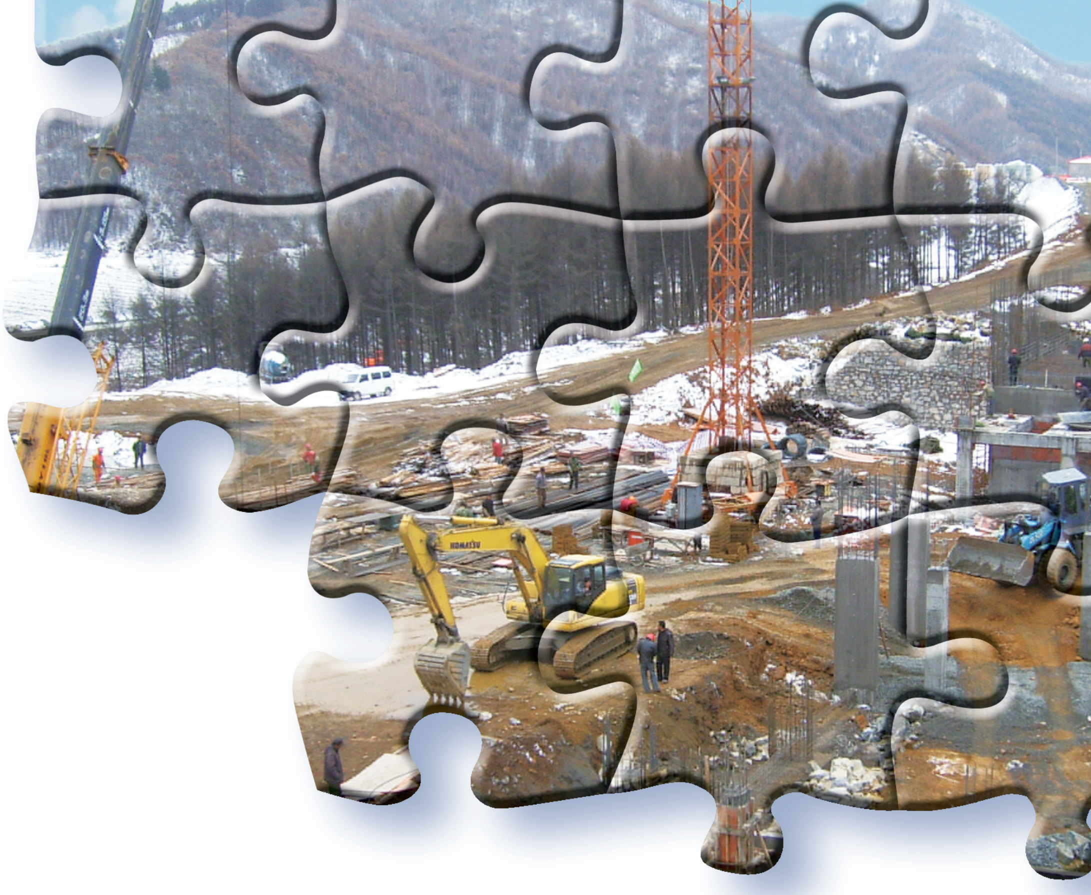
中國罕王控股有限公司
CHINA HANKING HOLDINGS LIMITED

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

Annual Report 2011



MISSION

Hanking will continue to follow its fundamental philosophy in construction of “Safe Mine, Harmonious Mine, Green Mine” throughout the life of our mine operations and development.

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CORPORATE INFORMATION

China Hanking Holdings Limited (the "Company") was incorporated in Cayman Islands as an exempted company with limited liability under the laws of Cayman Islands on 2 August 2010. The Company was listed on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 30 September 2011. As at 31 December 2011, the Company has issued 1,830,000,000 ordinary shares in total.

The primary business operations of the Company and its subsidiaries ("the Group") in China include iron ore exploration, mining, processing and selling and the product is iron ore concentrates. As at 31 December 2011, the Group's iron ore resources exceeded 200 million tons. Four iron ore enterprises owned by the Group are situated at the famous iron ore metallogenic belt of Liaoning Anshan to Benxi and six processing plants operated are situated at the above mining areas. As one of the largest privately-owned iron ore enterprises in Northeastern China, the Group is capable of developing the growth potential of the iron ore market in China (especially in Liaoning) by virtue of the Group's international team, low production and operation cost, strategic geographic location, proactive expansion plan for production as well as the supportive government policies on the integration of iron ore mining industries while at the same time, enhancing the Company's competitiveness and bringing good returns to the shareholders.

CORPORATE INFORMATION (CONTINUED)

Company's Statutory Chinese Name

中国罕王控股有限公司

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

No. 227, Qingnian Street
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Shenyang 110015
Liaoning Province
PRC

Principal Place of Business in Hong Kong

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The Landmark, 15 Queen's Road Central
Hong Kong

Nomination Committee

Ms. Yang Min *(Chairlady)*
Mr. Chen Yuchuan
Mr. Johnson Chi-King Fu

Remuneration Committee

Mr. Wang Ping *(Chairman)*
Mr. Yang Jiye
Mr. Chen Yuchuan

Audit Committee

Mr. Wang Ping *(Chairman)*
Mr. Johnson Chi-King Fu
Mr. Wang Anjian

Authorized Representatives

Mr. Wang Ping
Ms. Mok Ming Wai

Joint Company Secretaries

Mr. Xia Zhuo
Ms. Mok Ming Wai

Auditor

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

Hong Kong Legal Advisor

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Jardine House
One Connaught Place
Central
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Compliance Adviser

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16–18 Queen's Road Central
Hong Kong

Hong Kong Share Registrar

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

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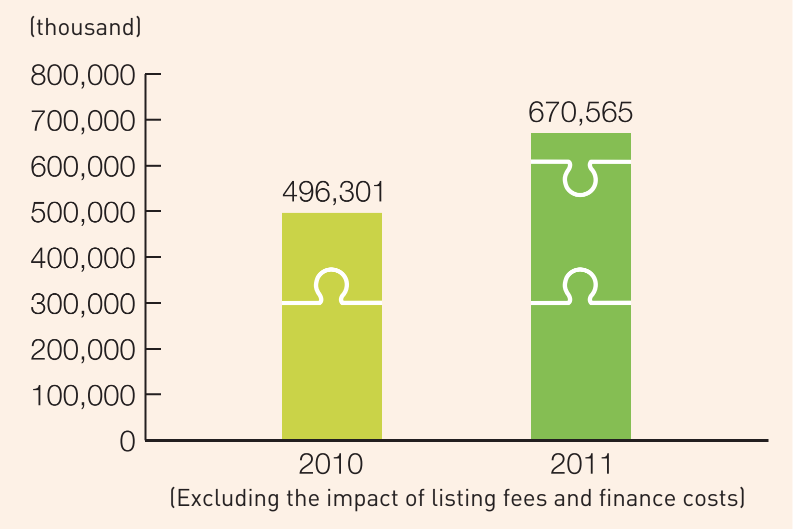
FINANCIAL HIGHLIGHTS

