the Group, supervision on the execution and implementation of the strategies by the management and daily operation and management of the Group
Mr. Zheng Xuezhi	51	Executive Director, Chief Financial Officer, Vice President and chairman of Hanking Green Building Materials	re-elected as executive Director on 24 May 2018	responsible for the financial management and accounting of the Group
Dr. Qiu Yumin	58	Executive Director, Vice President and chief executive officer and president of Hanking Australia Investment	re-elected as executive Director on 28 May 2020	responsible for the daily operation management and investment of the Group's business in Australia
Mr. Kenneth Lee	53	Non-executive Director	re-elected as non-executive Director on 28 May 2020	N/A
Mr. Xia Zhuo	55	Non-executive Director	re-elected as executive Director on 30 May 2019 re-designated from executive Director to non-executive Director on 29 August 2019	N/A
Mr. Wang Ping	51	Independent non-executive Director	re-elected as independent non-executive Director on 30 May 2019	N/A
Dr. Wang Anjian	67	Independent non-executive Director	re-elected as independent non-executive Director on 28 May 2020	N/A
Mr. Ma Qingshan	42	Independent non-executive Director	re-elected as independent non-executive Director on 24 May 2018	N/A

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Resignation/Retirement of Director

During the reporting period, none of the Directors has resigned/retired from the Company.

2. BIOGRAPHY OF NON-EXECUTIVE DIRECTORS

Mr. Kenneth Lee, aged 53, is a non-executive Director. He has served on the Company's Board of Directors since 2012. Mr. Lee has more than 20 years of experience across private equity investments, corporate finance and business development in China. He is also an independent non-executive director of Sinovac Biotech Limited, a company listed in the USA. He was a partner at SAIF Partners, a dedicated growth venture private equity fund in China. Mr. Lee graduated from Amherst College in the USA. Save as disclosed above, over the past three years, he did not hold any directorships in any other listed public companies.

Mr. Xia Zhuo, aged 55, is a non-executive Director. He has served on the Company's Board of Directors since 2011. Mr. Xia resigned as Vice President of the Company and re-designated from executive Director to non-executive Director in August 2019. He is currently serving as the director of Aoni Mining. In addition, he also serves as the director of Hanking Group and Hanking Electronics (Liaoning) Co., Ltd., and as the supervisor of Indonesia project companies (KS, KKU and KP) of Hanking Group. Mr. Xia has obtained more than 24 years of experience in the mining industry. Over the past three years, he did not hold any directorships in any other listed public companies.

3. BIOGRAPHY OF EXECUTIVE DIRECTORS

Mr. Yang Jiye, aged 43, is an executive Director, Chairman of the Board and Chief Executive Officer and President. Meanwhile, he is also the chairman of the board of directors of Aoni Mining, and the director of Hanking Australia Investment and Hanking D.R.I.. Mr. Yang is currently serving as the chairman of the board of directors of Liaoning Hanking Investment Co., Ltd. (遼寧罕王投資有限公司). With his previous and current positions in the Group, he has more than 18 years of experience in corporate governance and management. Over the past three years, he did not hold any directorships in any other listed public companies. Mr. Yang is the son of Ms. Yang Min, a Controlling Shareholder.

Mr. Zheng Xuezi, aged 51, is an executive Director, the Chief Financial Officer and Vice President. Mr. Zheng joined the Group in 2008. He is the director of Aoni Mining and the chairman of Hanking Green Building Materials. Mr. Zheng is responsible for financial management and accounting of the Group. Mr. Zheng is also a supervisor of Liaoning Hanking Investment Co., Ltd. and chairman of the board of directors of Luoyang Precision of Machine Equipment Technology Co., Ltd. (中機洛陽精密裝備科技股份有限公司). Being in his previous and current positions in the Group, Mr. Zheng has obtained more than 20 years of experience in financing, auditing, taxation and accounting. Mr. Zheng graduated from Northeast University (東北大學) with a master degree in business administration for executives. Mr. Zheng is a certified public accountant in the PRC. Over the past three years, he did not hold any directorships in any other listed public companies.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Qiu Yumin, aged 58, is an executive Director and Vice President. He is also the director, chief executive officer and president of Hanking Australia Investment and the director of other Australian subsidiaries of the Company, including PGO. Dr. Qiu Yumin is a member of the Australian Institute of Geoscientists, and has over 23 years of experience in exploration and business development. Currently, Dr. Qiu serves as the non-executive director of Corazon Mining Ltd (ASX: CZN), a company listed in Australia. From 2014 to June 2018, he was the non-executive director of Primary Gold Limited (ASX: PGO), a company listed in Australia. Save as disclosed above, over the past three years, he did not hold any directorships in any other listed public companies.

4. BIOGRAPHY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Ping, aged 51, is an independent non-executive Director. He is a non-practicing member of the Chinese Institute of Certified Public Accountants. Mr. Wang has over 20 years of experience in corporate finance, audit and accounting. Mr. Wang is currently acting as the independent non-executive director of China Tianrui Group Cement Company Limited (HKSE: 1252) and Jia Yao Holdings Limited (formerly known as "Tourism International Holdings Limited") (HKSE: 1626), both being companies listed on the Hong Kong Stock Exchange. He also acted as the non-executive director of Sichuan Crun Co., Ltd. (SZSE: 002272) from August 2017 to March 2019, the independent non-executive director of Shenzhen Zowee Tech. Co., Ltd. (SZSE: 002369) from July 2016 to January 2020, the independent non-executive director of Yunnan Energy New Material Co., Ltd (formerly known as "Yunnan Chuangxin New Material Co., Ltd.") (SZSE: 002812) from April 2017 to April 2020 and the non-executive director of Chongyi Zhangyuan Tungsten Co., Ltd. (SZSE: 002378) from May 2017 to June 2020, all being companies listed on the Shenzhen Stock Exchange. He also acted as the non-executive director of Bojun Education Company Limited (HKSE: 1758) from September 2016 to September 2019 and the independent non-executive director of China Sinostar Group Company Limited (HKSE: 485) from July 2014 to May 2020, both being companies listed on the Hong Kong Stock Exchange. Save as disclosed above, over the past three years, he did not hold any directorships in any other listed public companies.

Dr. Wang Anjian, aged 67, is an independent non-executive Director and has extensive experience in research of resource strategy. Dr. Wang Anjian is currently the honorary director and professor of the Research Center for Strategy of Global Mineral Resources, Chinese Academy of Geological Sciences, and he is also the standing director of Chinese Society for Environmental Sciences and the adjunct professor of China University of Geosciences (Beijing). Dr. Wang Anjian is currently acting as the independent non-executive director of Chongyi Zhangyuan Tungsten Co., Ltd. (SZSE: 002378), a company listed on the Shenzhen Stock Exchange. Save as disclosed above, over the past three years, he did not hold any directorships in any other listed public companies.

Mr. Ma Qingshan, aged 42 is an independent non-executive Director and has over 19 years of substantial experience in management and consultation. He has extensive experience in corporate strategic planning, business model and control model, digitalization and internet transformation, post-acquisition integration, corporate performance management, corporate investment management, business process optimization and global business development. Mr. Ma obtained a bachelor's degree in finance and e-commerce from Peking University and a master degree in business administration for executives from Institut Européen d'Administration des Affaires (INSEAD) and Tsinghua University, and is qualified as a Chartered Financial Analyst (CFA). Mr. Ma is currently acting as the independent non-executive director of Uni-Bio Science Group Limited (HKSE: 690), a company listed on the Hong Kong Stock Exchange. Save as disclosed above, over the past three years, he did not hold any directorships in any other listed public companies.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

5. SENIOR MANAGEMENT

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

Name	Age	Position/Title	Biography
Yang Jiye	43	Chief Executive Officer and President	See "Biography of Executive Directors"
Zheng Xuezhi	51	Chief Financial Officer, Vice President and chairman of Hanking Green Building Materials	See "Biography of Executive Directors"
Qiu Yumin	58	Vice President as well as chief executive officer and president of Hanking Australia Investment	See "Biography of Executive Directors"
Huang Jinfu	64	Vice President and president of Aoni Mining	See below

Mr. Huang Jinfu, aged 64, is the Vice President and the director and president of Aoni Mining. He is responsible for the daily operation and management of the Group's iron ore business. Mr. Huang is a mineral processing engineer. He joined the Group in 2008 and has more than 39 years of experience in the mining industry.

Resignation of Senior Management

During the reporting period, none of our senior management has resigned from the Company.

6. JOINT COMPANY SECRETARIES

Ms. Zhang Jing, joined the Company in 2011 and since then up to the date of this report, she serves as the manager of the compliance department, director-general of the office of the Board and manager of the investor relationship department of the Company, as well as the supervisor of Aoni Mining. Ms. Zhang obtained the bachelor degree of law from China University of Political Science and Law in July 2003, and obtained the master degree specialising in international business law and European Union law from the University of Sheffield in the UK in November 2004. Ms. Zhang served as a practising lawyer at Yunnan Qianhe Law Firm from February 2005 to February 2009, providing corporate and securities legal services, where she acted as the legal consultant for a number of listed companies. With the past and current positions she held in the Group, Ms. Zhang has over 12 years of experience in corporate governance, listing compliance as well as investor relationship management.

Ms. So Lai Shan, an assistant manager of the listing services department of TMF Hong Kong Limited (a global corporate service provider), is responsible for the provision of company secretarial and compliance services to listed companies. She has over 10 years of relevant working experience. Ms. So is an associate member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as "The Institute of Chartered Secretaries and Administrators") in the United Kingdom, and possesses the qualifications of company secretary as required under Rule 3.28 and Rule 8.17 of the Listing Rules.

CORPORATE INFORMATION

COMPANY'S STATUTORY CHINESE NAME

中國罕王控股有限公司

COMPANY'S STATUTORY ENGLISH NAME

China Hanking Holdings Limited

STOCK CODE

03788

REGISTERED OFFICE

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

HEADQUARTERS IN THE PRC

22nd Floor, Hanking Tower
No. 227, Qingnian Street
Shenhe District
Shenyang 110016
Liaoning Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, Tower Two, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

AUTHORIZED REPRESENTATIVES

Mr. Zheng Xuezhi
Ms. So Lai Shan

JOINT COMPANY SECRETARIES

Ms. Zhang Jing
Ms. So Lai Shan

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

HONG KONG LEGAL ADVISOR

Jingtian & Gongcheng LLP
Suites 3203-3207, 32/F
Edinburgh Tower, The Landmark
15 Queen's Road Central
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR IN THE CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

CORPORATE INFORMATION

HONG KONG SHARE REGISTRAR

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

INVESTOR INQUIRIES

Investor Hotline: +852 3158 0506
Facsimile: +852 3158 0508
Website: www.hankingmining.com
E-mail: ir@hanking.com

DIRECTORS

Executive Directors

Mr. Yang Jiye
(Chairman, Chief Executive Officer and President)
Mr. Zheng Xuezhi *(Chief Financial Officer)*
Dr. Qiu Yumin

Non-executive Directors

Mr. Kenneth Lee
Mr. Xia Zhuo

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

HEALTH, SAFETY, ENVIRONMENTAL PROTECTION AND COMMUNITY COMMITTEE

Dr. Qiu Yumin *(Chairman)*
Mr. Yang Jiye
Dr. Wang Anjian

INDEPENDENT AUDITOR'S REPORT

Deloitte.**德勤****TO THE SHAREHOLDERS OF CHINA HANKING HOLDINGS LIMITED (中國罕王控股有限公司)***(Incorporated in the Cayman Islands with limited liability)***OPINION**

We have audited the consolidated financial statements of China Hanking Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 74 to 210, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CHINA HANKING HOLDINGS LIMITED (中國罕王控股有限公司)

(Incorporated in the Cayman Islands with limited liability) - continued

Key audit matter

How our audit addressed the key audit matter

Purchase price allocation ("PPA") arising from acquisition of Emerald Planet Holdings Limited ("Emerald Planet")

Refer to note 13(A)

Purchase price allocation:

On 30 November 2020, the Group acquired 100% equity interest in Emerald Planet for a purchase consideration of HK\$224,000,000 (equivalent to approximately RMB186,538,000). The Group has engaged an independent valuer to perform PPA exercise for the acquisition, where the purchase consideration was allocated to the fair value of the identifiable assets acquired and liabilities assumed (determined on a provisional basis), resulting in the recognition of goodwill of RMB209,132,000 (determined on a provisional basis).

We identified this as a key audit matter as the determination of fair values of the identifiable assets acquired and liabilities assumed, including the identification of any intangible assets at the acquisition date, required significant management judgement in estimating the underlying assumptions to be applied.

Our procedures in relation to the PPA:

- Reviewing the related sale and purchase agreement for the terms for the acquisition, including the purchase consideration, the date and the conditions relevant to acquisition of the equity interest;
- Conducting interviews with independent valuation experts engaged by the management, evaluating their independence and competence, and understanding their valuation basis and methodology adopted in assessing the fair value of all identifiable assets and liabilities at the date of acquisition;
- Involving our internal valuation experts and based on our knowledge of the industry, and related source information and historical data, to evaluate the reasonableness of basic assumptions including revenue growth rate, long-term growth rate and discount rate, valuation basis and methodology and significant estimates and judgments the management of the Group and their valuation experts selected in assessing the fair value of all identifiable assets and liabilities; and
- Assessing the appropriateness of the disclosures in the consolidated financial statements in respect of this acquisition.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

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

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is David Leung Ho Ming.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2020

	NOTES	Year ended 31 December	
		2020 RMB'000	2019 RMB'000
Continuing operations			
Revenue	5	2,675,912	2,251,882
Cost of sales		(1,757,929)	(1,361,205)
Gross profit		917,983	890,677
Other income	7	9,559	6,707
Other gains and losses	8	(22,629)	(7,457)
Impairment losses under expected credit loss ("ECL") model, net of reversal	9	(5,079)	(2,416)
Distribution and selling expenses		(134,041)	(95,092)
Administrative expenses		(193,385)	(198,882)
Research and development expenses		(11,219)	(10,244)
Finance costs	10	(86,105)	(98,687)
Profit before tax	11	475,084	484,606
Income tax expense	12	(97,312)	(152,445)
Profit for the year from continuing operations		377,772	332,161
Discontinued operation			
Loss for the year from discontinued operation	14	–	(35,218)
Profit for the year		377,772	296,943
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of foreign operations		7,651	10,686
Fair value gain on: – receivables measured at fair value through other comprehensive income ("FVTOCI")		–	9,849
Reclassification of cumulative translation reserve upon disposal of a foreign operation to profit or loss		–	31,911
Other comprehensive income for the year		7,651	52,446
Total comprehensive income for the year		385,423	349,389

(Continued)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2020

	NOTES	Year ended 31 December	
		2020 RMB'000	2019 RMB'000
Profit (loss) for the year attributable to owners of the Company:			
– Continuing operations		379,440	334,171
– Discontinued operation		–	(37,597)
Profit for the year attributable to owners of the Company		379,440	296,574
(Loss) profit for the year attributable to non-controlling interests			
– Continuing operations		(1,668)	(2,010)
– Discontinued operation		–	2,379
(Loss) profit for the year attributable to non-controlling interests		(1,668)	369
		377,772	296,943
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		386,802	348,039
Non-controlling interests		(1,379)	1,350
		385,423	349,389
Basic earnings per share (RMB cent per share)	18		
From continuing and discontinued operations		20.8	16.2
From continuing operations		20.8	18.3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2020

	NOTES	31 December 2020 RMB'000	31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment	19	957,108	958,008
Goodwill	20	209,132	–
Intangible assets	21	400,206	317,112
Right-of-use assets	22	196,445	180,229
Financial assets at fair value through profit or loss (“FVTPL”)	30	3,221	3,179
Deferred tax assets	25	19,694	11,188
Deposits on acquisition of property, plant and equipment		7,083	1,244
Restricted deposits	26	38,049	36,752
Pledged bank deposits	31	50,000	20,000
		1,880,938	1,527,712
Current assets			
Inventories	27	322,973	236,180
Trade and other receivables	28	217,711	335,027
Receivables at FVTOCI	29	86,246	28,660
Financial assets at FVTPL	30	–	1,000
Pledged bank deposits	31	570,311	169,144
Bank balances and cash	31	181,244	38,146
		1,378,485	808,157
Current liabilities			
Trade, bills and other payables	32	996,631	571,260
Amount due to a related party	49	10,996	44,300
Borrowings	34	591,000	662,500
Lease liabilities	36	4,142	5,174
Contract liabilities	33	40,581	46,560
Tax liabilities		86,384	77,226
Provision	35	10,000	–
Deferred income		3,000	–
		1,742,734	1,407,020
Net current liabilities		(364,249)	(598,863)
Total assets less current liabilities		1,516,689	928,849

(Continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2020

	NOTES	31 December 2020 RMB'000	31 December 2019 RMB'000
Capital and reserves			
Share capital	38	160,203	148,321
Reserves		994,913	656,356
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Equity attributable to owners of the Company		1,155,116	804,677
Non-controlling interests		8,839	10,984
<hr/>			
Total equity		1,163,955	815,661
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Non-current liabilities			
Borrowings	34	142,763	38,763
Lease liabilities	36	5,966	4,158
Provision	35	54,005	55,267
Other long-term liabilities	37	50,000	15,000
Amount due to a third party	13(A)	100,000	–
<hr/>			
		352,734	113,188
<hr/>			
		1,516,689	928,849

The consolidated financial statements on pages 74 to 210 were approved and authorised for issue by the board of directors on 25 March 2021 and are signed on its behalf by:

YANG JIYE

DIRECTOR

ZHENG XUEZHI

DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

Attributable to owners of the Company

	Restricted shares held for Incentive		Share premium	Statutory surplus reserve	Future development funds reserve	FVTOCI reserve	Translation reserve	Share - based payments reserve	Actuarial reserve on			Retained earnings	Attributable to owners of the Company	Non-controlling interests	Total
	Share capital	Award Scheme							Special reserve	retirement benefit plan	Other reserves				
	RMB'000 (note 38)	RMB'000 (note 41)	RMB'000	RMB'000 (note a)	RMB'000 (note b)	RMB'000	RMB'000	RMB'000	RMB'000 (note c)	RMB'000	RMB'000 (note d)	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2018 (Originally stated)	148,960	-	174,200	122,323	594,049	(9,740)	(43,907)	-	(557,161)	152	(446)	924,013	1,352,443	188,407	1,540,850
Merger accounting restatement	-	-	-	89,360	13,019	(109)	-	-	-	-	(171,213)	72,043	3,100	949	4,049
At 1 January 2019 (unaudited) (restated)	148,960	-	174,200	211,683	607,068	(9,849)	(43,907)	-	(557,161)	152	(171,659)	996,056	1,355,543	189,356	1,544,899
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	296,574	296,574	369	296,943
Other comprehensive income for the year	-	-	-	-	-	9,849	41,616	-	-	-	-	-	51,465	981	52,446
Total comprehensive income for the year	-	-	-	-	-	9,849	41,616	-	-	-	-	296,574	348,039	1,350	349,389
Transfer to future development funds reserve, net of utilisation	-	-	-	-	55,032	-	-	-	-	-	-	(55,032)	-	-	-
Dividend declared (note 17)	-	-	-	-	-	-	-	-	-	-	-	(32,159)	(32,159)	-	(32,159)
Disposal of Hanking (Indonesia)	-	-	-	-	-	-	-	-	-	(152)	155,880	-	155,728	(179,722)	(23,994)
Disposal of Hanking Housing (as defined in note 14 (C))	-	-	-	-	-	-	-	-	-	-	9,225	-	9,225	-	9,225
Profit appropriation to statutory surplus reserve	-	-	-	6,127	-	-	-	-	-	-	-	(6,127)	-	-	-
Consideration paid for acquisition of subsidiaries under common control (note 13 (C))	-	-	-	-	-	-	-	-	(1,020,000)	-	-	-	(1,020,000)	-	(1,020,000)
Repurchase and cancellation of ordinary shares	(639)	-	(6,698)	-	-	-	-	-	-	-	-	-	(7,337)	-	(7,337)
Purchase of ordinary shares pursuant to the Scheme (as defined in note 41)	-	(4,362)	-	-	-	-	-	-	-	-	-	-	(4,362)	-	(4,362)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

	Attributable to owners of the Company														
	Restricted shares held for Incentive		Share premium	Statutory surplus reserve	Future development funds reserve	FVTOCI reserve	Translation reserve	Share – based payments reserve	Special reserve	Actuarial reserve on retirement benefit plan	Other reserves	Retained earnings	Attributable to owners of the Company	Non-controlling interests	Total
	Share capital	Award Scheme													
	RMB'000 (note 38)	RMB'000 (note 41)	RMB'000	RMB'000 (note a)	RMB'000 (note b)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2019	148,321	(4,362)	167,502	217,810	662,100	-	(2,291)	-	(1,577,161)	-	(6,554)	1,199,312	804,677	10,984	815,661
Profit (loss) for the year	-	-	-	-	-	-	-	-	-	-	-	379,440	379,440	(1,668)	377,772
Other comprehensive income for the year	-	-	-	-	-	-	7,362	-	-	-	-	-	7,362	289	7,651
Total comprehensive income (expense) for the year	-	-	-	-	-	-	7,362	-	-	-	-	379,440	386,802	(1,379)	385,423
Transfer to future development funds reserve, net of utilisation	-	-	-	-	6,848	-	-	-	-	-	-	(6,848)	-	-	-
Recognition of equity-settled share-based payments (note 40)	-	-	-	-	-	-	-	614	-	-	-	-	614	-	614
Dividend declared (note 17)	-	-	-	-	-	-	-	-	-	-	-	(193,837)	(193,837)	-	(193,837)
Profit appropriation to statutory surplus reserve	-	-	-	14,735	-	-	-	-	-	-	-	(14,735)	-	-	-
Purchase of ordinary shares pursuant to the Scheme (as defined in note 41)	-	(19,244)	-	-	-	-	-	-	-	-	-	-	(19,244)	-	(19,244)
Acquisition of Zhenghai Investment Limited (note 13 (B))	-	-	-	-	-	-	-	-	-	-	(10,434)	-	(10,434)	(1,366)	(11,800)
Issue of shares (note 38)	11,882	-	174,656	-	-	-	-	-	-	-	-	-	186,538	-	186,538
Capital injection by non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	600	600
At 31 December 2020	160,203	(23,606)	342,158	232,545	668,948	-	5,071	614	(1,577,161)	-	(16,988)	1,363,332	1,155,116	8,839	1,163,955

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

Notes:

- (a) In accordance with the relevant company laws and regulations of the People's Republic of China (the "PRC") and the Articles of Association of the PRC subsidiaries, the PRC subsidiaries are required to appropriate 10% of their profit after taxation reported in their financial statements prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises established in the PRC (the "PRC GAAP") to the statutory surplus reserve. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the registered capital of the relevant PRC subsidiaries.

The statutory surplus reserves can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue. However, when converting the statutory surplus reserve of the PRC subsidiaries into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital of the relevant PRC subsidiaries.

- (b) Pursuant to regulation in the PRC, Fushun Hanking Aoni Mining Co., Ltd*(撫順罕王傲牛礦業股份有限公司)("Aoni Mining"), Fushun Hanking Maogong Mining Co., Ltd*(撫順罕王毛公鐵礦有限公司) and Fushun Hanking Shangma Mining Co., Ltd*(撫順罕王上馬礦業有限公司)("Shangma Mining"), subsidiaries of the Group carrying on Iron Ore Business (as defined in note 1), are required to transfer an amount to a future development fund ranging from RMB5-10 (2019: RMB5-10) per ton of iron ore mined annually.

Fushun Hanking Direct Reduced Iron Co., Ltd*(撫順罕王直接還原鐵有限公司) ("Hanking D.R.I."), subsidiaries of the Group carrying on High-purity Iron Business (as defined in note 1), are required to transfer an amount to a future development fund ranging from 0.05% – 3% (2019: 0.05%-3%) of annual operating income, which will be used for enhancement of safety production environment and improvement of facilities pursuant to the requirement of PRC government.

The fund can only be used for the future development of the iron ore mining business and production of high-purity iron and is not available for distribution to shareholders. RMB50,224,000 and RMB59,871,000 of future development fund was provided during the years ended 31 December 2020 and 2019, respectively. RMB43,376,000 and RMB4,839,000 was utilised during the years ended 31 December 2020 and 2019, respectively.

- (c) Special reserve mainly represented the distribution to the then equity shareholders at the time when the Company undergone business combination involving entities under common control in 2013 and 2019.

* English name is for identification purpose only.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

Notes: – Continued

(d) Other reserves consist of:

- (1) the deemed capital contribution/distribution arising from a series of group reorganisations in relation to the High-purity Iron Business during the year ended 31 December 2015;
- (2) the deemed capital contribution arising from the disposal of a subsidiary and an associate of Fushun Hanking Ginseng & Iron Trading Co., Ltd.* (撫順罕王人參鐵貿易有限公司)(“**Ginseng & Iron**”) to Fushun Majuncheng Iron Co., Ltd. and Hanking Industrial Group Co., Ltd. which are controlled by Ms. Yang Min, one of the Controlling Shareholders (as defined in note 1), respectively during the year ended 31 December 2015;
- (3) the dilution impact to the change in the Group’s interest in a subsidiary during the year ended 31 December 2016;
- (4) the dilution impact to the Group’s equity interest in Hanking Australia Investment Pty Ltd (“**Hanking Australia Investment**”) from 97% to 94% for the year ended 31 December 2018;
- (5) the deemed distribution arising from the interest-free amount due from a related party and financial guarantees provided to related parties controlled by Mr. Yang Jiye, one of the Controlling Shareholders;
- (6) On 29 June 2018, Tuochuan (Hong Kong) Limited (“**Tuochuan (Hong Kong)**”) acquired 99% equity interest of Ginseng & Iron from Liaoning Hanking Investment Co., Ltd. (遼寧罕王投資有限公司)(“**Hanking Investment**”), which was owned as to 99% by Mr. Yang Jiye, one of the Controlling Shareholders and 1% by his spouse Ms. He Wan, for a consideration of RMB128,700,000, resulting in a debit to other reserve of RMB128,700,000 as deemed distribution, accordingly;
- (7) On 24 August 2018, Hanking Australia Investment, which was owned as to 97% by the Group and 3% by Golden Resource Pty Ltd. (“**Golden Resource**”), whose 100% equity interests were owned and controlled by Dr. Qiu Yumin (“**Dr Qiu**”), a director of Hanking Australia Investment and an executive director of the Company, and Golden Resource, entered into a loan capitalisation agreement pursuant to which the Group proposed to capitalise the loan previously advanced to Hanking Australia Investment from the Company amounting to AUD42,000,000 (equivalent to RMB209,345,000) as capital contribution to Hanking Australia Investment (the “**Capital Injection**”). Golden Resource had been exempted from such capital contribution with its equity interest in Hanking Australia Investment remained unchanged. The amount of exemption of capital contribution by Golden Resource of AUD1,260,000 (equivalent to RMB6,280,000) was considered as salary payment to Dr. Qiu and charged to profit or loss immediately, with a corresponding credit to “non-controlling interests” in equity, accordingly during the year ended 31 December 2018.

Pursuant to the loan capitalisation agreement, after the completion date of the Capital Injection, Dr. Qiu shall continue to work at Hanking Australia Investment or any affiliated company designated by Hanking Australia Investment for at least five years, during which period both Dr. Qiu and Golden Resource shall not transfer any or all of the shares in Hanking Australia Investment. Should Dr. Qiu or Golden Resource fail to fulfill the aforesaid obligations, the Group shall be entitled to repurchase the 3% equity interests in Hanking Australia Investment held by Golden Resource at a consideration of AUD1,300,000, and both Dr. Qiu and Golden Resource shall be obliged to assist;

* English name is for identification purpose only.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

Notes: – Continued

- (8) the deemed capital contribution arising from the gain on disposal in respect of Hanking (Indonesia) Mining Limited (“**Hanking (Indonesia)**”) and its subsidiaries and Shanghai Hanking Housing Technology Co., Ltd.* (上海罕王住宅工業科技有限公司)(“**Hanking Housing**”) and its subsidiaries to related parties controlled by Mr. Yang Jiye, one of the Controlling Shareholders, during the year ended 31 December 2019; and
 - (9) the difference of RMB10,434,000 between the carrying amount of the non-controlling interests, and the fair value of the consideration paid arising from acquisition of 100% equity interest in Zhenghai Investment Limited with details disclosed in note 13 (B).
- * English name is for identification purpose only.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

NOTES	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
OPERATING ACTIVITIES		
Profit before tax from continuing and discontinued operations	475,084	449,090
Adjustments for:		
Finance costs	86,105	120,160
Interest income	(6,239)	(4,565)
Write-down of inventories	2,846	6,880
Impairment loss on property, plant and equipment	3,886	17,469
Impairment loss of intangible assets	–	833
Impairment loss on trade and other receivables	5,079	2,416
Loss (gain) on disposal of property, plant and equipment	3,526	(603)
Gain on disposal of intangible assets	–	(189)
Depreciation of property, plant and equipment	167,511	138,125
Amortisation of intangible assets	29,140	31,774
Amortisation of right-of-use assets	31,816	29,073
Release of financial guarantees provided to related parties	–	(1,751)
Fair value loss (gain) on financial assets at FVTPL	43	(4,179)
Net foreign exchange loss	1,639	2,687
Gain on disposal of a subsidiary	(259)	–
Provision for contingency	10,000	–
Recognition of equity-settled share-based payments	614	–
Reclassification of cumulative translation reserve upon disposal of a foreign operation to profit or loss	–	31,911
Operating cash flows before movements in working capital	810,791	819,131
Increase in inventories	(17,490)	(6,841)
Decrease in trade and other receivables	41,471	70,473
Increase in receivables at FVTOCI	(57,586)	(5,553)
Increase (decrease) in trade, bills and other payables	259,350	(113,151)
Decrease in contract liabilities	(6,560)	(5,608)
Increase in deferred income	3,000	–
Decrease in rehabilitation provision	(4,277)	–
Cash generated from operations	1,028,699	758,451
Income tax paid	(89,128)	(93,014)
NET CASH FROM OPERATING ACTIVITIES	939,571	665,437

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

	NOTES	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Investing activities			
Purchases of property, plant and equipment		(61,667)	(260,808)
Payments for intangible assets		(55,417)	(23,919)
Payments for right-of-use assets		(4,861)	(21,685)
Consideration received from disposal of Xingzhou Mining (as defined in note 28(b))		105,000	–
Net cash inflow arising from acquisition of Emerald Planet	13(A)	85	–
Net cash inflow arising from disposal of Marvel Loch Hotel Pty Ltd	14(A)	758	–
Net cash outflow arising from disposal of Hanking Housing	14(C)	–	(121)
Net cash outflow arising from disposal of Hanking (Indonesia)	14(B)	–	(2,930)
Purchases of financial assets at FVTPL		–	(61,239)
Proceeds on disposal of financial assets at FVTPL		1,066	530,674
Proceeds on disposal of property, plant and equipment		4,045	23,795
Proceeds on disposal of intangible assets		–	189
Interest received		6,239	4,565
Withdrawal of restricted deposits		6,116	2,801
Placement of restricted deposits		(7,023)	(18,275)
Settlement of consideration payable for acquisition of subsidiaries		(56,100)	(84,290)
Advance to a third party		(4,253)	–
Advance to a related party		–	(35,129)
Repayment of loan receivable		–	11,300
Withdrawal of pledged bank deposits in relation to borrowings and bills payable		78,628	101,014
Placement of pledged bank deposits in relation to borrowings and bills payable		(509,795)	(94,218)
Net cash (used in) from investing activities		(497,179)	71,724

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

	NOTES	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Financing activities			
New borrowings raised		780,000	568,163
Repayment of borrowings		(747,500)	(1,505,900)
Payments of lease liabilities		(6,711)	–
Interest paid		(83,566)	(111,425)
Dividend paid to owners of the Company		(193,837)	(32,159)
Capital injection by non-controlling interest		600	–
Repurchase of ordinary shares		–	(7,337)
Loan raised from related parties		241,176	–
Repayment of advance from a related party		(230,180)	–
Repayment of advance from a third party		(42,000)	–
Purchase of ordinary shares pursuant to the Scheme	41	(19,244)	(4,362)
Loan raised from an independent third party		–	12,000
Net cash used in financing activities		(301,262)	(1,081,020)
Net increase (decrease) in cash and equivalents		141,130	(343,859)
Cash and cash equivalents at 1 January		38,146	381,256
Effect of foreign exchange rate changes		1,968	749
Cash and cash equivalents at 31 December		181,244	38,146

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

1. GENERAL INFORMATION

China Hanking Holdings Limited (the “**Company**”) is a limited company incorporated in the Cayman Islands on 2 August 2010 and its shares are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 30 September 2011. In the opinion of the Directors (as defined in note 2), Bisney Success Limited, Tuochuan Capital Limited and China Hanking (BVI) Limited, shareholders of the Company, are the ultimate parents of the Company as they are collectively controlled by the Company’s ultimate controlling shareholders, Mr. Yang Jiye, who is also the chief executive officer, president and executive director of the Company, and Ms. Yang Min, who resigned as the executive director on 18 March 2016 (collectively, the “**Controlling Shareholders**”). The address of the registered office of the Company in Cayman Islands is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of principal place of business of the Company in Hong Kong is 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

The Company is an investing holding company. During the year ended 31 December 2020, the Company and its subsidiaries (the “**Group**”) are engaged in the following three principal activities:

- (i) iron ore exploration, mining, processing and sale (“**Iron Ore Business**”);
- (ii) high-purity iron smelting, processing and sale (“**High-purity Iron Business**”); and
- (iii) gold exploration, mining, processing and sale (“**Gold Business**”).

During the year ended 31 December 2020, the Group completed the acquisition of the 100% equity interests of Emerald Planet Holdings Limited (“**Emerald Planet**”) and its subsidiaries (“**Emerald Planet Group**”) which principally engaged in High-purity Iron Business at a consideration of Hong Kong Dollars (“**HKD**”) 224 million (equivalent to RMB186,538,000) which was regarded as a business combination using the acquisition method. Further details of the Acquisition are set out in note 13 (A).

Details of the Company’s subsidiaries are set out in note 39.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the *Amendments to References to the Conceptual Framework in IFRS Standards* and the amendments to IFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to IFRS 3 Definition of a Business

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The application of the amendments had no impact on the consolidated financial statements in the current year as similar conclusion would have been reached without applying the optional concentration test.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

New and amendments of IFRSs in issue but not yet effective

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

IFRS 17	<i>Insurance Contracts and the related Amendments¹</i>
Amendments to IFRS 16	<i>Covid-19-Related Rent Concessions⁴</i>
Amendments to IFRS 3	<i>Reference to the Conceptual Framework²</i>
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform – Phase 2⁵</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current¹</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies¹</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates¹</i>
Amendments to IAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use²</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract²</i>
Amendments to IFRS standards	<i>Annual Improvements to IFRS standards 2018-2020²</i>

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 June 2020

⁵ Effective for annual periods beginning on or after 1 January 2021

The directors of the Company (the “**Directors**”) consider that the application of these new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1. Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Going Concern Assessment

The Directors have given careful consideration to the going concern of the Group in light of the fact that as at 31 December 2020, the Group's current liabilities exceeded its current assets by RMB364,249,000. In addition, as at 31 December 2020, the Group had capital commitments contracted for but not provided in the consolidated financial statements amounting to RMB19,094,000 as disclosed in note 43.

As at 31 December 2020, the Group had available conditional banking facilities of RMB201,837,000 ("**Conditional Facilities**"). The utilisation of these Conditional Facilities are subject to approval on a case-by-case basis. The Directors are confident that the Group would be successful in obtaining approval in respect of these Conditional Facilities according to its historical successful experience and the relevant terms and conditions to drawdown. The Directors are also confident that a significant portion of the Group's bank borrowings can be successfully renewed upon maturity in view of the Group's historical successful experience in refinancing the expiring debts.