A summary of the operational results, assets and liabilities, cash flows and key financial ratio information is as follows:

Consolidated Statement of Comprehensive Income

	For the year ended 31 December			
	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,452,277	1,297,498	847,800	941,789
Cost of sales	(425,295)	(465,973)	(499,619)	(292,773)
Gross profit	1,026,982	831,525	348,181	649,016
Other income	32,008	1,546	3,068	497
Other expenses	(37,075)	(12,425)	(9,034)	(8,736)
Selling and distribution expenses	(23,693)	(23,208)	(16,120)	(206)
Administrative expenses	(120,511)	(94,650)	(91,407)	(53,301)
Net foreign exchange gain	13,380	—	—	—
Finance costs	(270,105)	(35,598)	(22,431)	(168)
Profit before tax	620,986	667,190	212,257	587,102
Income tax expense	(214,183)	(170,889)	(58,512)	(163,251)
Profit and total comprehensive income for the year	406,803	496,301	153,745	423,851
Owners of the Company	403,544	444,007	140,147	394,952
Non-controlling interests	3,259	52,294	13,598	28,899

A year-on-year increase of 35.1% in the net profit from its core business



FINANCIAL HIGHLIGHTS (CONTINUED)

Consolidated Statements of Financial Position

	For the year ended 31 December			
	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Current Assets	777,935	638,805	969,102	393,796
Non-current Assets	997,562	630,331	505,699	504,319
Current Liabilities	646,073	625,149	750,703	291,625
Non-current liabilities	—	180,000	—	—
Equity attributable to owners of the Company	1,129,424	394,161	583,179	479,566
Non-controlling interests	—	69,826	140,919	126,924

Consolidated Statements of Cash Flows

	For the year ended 31 December			
	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Net cash flows from operating activities	494,960	439,340	461,588	383,494
Net cash flows from investing activities	(43,308)	(342,626)	87,887	(396,046)
Net cash flows from financing activities	(175,775)	(66,312)	(537,202)	18,419

Selected Financial Ratios

	For the year ended 31 December			
	2011	2010	2009	2008
Gross profit margin	70.7%	64.1%	41.1%	68.9%
Net profit margin	28.0%	38.3%	18.1%	45.0%
Gearing ratio	36.4%	63.4%	50.9%	32.5%
Return ratio on total assets	58.5%	51.2%	19.8%	75.4%

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the Board of China Hanking Holdings Limited, I am pleased to present to you the audited annual results of the Company for the year ended 31 December 2011.

CHAIRMAN'S STATEMENT (CONTINUED)

1. Results Overview

This is our first results report since the Company was officially listed on Hong Kong Stock Exchange on 30 September 2011. In the year 2011, in view of the complex commercial environment, the Company, through measures such as, putting extra effort on enhancing productivity and expanding reserve; continued to strengthen control on cost and corporate governance, pay emphasis on meticulous management; successfully achieved outstanding results in operation work and the operational results were comparatively good in history. The Group's popularity and competitiveness were further enhanced.

Operating indicators. The Group is one of the largest private enterprises specialized in the operation of iron mines in Northeastern China, and the end products of the Company are iron concentrates. During the reporting period, the sales revenue of the Group amounted to RMB1,452,277 thousand, representing an increase of RMB154,779 thousand as compared with the last year, which was mainly resulted from the increase in the selling price of the iron concentrates. During the reporting period, the Group recorded a net profit of RMB670,565 thousand from its core business, representing a year-on-year increase of RMB174,264 thousand or 35.1%, which, net of the nonrecurring intermediaries fee of RMB32,448 thousand and finance cost of RMB239,426 thousand arising from the listing of the Company, would be RMB406,803 thousand, representing a decrease of RMB89,498 thousand as compared with the last year. The net earnings per share was RMB0.26. The cash operating cost per ton of iron concentrates for the mines was RMB252 on average which was basically the same as that of the last year. Although the labour and raw material costs increased significantly during the reporting period, the Group managed to keep its production cost at a competitively low level by means of meticulous management and strict cost control.

Capacity expansion. During the reporting period, the Group made significant progress on the improvement of mining technique and production capacity. Basing on scientific research, the No. 1 processing plant of Aoniu Mine implemented various technical improvement and capacity expansion measures. Basing on the principle of "more crushing and less grinding", a new technology, known as the high press roll grinding technology was introduced. This contributed to the significant increase in the processing volume of ores in the processing plant. After repeated adjustments and fine-tuning, this technology gradually showed positive results in capacity enhancement and cost reduction. Through elaborate planning and implementation, the first phase of the capacity expansion project of Xingzhou Mine was successfully completed, in which a modern processing plant with a processing capacity of 1 million tons ores was established. Benxi Mine continued the transformation from open mining to underground mining and the project was progressing smoothly as planned.

Mine exploration. During the reporting period, the Group made remarkable progress in mine exploration. Through exploration work conducted in the vicinity of and going deep into the existing mines, 83,377 Kt of iron ore resources were explored, representing a year-on-year increase of 64.85%, of which, 41,627 Kt, 39,216 Kt and 2,534 Kt were from Maogong Mine, Xingzhou Mine and Aoniu Mine, respectively. Such progress has changed Maogong Mine from a mine with exhausted resources to one of the Group's mines that possess the greatest potential for capacity expansion, and created an opportunity for the continuous expansion of Maogong Mine.

Human resources development. During the reporting period, the Group continued to focus its efforts on the implementation of the "Human Resources Strategy" program. Through this programme, the remuneration and welfare system became more flexible, and various top-notch technical and managerial talents, including Dr. Qiu Yumin were successfully recruited, strengthening our international team which was composed of specialists and professionals; satisfying the human resources prerequisite when the Group implemented its globalisation strategy.

CHAIRMAN'S STATEMENT (CONTINUED)

Other achievements. During the reporting period, in addition to the completion of the listing on the Hong Kong Stock Exchange, the Group had made remarkable achievements in other areas as well. For instance, the Group achieved a breakthrough in the expanding of mining rights, resulting in an increase of 45.72% in the total area with mining rights. Through the first-time application of the advanced dry discharge technology at the tailings, Benxi Mine had reduced the space required for tailings discharge and improved the management quality and the safety of the tailings.

2. Corporate Governance

The Group strives to maintain a relatively high standard of corporate governance, and spares no effort to keep information transparent and open to the shareholders. The Group has, in compliance with the principle of prudent financial governance, established a complete monitoring system in respect of accounting, auditing, financial reporting, disclosure and internal funding. Moreover, the Group provides to senior managers and the front line staff with comprehensive and all-round trainings such as laws and regulations, risk control, disclosure of information, project management, project due diligence and implementation, in order to improve their expertise, legal knowledge, and production know-how and management skills.

The Group has constantly enhanced its management and control standards. The management for safe production is solid and consistent with the establishment of stringent procedures in safety checking. It has also achieved remarkable results in respect of land management and established a systematical database for land management. It has institutionalized its regulatory system and consolidated the main working flows. Moreover, it has significantly improved the control on legal risk and established decision procedures for the mergers of projects. The Group also further enhanced the synergy between human resources and finance management and strengthened the integration capacity for corporate resources.

The Group has established a high level in information flow. Upon the completion of office automation, office efficiency was improved remarkably. It has also set up a platform for the flow of logistics management information, and realized the control over the information of material procurement and product sales. In addition, it has implemented the control on human resources information management promoting the standardisation and efficiency of personnel management. Also, it has installed 24-hour real-time video monitoring systems on the key mining and processing locations in every mine, which has improved the safety management and the operation efficiencies of the mines.

CHAIRMAN'S STATEMENT (CONTINUED)

3. Industry Outlook

The iron ore market and the prices of iron ores products can be affected by various factors, among which, the most important factors are the balance between supply and demand, the growth potential of the macro economy, the market trend of iron and steel, geopolitics and the financial environment etc. In the next few years, China remains the main driving force of the global steel production, and will continue to play a supporting role for the prices of the iron ore products.

Most of the economists and international financial institutes are of the opinion that, although the growing rate of China's Gross Domestic Product ("GDP") will slow down in 2012, it will still grow at a relatively high rate. Therefore, in the short-and-medium term, there will still be potential for the iron and steel market in China to expand, and the demand for iron ore products will remain relatively strong. In terms of the supply, the three largest iron ore suppliers in the world have adapted expansion strategies over the past few years, and as the bottleneck problems, such as logistics, transportation, financial environment and other restrictions on capacity expansion, haven't been resolved accordingly, it's hardly possible for a significant increase in the supply of iron ore products globally in the near future. Even though the supply has been increased, leveraging on our cost advantage, our Company is able to compete with the international iron ore suppliers. Generally speaking, the supply and demand of iron ore products will remain at a stage known as "to be balanced" in the near future, and accordingly, the price of iron ores will stay at a relatively high level in 2012.

Nevertheless, we are clearly aware that the global financial crisis will continue to spread, and especially that the European sovereignty debt crisis is extremely critical, and will be difficult to resolve in a short term. After the last financial crisis, certain major economies have been recovering slowly with insufficient energy and low growing rate, worsened by various uncertainties caused by certain hot geopolitical issues across the world. All the factors as mentioned above will, directly or indirectly, affect the iron ore market, bring short-term fluctuations and uncertainties to the prices of the iron ore products, or even probably result in a short-term decrease in the prices of the iron ores.

In sum, the Group is cautiously optimistic about the development trend of the iron ore market in 2012.

CHAIRMAN'S STATEMENT (CONTINUED)

4. Development Strategy

Notwithstanding the overwhelming pressure brought by the volatile global financial market on the real economy, the growing speed of China's economy remains the highest amongst the major economies, with an enviable rate of 9.2% in 2011. Moreover, the Chinese government has clearly indicated in the outline of the 12th Five-Year Plan, that it will fully revitalize the historical industrial bases in the northeast regions, promote the upgrading of the industries such as the equipment manufacturing industry, and construct indemnificatory housings and energy and transportation facilities, which will inevitably drive the demand for raw materials, including iron ores, in the northeast regions to grow stably, and create opportunities for the Group to implement its development strategy.

From the view of the Company, human resources is the back bone for its sustainable development, high-quality resources are the core value, low operating cost is its key competitive strength, and innovative thinking is the prime motivation power for its development. In 2012 and a few years afterwards, the Group will focus its efforts on the enhancement of its resources and the expansion of the production capacity, which are also the most important tasks faced by the Board and the management of the Company. The Group will continue to spare no effort to recruit human resources with international backgrounds and experience. Moreover, it will expand the resource reserves through projects acquisition and geological exploration, maintain its competitive strength in low operating cost through meticulous management, and improve the manufacturing efficiency through technical innovation and technological optimization.

Based on the features of both the internal and the external environments, especially the skills and the backgrounds of its internal talents, the Group will cautiously seek to diversify the categories of the ores that it's engaged in while focusing on the development and production of iron ores, during the process of which, it will manufacture and earn commercial benefits from various ore products while focusing on iron ores, supplemented by gold ores, and will be able to capture the opportunities to acquire and develop high-quality resources of other ores, such as Ni and Cu. On the basis of the strict control over significant risk factors, the Company will hedge the adverse effects brought by the fluctuations of the market by optimizing the asset and product portfolios of various ores, so as to promote the healthy and smooth development of the Company.

The Group will cautiously capture the opportunities as suitable to acquire the high-quality iron ore resources in Liaoning to promote the continuous expansion of the production capacity of iron ores. It will put more efforts on the expansion and reconstruction of the mines, and strive to complete the construction of Aoniu Mine and Maogong Mine with a production capacity of 1 million tons of iron concentrates respectively in 2012, to significantly enlarge the production scale of the Group The Company will enhance the production efficiency of the existing mines and lower the manufacturing cost of iron ore concentrates through constructing large-scale facilities, developing new "mine-selecting'' techniques and enhancing the skills of the labour. It will also establish an ore supply system through the systematical planning and overall design of the mining activities to ensure scientific mining in the mines and the maximum utilization of the processing capacities of the Group's local processing plants in Liaoning. Moreover, the Group will put more efforts on geological exploration, and strive for new breakthroughs in the inside, surroundings and depth of the existing mines, to further raise the core asset value of the Group.

It's an established strategy for the Group to seek for international development. It also believes that mines shall be explored from different spatial distributions to seek for various mining locations, so as to hedge the operating and developing risks that may arise in a single mining area. In the meanwhile of solidifying the production bases of iron ores in China, the Group will cautiously and moderately promote the acquisition and development of iron ore, gold ore and other metal resources projects overseas. While completing the expansion of the iron ore mines in China, it will also strive to achieve substantial progress in the exploration of the mining projects of iron ores or other quality metals overseas.

CHAIRMAN'S STATEMENT (CONTINUED)

5. Social Responsibility

By adhering to the objective of "Safe Mine, Harmonious Mine, Green Mine" and through the extra efforts put in promoting the construction of the mines, Aoniu Mine was honored to be one of the second "National Pilot Enterprises for Green Mines" in 2011.

The Group will continue to stick to the development strategy centered on "recycling economy and comprehensive utilization", and endeavour to build its mines to become the green mines that comply with the national standards on low carbon emissions. It will optimize the safety monitoring system of the mines, improve the safety awareness of the employees, and continue to keep the record of "zero major environmental accident and major occupational accident". Moreover, it will strive to maintain good relationships with the village enterprises and government enterprises, put more efforts on the improvement of the intangible environment in the mines, improve the social responsibility consciousness of the employees, and seriously perform the social responsibilities of the Company.

We will persistently strive to build the Group into a modern enterprise that the employees love, the shareholders believe in and the society trust, create ongoing and stable returns for the shareholders, and make persistent and new contributions to the society.