Taking into account the above factors, the Directors are of the opinion that, together with the other financial resources available to the Group, including cash and cash equivalents on hand and the anticipated cash flow from the operations, the Group has sufficient working capital for its present requirements, that is for at least the next twelve months commencing from the end of the reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.1. Basis of preparation of consolidated financial statements *(continued)*

Going Concern Assessment *(continued)*

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2. Significant accounting policies

Basis of consolidation

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

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Significant accounting policies (continued)

Basis of consolidation (continued)

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 *Financial Instruments* ("IFRS 9") or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2. Significant accounting policies *(continued)*

Business combinations or asset acquisitions

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Business combinations

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

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the International Accounting Standards Committee's *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in September 2010).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Significant accounting policies (continued)

Business combinations or asset acquisitions (continued)

Business combinations (continued)

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below);
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2. Significant accounting policies *(continued)*

Business combinations or asset acquisitions *(continued)*

Business combinations (continued)

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under IFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Significant accounting policies (continued)

Merger accounting for business combination involving businesses under common control

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

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

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

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2. Significant accounting policies *(continued)*

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good that is distinct or a series of distinct goods that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Significant accounting policies (continued)

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and lease of low-value assets

The Group applies the short-term lease recognition exemption to leases of office rooms and machines that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption of lease of low-value assets. Lease payments on short-term leases and lease of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2. Significant accounting policies *(continued)*

Leases *(continued)*

The Group as a lessee (continued)

Right-of-use assets *(continued)*

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments).

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Foreign currencies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Significant accounting policies (continued)

Foreign currencies (continued)

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

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

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Borrowing costs

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

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Significant accounting policies (continued)

Government grants

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

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

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

Employee benefits

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2. Significant accounting policies *(continued)*

Employee benefits *(continued)*

Retirement benefit costs *(continued)*

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorised as follows:

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

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

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (for example contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability or asset.
- If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost in the period in which the related service is rendered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Significant accounting policies (continued)

Employee benefits (continued)

Termination benefits

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

Short-term employee benefits

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

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

Share-based payments

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually be vested, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to be vested based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

When share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to retained earnings. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will be transferred to retained earnings.

When shares granted are vested, the amount previously recognised in share-based payments reserve will be transferred to other reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2. Significant accounting policies *(continued)*

Taxation

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2. Significant accounting policies *(continued)*

Taxation *(continued)*

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2. Significant accounting policies *(continued)*

Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes (i.e. construction in progress) are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

Intangible assets

Intangible assets acquired separately

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Significant accounting policies (continued)

Intangible assets (continued)

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Significant accounting policies (continued)

Intangible assets (continued)

Internally-generated intangible assets – exploration and evaluation assets

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

Exploration and evaluation assets comprise costs directly attributable to:

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

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

Mining rights

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

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured at the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2. Significant accounting policies *(continued)*

Intangible assets *(continued)*

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2. Significant accounting policies *(continued)*

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill *(continued)*

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

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

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

Inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2. Significant accounting policies *(continued)*

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Closure and rehabilitation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2. Significant accounting policies *(continued)*

Closure and rehabilitation *(continued)*

Closure and rehabilitation provisions are based on estimates of required expenditure at the mines in accordance with the relevant rules and regulations where the mines of the Group located. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work, the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. When provisions for closure and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of closure and rehabilitation activities is recognised in mining related assets as included in property, plant and equipment and depreciated accordingly. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognised in finance costs.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 *Revenue from Contracts with Customers*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2. Significant accounting policies *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Classification and subsequent measurement of financial assets *(continued)*

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and receivables at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these receivables are recognised in other comprehensive income and accumulated under the heading of FVTOCI reserve. Impairment allowance are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these receivables. When these receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other item subject to impairment assessment under IFRS 9

The Group performs impairment assessment under ECL model on financial assets (including trade and other receivables, receivables at FVTOCI, pledged bank deposits, restricted deposits and bank balances), and other item (financial guarantee contracts) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these trade receivables are all assessed individually.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2. Significant accounting policies *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets and other item subject to impairment assessment under IFRS 9 *(continued)*

(i) Significant increase in credit risk *(continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other item subject to impairment assessment under IFRS 9 (continued)

(i) Significant increase in credit risk (continued)

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other item subject to impairment assessment under IFRS 9 (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other item subject to impairment assessment under IFRS 9 (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probabilities of default (“PD”), loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the PD and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the ECL is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

The ECL for trade and other receivables are assessed individually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2. Significant accounting policies *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets and other item subject to impairment assessment under IFRS 9 *(continued)*

(v) Measurement and recognition of ECL *(continued)*

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

Except for financial guarantee contracts and receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables where the corresponding adjustment is recognised through a loss allowance account. For receivables that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the FVTOCI reserve without reducing the carrying amounts of these receivables. Such amount represents the changes in the FVTOCI reserve in relation to accumulated loss allowance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of receivables at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2. Significant accounting policies *(continued)*

Financial instruments *(continued)*

Financial liabilities

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, bills payables, borrowings, amount due to a related party, amount due to a third party, lease liabilities and other long-term liabilities are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

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

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Judgement in determining the classification of bills receivables

As part of the Group's cash flow management, substantial part of the bills will be discounted to financial institutions or endorsed to suppliers before the bills are due for payment. The management of the Group considered that the Group's business model over bills receivables is held to both collect contractual cash flows and sell them. Therefore, the management of the Group has satisfied that bills receivables are classified as receivables at FVTOCI.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provisional fair value of net liabilities on date of acquisition of Emerald Planet

As set out in notes 13(A), the Group completed the acquisition of Emerald Planet on 30 November 2020. However, since the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete.

Those provisional amounts adjusted during the measurement period (which cannot exceed one year from the acquisition date), and additional assets or liabilities recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the sum of the acquisition-date fair value of the assets transferred to the Group, liabilities assumed by the Group, the goodwill arising on acquisition recognised on the date of acquisition and the consideration for the acquisition of Emerald Planet. As at 31 December 2020, the provisional fair value of net liabilities acquired on the date of acquisition of Emerald Planet was amounted to RMB22,594,000, the goodwill arising on these acquisitions were RMB209,132,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (continued)

Depreciation for property, plant and equipment and amortisation for mining rights

As at 31 December 2020, the carrying amount of property, plant and equipment and mining rights were RMB957,108,000 and RMB129,644,000 (2019: RMB958,008,000 and RMB86,769,000), respectively, net of accumulated depreciation, amortisation and impairment loss, if any. The Group recognised depreciation of property, plant and equipment and amortisation of mining rights amounting to RMB193,371,000 (2019: RMB167,777,000) for the year ended 31 December 2020. The management should estimate the useful life of property, plant and equipment and mining rights. Where the actual useful life is different from the estimated useful life, the management should adjust the depreciation and amortisation amount. The Group determines the amortisation of mining rights by the shorter of the unexpired period of the mining period on the straight-line basis or the estimated useful lives of the mines in accordance with the production plan and the estimated reserves of the mines using the unit-of-production method. Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value.

Reserve estimates

Proved and probable reserve estimates are estimates of the quantity of iron ore that can be economically and legally extracted from the Group's mining properties, determined according to independent technical review reports with the consideration of recent production and technical information of each mine. Fluctuations in factors including the price of iron ore, production costs and transportation costs of iron ore, a variation on recovery rates or unforeseen geological or geotechnical perils may render the management to change the production plan, resulting in a revision on the estimates of iron ore reserves.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period.

Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows.
- Depreciation and amortisation charged to profit or loss may change where such charges are determined by the unit-of-production basis, or where the useful economic lives of assets change.
- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (continued)

Estimated impairment of long-lived assets (property, plant and equipment, intangible assets and right-of-use assets)

Assets such as property, plant and equipment, intangible assets and right-of-use assets are reviewed at the end of each reporting period to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is recognised.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and value in use calculated based on its present value of expected future cash flows. In assessing value in use, significant judgments on preparation of future cash flows are exercised over the selling price, the production estimation, related operating expenses and suitable revenue growth rate, long term growth rate and discount rate to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss/further impairment loss may arise. On the contrary, a reversal of impairment may become necessary.

As at 31 December 2020, the carrying amount of long-lived assets is RMB1,553,759,000 (net of accumulated impairment loss of RMB89,229,000) (2019: RMB1,455,349,000 (net of accumulated impairment loss of RMB85,343,000)).

Closure and rehabilitation provision

Closure and rehabilitation provision as set out in note 35 has been determined by the Directors based on current regulatory requirements and their best estimates. The management of the Group estimate this liability for final reclamation and mine closure based on detailed calculations of the amounts and timing of future cash flows that required to perform the required work. The provision reflects the present value of the expenditures expected to be required to settle the obligation. However, as the effect on the land and the environment from mining activities becomes apparent only in future periods, the estimate of the associated costs may be subject to change in the future. The provision is reviewed regularly to properly reflect the present value of the obligation arising from the current and past mining activities. As at 31 December 2020, the carrying amount of closure and rehabilitation provisions was RMB54,005,000 (2019: RMB55,267,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (continued)

Estimated impairment of financial assets

The Group reviews its financial assets to assess impairment on a regular basis. The methodologies and assumptions used for estimating the impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Directors estimate the amount of loss allowance for ECL on financial assets (including trade and other receivables, receivables at FVTOCI, restricted deposits, pledged bank deposits and bank balances), based on the credit risk of these assets. The estimation of the credit risk of these assets involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly. As at 31 December 2020, the carrying amount of the financial assets which are subject to ECL measurement is approximately RMB1,032,146,000 (net of allowance for doubtful debts of RMB30,348,000) (2019: RMB512,415,000 (net of allowance for doubtful debts of RMB25,269,000)).

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit (or a group of cash-generating units) and suitable revenue growth rate, long term growth rate and discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

As at 31 December 2020, the carrying amount of goodwill is RMB209,132,000 (2019: nil). Details of the recoverable amount calculation are disclosed in note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (continued)

Recognition of deferred tax assets

The Group recognised deferred tax assets for all deductible temporary differences to the extent that it is probable that taxable profit would be available against which the deductible temporary difference can be utilised. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be charged to profit or loss in which such a reversal takes place.

As at 31 December 2020, the Group has recognised deferred tax asset in the amount of RMB19,694,000 (2019: RMB11,188,000).

Fair value measurements and valuation process

Some of the Group's assets (including financial assets at FVTPL and receivables at FVTOCI) are measured at fair value for financial reporting purposes. The board of the directors ("**Board**") authorised the finance department headed up by the Chief Financial Officer ("**CFO**") of the Group to determine the appropriate valuation techniques and inputs for fair value.

In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. Where the Level 1 inputs are not available, the Group's valuation team establishes the appropriate valuation techniques and inputs to the model. The valuation team reports the findings to the Board to explain the cause of the fluctuations in the fair value of the assets.

Information about the valuation techniques and inputs used in determining the fair value of various assets is disclosed in note 47(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

5. REVENUE

- (i) Disaggregation of revenue from contracts with customers from continuing operations

A. For the year ended 31 December 2020

	For the year ended 31 December 2020			
	Iron Ore Business RMB'000	High-purity Iron Business RMB'000	Others RMB'000	Total RMB'000
Sales of goods (recognised at a point in time)				
Iron ore concentrates	640,168	–	–	640,168
High-purity iron	–	1,975,469	–	1,975,469
Building materials	–	–	25,320	25,320
Raw and leftover materials	2,646	31,943	366	34,955
Total	642,814	2,007,412	25,686	2,675,912
Geographical markets				
Mainland China	642,814	2,007,412	25,686	2,675,912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

5. REVENUE (CONTINUED)

- (i) Disaggregation of revenue from contracts with customers from continuing operations (continued)

B. For the year ended 31 December 2019

	For the year ended 31 December 2019			
	Iron Ore Business RMB'000	High-purity Iron Business RMB'000	Others RMB'000	Total RMB'000
Sales of goods (recognised at a point in time)				
Iron ore concentrates	1,283,231	–	–	1,283,231
High-purity iron	–	936,053	–	936,053
Building materials	–	–	12,642	12,642
Raw and leftover materials	3,541	15,857	558	19,956
Total	1,286,772	951,910	13,200	2,251,882
Geographical markets				
Mainland China	1,286,772	951,910	13,200	2,251,882

Note: Amounts of revenue in these tables are the same as the revenue from contracts with customers with the amounts disclosed in the segment information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

5. REVENUE (CONTINUED)

(ii) Performance obligations for contracts with customers

The Group produces and sales iron ore concentrates, high-purity iron, building materials and raw and leftover materials directly to customers in its continuing operations.

Revenue is recognised when control of the goods has transferred, being the time when the goods are delivered and accepted. Following acceptance, the customers have the ability to direct the use of, and obtain substantially all the benefits from goods. Therefore, the Directors have justified that the performance obligation in respect of the sales of goods is satisfied at a point in time and recognised revenue at a point in time. The normal credit term is 7 days for iron ore concentrates, 60 days for high-purity iron and 30 days for building materials upon acceptance. The Group may request certain of its customers to place up to 100% of the contract sum as deposits in respect of sales of iron ore concentrates and high-purity iron, depending on the background, historical experience of and business relationship with them. The deposit received is accounted for as "contract liabilities". The related performance obligation is expected to be satisfied within one year.

6. OPERATING SEGMENTS

The Group's operating businesses are structured and managed separately according to the geographical information of the operations and products. The principal activities of the Group are Iron Ore Business, High-purity Iron Business in the PRC, and Gold Businesses in the Australia. The Group identified an operating segment which is a component of the Group (a) that engages in business activities from which it may earn revenue and incur expenses; and (b) whose operating results are reviewed regularly by the chief executive officer, being the chief operating decision maker ("**CODM**"), to make decisions about resources allocation and performance assessment.

No operating segments have been aggregated in arriving at the reportable segments of the Group.

Other operating segment includes production and sales of building materials (i.e., foamed ceramics) which is a business since 2018 ("**Building Material Business**").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

6. OPERATING SEGMENTS (CONTINUED)

Segment revenues and results

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

For the year ended 31 December 2020

	Iron Ore Business RMB'000	High-Purity Iron Business RMB'000	Gold Business RMB'000	Others RMB'000	Adjustments and elimination RMB'000	Consolidated RMB'000
Segment revenue						
External sales	642,814	2,007,412	–	25,686	–	2,675,912
Inter-segment sales (note)	554,093	4,617	–	–	(558,710)	–
	1,196,907	2,012,029	–	25,686	(558,710)	2,675,912
Segment profit (loss)	379,741	171,285	(13,089)	(20,077)	(25,323)	492,537
Central administration costs and directors' salaries						(6,625)
Other income and other gains and losses						(10,197)
Finance costs						(631)
Group's profit before tax from continuing operations						475,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

6. OPERATING SEGMENTS (CONTINUED)

Segment revenues and results (continued)

For the year ended 31 December 2019

Continuing Operations

	Iron Ore Business RMB'000	High-Purity Iron Business RMB'000	Gold Business RMB'000	Others RMB'000	Adjustments and elimination RMB'000	Consolidated RMB'000
Segment revenue						
External sales	1,286,772	951,910	–	13,200	–	2,251,882
Inter-segment sales (note)	135,851	4,673	–	–	(140,524)	–
	1,422,623	956,583	–	13,200	(140,524)	2,251,882
Segment profit (loss)	494,432	58,329	(18,815)	(22,857)	(17,926)	493,163
Central administration costs and directors' salaries						(5,845)
Other income and other gains and losses						(217)
Finance costs						(2,495)
Group's profit before tax from continuing operations						484,606

Note: Fushun Deshan Trade Co., Ltd.* (撫順德山貿易有限公司) ("Fushun Deshan"), which is related parties controlled by Ms. Yang Min, one of a Controlling Shareholders of the Company, acted as the agents of Hanking D.R.I. to purchase the iron ore concentrates from the Group's Iron Ore Business segment prior to the completion of Acquisition (as defined in note 13 (C)). Upon completion of the Acquisition during the year ended 31 December 2019, the Group's Iron Ore Business directly supplied iron ore concentrates to Hanking D.R.I, which is now a subsidiary of the Group's High-Purity Iron Business, instead of through any intermediary agencies.

* English name is for identification purpose only.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned or loss incurred from each segment before tax and discontinued operation, without allocation of recognition of central administration costs and directors' salaries, other income, other gains and losses (except for impairment loss on property, plant and equipment, intangible assets and trade and other receivables), and certain finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

6. OPERATING SEGMENTS (CONTINUED)

Segment assets and liabilities

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

Segment assets

	31/12/2020 RMB'000	31/12/2019 RMB'000
Continuing operations		
Iron Ore Business	1,185,859	1,161,740
High-purity Iron Business	1,633,574	823,534
Gold Business	275,616	240,458
Total reportable segment assets	3,095,049	2,225,732
Other reporting segment	98,010	99,315
Unallocated		
Property, plant and equipment	4	8
Financial assets at FVTPL	3,221	3,179
Other receivables	9,977	5,735
Bank balances and cash	53,162	1,900
Consolidated assets	3,259,423	2,335,869

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

6. OPERATING SEGMENTS (CONTINUED)

Segment assets and liabilities (continued)

Segment liabilities

	31/12/2020	31/12/2019
	RMB'000	RMB'000
Continuing operations		
Iron Ore Business	691,369	503,709
High-purity Iron Business	1,351,228	934,931
Gold Business	30,336	61,072
Total reportable segment liabilities	2,072,933	1,499,712
Other reporting segment	12,535	10,309
Unallocated		
Other payables	–	10,187
Provision	10,000	–
Consolidated liabilities	2,095,468	1,520,208

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable and operating segments other than certain property, plant and equipment, financial assets at FVTPL, other receivables and bank balances and cash used and held by the headquarter; and
- all liabilities are allocated to reportable and operating segments other than certain other payables and provision by the headquarter.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

6. OPERATING SEGMENTS (CONTINUED)

For the year ended 31 December 2020

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

	Iron Ore Business RMB'000	High-Purity Iron Business RMB'000	Gold Business RMB'000	Total reportable segment RMB'000	Others RMB'000	Total RMB'000
Addition to non-current assets (note)	136,517	158,887	29,626	325,030	7,408	332,438
Depreciation and amortisation	183,645	36,015	1,629	221,289	7,178	228,467
Impairment loss on property, plant and equipment	-	-	-	-	3,886	3,886
(Loss) gain on disposal of property, plant and equipment	(3,245)	8	-	(3,237)	(289)	(3,526)
Impairment losses recognised (reserved) on trade receivables	2,392	(624)	-	1,768	847	2,615
Impairment losses on other receivables	2,416	48	-	2,464	-	2,464
Write-down of the inventories	-	2,846	-	-	-	2,846

Note: Non-current assets excluded goodwill, financial assets at FVTPL, deferred tax assets, deposits on acquisition of property, plant and equipment, restricted deposits and pledged bank deposits.