6. Appreciation

On behalf of the Board, I hereby wish to express my heartfelt thanks to the management and all the staff of the Group for their great efforts and contributions over the last year, and express my sincere gratitude to all the shareholders, intermediaries and business partners for their support and trust in the Company.

Yang Min
Chairlady of the Board of Directors

15 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

Through expansion of the existing iron ore mines, Hanking plans to grow to a capacity of over 11 million tons of iron ore production by 2015.

70.7%

The Group's gross profit increased dramatically from 64.1% to 70.7% in 2011 as compared to the same period of last year, mainly due to the rising average unit selling price of iron ores.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Summarizing

Affected by the European debt crisis, earthquake in Japan and the downturn of American economy, the growth speed of Chinese economy in 2011 was slowing down, but still remains at a relatively high level with an increase of 9.2% in GDP. In 2011, the economy of Liaoning continued to grow rapidly with a breakthrough of RMB2 trillion in GDP and reached RMB2.20259 trillion, representing an increase of 12.1% compared to last year and the increase obviously outperformed the national average. The growth of Chinese economy drove up the demand for steel. During last year, national output of pig iron and crude steel reached 630 million tons and 683 million tons respectively; a year on year increase of 8.4% and 8.9%, respectively. The continued expansion of steel industry will continue to boost up the demand for iron ores.

In the outline of the Twelfth Five-Year Plan, the PRC government clearly put forward the overall revitalization of Northeast Old Industrial Bases in the Northeast, promoting the upgrading of equipment manufacturing industries, constructing low-income housing and energy transportation facilities, which will continue to stimulate the stable growth of demand for the raw materials, including iron ore, from the Northeast areas, and also provide an opportunity for the Group to execute its development strategy. According to "Opinions on Integrating the Development of Mineral Resources" published by the Ministry of Land and Resources, the local government of Fushun has explicitly expressed to support the Group as the key enterprise for integrating iron ore resources in the area as well as full-scale development in the future. This provides favorable conditions for the Group to expand at low cost.

2. Operation Review

The four iron ore enterprises owned by the Group are situated at the famous iron ore metallogenic belt of Liaoning Anshan to Benxi where iron ore resource is rich and in good quality. Iron ore stored in the metallogenic belt of Liaoning Anshan to Benxi is mainly magnetic iron ore which is easy for selecting and contains little purities. Six processing plants, currently operated by the Company (of which Benxi mine is rented), are situated in the mining areas.

(1) Major operation results

As of the end of 2011, the Group has retained iron ore resources over 200 million tons, an increase of 64.85% as compared with the end of 2010; iron ore reserve of 167 million tons, an increase of 64.1% as compared with 2010. Through geological exploration, Maogong mine, the resources of which once were considered exhausted, has become one of the Group's mines that possess the highest potential of development and expansion.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In 2011, the output of the Group's iron ore concentrates was 1,256 thousand tons, a year on year decrease of 4.51%, which was mainly due to the effect of land restriction for the mining production of Xingzhou mine; during the reporting period, the sales amount of the Group's iron ore concentrates reached 1,369 thousand tons with a year on year decrease of 2.11%; the gross profit was RMB1,026,982 thousand and the net profit was RMB406,803 thousand; net earnings per share was RMB0.26. The factors affecting the net profit of the Group include the charges of intermediaries of RMB32,448 thousand and the finance cost of RMB239,426 thousand caused by the listing of the Company in 2011. Such factors reduced the net profit of the Group by RMB263,762 thousand. If the impact of the aforementioned amount was excluded, the net profit of the Group would have been RMB670,565 thousand.

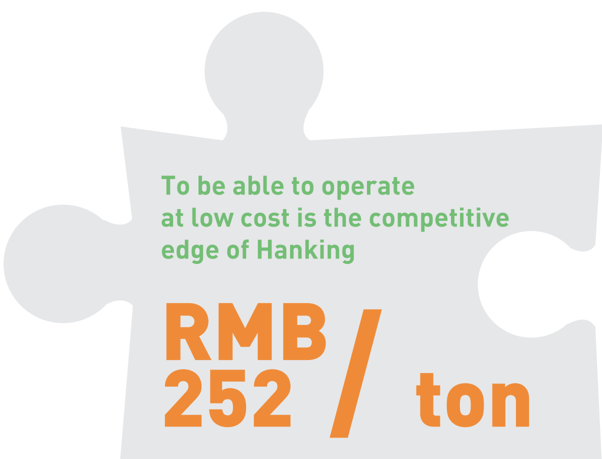
The average cash operation cost per ton of iron ore concentrate of all mines was RMB252, basically in line with that of last year. Although the cost of labour and raw materials increased drastically during the reporting period, the Group's manufacturing cost was still maintained at a comparatively low cost by implementing Delicacy Management and strict cost control measures. Besides operation scale, three elements, including quality resources, scientific management and enhancement of technology, enabled the Group to continue to operate at a comparatively low cost.

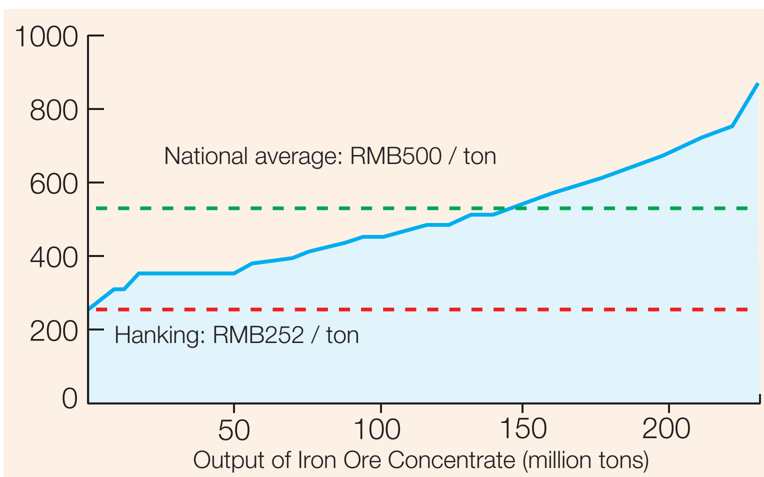
The routes taken to deliver the ore, barren rock, tailings and iron ore concentrates for sales were minimized by of relocation of production facilities and thereby, lowered the logistics cost. The core advantage of low operation cost was maintained by optimizing and enhancing the current mining technology and "mine-selecting" techniques. Safety control at production level was strengthened by implementation of Delicacy Management in operation of mining, mine-selecting and tailings mines. The efficiency of management at production level was enhanced by improvement in information management of procurement, sales and operation, etc.

(2) *Significant increase in iron ore resources*

Resource is the base of continuous development of mining enterprises as well as the core asset the Company. The Group believes that the importance of geological exploration is of great value to its business. The Group endeavors constantly and progressively to discover new mines in the existing mine regions and the areas nearby. Thus, Iron ore resources of relatively high quality are secured while the risk and cost pertained are relatively low.

During the reporting period, the Group had delegated a number of professional geological exploration units of Liaoning province to conduct the exploration of iron ore resources in Maogong mine, Aoniu mine, Xingzhou mine and their neighboring areas. A total of RMB31.022 million was invested for exploration during the year, among which RMB8.444 million was invested for exploration in Maogong mine; Xingzhou mine RMB15.413 million and Aoniu mine RMB7.165 million.





MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at 2010 year end, the Group owned 122 million tons of iron ore resources that complied with the Joint Ore Reserves Committee ("JORC") standards. By conducting various explorations in 2011, the net increase of iron ore resources was 79.03 million tons, and the total resources amounted to 201 million tons, a year-on-year increase of 64.85%. Maogong iron ore exploration resulted in an increase of iron ore resources of 41.627 million tons, Xingzhou iron ore exploration resulted in an increase of 39.216 million tons and Aoniu iron ore exploration resulted in an increase of approximately 2.534 million tons. As at 2011 year end, the quantity of iron ore resources stored in each mine was as follows:

64.85%
Year-on-year increase of iron ore resources

Mines	Types	Resources at the end of the year (ton)	TFe (%)
Aoniu Mine	Indicated	10,007,419	32.88
	Inferred	11,361,000	32.33
Subtotal of Aoniu mine		21,368,419	32.59
Maogong Mine	Indicated	33,905,634	32.29
	Inferred	10,466,395	30.15
Subtotal of Maogong mine		44,372,029	31.79
Xingzhou Mine	Indicated	33,479,769	30.88
	Inferred	27,779,010	30.65
	Indicated*	63,722,270	22.76
Subtotal of Xingzhou mine		124,981,049	26.69
Benxi Mine	Indicated	7,596,270	26.14
	Inferred	2,570,000	26.14
Subtotal of Benxi mine		10,166,270	26.14
Total	Indicated	84,989,092	31.25
	Inferred	52,176,405	30.69
	Indicated*	63,722,270	22.76
	Indicated + Indicated* + Inferred	200,887,767	28.41

* represents low grade iron ore resources

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at 2010 year end, the Group owned 102 million tons iron ore reserve that complied with the JORC standards. By conducting various explorations in 2011, the net increase of iron ore reserve was 65.381 million tons, and the total reserve reached 167 million tons, a year-on-year increase of 64.1%. Maogong iron ore exploration resulted in an increase of 36.41 million tons of iron ore reserve, Xingzhou iron ore exploration resulted in an increase of 27.809 million tons and Aoniu iron ore exploration resulted in an increase approximately 2.415 million tons. Maogong Mine, the resources of which were once considered to be exhausted, has leapt to be one of the Group's mines that possess the greatest potential for capacity expansion. As at 2011 year end, the iron ore reserve level of each mine was as follows:

Mines	**Types**	**Reserve at the end of the year (ton)**	**TFe (%)**
Aoniu Mine	Probable Ore Reserve	13,794,419	25.69
Maogong Mine	Probable Ore Reserve	37,394,432	26.93
Xingzhou Mine	Probable Ore Reserve	42,739,439	26.49
	Probable Ore Reserve*	63,722,270	19.45
Benxi Mine	Probable Ore Reserve	9,255,592	20.91
Total	Probable Ore Reserve	103,183,882	26.04
	Probable Ore Reserve*	63,722,270	19.45
	Probable Ore Reserve + Probable Ore Reserve*	166,906,152	23.53

* represents low grade reserve

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During the reporting period, the Group completed the expansion of the boundaries of all the mines and realized a significant increase of 45.7% in the areas covered by its mining right, a breakthrough in the expansion of the areas covered by its mining right. In addition, on 10 May 2011, the local government of Fushun approved the application of retaining potential mining area of 81.77 sq.km and 35.36 sq.km respectively for Aoniu mine and Maogong mine. Judging from the abnormal results of aeromagnetic survey, the Group believes that the growth potential of the iron ore resources of these regions is huge.

(1) Strict control on land cost

With the economic development and urbanization process accelerating, land resources are becoming rarer which leads to a dramatic increase in land cost, while mining activities needs to occupy a large amount of forest land. To reduce the pressure on production and operation costs, in 2011, the Group, by scientific mining plan, completed a report on over a thousand acres of forestland, cultivated land and land for construction and the overall plan of land use adjustment, and succeeded in acquiring the indicator of land for construction maximizing. In view of the objective circumstances that land cost is increasing and accounts for an increasing proportion of the production cost, the Group reserves land for future production in advance based on production planning, which will reduce the overall operation cost of the mines and enhance the ability of resisting market fluctuation risks.

(2) Expansion of iron ore capacity

To grasp the opportunity of robust growth of iron ore market and further improve the capability of handling raw ores and the production capacity of iron ore concentrates by upgrading and reconstructing the current mines and construction of new production facilities, so as to implement the Group's established development plan.

Aoniu mine. The first phrase of technology improvement and project upgrading of the first processing plant of Aoniu mine was completed and put into production in August 2011. Upon the completion of the technology upgrading, the annual iron ore processing capacity of two processing plants of Aoniu mine exceeds 2 million tons per year. To expand the capacity of the tailing pond, in 2011, Aoniu mine conducted the work to expand the capacity of the existing tailing pond.

Aoniu mine
Completed the upgrade of high pressure rolling technology
Iron ore processing capacity exceeded

2 million tons / year

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

66%

HIGH GRADE LOW IMPURITIES

"Hanking Iron" has become an icon of high quality and reliability

Maogong mine. As new iron ore resources continue to be discovered, Maogong mine possesses the basic conditions for expansion capacity. In view of its favorable conditions such as ore quality, mining conditions, large-scale facilities and logistics, Maogong mine will continue to bring impetus for the profit growth of the Company. In 2011, the Group initiated the planning and feasibility study on the new processing plant of Maogong mine. The annual ore processing capacity of the plant was 3 million tons, and plans were made on the development of newly discovered resources. After the new processing plant is put into production, the previous two processing plants will be demolished since they are located at the top of newly discovered mine and have an impact on mining.

Xingzhou mine. The first phrase of the upgrading and expanding project with annual iron ore processing capacity of 1 million tons in Xingzhou mine was completed by the end of 2011, and the feasibility study on the second phase with an annual production capacity of 3 million tons was initiated.

Benxi mine. Benxi mine is at the construction stage of changing from outdoors to underground. As at 2011 year end, the following construction works for the underground mining of Benxi mine were completed; the main shaft, and the shaft of the South wind shaft and part of the middle section of the passage, and the slope ramp construction work has entered into production mining stage.

(3) Sales of iron ore concentrates

During the reporting period, the Group realized the sales of 1.369 million tons of iron ore concentrates. The Group's iron ore concentrates were mainly sold to steel plants nearby Liaoning mine area to maximize the advantage of low transportation cost.