For the year ended 31 December 2019

Continuing operations

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

	Iron Ore Business RMB'000	High-Purity Iron Business RMB'000	Gold Business RMB'000	Total reportable segment RMB'000	Others RMB'000	Total RMB'000
Addition to non-current assets (note)	146,624	179,479	11,506	337,609	17,407	355,016
Depreciation and amortisation	171,011	21,300	432	192,743	6,229	198,972
Impairment loss on property, plant and equipment	-	17,469	-	17,469	-	17,469
Impairment loss on intangible assets	-	-	833	833	-	833
Reversal of impairment on trade receivables	-	(2,565)	-	(2,565)	-	(2,565)
Impairment losses on other receivables	3,349	1,632	-	4,981	-	4,981
Gain on disposal of property, plant and equipment	603	-	-	603	-	603
Gain on disposal of intangible assets	189	-	-	189	-	189
Write-down of the inventories	-	-	-	-	6,880	6,880

Note: Non-current assets excluded financial assets at FVTPL, deferred tax assets, deposits on acquisition of property, plant and equipment, restricted deposits and pledged bank deposits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

6. OPERATING SEGMENTS (CONTINUED)

Geographical information

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

Information about the Group's revenue from continuing operations from external customers is presented based on locations of customers. Information about the Group's non-current assets is presented based on the geographical areas of the assets.

	Revenue from external customers		Non-current assets	
	Year ended			
	31/12/2020 RMB'000	31/12/2019 RMB'000	31/12/2020 RMB'000	31/12/2019 RMB'000
Continuing operations				
The PRC	2,675,912	2,251,882	1,295,110	1,230,958
Australia	–	–	258,649	224,391
	2,675,912	2,251,882	1,553,759	1,455,349

Note: Non-current assets excluded goodwill, financial assets at FVTPL, deferred tax assets, deposits on acquisition of property, plant and equipment, restricted deposits and pledged bank deposits.

Information about major customers

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

	Year ended	
	31/12/2020 RMB'000	31/12/2019 RMB'000
Continuing operations		
Customer A (revenue from high-purity iron sales)	354,234	223,645
Customer B (revenue from iron ore concentrates sales)	N/A*	451,058
Customer C (revenue from iron ore concentrates sales)	N/A*	253,123

* For the year ended 2020, the corresponding revenue of these customers did not contribute over 10% of the total revenue of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. OTHER INCOME

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Continuing operations		
Bank interest income	6,239	4,547
Government grants	3,320	228
Release of financial guarantees provided to related parties	–	1,751
Others	–	181
	9,559	6,707

8. OTHER GAINS AND LOSSES

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Continuing operations		
(Loss) gain on disposal of property, plant and equipment	(3,526)	603
Gain on disposal of intangible assets	–	189
Fair value (loss) gain on financial assets at FVTPL	(43)	4,179
Net foreign exchange loss	(1,639)	(3,010)
Impairment loss on property, plant and equipment (note 23)	(3,886)	(17,469)
Impairment of intangible assets	–	(833)
Gain on disposal of a subsidiary (note 14A)	259	–
Donations	(9,085)	–
Provision for contingency (note 45)	(10,000)	–
Others	5,291	8,884
	(22,629)	(7,457)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

9. IMPAIRMENT LOSSES UNDER ECL MODEL, NET OF REVERSAL

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Impairment losses recognised (reversed) in respect of:		
– trade receivables	2,615	(2,565)
– other receivables	2,464	4,981
	5,079	2,416

10. FINANCE COSTS

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Continuing operations		
Interests on borrowings	45,438	69,252
Interests on bills discounted	32,687	16,857
Interests on lease liabilities	496	226
Interests on loan from a related party	5,595	12,352
Interests on rehabilitation provision	1,889	–
	86,105	98,687

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

11. PROFIT BEFORE TAX

Profit before tax from continuing operations has been arrived at after charging (crediting) the following items:

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Cost of inventories recognised as an expense (note)	1,675,643	1,300,700
Auditors' remuneration	4,016	3,436
Depreciation of property, plant and equipment	167,511	138,125
Amortisation of intangible assets	29,140	31,774
Depreciation of right-of-use assets	31,816	29,073
Total depreciation and amortisation	228,467	198,972
Capitalised in inventories	(201,796)	(157,095)
	26,671	41,877
Analysed as:		
– charged in research and development expenses	346	1,117
– charged in distribution and selling expenses	41	168
– charged in administrative expenses	26,284	40,592
	26,671	41,877

Note: The amount included write-down of inventories of RMB2,846,000 (2019: RMB6,880,000) for the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

11. PROFIT BEFORE TAX (CONTINUED)

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Salaries and other benefits including staff's bonus	145,808	144,063
Retirement benefit scheme contributions (note)	2,376	11,239
Share-based payment	614	–
Total staff costs (including directors)	148,798	155,302
Capitalised in inventories	(60,056)	(66,435)
	88,742	88,867
Analysed as:		
– charged in research and development expenses	2,643	2,892
– charged in distribution and selling expenses	2,234	2,162
– charged in administrative expenses	83,865	83,813
	88,742	88,867
Research expenditure analysed as:		
– depreciation and amortisation	3,206	2,360
– raw materials consumed	107,990	76,233
– staff costs	5,684	4,472
– technical service fee	939	1,684
– others	4,937	5,488
Capitalised in inventories	122,756 (111,537)	90,237 (79,993)
	11,219	10,244
Research and development cost charged in profit or loss analysed as:		
– depreciation and amortisation	346	1,117
– raw materials consumed	2,884	680
– staff costs	2,643	2,892
– technical service fee	469	567
– others	4,877	4,988
	11,219	10,244

Note: According to the policy issued by Liaoning Province in March 2020, retirement benefits scheme contributions, work injury and unemployment insurance from February to December 2020 were exempted for small and medium enterprises. As certain subsidiaries of the Group meet the stipulated requirements, accordingly, these subsidiaries are eligible to enjoy such concession.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

12. INCOME TAX EXPENSE

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Continuing operations		
Current tax:		
PRC Enterprise Income Tax ("EIT")	(92,948)	(44,456)
Under provision in prior years (note)	(5,338)	(44,481)
	(98,286)	(88,937)
Deferred tax (note 25):		
Current year	4,400	(39,418)
Attributable to changes in tax rate	(3,426)	(24,090)
Total income tax expense recognised in the current year	(97,312)	(152,445)

Note: The under provision in 2019 represented the reversal of deductible temporary differences being recognised in 2018 upon acquiring back of a subsidiary in 2019 due to certain regulatory reasons.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years except disclosed as below.

On 22 July 2019, Aoni Mining obtained "High Technology Enterprise" status for 3 years that entitled it a preferential tax rate of 15% for a period of three years starting from 2019 to 2021 according to EIT Law.

On 10 October 2017, Hanking D.R.I. obtained "High Technology Enterprise" status for 3 years that entitled it a preferential tax rate of 15% for a period of three years starting from 2017 to 2019 according to EIT Law. On 15 September 2020, Hanking D.R.I. reapplied and obtained the qualification of "High Technology Enterprise" status for another 3 years that entitled it a preferential tax rate of 15% for a period of three years starting from 2020 to 2022.

The Company and certain subsidiaries located in Hong Kong and Australia had no provision for corporate tax as there were no assessable profits arising from these jurisdictions for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

12. INCOME TAX EXPENSE (CONTINUED)

The income tax expense for the years in relation to continuing operations can be reconciled to the profit before tax from continuing operations per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Profit before tax (from continuing operations)	475,084	484,606
Tax at the PRC income tax rate of 25% (2019: 25%)	(118,771)	(121,152)
Tax effect of expenses not deductible for tax purpose	(21,119)	(21,355)
Tax effect of income not taxable for tax purposes	338	2,926
Tax effect of research and development expenses that are additionally deducted	2,104	1,921
Deductible temporary differences and tax losses not recognised	(10,214)	(13,868)
Utilisation of deductible temporary difference and tax losses previously not recognised	–	14,593
Tax effect of concessions granted to Aoni Mining and Hanking D.R.I.	59,114	53,061
Change in opening deferred tax asset resulting from a change in applicable tax rate	(3,426)	(24,090)
Under provision in respect of prior years	(5,338)	(44,481)
Income tax expense for the year (relating to continuing operations)	(97,312)	(152,445)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

13. ACQUISITION OF SUBSIDIARIES

A. Acquisition of Emerald Planet Group

On 12 November 2020, the Company and the shareholders of Emerald Planet (the “**Vendors**”) entered into an agreement for acquisition of 100% equity interests of Emerald Planet at a consideration of HKD224 million (equivalent to RMB186,538,000), which will be settled by allotment and issuance of 140,000,000 shares of the Company to the Vendors under general mandate. The fair value of the 140,000,000 consideration shares of the Company was determined using the closing quoted market price on 30 November 2020 (i.e. the date of acquisition). Emerald Planet Group is principally engaged in production and sale of high-purity iron in the PRC. The acquisition of Emerald Planet Group was completed on 30 November 2020. The acquisition has been accounted for as acquisition of business using the acquisition method.

Consideration transferred

	RMB'000
Contingent consideration arrangement	–
Equity instruments issued	186,538
Total consideration	186,538

Among the total liabilities of Emerald Planet Group, the debt owed by Emerald Planet Group to Beijing Zhuguan Technology Limited* (北京主冠科技有限公司) (“**Beijing Zhuguan**”) as at 31 December 2020, ex-equity owner of Benxi Yuqilin (as defined below), which is a subsidiary of Emerald Planet, was RMB116,697,000. Under the arrangement between the equity owners of Beijing Zhuguan and the Vendors, of the debt balance of RMB116,697,000, an amount of RMB100 million (“**Guarantee Debt**”) will be served as the guarantee for the profit commitment (“**Profit Commitment**”) given to the Company.

The Vendors have jointly undertaken to the Company that the audited consolidated net profit attributable to the equity holders of Benxi Yuqilin New Material Limited* (本溪玉麒麟新材料有限公司) (“**Benxi Yuqilin**”), a wholly owned subsidiary of Emerald Planet, for the year ending 31 December 2021 (the “**Initial Profit Commitment Period**”) shall be no less than RMB50 million. Details of the settlement arrangements of the Guarantee Debt are set out below:

- (a) If the Profit Commitment can be fulfilled during the Initial Profit Commitment Period, the Emerald Planet Group shall be obliged to settle the Guarantee Debt in full;

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for the year ended 31 December 2020

13. ACQUISITION OF SUBSIDIARIES (CONTINUED)

A. Acquisition of Emerald Planet Group (continued)

Consideration transferred (continued)

- (b) If the Profit Commitment cannot be fulfilled during the Initial Profit Commitment Period, the Company also has the right (the “**Right of Extension**”) to extend the Initial Profit Commitment Period to for the two years ending 31 December 2022 (the “**Extended Profit Commitment Period**”):
- (i) If the Company chooses not to exercise the Right of Extension, Emerald Planet Group shall be responsible for the settlement of the Guarantee Debt in the amount as adjusted down by the shortfall in Profit Commitment, while the Vendors shall be responsible for the settlement of the residual of the Guarantee Debt (the “**Residual Guarantee Debt**”) which is in the same amount as the shortfall in Profit Commitment; or
- (ii) If the Company chooses to exercise the Right of Extension, the Profit Commitment will be adjusted to an amount equal to or not less than RMB100 million in aggregate for the two years ending 31 December 2022 (the “**Adjusted Profit Commitment**”).

If the Adjusted Profit Commitment is fulfilled, Emerald Planet Group shall be responsible for the settlement of the Residual Guarantee Debt. If the Adjusted Profit Commitment is not fulfilled by the end of the Extended Profit Commitment Period, Emerald Planet Group shall be absolved from its obligation to settle the Residual Guarantee Debt and the Vendors shall be responsible for the settlement of the Residual Guarantee Debt.

Based on the financial forecast of Emerald Planet Group, the Directors believe that Emerald Planet Group is able to meet the profit requirement in the Initial Profit Commitment Period.

The Directors are of the opinion that the fair value of such contingent arrangement is insignificant at the year ended 31 December 2020.

Taking into account the time required to prepare the audited financial information of Benxi Yuqilin for the year ending 31 December 2021, which will exceed twelve months from 31 December 2020, the Guarantee Debt of RMB100 million is classified as non-current liability.

- * English name is for identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

13. ACQUISITION OF SUBSIDIARIES (CONTINUED)

A. Acquisition of Emerald Planet Group (continued)

Assets acquired and liabilities recognised at the date of acquisition (determined on a provisional basis):

	RMB'000
Assets	
Property, plant and equipment	105,674
Right-of-use assets	36,168
Deposits on acquisition of property, plant and equipment	7,433
Deferred tax assets	7,532
Inventories	72,149
Trade and other receivables	21,477
Bank balances and cash	85
	250,518
Liabilities	
Trade and other payables	105,851
Contract liabilities	67,261
Amounts due to Beijing Zhuguan under Profit Commitment guarantee	100,000
	273,112
Net liabilities	(22,594)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

13. ACQUISITION OF SUBSIDIARIES (CONTINUED)

A. Acquisition of Emerald Planet Group (continued)

Goodwill arising on acquisition (determined on a provisional basis):

	RMB'000
Consideration transferred	186,538
Less: recognised amounts of net liabilities acquired	(22,594)
Goodwill arising on acquisition	209,132

Emerald Planet Group is entitled to a high-purity iron production permit which is regulated by the National Development and Reform Commission (“**NDRC**”) in the PRC. Under the announcement of NDRC published on 23 January 2020, no new application of high-purity iron production permit will be accepted. Goodwill arose on the acquisition of Emerald Planet Group because of its high-purity iron production permit and the synergy effect as the acquisition will allow the Group to expand its annual production capacity of high-purity iron in a more efficient manner. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash inflow on acquisition of Emerald Planet Group

	RMB'000
Cash consideration paid	–
Less: bank balances and cash acquired	(85)
	85

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

13. ACQUISITION OF SUBSIDIARIES (CONTINUED)

A. Acquisition of Emerald Planet Group (continued)

Impact of acquisition on the results of the Group

Included in the profit for the year is RMB1,096,000 attributable to the additional business generated by Emerald Planet Group. Revenue for the year includes RMB28,332,000 generated from Emerald Planet Group.

Had the acquisition of Emerald Planet Group been completed on 1 January 2020, revenue for the year of the Group from continuing operations would have been RMB2,721,779,000, and profit for the year from continuing operations would have been RMB358,720,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2020, nor is it intended to be a projection of future results.

In determining the "pro-forma" revenue and profit of the Group had Emerald Planet Group been acquired at the beginning of the current year, the Directors calculated depreciation of property, plant and equipment and right-of-use assets based on the recognised amounts of property, plant and equipment and right-of-use assets at the date of the acquisition.

B. Acquisition of Zhenghai Investment Limited

On 2 January 2020, Tuochuan (Hong Kong), a wholly owned subsidiary of the Company, entered into a share sale and purchase agreement with the sole shareholder of Zhenghai Investment Limited, an independent third party, pursuant to which the third party agreed to sell, and Tuochuan (Hong Kong) agreed to purchase, the entire 100% of equity interest of Zhenghai Investment Limited, which held 1% equity interests of Ginseng & Iron, for a total consideration of RMB11,800,000. The consideration payable was settled as at 31 December 2020. As Ginseng & Iron is a subsidiary of the Company since 2019, this transaction is accounted for as acquisition of non-controlling interests through the acquisition of a subsidiary in the consolidated financial statements.

Assets acquired at the date of acquisition is as follows:

	RMB'000
Investment in Ginseng & Iron	11,800

Following the completion of the acquisition, Ginseng & Iron became a wholly owned subsidiary of Tuochuan (Hong Kong).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

13. ACQUISITION OF SUBSIDIARIES (CONTINUED)

C. Acquisition of Tuochuan (Hong Kong)

On 1 April 2019, the Company and the relevant sellers entered into an agreement in relation to the acquisition of 100% equity interests of Tuochuan (Hong Kong) and its subsidiaries for a consideration of RMB1,020,000,000 (the “**Acquisition**”). Tuochuan (Hong Kong) and its subsidiaries are engaged in the High-purity Iron Business. In preparation for the Acquisition, the entities comprising Tuochuan (Hong Kong) and its subsidiaries underwent a series of group reorganisation. Details of the group reorganisation were set out in the Very Substantial Acquisition circular issued by the Company dated 29 April 2019, which has been published on the website of the Hong Kong Stock Exchange.

In addition, a series of current account offsetting agreements (“**Current Account Offsetting Agreements**”) had been entered into among the Company, certain of its subsidiaries, Tuochuan Capital Limited, China Hanking (BVI) Limited, Hanking Investment and Hanking Industrial Group Co., Ltd. on 31 December 2019, pursuant to which the consideration payable for Acquisition of Tuochuan (Hong Kong) of RMB1,020,000,000 will be offset by consideration receivable for the disposal of Hanking (Indonesia) of RMB350,000,000, the consideration payable for the acquisition of Ginseng & Iron of RMB128,700,000, and the net amount due from the related parties including Hanking (Indonesia) and Hanking Investment as at the relevant date which amounted to RMB673,075,000.

After the above-said offsetting arrangements, the Group resulted in a net amount due to Hanking Investment of RMB125,625,000 as at the date of acquisition. The amount is unsecured, interest-free and payable on demand. Subsequently, the Group repaid RMB81,325,000 in 2019 and the remaining RMB44,300,000 in 2020 to Hanking Investment in cash.

In respect of the Acquisition, since Mr. Yang Jiye and Ms. Yang Min are both collectively the Controlling Shareholders of the Company and Tuochuan (Hong Kong), the Acquisition was regarded as a business combination involving entities under common control and was accounted for using principle of merger accounting method.

The Acquisition was completed during the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

14. DISPOSAL OF SUBSIDIARIES AND DISCONTINUED OPERATION

(A) Marvel Loch Hotel Pty Ltd ("Marvel Loch Hotel")

On 12 August 2020, the Company entered into a share sale and purchase agreement with James Anthony Chittick and Michael John Chittick, who were two independent third parties, pursuant to which the Company agreed to sell, and James Anthony Chittick and Michael John Chittick agreed to purchase, the entire 94% of equity interest of Marvel Loch Hotel held by the Company for a total consideration of AUD150,000 (equivalent to RMB788,000). The Group's disposal of Marvel Loch Hotel was completed on 1 September 2020. A gain on disposal of RMB259,000 was recognised as other gains and losses.

(B) Hanking (Indonesia)

On 5 July 2018, the Company entered into a share sale and purchase agreement with Tuochuan Capital Limited which was controlled by Mr. Yang Jiye, who is also acting as the guarantor, pursuant to which the Company agreed to sell, and Tuochuan Capital Limited agreed to purchase, the entire 70% of equity interest of Hanking (Indonesia) held by the Company for a total consideration of RMB350,000,000. Hanking (Indonesia) and its subsidiaries constituted the Group's nickel ore exploration, mining, smelting and sale business in Indonesia ("Nickel Business"). The transaction was approved by the shareholders on 24 August 2018. The Group's disposal of Hanking (Indonesia) was completed during the year ended 31 December 2019 and the Group since then had no plan to carry out the Nickel Business.

The loss for the period from 1 January 2019 to date of disposal from the discontinued Nickel Business is set out below.

	For the period from 1 January 2019 to date of disposal RMB'000
Loss for the period from Nickel Business	(3,307)
Reclassification of cumulative translation reserve upon disposal of a foreign operation to profit or loss	(31,911)
	(35,218)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

14. DISPOSAL OF SUBSIDIARIES AND DISCONTINUED OPERATION (CONTINUED)**(B) Hanking (Indonesia) (continued)**

The results of Nickel Business for the period from 1 January 2019 to date of disposal, which have been included in the consolidated statement of profit or loss and other comprehensive income, were as follows:

	RMB'000
Revenue	110,603
Cost of sales	(42,893)
Other gains and losses	2,157
Distribution and selling expenses	(11,069)
Administrative expenses	(40,930)
Finance costs	(21,473)
Loss before tax	(3,605)
Income tax credit	298
Loss for the period	(3,307)
	RMB'000
Total consideration satisfied by:	
Consideration receivable subject to Current Account	
Offsetting Agreements (note)	350,000

Note: Pursuant to the Current Account Offsetting Agreements as disclosed in note 13, the consideration receivable in respect of the Group's disposal of Hanking (Indonesia) of RMB350,000,000 will be offset with the consideration payable in respect of the acquisition of Ginseng & Iron of RMB128,700,000, consideration payable for Acquisition of Tuochuan (Hong Kong) of RMB1,020,000,000, and the net amount due from the related parties including Hanking (Indonesia) and Hanking Investment as of that date amounted RMB673,075,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

14. DISPOSAL OF SUBSIDIARIES AND DISCONTINUED OPERATION (CONTINUED)

(B) Hanking (Indonesia) (continued)

Analysis of assets and liabilities over which control was lost over the subsidiaries on date of disposal is presented below:

	For the period from 1 January 2019 to date of disposal RMB'000
Property, plant and equipment	181,318
Intangible assets	563,071
Right-of-use assets	798
Deferred tax assets	6,385
Deposits on acquisition of property, plant and equipment	10,479
Inventories	42,533
Trade and other receivables	60,815
Tax recoverable	101
Bank balances and cash	11,910
Trade and other payables	(186,621)
Retirement benefit obligations	(852)
Consideration payable	(314,078)
Rehabilitation provision	(1,592)
Tax liabilities	(273)
Net assets disposed of	373,994
Net assets disposed of	373,994
Less: Non-controlling interest	(179,722)
Cumulative exchange differences in respect of the net assets reclassified from equity to profit or loss	31,911
Net assets attributable to owners of the Company	226,183
Gain on disposal	123,817
Analysis of gain on disposal:	
– Gain as deemed capital contribution	155,728
– Loss arising from cumulative translation reserve upon disposal of a foreign operation to profit or loss	(31,911)
	123,817

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

14. DISPOSAL OF SUBSIDIARIES AND DISCONTINUED OPERATION *(CONTINUED)*

(B) Hanking (Indonesia) *(continued)*

The cumulative balance resulting from Hanking (Indonesia) in respect of translation reserve of RMB31,911,000 had been recycled to profit or loss upon the completion of the Group's disposal of Hanking (Indonesia) during the year ended 31 December 2019 in loss from discontinued operation, accordingly.

Cash flows from Nickel Business:

	For the period from 1 January 2019 to date of disposal RMB'000
Net cash flows from operating activities	38,238
Net cash flows used in investing activities	(35)
Net cash flows used in financing activities	(35,273)
Net cash flows	2,930

(C) Hanking Housing

During the year ended 31 December 2019, the Group entered into a share transfer agreement with Mr. Yang Jiye, one of the Controlling Shareholders, to dispose of its entire 100% equity interest in Hanking Housing whose principal business is engaged in building materials trading and constructional design business, to Hanking Investment, 99% owned and controlled by Mr. Yang Jiye, one of the Controlling Shareholders, for cash consideration of RMB1. The disposal was completed on 31 March 2019 on which date the Group lost control of Hanking Housing and its subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

14. DISPOSAL OF SUBSIDIARIES AND DISCONTINUED OPERATION (CONTINUED)

(C) Hanking Housing (continued)

Analysis of assets and liabilities over which control was lost over Hanking Housing on date of disposal is presented below:

	31 March 2019
	RMB'000
Bank balances and cash	121
Trade and other receivables	7,743
Inventories	81
Property, plant and equipment	64
Trade and other payables	(17,234)
Net liabilities disposed of	(9,225)
Gain on disposal of Hanking Housing:	
	RMB'000
Consideration received	–
Less: net liability disposed of	9,225
Gain on disposal treated as deemed capital contribution	9,225
Net cash outflow arising on disposal of the subsidiaries	
	RMB'000
Cash consideration received	–
Less: bank balances and cash disposed of	(121)
	(121)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 8 (2019:8) directors were as follows:

	For the year ended 31 December 2020				
	Directors' fees RMB'000	Retirement benefit scheme contributions RMB'000	Salary, wages and other allowance RMB'000	Performance incentive payments RMB'000	Total RMB'000
Executive directors (note d):					
– Yang Jiye (note a)	–	4	1,887	–	1,891
– Zheng Xuezhi (note b)	–	85	1,087	–	1,172
– Dr. Qiu	–	262	2,759	–	3,021
Non-executive directors (note e):					
– Kenneth Lee	168	–	–	–	168
– Xia Zhuo (note c)	168	–	–	–	168
Independent non-executive directors (note f):					
– Wang Ping	210	–	–	–	210
– Wang Anjian	168	–	–	–	168
– Ma Qingshan	168	–	–	–	168
	882	351	5,733	–	6,966

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

	For the year ended 31 December 2019				
	Directors' fees RMB'000	Retirement benefit scheme contributions RMB'000	Salary, wages and other allowance RMB'000	Performance incentive payments RMB'000	Total RMB'000
Executive directors (note d):					
– Yang Jiye (note a)	–	42	1,886	–	1,928
– Zheng Xuezhi (note b)	–	113	1,087	10	1,210
– Dr. Qiu	–	255	2,687	–	2,942
Non-executive directors (note e):					
– Kenneth Lee	179	–	–	–	179
– Xia Zhuo (note c)	61	22	187	–	270
Independent non-executive directors (note f):					
– Wang Ping	224	–	–	–	224
– Wang Anjian	179	–	–	–	179
– Ma Qingshan	179	–	–	–	179
	822	432	5,847	10	7,111

Notes:

- (a) Yang Jiye was the chief executive officer (“CEO”) for the period from 26 August 2014 to 28 May 2015. He was re-designated from an executive director to a non-executive director with effect from 17 December 2015 and further re-designated as an executive director of the Company on 18 March 2016. On 19 March 2018, he was re-designated as CEO.
- (b) Zheng Xuezhi was CFO and executive director of the Company, and emoluments disclosed above include those for services rendered by him as the CFO.
- (c) Xia Zhuo resigned as executive director and was appointed as non-executive director on 29 August 2019.
- (d) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.
- (e) The non-executive directors' emoluments shown above were for their services as directors of the Company and its subsidiaries.
- (f) The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

The performance incentive payment is mainly determined on the basis of the Group's and individual performance for each of years ended 31 December 2020 and 2019.

During the both years, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration during the both years.

16. FIVE HIGHEST PAID EMPLOYEES

During the year, the five highest paid individuals included 3 directors (2019: 3 directors), details of whose emoluments are set out in note 15. The emoluments of the remaining two (2019: two) highest paid individual of 2020 were as follows:

	Year ended	
	31/12/2020 RMB'000	31/12/2019 RMB'000
Employee		
– Salaries and other benefits	2,451	2,493
– Retirements benefits scheme contributions	53	441
– Performance incentive payments	–	41
	2,504	2,975

The emoluments of the five highest paid individuals were within the following bands:

	2020 No. of Individuals	2019 No. of Individuals
HKD1,000,001 to HKD1,500,000	2	1
HKD1,500,001 to HKD2,000,000	1	2
HKD2,000,001 to HKD2,500,000	1	1
HKD3,000,001 to HKD3,500,000	–	1
HKD3,500,001 to HKD4,000,000	1	–
	5	5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

17. DIVIDENDS

	Year ended	
	31/12/2020 RMB'000	31/12/2019 RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2019 Final – HKD0.08 (2018: HKD0.02) per share (note)	132,430	32,159
2020 Interim – HKD0.04 (2019: nil) per share (note)	61,407	–
	193,837	32,159

Note:

During the current year, a dividend of HKD0.08 per share amounting to HKD145,600,000 (equivalent to RMB132,430,000) in aggregate in respect of the year ended 31 December 2019 (2019: a dividend of HKD0.02 per share amounting to HKD36,557,000 (equivalent to RMB32,159,000) in aggregate in respect of the year ended 31 December 2018) was declared and paid to the owners of the Company whose names appeared in the register of members of the Company on 8 June 2020. An interim dividend of HKD0.04 per share amounting to HKD72,800,000 (equivalent to RMB61,407,000) in aggregate (2019: nil) was declared and paid to the owners of the Company whose names appear in the Register of Members on 3 November 2020.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2020 of HKD0.08 (2019: final dividend in respect of the year ended 31 December 2019 of HKD0.08) per ordinary share, in an aggregate amount of HKD156,800,000 (2019:HKD145,600,000), has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming general annual meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

18. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

From continuing and discontinued operations

	Year ended	
	31/12/2020 RMB'000	31/12/2019 RMB'000
Profit for the year from continuing and discontinued operations attributable to owners of the Company	379,440	296,574
Less: loss for the year from discontinued operation attributable to owners of the Company	–	37,597
Profit for the year from continuing operations attributable to owners of the Company, for the purposes of basic earnings per share	379,440	334,171

	Number of shares	
	31/12/2020	31/12/2019
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,827,620,000	1,826,922,000

The weighted average number of ordinary shares for the year ended 31 December 2020 for the purpose of basic earnings per share has been adjusted for the weighted average effect of 15,596,000 ordinary shares repurchased as restricted shares held for strategic incentive award scheme and an aggregate of 140,000,000 consideration shares are issued in December 2020 (for the year ended 31 December 2019: adjusted for the weighted average effect of 7,829,000 shares repurchased and cancelled in July, August and September, and 2,893,000 ordinary shares repurchased as restricted shares held for strategic incentive award scheme).

From discontinued operation

For the year ended 31 December 2019, basic loss per share for the discontinued operation was RMB2.1 cents per share, based on the loss for the year from the discontinued operation of RMB37,597,000 and the denominators detailed above for basic earnings per share.

The Company did not have dilutive potential ordinary shares in issue for the years ended 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Mining structures RMB'000	Plant and machinery RMB'000	Other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2019	760,070	152,390	676,409	22,728	131,943	35,804	1,779,344
Additions	4,233	31,328	10,133	983	8,275	199,174	254,126
Transfer	13,867	7,889	171,094	–	15	(192,865)	–
Disposals	(48,164)	–	(98,993)	(284)	(24,452)	(1,351)	(173,244)
Exchange adjustments	19	–	–	13	7	–	39
At 31 December 2019	730,025	191,607	758,643	23,440	115,788	40,762	1,860,265
Additions	11,236	–	7,489	2,462	9,352	42,315	72,854
Additions in relation to acquisition of Emerald Planet Group	21,517	–	78,873	13	729	4,542	105,674
Transfer	23,111	–	13,440	–	–	(36,551)	–
Disposals	(6,921)	–	(9,311)	(2,630)	(22,637)	–	(41,499)
Exchange adjustments	42	–	–	–	15	–	57
At 31 December 2020	779,010	191,607	849,134	23,285	103,247	51,068	1,997,351
DEPRECIATION AND IMPAIRMENT							
At 1 January 2019	259,234	93,670	404,896	16,423	118,470	3,948	896,641
Provided for the year	55,993	13,164	58,796	2,358	7,814	–	138,125
Impairment loss recognised in profit or loss	10,163	–	7,021	285	–	–	17,469
Eliminated on disposals	(35,181)	–	(91,814)	(558)	(22,435)	–	(149,988)
Exchange adjustments	4	–	–	5	1	–	10
At 31 December 2019	290,213	106,834	378,899	18,513	103,850	3,948	902,257
Provided for the year	63,272	33,010	64,445	1,936	4,848	–	167,511
Impairment loss recognised in profit or loss	569	–	3,317	–	–	–	3,886
Eliminated on disposals	(4,341)	–	(6,708)	(2,002)	(20,378)	–	(33,429)
Exchange adjustments	14	–	–	–	4	–	18
At 31 December 2020	349,727	139,844	439,953	18,447	88,324	3,948	1,040,243
CARRYING VALUES							
At 31 December 2020	429,283	51,763	409,181	4,838	14,923	47,120	957,108
At 31 December 2019	439,812	84,773	379,744	4,927	11,938	36,814	958,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group is in the process of applying for the title certificates for certain buildings with carrying amount of RMB5,100,000 as at 31 December 2020 (2019:RMB5,950,000).

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

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

The mining structures are infrastructures and include mainly the main and auxiliary mine shafts and underground tunnels, and other mining costs capitalised for future economic benefits of the operation. Depreciation is provided to write off the cost of the mining structures on the straight-line basis by the mining lives for which the structure was designed.

The management recognised an impairment of RMB3,886,000 for buildings, plant and machinery used in Building Materials Business during the year ended 31 December 2020. Details for the impairment of Building Materials Business are set out in note 23.

Certain property, plant and equipment of the Group had been pledged as securities for bank borrowings as at 31 December 2020 and 2019 with details summarised in note 44.

20. GOODWILL

	Acquisition of Emerald Planet Group RMB'000
Cost and carrying values	
At 1 January 2020	–
Arising on acquisition of Emerald Planet Group (note 13 (A))	209,132
At 31 December 2020	209,132

Particulars regarding impairment testing on goodwill are disclosed in note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. INTANGIBLE ASSETS

	Software RMB'000	Mining rights RMB'000	Exploration and evaluation assets RMB'000	Technical know-how RMB'000	Total RMB'000
COST					
At 1 January 2019	8,245	321,190	211,674	1,421	542,530
Additions	1,847	52,443	11,263	4,772	70,325
Exchange adjustments	-	-	52	-	52
At 31 December 2019	10,092	373,633	222,989	6,193	612,907
Additions	1,239	68,735	32,580	3,336	105,890
Exchange adjustments	-	-	6,370	-	6,370
At 31 December 2020	11,331	442,368	261,939	9,529	725,167
AMORTISATION AND IMPAIRMENT					
At 1 January 2019	5,976	257,212	-	-	263,188
Charge for the year	1,743	29,652	-	379	31,774
Impairment loss recognised in profit or loss	-	-	833	-	833
At 31 December 2019	7,719	286,864	833	379	295,795
Charge for the year	2,238	25,860	-	1,042	29,140
Exchange adjustments	-	-	26	-	26
At 31 December 2020	9,957	312,724	859	1,421	324,961
CARRYING VALUES					
At 31 December 2020	1,374	129,644	261,080	8,108	400,206
At 31 December 2019	2,373	86,769	222,156	5,814	317,112

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for the year ended 31 December 2020

21. INTANGIBLE ASSETS (CONTINUED)

The above intangible assets have definite useful lives. Software is amortised on a straight-line basis over five years. Mining rights are amortised over the shorter of the unexpired period of the rights on the straight-line basis or the estimated useful lives of the mines, in accordance with the production plans of the entities concerned and the proved and probable reserves of the mines using the units of production method. Exploration and evaluation rights will be transferred to mining rights once the mining rights certificates obtained. Technical know-how is amortised on a straight-line basis over a period of five years.

No impairment loss has been recognised during the year ended 31 December 2020. Impairment loss of RMB833,000 has been recognised during the year ended 31 December 2019 in respect of certain exploration and evaluation assets previously capitalised related to the Gold Business because the management of the Group expect such amount cannot be recovered.

22. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Offices and premises RMB'000	Factory buildings RMB'000	Total RMB'000
As at 31 December 2020				
Carrying amount	185,097	8,902	2,446	196,445
As at 31 December 2019				
Carrying amount	170,839	7,801	1,589	180,229
For the year ended 31 December 2020				
Depreciation charge	26,767	4,521	528	31,816
For the year ended 31 December 2019				
Depreciation charge	27,934	782	357	29,073

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for the year ended 31 December 2020

22. RIGHT-OF-USE ASSETS (CONTINUED)

	Year ended	
	31/12/2020 RMB'000	31/12/2019 RMB'000
Expense relating to short-term leases	10,838	9,703
Total cash outflow for leases	22,410	31,388
Additions to right-of-use assets	48,020	30,565

For both years, the Group leases leasehold lands, office and premises, factory buildings, machinery and equipment for its operations. Lease contracts are entered into for fixed term of 6 months to 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The leasehold lands were amortised over the benefit periods from 5 to 50 years. Amount of RMB83,956,000 (2019: RMB84,915,000) represented the pre-paid rental to various farmers for mining purpose and no land certificates for these pre-paid rental have been obtained. The offices, premises and factory buildings were amortised over the lease terms.

Certain right-of-use assets of the Group had been pledged as securities for obtaining the bank borrowings as at 31 December 2020 and 2019 with details summarised in note 44.

The Group regularly entered into short-term leases for office and premises, factory buildings, machinery and equipment. As at 31 December 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

Restrictions or covenants on leases

In addition, lease liabilities of RMB10,108,000 are recognised with related right-of-use assets of RMB11,348,000 as at 31 December 2020 (2019: lease liabilities of RMB9,332,000 and related right-of-use assets of RMB9,390,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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for the year ended 31 December 2020

23. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Impairment of tangible and intangible assets recognised during the year:		
High-purity Iron Business	–	(17,469)
Building Materials Business	(3,886)	–
Gold Business	–	(833)
Total impairment loss recognised in the current year	(3,886)	(18,302)

Building Materials Business

Due to continued losses the management of the Group concluded that there was indication for impairment and conducted impairment assessment. For the purpose of impairment testing, tangible and intangible assets with definite lives set out in notes 19, 21, 22 in relation to Building Materials Business have been allocated to a single individual cash generating unit (“CGU”).