The Group's largest customer was Fushun New Steel Co., Ltd. ("Fushun New Steel"). During the reporting period, the Group sold a total of 0.676 million tons of iron ore concentrates to the company with sales amount of RMB711.535 million, representing 49% of the Group's total sales of iron ore products. According to the annual sale contract, Fushun New Steel paid a deposit of RMB60 million to the Group in advance to ensure the supply of 0.7 million tons of iron ore concentrates by the Group for the year of 2011. If the supply exceeds 0.7 million tons, Fushun New Steel will pay an additional RMB5 per ton for the excess portion. In addition, the Group entered into the "Long-term Strategic Partner Agreement" with Fushun New Steel for a term of ten years commencing from 1 January 2011 to 1 January 2021. According to the agreement, Fushun New Steel agreed to purchase the Group's future increase in output of iron ore concentrates. The parties agreed to enter into an independent sale agreement agreeing on the detailed terms related to quality, quantity and price of products.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group's second largest customer was Fushun Hanking D.R.I. Co., Ltd. ("Fushun D.R.I."). According to the Listing Rules, Fushun D.R.I. was the Group's affiliated enterprise, whose major business was pig iron smelting. During the reporting period, the Group sold a total of 0.304 million tons of iron ore concentrates to the company with sales amount of RMB323.152 million, representing 23% of the Group's total sales of iron ore products. The sale price was in line with the price at which the Group sold their products to Fushun New Steel.

The Group's third largest customer was Benxi North Iron Industry. During the reporting period, the Group sold a total of 0.252 million tons of iron ore concentrates to the company with sales amount of RMB265.574 million, representing 18% of the Group's total sales of iron ore products.

3. Enhancement of Safety and Environmental Protection Management Standards

To ensure the safety of production operation, the Group established and improved the management system of safety production in compliance with the legal requirements of and regulations of mine production. An all-round, comprehensive, effective and quick-reacting system that controlled production safety was gradually established. The Company's standard of production safety control was enhanced by institutionalization of the safety control system; standardization of construction work procedures and elimination of potential safety issues with preventive measures by fulfilling the safety control duty at every tier of the Company.

To minimise the impact on environment and control the potential risk, the Group has revised the internal manual of safety management which set out rules and regulations and monitoring measures related to safety production and environmental protection, and specified the methods and relevant standards and means of treating different kinds of pollutants.

The Group took numerous environmental protection measures to minimise the impact on environment arose during the production. For reclamation, the Group refilled the mining pits, restored the soil and planted trees; for recycling business, processing plants and tailing ponds maximized recovering and recycling wastewater, selling and recycling the gangue as paving and construction materials; for treatment of noise, the Group adopted all kinds of methods of noise control, such as muffler, to lower the noise level; for energy conservation and emission reduction, the Group adopted new technology and techniques, such as high pressure rolling, to reduce the consumption of electricity and other materials.

Zero

- Zero death and Zero severe injury
- Zero serious equipment accident
- Zero serious traffic accident
- Zero serious fire accident
- Zero serious safety accident

100%

- Rate of safety education and training
- Rate of employment with certificate for special work
- Rate of potential dangers rectification
- Rate of implementing safety directives

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During the reporting period, there was no outbreak of fatal accident; accident that involved severe injury; serious accident that involved application of equipment; traffic accident; fire nor environment polluting accident. During the same period, the rate of safety education and training, the rate of employment with certificate for special work, the rate of potential dangers rectification and the rate of implementing safety directives all reached 100%.

During the reporting period, the Ministry of Land and Resources and the National Green Mine Final Inspection Unit of China Mining Enterprise Association jointly paid compliment to Aoniu Mine, a subsidiary of the Group. The Group was honored by the two parties with the national title of "Green Mine Pilot Enterprise", which was the specific results of the Group's long-term emphasis on operating its business with the conception of "Safe Mine, Harmonious Mine, Green Mine". This honor also reflected the achievement of the Company with its emphasis on the development pathway that carried the notion of "recycling economy and comprehensive utilization" as well as fulfilling social responsibility.

4. Employees and Remuneration Policy

As at 31 December 2011, the Group had 1,489 employees in total (31 December 2010: 1,310). The Company's Human Resources structure is as follows:

Order	Category	Number of employee	Percentage
1	Functional management	212	14%
2	Technology	69	5%
3	Marketing	15	1%
4	Production operation	992	67%
5	Auxiliary	201	13%
	Total	1,489	100%

According to the Group's development plan, during the reporting period, with the implementation of flexible remuneration policy and introduction of various technical and management personnel headed by Dr. Qiu Yumin, the operation standard of the management team was enhanced at international level, professional level and occupational level. The distinguished manpower will facilitate the implementation of the Group's international development strategy.

One of the main features of the Group's remuneration structure was to emphasise that the employees' income was directly related to its business performance and profits. The remuneration package included basic salary, commission and bonus, housing allowance, pension, medical insurance, occupational injury insurance and other insurance required by the government. Meanwhile, the Group adopted the policy of "People Oriented" which integrated the trinity modes of thinking, including "Job Reallocation", "Role" and "Up-to-Standard" and formulated incentive programmes tailored for employees at different stage of their career development in the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

On the basis of the current objective management and performance appraisal system, the Group further strengthened quantitative management and improved quantitative performance appraisal system of "performance, capability, behavior" with the core of "production, cost and safety"; set up "Responsibility System of the General Manager's Indication", and implemented this system to each workshop, team and individual at every tiers in the Group; reinforced the linkage effect of remuneration and performance, expanded the scale and the scope of the "reward and punishment" policy and promoted the increase of mine operation efficiency and profits. The Group, via the channel of information platform, collected, analyzed, processed and integrated abundant of information related to business operation and thereby, improved the supporting operation management system which operated with the principle of "product production as the core, minimizing cost as the target, safety production as the basis".

By the implementation of institutional monitoring system and employees training, the Group enhanced the professional and occupational skill of the managers above the middle management level as well as boosting up the improvement of the quality of all the employees to cope with the demands of the Company's rapid development during the process of internationalization. During the reporting period, the Group arranged numerous training programmes, including training programmes conducted by in-house instructors; training programmes conducted by external instructors, training abroad and business college's online network video training programmes, etc. The Group conducted 22 times of training programmes in total with 598 participants and 1,760 class hours. With these training programmes, the Group enhanced the work skills and safety control consciousness at the front line of production, enriched the managers' operational and professional knowledge and facilitated the enhancement of the managers' ability.

5. Finance Review

(1) Revenue, cost, gross profit

For the year ended 2011, the Group's revenue was approximately RMB1,452,277 thousand, representing an increase of RMB154,779 thousand or 11.9% over last year, mainly due to the rising unit selling price of iron ore concentrates.

For the year ended 2011, the Group's cost of sales was approximately RMB425,295 thousand, representing a decrease of RMB40,678 thousand or 8.7% over last year, mainly due to the reduction of sales volume.