The recoverable amount of Building Materials Business has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 17.5%. Building Materials Business’s cash flows beyond the 5-year period are extrapolated using a steady 2.0% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margin; such estimation is based on the unit’s past performance and management’s expectations for the markets development.

Based on the result of the assessment, management of the Group determined that the recoverable amount of the CGU is lower than the carrying amount. The impairment amount has been allocated to property, plant and equipment such that the carrying amount of property, plant and equipment is not reduced below the highest of its fair value less cost of disposal, its value in use and zero. Based on the value in use calculation and the allocation, an impairment of RMB3,886,000 has been recognised against the carrying amount of property, plant and equipment.

Iron Ore Business

For the purpose of impairment testing, tangible and intangible assets with definite lives set out in notes 19, 21, 22 in relation to Iron Ore Business have been allocated to 3 individual CGUs.

The basis of the determination of the recoverable amounts of the above units and their major underlying assumptions are summarised below:

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for the year ended 31 December 2020

23. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS (CONTINUED)

Aoniu Mine

In 2018, an open pit mining of Aoniu Mine was completed. Since then, the management of the Group concluded there was indication for impairment and conducted impairment assessment. The recoverable amount of Aoniu Mine has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 9-year period (2019: 10-year period), and discount rate of 13.0% (2019:13.0%). Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. No impairment loss has been recognised or reversed during the year ended 31 December 2020 and 2019. At the end of the reporting period, Aoniu Mine has recognised a cumulative impairment loss for long-lived assets of RMB64,188,000 (2019: RMB64,188,000).

Shangma Mine

In 2015, Shangma Mine suspended its production and launched the overall project planning for the processing plant. However, the construction has been delayed and the production has not been initiated yet. Since then, the management of the Group concluded there was indication for impairment and conducted impairment assessment. The recoverable amount of Shangma Mine has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 14-year period (2019: 12-year period), and discount rate of 16.0% (2019: 15.5%). Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margin; such estimation is based on the unit's past performance and management's expectations for the markets development. No impairment loss has been recognised or reversed during the year ended 31 December 2020 and 2019. At the end of the reporting period, Shangma Mine has recognised a cumulative impairment loss for long-lived assets of RMB16,138,000 (2019: RMB16,138,000).

Maogong Mine

During the years ended 31 December 2020 and 31 December 2019, management of the Group determines that there is no indicator of impairment on Maogong mine.

High-purity Iron Business

No impairment loss has been recognised during the year ended 31 December 2020. During the year ended 31 December 2019, an impairment loss of RMB17,469,000 has been recognised against the carrying amount of property, plant and equipment in respect of the High-purity Iron Business due to the identification of technical obsolescence of certain buildings, plant and machinery and other equipment.

Gold Business

Details for the impairment of Gold Business are set out in note 21.

24. IMPAIRMENT OF GOODWILL

For the purpose of impairment testing, goodwill (note 20) arising from the acquisition of Emerald Planet Group during the year ended 31 December 2020 have been allocated to a single individual CGU.

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for the year ended 31 December 2020

24. IMPAIRMENT OF GOODWILL (CONTINUED)

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 17.0%. Emerald Planet Group's cash flows beyond the 5-year period are extrapolated using a steady 3.0% growth rate. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margin; such estimation is based on the unit's past performance and management's expectations for the markets development.

25. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	31/12/2020 RMB'000	31/12/2019 RMB'000
Deferred tax assets	19,694	11,188

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	ECL provision/ doubtful debts RMB'000	Accelerated accounting/ tax depreciation RMB'000	Fair value adjustment on assets RMB'000	Tax losses RMB'000	Deductible temporary differences arising from disposal of Xingzhou Mining RMB'000 (note)	Impairment RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019	6,483	(10,078)	-	-	62,000	16,920	2,637	77,962
Credit (charge) to profit or loss	298	(2,821)	-	-	(37,200)	-	305	(39,418)
Charge to other comprehensive income	-	-	-	-	-	-	(1,981)	(1,981)
Effect of change in tax rate	2,104	4,031	-	-	(24,800)	(5,837)	(873)	(25,375)
At 31 December 2019	8,885	(8,868)	-	-	-	11,083	88	11,188
Credit (charge) to profit or loss	635	1,647	(579)	1,383	-	(499)	1,813	4,400
Effect of change in tax rate	(2,844)	-	-	-	-	(582)	-	(3,426)
Additions in relation to acquisition of Emerald Planet Group	-	-	2,355	3,967	-	1,210	-	7,532
At 31 December 2020	6,676	(7,221)	1,776	5,350	-	11,212	1,901	19,694

Note: During the year ended 31 December 2018, Aoni Mining, a wholly-owned subsidiary of the Company, completed the disposal of 100% equity interest in Xingzhou Mining to an independent third party. However, as the title transfer was not completed in 2018 due to certain administrative obstacles, the deductible temporary difference previously cannot be deducted and deferred tax was recognised in the year ended 31 December 2018. Pursuant to the success in title transfer of the shares in the year ended 31 December 2019, the temporary difference was deducted during the year ended 31 December 2019.

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25. DEFERRED TAXATION (CONTINUED)

At the end of the reporting period, the Group has unused tax losses of approximately RMB147 million (2019: RMB128 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses in both years due to the unpredictability of future profit streams.

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

	31/12/2020 RMB'000	31/12/2019 RMB'000
2020	–	17,121
2021	16,651	16,651
2022	11,438	11,759
2023	9,854	10,249
2024	29,303	29,303
2025	26,181	–
Unlimited	53,690	42,884
	147,117	127,967

At the end of the reporting period, the Group has other deductible temporary differences of RMB48,466,000 (2019: RMB48,414,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the Law of the PRC on EIT, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary difference attributable to accumulated profit of the PRC subsidiaries amounting to RMB1,528 million (2019: RMB1,070 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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for the year ended 31 December 2020

26. RESTRICTED DEPOSITS

	31/12/2020	31/12/2019
	RMB'000	RMB'000
Restricted deposits placed in banks in respect of:		
Iron Ore Business	22,876	22,138
Gold Business	15,173	14,614
	38,049	36,752

Note: As at 31 December 2020, restricted deposits comprised RMB38,049,000 (31 December 2019: RMB36,752,000) of deposits placed in banks in respect of rehabilitation deposits for iron and gold mining operations. These deposits were not expected to release within the next twelve months, accordingly, they were classified as non-current assets.

These restricted deposits bear interests ranging from 0.35% to 2.75% (2019: 0.35% to 2.75%).

27. INVENTORIES

	31/12/2020	31/12/2019
	RMB'000	RMB'000
Finished goods	129,917	96,152
Work in progress	41,518	47,357
Auxiliary materials	151,538	92,671
	322,973	236,180

As at 31 December 2020, the allowance for inventories is RMB5,788,000 (2019: RMB6,880,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

28. TRADE AND OTHER RECEIVABLES

	31 December 2020 RMB'000	31 December 2019 RMB'000
Trade receivables		
– Third parties	102,277	108,041
Less: Allowance for credit loss	(11,194)	(8,579)
	91,083	99,462
Other receivables		
– Advances to suppliers	15,574	8,271
– Deposits (note a)	5,560	5,933
– Deposit for resource tax	49,160	64,544
– Other tax recoverable	6,616	4,006
– Value-added tax recoverable	29,665	27,742
– Staff advance	10,824	14,268
– Consideration receivable (note b)	5,619	110,619
– Prepaid expense	1,095	1,336
– Prepayment	4,253	–
– Others	17,416	15,536
Less: Allowance for credit loss	(19,154)	(16,690)
Total other receivables	126,628	235,565
Total trade and other receivables	217,711	335,027

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for the year ended 31 December 2020

28. TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes:

- (a) The amount mainly represented various deposits under the sales contracts between the Group and its customers.
- (b) The amount mainly included the consideration receivable as a result of the Group's disposal of Fushun Hanking Xingzhou Mining Co., Ltd.* (撫順罕王興洲礦業有限公司) ("Xingzhou Mining") in the previous years.

The disposal was completed during the year ended 31 December 2018. Up to 31 December 2019, among the total consideration of RMB360,000,000, RMB105,000,000 was not yet settled by the buyer. The consideration receivable has been settled in full by cash during the year ended 31 December 2020.

* English name is for identification purpose only.

The Group allows an average credit period of 7 days to its customers of iron ore concentrates, 60 days to its customers of high-purity iron and 30 days to its customers of building materials. However, upon maturity of the credit period, the Group would further negotiate with its customers and may consider to accept a repayment to a later date, based on its customer's history of payments and credit quality, on a case-by-case basis.

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB25,661,000 (2019: RMB19,023,000) which are past due as at the reporting date. Out of the past due balances, amount of RMB3,486,000 (2019: nil) has been past due 90 days or more and is not considered as in default because the management of the Group, according to the historical settlement pattern, industry practice and the Group's historical actual loss experience, had assessed that the probability of settlement from their customers was high in respect of those debtors which had been past due over 90 days. The management of the Group considered that the risk of default would become high when those debtors had been past due over 1 year.

The following is an aged analysis of trade receivables, net of allowance for credit loss, presented based on the invoice date.

	31 December 2020 RMB'000	31 December 2019 RMB'000
– Within 7 days	52,780	69,793
– 8 days to 30 days	9,983	29,015
– 31 days to 60 days	15,863	654
– 61 days to 90 days	7,431	–
– 91 days to 1 year	5,026	–
	91,083	99,462

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28. TRADE AND OTHER RECEIVABLES (CONTINUED)

Movement of impairment on trade receivables for the both years under IFRS 9:

	Lifetime ECL not credit- impaired RMB'000	Lifetime ECL credit- impaired RMB'000	Total RMB'000
As at 1 January 2019	1,348	9,796	11,144
– Impairment losses recognised	427	973	1,400
– Impairment losses reversed	(119)	(3,846)	(3,965)
– Transfer to credit-impaired	(6)	6	–
As at 31 December 2019	1,650	6,929	8,579
– Impairment losses recognised	4,214	111	4,325
– Impairment losses reversed	(1,628)	(82)	(1,710)
– Transfer to credit-impaired	(43)	43	-
As at 31 December 2020	4,193	7,001	11,194

Movement of allowance for other receivables for the both years under IFRS 9:

	12m ECL RMB'000	Lifetime ECL not credit- impaired RMB'000	Lifetime ECL credit- impaired RMB'000	Total RMB'000
As at 1 January 2019	–	362	11,347	11,709
– Impairment losses recognised	114	412	4,455	4,981
As at 31 December 2019	114	774	15,802	16,690
As at 1 January 2020	–	2,151	541	2,692
– Impairment losses recognised	(82)	(146)	-	(228)
As at 31 December 2020	32	2,779	16,343	19,154

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29. RECEIVABLES AT FVTOCI

	31 December 2020 RMB'000	31 December 2019 RMB'000
Receivables at FVTOCI comprise:		
Bills receivables (note)	86,246	28,660

Note: Included in the Group's bills receivables are amounts RMB53,580,000 (2019: RMB11,150,000) being endorsed to certain suppliers for settlement of trade payables on a full recourse basis. If the bills are not paid on maturity, the suppliers have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to the bills receivables, it continues to recognise the full carrying amount of the receivables and has recognised the payables from the endorsement of the bills with full recourse. The financial asset is carried at fair value in the consolidated statement of financial position.

Receivables at FVTOCI endorsed to suppliers with full recourse:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Carrying amount of transferred assets	53,580	11,150
Carrying amount of associated liabilities	(53,580)	(11,150)
Net position	–	–

The Group's receivables at FVTOCI were bills receivables with the following maturity.

	31 December 2020 RMB'000	31 December 2019 RMB'000
– Within 6 months	500	1,000
– 6 months to 1 year	85,746	27,660
	86,246	28,660

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29. RECEIVABLES AT FVTOCI (CONTINUED)

The Group's receivables at FVTOCI were bills receivables with the following ageing based on issue date of the bills.

	31 December 2020 RMB'000	31 December 2019 RMB'000
– Within 6 months	71,450	28,660
– 6 months to 1 year	14,796	–
	86,246	28,660

30. FINANCIAL ASSETS AT FVTPL

	31 December 2020 RMB'000	31 December 2019 RMB'000
Financial assets at FVTPL:		
Listed investments at fair value (note a)	3,221	3,179
Unlisted financial product investments at fair value (note b)	–	1,000
	3,221	4,179
Analysed for reporting purposes as:		
Current assets	–	1,000
Non-current assets	3,221	3,179
	3,221	4,179

Notes:

- (a) As at 31 December 2020, the listed equity investments represent the Group's equity interests for long-term holding purpose in two companies (2019: one company) listed on Australian Securities Exchange. The investments are measured at fair value at the end of the reporting period.
- (b) The unlisted managed investments represent funds advanced to a licensed financial institution in the PRC with fixed maturity and a variable yield based on underlying investments. The investments are matured with proceed received by the Group in the current year.

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31. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances and cash of the Group comprise cash and short term bank deposits with an original maturity of three months or less. The bank balances carry variable interest rates ranging from 0.125%- 0.35% (2019: 0.125%- 0.35%) per annum.

As at 31 December 2020, pledged bank deposits of RMB620,311,000 (2019: RMB189,144,000) were security deposit for issuing bills and bank borrowings. The pledged bank deposits carried fixed interest rate of 0.35%- 4.10% (2019: 0.35%- 3.99%) per annum.

The bank balances which are denominated in the United States Dollars (“**USD**”), HKD and Australia Dollars (“**AUD**”), foreign currency of the respective group entities, are as follows:

	31/12/2020 RMB'000	31/12/2019 RMB'000
USD	9,020	1,228
HKD	35,966	1,452
AUD	1,589	1,219

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32. TRADE, BILLS AND OTHER PAYABLES

Payment terms with suppliers are mainly on credit within 90 days and 15 days from the time when the goods are received from suppliers of Iron Ore Business and High-purity Iron Business respectively.

	31 December 2020 RMB'000	31 December 2019 RMB'000
Trade payables (note a)		
– Within 90 days	77,302	73,814
– 91 days to 1 year	3,700	9,396
– 1 year to 2 years	3,555	3,874
– 2 years to 3 years	526	8,366
– Over 3 years	2,482	495
	87,565	95,945
Bills payables	707,900	327,000
Other payables		
Advance receipt of value-added tax from customers	6,142	7,440
Other tax payable	33,585	19,392
Payable for acquisition of property, plant and equipment	35,649	26,056
Outsourced service payable	10,145	32,045
Transportation fee payable	24,422	16,062
Accrued expense	5,360	7,066
Salary and bonus payables	9,463	8,057
Interest payable	1,525	1,371
Refundable deposits	4,873	987
Amounts due to Beijing Zhuguan (note b)	16,697	–
Amounts due to independent third parties (note b)	33,782	12,000
Payable for mining rights (note 37)	15,000	–
Others	4,523	17,839
	201,166	148,315
Total trade, bills and other payables	996,631	571,260

Notes:

- (a) The aged analysis of trade payables was presented based on the date of acceptance of the goods at the end of the reporting period.
- (b) The balances are unsecured, interest free and repayable on demand.

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32. TRADE, BILLS AND OTHER PAYABLES (CONTINUED)

At the end of both reporting periods, the Group's bills payables were issued by banks with the following maturity.

	31 December 2020 RMB'000	31 December 2019 RMB'000
Within 6 months	337,000	17,000
6 months to 1 year	370,900	310,000
	707,900	327,000

At the end of both reporting periods, the Group's bills payables were issued by banks with the following ageing based on issue date.

	31 December 2020 RMB'000	31 December 2019 RMB'000
Within 6 months	370,900	310,000
6 months to 1 year	337,000	17,000
	707,900	327,000

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33. CONTRACT LIABILITIES

	31 December 2020 RMB'000	31 December 2019 RMB'000
Amounts received in advance of		
– sales of high-purity iron	40,379	40,879
– sales of iron ore concentrates	202	5,681
	40,581	46,560

As at 1 January 2019, contract liabilities amounted to RMB52,168,000.

The Group may request certain of its customers to place up to 100% of the contract sum as deposit in respect of sales of high-purity iron and iron ore concentrates, depending on the background, historical experience of and business relationship with them. The receipt in advance was classified as contract liabilities, accordingly.

The following table shows how much of the revenue recognised relates to carried-forward contract liabilities that were satisfied in prior periods.

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year:		
Sales of high-purity iron	40,879	49,001
Sales of iron ore concentrates	5,681	3,167
	46,560	52,168

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34. BORROWINGS

	31 December 2020 RMB'000	31 December 2019 RMB'000
Bank loans	708,763	701,263
Other loans (note a)	25,000	–
	733,763	701,263
Secured and guaranteed	475,263	543,763
Secured and unguaranteed	123,500	47,500
Unsecured and guaranteed	135,000	110,000
	733,763	701,263
Fixed-rate	733,763	701,263
The carrying amounts of the above borrowings are repayable (note b):		
Within one year	591,000	662,500
More than one year, but not more than two years	20,263	20,000
More than two years, but not more than five years	122,500	18,763
	733,763	701,263

Notes:

- a. It represents other loan received from local government of RMB25,000,000 (2019:nil). The loan carried interest at the benchmark interest rate issued by the People's Bank of China ("PBOC") and was repayable within one year.
- b. The amounts are based on scheduled repayment dates set out in the respective loan agreements.

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34. BORROWINGS (CONTINUED)

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

	31 December 2020	31 December 2019
	%	%
Fixed-rate borrowings	3.85 – 8.60	4.35 – 9.60

The secured and guaranteed bank borrowings were guaranteed by the Controlling Shareholders and the companies controlled by them. Among the secured and guaranteed bank borrowings, RMB134,500,000 (31 December 2019: RMB148,000,000) were secured by certain assets and shares of the companies controlled by the Controlling Shareholders. The remaining secured and guaranteed bank borrowings are secured by certain property, plant and equipment, right-of-use assets and shares of subsidiaries of the Group.

The secured and unguaranteed bank borrowings are secured by pledged bank deposits of the Group.

The unsecured bank borrowings of approximately RMB110,000,000 (2019: RMB110,000,000) at 31 December 2020 were guaranteed by the Controlling Shareholders and the companies controlled by them. In addition, such balance was also guaranteed by an independent financial institution. The remaining borrowing of RMB25,000,000 (2019: nil) is guaranteed by Aoniu Mining.

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35. PROVISION

	31 December 2020 RMB'000	31 December 2019 RMB'000	
Analysed for reporting purposes as:			
Non-current liabilities	54,005	55,267	
Current liabilities	10,000	–	
	64,005	55,267	
	Contingency RMB'000	Rehabilitation RMB'000	Total RMB'000
At 1 January 2020	–	55,267	55,267
Additional provision in the year	10,000	473	10,473
Interests on rehabilitation obligation	–	1,889	1,889
Payments on rehabilitation obligation	–	(4,277)	(4,277)
Exchange adjustments	–	653	653
At 31 December 2020	10,000	54,005	64,005

Details of the contingency are set out in note 45.

Rehabilitation provision balance represents the provisions for environment restoration for Gold Business and Iron Ore Business.

Pledged bank deposits amounting to RMB38,049,000 (2019: RMB36,752,000) was provided by the Group to government authority to fulfill the environmental obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

36. LEASE LIABILITIES

	31 December 2020 RMB'000	31 December 2019 RMB'000
Lease liabilities payable:		
Within one year	4,142	5,174
Within a period of more than one year but not more than two years	3,002	2,055
Within a period of more than two years but not more than five years	2,964	2,103
	10,108	9,332
Less: Amount due for settlement with 12 months shown under current liabilities	(4,142)	(5,174)
Amount due for settlement after 12 months shown under non-current liabilities	5,966	4,158

The weighted average incremental borrowing rates applied to lease liabilities range from 3.00% to 10.00% (2019: from 4.35% to 7.60%).

37. OTHER LONG-TERM LIABILITIES

	31 December 2020 RMB'000	31 December 2019 RMB'000
Payables for purchase of mining rights (note)	65,000	15,000
Less: current portion (note 32)	(15,000)	–
	50,000	15,000

Note:

It represents payables to a government authority for purchase of mining rights of RMB65,000,000 (2019: RMB15,000,000), which was repayable by five equal instalments per annum (2019: three equal instalments per annum).

The current portion of RMB15,000,000 is included in other payables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38. SHARE CAPITAL

The amount as at 31 December 2020 and 2019 represented the issued share capital of the Company. Details of movement in share capital of the Company are as follows:

	Number of shares		Share capital	
	2020 '000	2019 '000	2020 HKD'000	2019 HKD'000
Ordinary shares of HKD0.1 each				
Authorised				
At 1 January and 31 December	10,000,000	10,000,000	1,000,000	1,000,000

	Number of shares		Share capital	
	2020 '000	2019 '000	2020 RMB'000	2019 RMB'000
Issued and fully paid				
At beginning of year	1,820,000	1,827,829	148,321	148,960
Consideration shares issued for the acquisition of Emerald Planet (note)	140,000	–	11,882	–
Shares repurchased and cancelled	–	(7,829)	–	(639)
At end of year	1,960,000	1,820,000	160,203	148,321

Note:

An aggregate of 140,000,000 consideration shares are allotted and issued to the Vendors by the Company on 15 December 2020 upon completion of the acquisition of Emerald Planet at the closing quoted market price on 30 November 2020 per consideration share in accordance with their respective proportion held in the Emerald Planet.

All shares in issue rank pari passu in all respects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

38. SHARE CAPITAL (CONTINUED)

During the year ended 31 December 2019, the Company repurchased and cancelled its own ordinary shares through the Stock Exchange as follows:

For the year ended 31 December 2019

Month of repurchase	No. of ordinary shares of HKD0.10 each	Price per share		Aggregate consideration paid RMB'000
		Highest RMB	Lowest RMB	
July	6,482,000	0.96	0.86	5,707
August	20,000	1.20	1.18	24
September	1,327,000	1.27	1.20	1,654

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for the year ended 31 December 2020

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

General information of subsidiaries

Details of the Group's subsidiaries as at 31 December 2020 and 2019 are set out below.

Name of subsidiary	Principal activity	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of ownership interest and voting power held by the Group		Notes
				31 December 2020 %	31 December 2019 %	
Directly held:						
China Hanking Investment Limited	Investment holding	The British Virgin Island ("BVI")	Ordinary shares USD1	100.00	100.00	
Hanking Australia Investment	Investment holding	Australia	Ordinary shares AUD42,000,000	94.00	94.00	
Tuochuan (Hong Kong)	Investment holding	Hong Kong	Ordinary shares HKD1	100.00	100.00	
Indirectly held:						
China Hanking (Hong Kong) Limited	Investment holding	Hong Kong	Ordinary shares HKD1	100.00	100.00	
China Hanking (BVI) International Limited	Investment holding	BVI	Ordinary shares USD1	100.00	100.00	
Shenyang Toyo Steel Utility Co., Ltd* (瀋陽東洋煉鋼公用設施有限公司)	Sales of iron ore mining products	PRC	Registered and paid-in capital USD84,000,000	100.00	100.00	
Shenyang Yuanzheng Industry Co., Ltd* (瀋陽元正實業有限公司)	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB5,000,000	100.00	100.00	
Aoniu Mining	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB100,000,000	100.00	100.00	

* English name is for identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

General information of subsidiaries (continued)

Name of subsidiary	Principal activity	Place of incorporation/ establishment/ and operation	Issued and fully paid up share capital/ registered capital	Proportion of ownership interest and voting power held by the Group		Notes
				31 December 2020 %	31 December 2019 %	
Fushun Hanking Maogong Mining Co., Ltd* (撫順罕王毛公礦業有限公司)	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB5,000,000	100.00	100.00	
Fushun Hanking Forest Farm Co., Ltd.* (撫順罕王林場有限公司)	Sales of agricultural and forestry products	PRC	Registered and paid-in capital RMB500,000	100.00	100.00	
Marvel Loch Hotel Pty Ltd	Hotel service	Australia	Ordinary shares AUD100	–	94.00	a
HGM Resources Pty Ltd	Sales of gold mining products	Australia	Ordinary shares AUD100	94.00	94.00	
PGO	Sales of gold mining products	Australia	Ordinary shares AUD27,527,000	94.00	94.00	
Primary Minerals NL	Sales of gold mining products	Australia	Ordinary shares AUD1,563,000	94.00	94.00	
MacPhersons Reward Pty Ltd	Sales of gold mining products	Australia	Ordinary shares AUD200	94.00	94.00	
Hanking Industry (Shenzhen) Limited* 罕王實業(深圳)有限公司	Investment holding	PRC	Registered capital RMB10,000,000	–	100.00	a

* English name is for identification purpose only.

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39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

General information of subsidiaries (continued)

Name of subsidiary	Principal activity	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of ownership interest and voting power held by the Group		Notes
				31 December 2020 %	31 December 2019 %	
Liaoning Hanking Green Building Materials Co., Ltd.* (遼寧罕王綠色建材有限公司)	Manufacture and sales of green building materials	PRC	Registered capital RMB70,000,000	100.00	100.00	
Guangdong Shihetao Green Building Materials Technology. Co., Ltd.* (廣東石和陶綠色建材科技有限公司)	Manufacture and sales of green building materials	PRC	Registered capital RMB10,000,000	60.00	60.00	
Shanghai Hanking Industry Limited* (上海罕王實業有限公司)	Investment holding	PRC	Registered capital RMB5,000,000	100.00	100.00	
Shanghai Tuao Industry Limited* (上海拓澳實業有限公司)	Investment holding	PRC	Registered capital RMB178,700,000	100.00	100.00	
Ginseng & Iron	Sales of high-purity iron	PRC	Registered capital RMB56,090,000	100.00	99.00	c
Hanking D.R.I.	Manufacture and sales of high-purity iron	PRC	Registered capital RMB400,000,000	100.00	99.00	c
Fushun Hanking Cultural Tourism Development Co., Ltd.* (撫順罕王文化旅遊開發有限公司)	Tourism and accommodation service	PRC	Registered capital RMB1,000,000	100.00	-	b

* English name is for identification purpose only.

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39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

General information of subsidiaries (continued)

Name of subsidiary	Principal activity	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of ownership interest and voting power held by the Group		Notes
				31 December 2020 %	31 December 2019 %	
Zhenghai Investment Limited	Investment holding	BVI	Ordinary shares USD1	100.00	–	c
Chongqing Hanking Xixiwei Building Materials Co., Ltd.* (重慶罕王西西韋建材有限公司)	Manufacture and sales of green building materials	PRC	Registered capital RMB2,000,000	70.00	–	b
Emerald Planet	Investment holding	BVI	Ordinary shares USD1	100.00	–	d
Yuqilin Industry Limited	Investment holding	Hong Kong	Ordinary shares HKD1	100.00	–	d
Beijing Yuqilin Technology Co., Ltd.* (北京玉麒麟科技有限公司)	Technical development and technical consultation	PRC	Registered capital USD500,000	100.00	–	d
Benxi Yuqilin	Manufacture and sales of high-purity iron	PRC	Registered capital RMB100,000,000	100.00	–	d

Notes:

- (a) These subsidiaries were disposed or cancelled of during the year ended 31 December 2020.
- (b) These subsidiaries were newly established during the year ended 31 December 2020.
- (c) These subsidiaries became wholly owned subsidiary of the Company as Tuochuan (Hong Kong) acquired 100% of equity interest of Zhenghai Investment Limited, which held 1% equity interests of Ginseng & Iron and Hanking D.R.I. during the year ended 31 December 2020. Details of the transactions and disclosures are set out in Note 13 (B).
- (d) These subsidiaries were acquired along with the acquisition of Emerald Planet Group during the year ended 31 December 2020. Details of the transactions and disclosures are set out in note 13(A).

The above table lists the subsidiaries of the company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

* English name is for identification purpose only.

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40. SHARE-BASED PAYMENTS

The share option scheme of Hanking Australia Investment was adopted on 25 January 2019. The scheme is designed to recognise the contributions of selected key persons (including the employees and directors of Hanking Australia Investment and its related body corporates, and any person who was determined by the board of directors of Hanking Australia Investment to be a key person when issuing or granting the options) to the Company, and provide an incentive for and to motivate them to remain in their employments with the Company.

The scheme mandate limit is 10% of the shares of Hanking Australia Investment in issue on the date the scheme was adopted. The scheme shall be valid and effective for a period of 48 months from the date of adoption. The maximum number of shares of Hanking Australia Investment to be issued upon the exercise of options that may be granted under the scheme is 21,000,000 shares. The scheme will be expired on 25 January 2023.

The table below discloses movement of the Hanking Australia Investment's share options held by the Group's employees:

	Number of share options
Outstanding as at 1 January 2020	–
Granted during the year	5,750,000
Outstanding as at 31 December 2020	5,750,000

On 27 April 2020 and 10 December 2020, Hanking Australia Investment granted 3,950,000 and 1,800,000 options (the "Options") to subscribe for 3,950,000 and 1,800,000 shares in the share capital of Hanking Australia Investment to certain employees of Hanking Australia Investment. The options have vesting period of 4 years and will vest and become exercisable on the occurrence of certain vesting events. The fair value of the options determined at the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. During the year ended 31 December 2020, the Group recognised a share-based payment expense of AUD122,000 (equivalent to RMB614,000).

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for the year ended 31 December 2020

40. SHARE-BASED PAYMENTS (CONTINUED)

The following assumptions were used to calculate the fair value of the Options:

	27 April 2020	10 December 2020
Exercise price	AUD0.286-0.3	AUD0.39
Exercise life	4 years	4 years
Expected volatility	72.65%	156.37%
Risk-free interest rate	0.74%	0.29%

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

41. RESTRICTED SHARES HELD FOR STRATEGIC INCENTIVE AWARD SCHEME

On 29 August 2019, the Board resolved to adopt a restricted share award scheme (the "**Scheme**") whereby awards of ordinary shares (the "**Shares**") of the Company may be made to eligible participants (the "**Selected Participants**"), pursuant to which existing ordinary shares of the Company will be purchased by a trustee from the market out of cash contributed by the Group and be held in trust for the relevant Selected Participants until such Shares are vested with the relevant Selected Participants in accordance with the provisions of the Scheme.

The Scheme shall be effective from 29 August 2019 and shall continue in full force and effect for a term of 10 years or until such date of early termination as determined by the Board, whichever is the earlier, after which period no further award shares shall be granted or accepted, but the provisions of the Scheme shall remain in full force and effect in order to give effect to the vesting of award shares granted and accepted prior to the expiration or termination of the Scheme.

From January to November 2020 (November and December 2019), the trustee of the Company's Scheme purchased on the Stock Exchange a total of 12,703,000 (2019:2,893,000) ordinary shares at a total consideration of approximately RMB19,244,000 (2019:RMB4,362,000) pursuant to the terms of the trust deed under the Scheme.

As at 31 December 2020, no award shares have been granted to any Selected Participants pursuant to the Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

42. RETIREMENT BENEFIT PLANS

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

The Group made contributions to the retirement benefit schemes of RMB2,376,000 for the year ended 31 December 2020 (2019: RMB11,239,000).

43. CAPITAL COMMITMENTS

	31/12/2020 RMB'000	31/12/2019 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	19,094	26,449

44. PLEDGE OF ASSETS

At the end of the both reporting periods, the Group has pledged certain assets as securities for obtaining the bank borrowings and issuing bills. Details of the pledged assets and the corresponding carrying amounts are set out below:

	Carrying amounts	
	31/12/2020 RMB'000	31/12/2019 RMB'000
Pledged bank deposits	620,311	189,144
Right-of-use assets	5,681	5,838
Property, plant and equipment	48,038	53,495

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45. CONTINGENCY

In February 2021, the Company submitted an application to revoke an arbitration award which is related to a dispute with a vendor for the provision of consultancy service to the Group. Pursuant to the arbitration award, the Company is required to pay a total amount of RMB20 million to the vendor. The Company was not notified of any further progress and development about this application up to the date of this annual report. Based on management's estimation of possibility of losing and consequent economic benefits outflow in accordance with the information available and the professional advice of external legal experts, a provision of contingency of RMB10 million was made in the consolidated financial statements.

46. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes borrowings, amount due to a related party, amount due to a third party and lease liabilities disclosed in notes 34, 49,13(A) and 36, respectively, net of bank balances and cash and equity which includes share capital and reserves.

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

47. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

Continuing operations

	31/12/2020 RMB'000	31/12/2019 RMB'000
Financial assets		
Financial assets at amortised cost (including cash and cash equivalents)	945,900	483,755
Receivables at FVTOCI	86,246	28,660
Financial assets at FVTPL	3,221	4,179
	1,035,367	516,594
Financial liabilities		
Financial liabilities measured at amortised cost	1,846,948	1,299,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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47. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies

Continuing operations

The Group's major financial assets and liabilities include restricted deposits, trade and other receivables, receivables at FVTOCI, pledged bank deposits, bank balances and cash, financial assets at FVTPL, trade, bills and other payables, amount due to a related party, borrowings, lease liabilities, other long-term liabilities and amount due to a third party. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group's activities expose it primarily to the market risks (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. There has been no change to the Group's exposure to these risks or the manner in which it manages and measures the risks. In addition, the Company has intra-group balances with several subsidiaries denominated in foreign currency which also expose the Group to foreign currency risk.

Market risk

(i) Currency risk

The Group has bank balances, trade and other receivables and trade and other payables denominated in USD, HKD and AUD, which expose the Group to foreign currency risk.

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

	USD	
	Assets	Liabilities
	RMB'000	RMB'000
As at 31 December 2020	9,020	–
As at 31 December 2019	1,228	419

	HKD	
	Assets	Liabilities
	RMB'000	RMB'000
As at 31 December 2020	38,087	130
As at 31 December 2019	2,006	45

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for the year ended 31 December 2020

47. FINANCIAL INSTRUMENTS (CONTINUED)

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

Market risk (continued)

(i) Currency risk (continued)

	AUD	
	Assets	Liabilities
	RMB'000	RMB'000
As at 31 December 2020	32	–
As at 31 December 2019	37	9,769

The Group currently does not have a foreign exchange hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arises.

Sensitivity analysis

The following table details the Group's sensitivity to a 10% (2019: 10%) increase and decrease in RMB against HKD (2019:AUD), 10% (2019: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 10% (2019: 10%) change in foreign currency rate. A positive number below indicates a decrease in post-tax profit (2019: an increase in post-tax profit) where a RMB strengthen 10% (2019: 10%) against HKD (2019: AUD). For a 10% (2019: 10%) weakening of RMB against HKD (2019: AUD), there would be an equal and opposite impact on the post-tax profit and the balances below would be negative. For the current year, the impact of USD and AUD (2019: USD and HKD) is not presented, since the outstanding monetary items denominated in USD and AUD (2019: USD and HKD) are not significant and their impact is immaterial.

	HKD impact 2020 RMB'000	AUD impact 2019 RMB'000
Profit or loss	3,796	973

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

47. FINANCIAL INSTRUMENTS (CONTINUED)

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

Market risk (continued)

(ii) Interest rate risk

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

Total interest income from financial assets that are measured at amortised cost is as follows:

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Other income:		
Financial assets at amortised cost	6,239	4,547

Interest expense on financial liabilities not measured at FVTPL:

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Financial liabilities at amortised cost	86,105	98,687

(iii) Other price risk

The Group is exposed to other price risk in respect of its investments in listed equity securities measured at FVTPL (2019: unlisted managed investment funds and listed equity securities measured at FVTPL).

The fair value adjustment in listed equity securities and unlisted managed investment funds will be affected either positively or negatively, amongst others, by the changes in the expected yield of the investments. No sensitivity analysis of other price risk in respect of listed equity securities and unlisted managed investment fund has been prepared as the management estimates the actual yield would not significantly deviate from the expected yield.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

47. FINANCIAL INSTRUMENTS (CONTINUED)

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

Credit risk

Credit risk and impairment assessment

As at 31 December 2020 and 2019, the Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to each class of recognised financial assets measured at amortised cost and FVTOCI is the carrying amounts of those assets stated in the consolidated statement of financial position.

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The Group's credit risk is primarily attributable to its trade and other receivables, receivables at FVTOCI, pledged bank deposits, restricted deposits, bank balances and cash. In order to minimise the credit risk, the Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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47. FINANCIAL INSTRUMENTS (CONTINUED)

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

Credit risk (continued)

Trade receivables

In order to minimise the credit risk, the Directors have delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up actions are taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model on trade balances individually. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

As at 31 December 2020 included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB25,661,000 (2019: RMB19,023,000) which are past due as at the reporting date. Out of the past due balances, amount of RMB3,486,000 (2019: nil) has been past due over 90 days, which is not considered as in default because the management of the Group, according to the historical settlement pattern, industry practice and the Group's historical actual loss experience, had assessed that the probability of settlement from their customers was high in respect of those debtors which had been past due over 90 days. The management of the Group considered that the risk of default became high and defaulted when those debtors had been past due over 1 year.