For the year ended 2011, the Group's gross profit was RMB1,026,982 thousand, representing an increase of RMB195,457 thousand or 23.5% over last year; compared to the same period of last year, the Group's gross profit increased dramatically from 64.1% to 70.7% for the year ended 2011, mainly due to the rising average selling price of iron ore concentrates.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(2) Other income and expenses

For the year ended 2011, the Group's other income was approximately RMB32,008 thousand, representing an increase of RMB30,462 thousand or 1,970.4% over last year. Other income included interest income and government subsidy income. The increase was mainly due to the subsidy of the government.

For the year ended 2011, the Group's other expenses were approximately RMB37,075 thousand, representing an increase of RMB24,650 thousand or 198.4% over last year. Other expenses included loss of selling properties and plants and equipment, charity donation, expenses related to listing and other overheads.

(3) Selling and distribution expenses, administrative expenses

For the year ended 2011, the Group's selling and distribution expenses were approximately RMB23,693 thousand, representing an increase of RMB485 thousand or 2.1% over last year. Selling and distribution expenses included transportation expenses, labour expenses and others.

For the year ended 2011, the Group's administrative expenses were approximately RMB120,511 thousand, representing an increase of RMB25,861 thousand or 27.3% over last year, which was mainly due to the increase in technical service expenses, travelling expenses, water charges and pollution discharging fees. Administrative expenses included salary paid to the Group's managers and administrative staff, depreciation and amortization, leasing and office expenses, operation development expenses, professional counseling and service expenses, taxation expenses and others.

(4) Foreign exchange gain, finance costs, income tax expense

For the year ended 2011, the Group's net foreign exchange gain was approximately RMB13,380 thousand (that of the same period last year was nil), mainly due to the Group borrowed loans in dollars for private finance before the listing, the produced exchange gain of RMB26,861 thousand due to the devaluation of the RMB against the US dollar offsetting the produced exchange loss of foreign currency assets of RMB13,481 thousand due to the devaluation of the RMB against the US dollar.

For the year ended 2011, the Group's finance costs were approximately RMB270,105 thousand, representing an increase of RMB234,507 thousand or 658.8% over last year. Finance costs included bank borrowings interest expenses, discount interest expenses, and other finance loans interest expenses. The increase was mainly due to private security, interest and handling charge for listing issuance.

For the year ended 2011, the Group's income tax expenses were approximately RMB214,183 thousand, representing an increase of RMB43,294 thousand or 25.3% over last year. Income tax expenses included the total amount of tax currently payable and deferred tax. In 2010 and 2011, the Group's effective tax rate was 25.6% and 34.5%, respectively, based on deducted tax in consolidated statement of comprehensive income and profit before tax. The main reason of an increase in the effective tax rate was that finance costs related to finance loans was produced by the Company (incorporated in Cayman Islands) and could not be deducted as Chinese income taxation.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(5) Profit and total comprehensive income for the year

Based on the above reasons, for the year ended 2011, the Group's profit and total comprehensive income for the year was approximately RMB406,803 thousand, representing a decrease of RMB89,498 thousand or 18.0% over last year. During the reporting period, the Group's net profit margin was 28.0% (2010: 38.3%). The factors affecting the net profit of the Group include the charges of intermediaries of RMB32,448 thousand and the finance cost of RMB239,426 thousand caused by the listing of the Company in 2011. Such factors reduced the net profit of the Group by RMB263,762 thousand. If the impact of the aforementioned amount was excluded, the net profit of the Group would have been RMB670,565 thousand, representing a year-on-year increase of RMB174,264 thousand or 35.1%.

(6) Property, plant and equipment, inventory

As at 31 December 2011, the Group's property, plant and equipment were approximately RMB436,873 thousand, representing an increase of RMB227,070 thousand or 108.2% over last year, mainly due to building plants, offices, tailings and acquiring machine equipment to expand production capacity.

As at 31 December 2011, the Group's inventory was approximately RMB38,046 thousand, representing a decrease of RMB24,505 thousand or 39.2% over last year, mainly due to consumption of production and sales of raw ores and iron ore concentrate produced last year.

According to the property valuation report as set out in Appendix IV to the Prospectus, the aggregated valuation amount of the Group's prepaid lease payments and buildings were approximately RMB131,595 thousand as at 30 June 2011, whereas the prepaid lease payments and buildings of the Group were stated at cost less accumulated depreciation or amortisation in the Accountants' Report attached as Appendix I in the Prospectus with aggregated carrying values of approximately RMB266,005 thousand as at 30 June 2011, and with aggregated carrying values of RMB69,230 thousand when deducted the assets with no commercial value. The additional aggregated depreciation and amortisation that would have been charged against the consolidated statement of comprehensive income for the year ended 31 December 2011 had the prepaid lease payments and buildings been stated at the valuation amount amounted to approximately RMB1,893 thousand.

(7) Receivables and Payables

As at 31 December 2011, the Group's trade receivables were approximately RMB233,043 thousand, representing an increase of RMB155,292 thousand over last year, mainly due to sufficient current capital at the end of 2011 and the increase in bank notes caused by the Group choosing not to discount bank notes.

As at 31 December 2011, the Group's other receivables were approximately RMB166,481 thousand, representing an increase of RMB80,125 thousand over last year, mainly due to prepaying other recoverable tax related to certain resources tax and local tax policies regulated by the local tax bureau.

As at 31 December 2011, the Group's trade payables were approximately RMB20,556 thousand, representing a decrease of RMB10,664 thousand or 34.2% over last year, mainly due to the Group made certain payables to suppliers pursuant to the contract.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at 31 December 2011, the Group's other payables were approximately RMB181,381 thousand, representing an increase of RMB46,069 thousand or 34% over last year, mainly due to backing progress payment of purchasing property, plant and equipment according to the contract.

(8) Cash use instruction

The summary of the Group's consolidated statement of cash flow for the year ended 2011 was set out below.

	For the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Net cash from operating activities	**494,960**	439,340
Net cash used in investing activities	**(43,308)**	(342,626)
Net cash used in financing activities	**(175,775)**	(66,312)
Net increase in cash and cash equivalents	**275,877**	30,402
Cash and cash equivalents at the beginning of year	**53,305**	22,903
Effect of changes in foreign exchange rate on cash and cash equivalents	**(13,481)**	0
Cash and cash equivalents at the end of year	**315,701**	53,305

The net cash generated from the operating activities during 2011 was RMB494,960 thousand, which was mainly attributed to the profit before tax of RMB620,986 thousand, partially offset by the increase of RMB260,256 thousand in trade and other receivables. Trade and other receivables increased in line with the increase in the sales in 2011.

During 2011, the net cash used in the investing activities amounted to RMB43,308 thousand, which mainly reflected the amount of RMB233,590 thousand used in the construction of the underground pits and the acquisition of properties, plants and equipment in Benxi Mine and Xingzhou Mine, the prepaid lease payment of RMB147,224 thousand in relation to the application of additional land use rights in the mining areas, and the amount of RMB32,790 thousand used in the acquisition of intangible assets, mainly offset by the repayment of RMB376,481 thousand by the connected parties.