During the year ended 31 December 2020, the Group recognised impairment allowance of RMB2,615,000 (2019: reversed impairment allowance of RMB2,565,000) for trade receivables, based on the individual analysis.

Other receivables and receivables at FVTOCI

For other receivables and receivables at FVTOCI, the Group has applied the general approach in IFRS 9 to measure the loss allowance approximate to such at 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The ECL on these items are assessed individually, estimated based on historical credit loss experience on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

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for the year ended 31 December 2020

47. FINANCIAL INSTRUMENTS (CONTINUED)

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

Credit risk (continued)

Restricted deposits, Pledged deposits and bank balances

The restricted deposits, pledged bank deposits and bank balances are determined to have low risk at the end of reporting period. The credit risk on restricted deposits, pledged bank deposits and bank balances is limited because the counterparties are reputable banks and the risk of inability to pay or redeem at the due date is low.

In order to minimise credit risk, the Group has tasked its valuation committee to develop and maintain the Group's credit risk gradings to categorise exposures according to their degree of risk of default.

The credit rating information is supplied by independent rating agencies where available and, if not available, the valuation committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial/ assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

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47. FINANCIAL INSTRUMENTS (CONTINUED)

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

Credit risk (continued)

The following table details the risk profile of the Group's financial assets which are subject to ECL assessment:

As at 31 December 2020

	Internal credit rating				Total
	Low risk	Watch list	Doubtful	Loss	
Total gross carrying amount (RMB'000)					
– trade receivables	64,231	30,976	174	6,896	102,277
– other receivables	3,242	14,765	250	16,110	34,367
– receivables at FVTOCI	86,246	–	–	–	86,246
– pledged bank deposits	620,311	–	–	–	620,311
– restricted deposits	38,049	–	–	–	38,049
– bank balances	181,244	–	–	–	181,244
	993,323	45,741	424	23,006	1,062,494

As at 31 December 2019

	Internal credit rating				Total
	Low risk	Watch list	Doubtful	Loss	
Total gross carrying amount (RMB'000)					
– trade receivables	99,894	1,055	175	6,917	108,041
– other receivables	117,406	11,530	160	7,845	136,941
– receivables at FVTOCI	28,660	–	–	–	28,660
– pledged bank deposits	189,144	–	–	–	189,144
– restricted deposits	36,752	–	–	–	36,752
– bank balances	38,146	–	–	–	38,146
	510,002	12,585	335	14,762	537,684

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

47. FINANCIAL INSTRUMENTS (CONTINUED)

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

Credit risk (continued)

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

The Group has concentration of credit risk in relation to its trade receivables as follows:

	As at 31/12/2020 RMB'000	As at 31/12/2019 RMB'000
Amount due from the largest debtor as a percentage to trade receivables	25.12%	26.56%
Total amounts due from the five largest debtors as a percentage to trade receivables	63.08%	69.98%

The Group keeps exploring new customers to diversify and strengthen its customer base to reduce the concentration of credit risk.

The Group managed its concentration of credit risk so as to spread over to various customers. In order to minimise the credit risk, the Directors continuously monitor the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover the overdue debts.

The Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances is limited because the majority of the counterparties are banks with good reputation and/or good credit rating.

Other than the above, the Group does not have significant concentration of credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

47. FINANCIAL INSTRUMENTS (CONTINUED)

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

Liquidity risk

The Directors have built an appropriate liquidity risk management framework for the management of the Group's short-term and long-term funding and liquidity management requirements. The Group manages liquidity risk by closely and continuously monitoring the Group's consolidated financial position. The Directors maintain the sufficiency of cash flows with availability of unutilised banking facilities and internally generated funds. The Directors also review the forecasted cash flows on an on-going basis to ensure that the Group will be able to meet its financial obligations falling due and have sufficient capital for operation and expansion. Maturity of financial obligations will be re-negotiated with banks and changes on capital expansion plan will be made should the need arise.

The following tables detail the remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows, include both principal and interest, on non-derivative financial liabilities based on the earliest date in which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

47. FINANCIAL INSTRUMENTS (CONTINUED)

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

Liquidity risk (continued)

Liquidity tables

	Weighted average interest rate %	On demand or less than 3 months RMB'000	3 months to 1 year RMB'000	1 year to 2 years RMB'000	>2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2020							
Trade and other payables	-	234,181	-	-	-	234,181	234,181
Bills payables	-	707,900	-	-	-	707,900	707,900
Borrowings – fixed rate	7.16%	100,522	513,343	31,217	127,127	772,209	733,763
Amount due to a related party	-	10,996	-	-	-	10,996	10,996
Amount due to a third party	-	-	-	100,000	-	100,000	100,000
Lease liabilities	7.60%	1,284	3,653	4,166	3,117	12,220	10,108
Other long-term liabilities	-	-	-	15,000	35,000	50,000	50,000
		1,054,883	516,996	150,383	165,244	1,887,506	1,846,948
As at 31 December 2019							
Trade and other payables	-	202,305	-	-	-	202,305	202,305
Bills payables	-	327,000	-	-	-	327,000	327,000
Borrowings – fixed rate	6.70%	53,697	631,935	21,939	19,595	727,166	701,263
Amount due to a related party	-	44,300	-	-	-	44,300	44,300
Lease liabilities	5.64%	1,403	4,210	4,619	2,103	12,335	9,332
Other long-term liabilities	-	-	-	5,000	10,000	15,000	15,000
		628,705	636,145	31,558	31,698	1,328,106	1,299,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

47. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

The following financial assets of the Group are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	31/12/2020	31/12/2019			
Listed equity investments classified as financial assets at FVTPL	Listed equity securities in Australia: RMB3,221,000	Listed equity securities in Australia: RMB3,179,000	Level 1	Quoted bid prices in an active market.	N/A
Unlisted managed investment funds classified as financial assets at FVTPL	Unlisted managed investment funds in the PRC: nil	Unlisted managed investment funds in the PRC: RMB1,000,000	Level 2	Discounted cash flow was used to capture the present value of the expected future economic benefit that will flow to the Group.	N/A
Receivables at FVTOCI	Receivables at FVTOCI in the PRC: RMB86,246,000	Receivables at FVTOCI in the PRC: RMB28,660,000	Level 2	Income approach – in this approach, the discounted cash flow method was used to capture the present value of the cash flows to be derived from the receivables using the discount rate that reflected the credit risk of the corresponding banks which are observable.	N/A

There was no transfer between Level 1 and 2 during the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

47. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value measurements of financial instruments (continued)

Fair value of the Group's financial assets and liabilities that are not measured at fair value on a recurring basis

The fair value of financial assets and financial liabilities measured at amortised cost are determined by discounted cash flow method.

The Directors consider that the carrying amount of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximates their fair value.

Fair value measurements and valuation processes

The Board has set up a valuation committee, which is headed up by the CFO of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The CFO reports the valuation committee's findings to the Board every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

48. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings and other alternative financing	Dividend payable	Interest payable	Amount due to a related party	Lease liabilities	Amount due to third parties	Total
	Note 34	Note 17	Note 32	Note 49	Note 36	Note 32	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	(1,927,000)	-	(2,311)	-	-	-	(1,929,311)
Financing cash (inflow) outflow	937,737	32,159	111,425	-	-	(12,000)	1,069,321
Non-cash changes:							
Interests expenses	-	-	(110,485)	-	(226)	-	(110,711)
Maturity of bills discounted	288,000	-	-	-	-	-	288,000
Dividend declared	-	(32,159)	-	-	-	-	(32,159)
Purchase of right of use assets	-	-	-	-	(9,106)	-	(9,106)
At 31 December 2019	(701,263)	-	(1,371)	-	(9,332)	(12,000)	(723,966)
Financing cash (inflow) outflow	(32,500)	193,837	83,566	(10,996)	6,711	42,000	282,618
Non-cash changes:							
Interest expenses	-	-	(83,720)	-	(496)	-	(84,216)
Dividend declared	-	(193,837)	-	-	-	-	(193,837)
Purchase of right of use assets	-	-	-	-	(6,991)	-	(6,991)
Acquisition of a subsidiary	-	-	-	-	-	(80,479)	(80,479)
At 31 December 2020	(733,763)	-	(1,525)	(10,996)	(10,108)	(50,479)	(806,871)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

49. RELATED PARTY TRANSACTIONS

(a) Related party transactions

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

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
<i>Sales of goods to:</i>		
Fushun Deshan (note b)	–	124,641
<i>Purchases of goods from:</i>		
Fushun Deshan	–	122,251
Fushun Hanking Casting and Forging Co., Ltd. * (撫順罕王重工鑄鍛有限公司) (note a)	1,540	–
	1,540	122,251
<i>Rental expense (with lease term less than 12 months) charged by:</i>		
Shenyang Shengtai Property Management Co., Ltd.* (瀋陽盛泰物業管理有限公司) ("Shenyang Shengtai")(note a)	–	1,503
Interest expense on lease liabilities: Shenyang Shengtai (notes a & d)	175	–
Interest expense on loan from related party: Hanking Investment (note c)	5,595	12,352

* English name is for identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

49. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Lease liabilities

	31 December 2020 RMB'000	31 December 2019 RMB'000
Shenyang Shengtai	2,925	4,290

(c) Amount due to a related party

	31 December 2020 RMB'000	31 December 2019 RMB'000
Hanking Investment	10,996	44,300

(d) Other receivable

	31 December 2020 RMB'000	31 December 2019 RMB'000
Best Fate Limited ("Best Fate") (note e)	5,619	5,619

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

49. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Other receivable (continued)

Notes:

- (a) The company is a related party which is controlled by Ms. Yang Min, one of the Controlling Shareholders of the Company.
- (b) Fushun Deshan acted as one of the agents of Hanking D.R.I. to purchase the iron ore concentrates from the Group's Iron Ore Business segment prior to the completion of Acquisition.

Upon completion of the Acquisition, the Group directly supply iron ore concentrates to Hanking D.R.I, of which has now consolidated to the Group, instead of through any intermediary agencies.

- (c) Hanking Investment is controlled by Mr. Yang Jiye, one of the Controlling Shareholders of the Company. At the end of 31 December 2020, amounts due to Hanking Investment is unsecured, interest free and repayable on demand.
- (d) During the year ended 31 December 2019, the Group entered into several new lease agreements for the use of business operation with Shenyang Shengtai for 3 years. The Group has recognised an addition of right-of-use assets and lease liabilities of RMB4,290,000.
- (e) On 17 December 2018, the Company entered into an agreement with Best Fate, pursuant to which the Company agreed to transfer 3% shares of Hanking Australia Investment to Best Fate at the consideration of AUD1,260,000 (equivalent to approximately RMB5,619,000). The beneficial owners of Best Fate are the executive directors of the Company and/or directors of Hanking Australia Investment.

Borrowings guaranteed by related parties were disclosed in note 34. Trade payables to related parties are disclosed in note 32.

- (e) The remuneration of key management personnel which represents the executive Directors and key executives of the Group during the year was as follows:

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Director's fees	–	–
Retirement benefit scheme contributions	405	873
Salaries, bonus and other allowances	8,183	8,339
Performance incentive payments	–	51
	8,588	9,263

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

50. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	31/12/2020 RMB'000	31/12/2019 RMB'000
Non-current Assets		
Property, plant and equipment	4	8
Interests in subsidiaries (note)	1,905,898	1,854,114
	1,905,902	1,854,122
Current Assets		
Other receivables	10,478	6,237
Bank balances and cash	53,162	1,900
	63,640	8,137
Current Liabilities		
Other payables	–	10,187
Provision	10,000	–
Amount due to a subsidiary	1,664,037	1,464,877
	1,674,037	1,475,064
Net Current Liabilities	(1,610,397)	(1,466,927)
Total Assets less Current Liabilities	295,505	387,195
Capital and Reserves		
Share capital (see note 38)	160,203	148,321
Reserves	135,302	238,874
Total equity	295,505	387,195
	295,505	387,195

Note: As of 31 December 2020 and 2019, the Company had investment of one ordinary share of USD1 each in China Hanking Investment Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

50. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Movement in the Company's reserves

	Restricted shares held for the Scheme RMB'000	Share premium RMB'000	Special reserve (Note) RMB'000	Retained earnings (Accumulated losses) RMB'000	Total RMB'000
At 1 January 2019	-	174,200	193,064	157,648	524,912
Loss and total comprehensive expense for the year	-	-	-	(1,011)	(1,011)
Dividend paid	-	-	-	(32,159)	(32,159)
Disposal of Hanking (Indonesia)	-	-	(241,808)	-	(241,808)
Repurchase and cancellation of ordinary shares	-	(6,698)	-	-	(6,698)
Purchase of ordinary shares pursuant to the Scheme	(4,362)	-	-	-	(4,362)
At 31 December 2019	(4,362)	167,502	(48,744)	124,478	238,874
Loss and total comprehensive expense for the year	-	-	-	(65,147)	(65,147)
Dividend paid	-	-	-	(193,837)	(193,837)
Issuance of ordinary shares for the acquisition of Emerald Planet	-	174,656	-	-	174,656
Purchase of ordinary shares pursuant to the Scheme	(19,244)	-	-	-	(19,244)
At 31 December 2020	(23,606)	342,158	(48,744)	(134,506)	135,302

Note: Special reserve mainly represented the distribution to the then equity shareholders at the time when the Company undergone business combination involving entities under common control in 2013 and the deemed capital contribution arising from the gain on disposal in respect of Hanking (Indonesia).

51. MAJOR NON-CASH TRANSACTION

The consideration for the purchase of Emerald Planet Group that occurred during the year comprised issued shares. Further details of the acquisitions is set out in note 13A.

52. EVENT AFTER THE REPORTING PERIOD

Save as disclosed in the report, there were no other significant events taken place subsequent to the end of the year ended 31 December 2020.

DEFINITIONS

“Aoniu Mine”	located at Hou’an Town, Fushun City, an iron mine operated through Aoniu Mining, a subsidiary of the Company
“Aoniu Mining”	Fushun Hanking Aoniu Mining Co., Ltd. (撫順罕王傲牛礦業股份有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
“Articles of Association”	the articles of association approved by the Company at the general meeting held on 16 September 2011, effective as from the time when the trading of Shares commenced on the Hong Kong Stock Exchange and as amended from time to time
“AUD”	the lawful currency of Australia
“Audit Committee”	the audit committee of the Board
“Australia”	The Commonwealth of Australia
“Board”	the board of Directors of the Company
“China” or “PRC”	the People’s Republic of China. For the purpose of this report only, references in this report to the PRC or China do not include Hong Kong, Macau Special Administrative Region and Taiwan
“Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong (as amended from time to time)
“the Company” or “our Company” or “we”	China Hanking Holdings Limited
“Controlling Shareholders”	has the meaning ascribed to it in the Listing Rules and unless the context requires otherwise, refers to Ms. Yang Min, Mr. Yang Jiye, China Hanking (BVI) Limited, Bisney Success Limited and Tuochuan Capital Limited
“Directors”	the directors
“EBITDA”	the abbreviation of earnings before interest, taxes, depreciation and amortization

DEFINITIONS

“the Group” or “Hanking” or “China Hanking”	China Hanking Holdings Limited and its subsidiaries
“Hanking Australia Investment”	Hanking Australia Investment Pty Ltd, a limited liability company established in Australia and a non wholly-owned subsidiary of the Company
“Hanking D.R.I.”	Fushun Hanking D.R.I. Co., Ltd. (撫順罕王直接還原鐵有限公司), a limited liability company established in the PRC, which became a subsidiary of the Company in June 2019
“Hanking Green Building Materials”	Liaoning Hanking Green Building Materials Co., Ltd. (遼寧罕王綠色建材有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
“Hanking Group”	Hanking Group Co., Limited (罕王實業集團有限公司), a limited liability company established in the PRC on 4 April 1996, whose shares are held by Ms. Yang Min (88.96%) and other individuals. Hanking Group is a holding company controlled by a Controlling Shareholder
“HSEC Committee”	the health, safety, environmental protection and community committee of the Board
“HK\$” or “HKD” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Indicated Resource”	an indicated resource is one which has been sampled by drill holes or other sampling procedures at locations too widely spaced to ensure continuity, but close enough to give a reasonable indication of continuity and where geoscientific data are known with a reasonable level of reliability

DEFINITIONS

“Inferred Resource”	an inferred resource is one where geoscientific evidence from drill holes or other sampling procedures is such that continuity cannot be predicted with confidence and where geoscientific information may not be known with a reasonable level of reliability
“JORC”	Australasian Joint Ore Reserves Committee
“JORC Code”	JORC Code, 2012 Edition
“Latest Practicable Date”	14 April 2021, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report prior to its publication
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Maogong Mine”	located at Shiwen Town, Fushun City, an iron mine operated through Maogong branch of Aoni Mining
“Maogong Mining”	Fushun Hanking Maogong Mining Co., Ltd. (撫順罕王毛公鐵礦有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
“Nomination Committee”	the nomination committee of the Board
“Measured Resource”	a measured resource is one which the geologic feature, shape of the ore, occurrence, scale, ore quality, grade, as well as the mining technology condition and the continuity of the ore body have been ascertained according to the accuracy of prospecting in the mining area, the data that mineral deposit depended on is elaborate enough; and the one has high reliability
“PGO”	Primary Gold Pty Ltd, a limited liability company established in Australia and a non wholly-owned subsidiary of the Company
“Remuneration Committee”	the remuneration committee of the Board
“RMB”	Renminbi Yuan, the lawful currency of the PRC

DEFINITIONS

"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (as amended from time to time)
"Shangma Mine"	located at Shangma Town, Fushun City, an iron mine operated through Shangma branch of Aoniu Mining
"Shangma Mining"	Fushun Hanking Shangma Mining Co., Ltd. (撫順罕王上馬礦業有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
"Share(s)"	ordinary share(s) with a nominal value of HK\$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"US\$" or "USD" or "US dollars"	United States dollars, the lawful currency of the United States
"Xingzhou Mining"	Fushun Hanking Xingzhou Mining Co., Ltd. (撫順罕王興洲礦業有限公司), a limited liability company established in the PRC, which was no longer a subsidiary of the Company during the period of this report