During 2011, the net cash used in the financing activities was RMB175,775 thousand, which represented the repayment of bank loans of RMB1,180,342 thousand and the repayment of the borrowings payable to the connected parties of RMB10,598 thousand, partially offset by the proceeds of RMB982,203 thousand from new bank borrowings and the issuance of shares.

(9) Bank borrowings

As at 31 December 2010 and 2011, the bank borrowings of the Group were approximately RMB475,000 thousand and RMB250,000 thousand, respectively. In addition to the information disclosed above or otherwise in this annual report, the Group has no outstanding mortgage, pledge, debentures or other loan capital issued or agreed to be issued, bank overdrafts, borrowing, liabilities under acceptance or other similar liabilities, hire purchase and finance lease commitments, or any guarantees or other material contingent liabilities. The Directors have confirmed that, save for the information disclosed above, there has been no material changes in the indebtedness and contingent liabilities of the Group since 31 December 2011.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(10) Gearing ratio, interest rate risk, and foreign exchange risk

The gearing ratio of the Group dropped from 63.4% in 31 December 2010 to 36.4% in 31 December 2011, which is calculated by dividing the total liabilities by the total assets.

The interest rate risk in the fair value of the Group mainly relates to the bank borrowings. The bank borrowings of the Group are usually due within one year, and therefore, the interest rate risk in its fair value is relatively remote. There is no hedging policy currently prevailing in the Company. Nevertheless, the management of the Group monitors the interest rate risk, and may consider taking hedging measures as needed on the occurrence of significant interest rate risks.

The businesses of the Group are located in China, and its major operating transactions are dominated in RMB. In addition to the liabilities arising from the financing loans dominated in US dollars and certain payable professional expenses dominated in HK dollars and US dollars mainly arising from the listing, most of the assets and liabilities of the Group are dominated in RMB. Since RMB is not freely convertible, the risk that the Chinese government may take measures to interfere the 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, and we have no hedging measures against such exchange risks.

(11) Assets securities, contingent liabilities and dividends

The bank borrowings of the Group of RMB200 million are secured by the mining rights certificates. As of 31 December 2011, the aggregate net carrying value of the assets used as securities amounted to RMB252 million. The remaining bank borrowing of the Group of RMB50,000 thousand is secured by the bills receivable of RMB51,250 thousand.

As of 31 December 2011, the Group had no material contingent liabilities.

The Board of the Company recommended the payment of the final dividend for the year ended 31 December 2011, with a cash bonus of RMB0.021 per share. The payment of the dividend will be conditional upon the approval of the shareholders at the annual general meeting of the Company.

(12) Use of the proceeds

The proceeds raised from the listing of the Company amounted to HK$828,300,000. As of 31 December 2011, the proceeds not utilized yet was HK$45,800,000, and the rest had been mainly applied to (1) repay the private borrowings of HK$702,300,000; (2) expand and upgrade the existing mines and the production facilities (HK$68,600,000). The proceeds not yet utilized will be applied to the purposes as disclosed in the Prospectus.

(13) Material acquisitions and disposals

The Group had no material acquisitions and disposals of subsidiaries and associated companies for the year ended 31 December 2011.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(14) Expenditure of exploration, development and mining production activities

The Group's total expenditure of exploration, development and mining production activities increased from approximately RMB243,070 thousand in 2010 to approximately RMB472,644 thousand on in 2011. The expenditure incurred in 2011 was primarily consisted of (i) the capital expenditure of property, plant and equipment amounting to RMB260,623 thousand; (ii) the capital expenditure of prepaid lease payment for the mining production activities amounting to RMB149,299 thousand; (iii) the expenditure of exploration of Aoniu Mining, Xingzhou Mining and Maogong Mining amounting to RMB31,022 thousand; (iv) the expenditure of acquisition of mining rights amounting to RMB31,700 thousand.

6. Future Outlook

(1) Operating environment

The fluctuations in the iron ore market are mainly resulted from the factors such as the changes in the steel and iron market, the supply of iron ores, and the global economy. Despite of the drop in GDP, China will still be the main driver for the growth of the steel and iron market in 2012 and will play an important role in supporting the demand of the iron ore products, resulting from which, the demand in the iron ore market will continue to remain relatively strong. There will be an increase in the demand and supply of iron ores, but it will not be significantly higher than that of 2011. However, the debt crisis in Europe will continue to spread influences on the finance capital market worldwide and bring uncertainties to the energy market and the market of bulk mining raw materials, including iron ores. In sum, we are cautiously optimistic about the iron ore market.

(2) Resources enlargement and capacity expansion

The Group will put more efforts on exploration. It will carry out further exploration activities in Aoniu Mine and Maogong Mine to seek for the further increase in iron ore resources. It will strive to identify and focus on new exploration areas in accordance with the national "integrated exploration" program. On the basis of complying with the national policies, it will also expand the areas covered by the mining rights of Aoniu Mine and Maogong Mine whenever it deems fit.

During 2012, the Group plans to complete the construction of the main part of the processing plant with an annual capacity of 1 million iron concentrates in Maogong Mine, and accomplish the second phase of the technical improvement project in Aoniu Mine to increase the production capacity of Aoniu Mine to over 1 million tons of iron concentrates. It is also planning to construct a series of ancillary facilities with a mining capacity of 1 million tons of iron ores in Xingzhou Mine. Moreover, it will complete the construction of the underground pit in Benxi Mine step by step to ensure the smooth transition from open mining to underground mining.

It will carry out the development strategy of international development, and accelerate the identification, acquisition and exploration of oversea projects. The Company will, based on its own strengths, select the countries and regions with abundant target resources, stable investment environment and a sound legal system, and carry out investing and operating activities by following the principle of gradual improvement, that is, from small activities to major activities and from simple to complicated.

In the meanwhile of focusing its efforts on the development and production of iron ores, the Group will seek for the opportunities to acquire and develop other advantageous ores, such as Au, Ni and Cu. On the basis of the strict control over significant risk factors, the Company will hedge the adverse effects brought by the fluctuations of the market by properly verifying the asset and product portfolios of various ores, so as to lay a solid foundation for the achievement of a stable growth in the returns of the shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(3) Management system construction

The Group will promote the implementation of a collective management mode and focus its attention on the horizontal integration of the corporate resources in all the mines and the effective and full use of the Group's overall advantages. Through the ability of collective organization, the Group can achieve control and strategic synergy amongst its subordinate mining companies and balance the relationship between rapid development and risk control. It will continue to optimize the meticulous management in terms of the strategy and operation of the Group, and improve the meticulous management through the establishment of a systematical decision procedure.

It will further optimize the production control and measurement system, and strengthen the "breakdown-type" meticulous management to assign the six major responsibilities of "personnel, quantity, quality, equipment, safety and cost" of every work process to the working team and to all the individuals. It will establish a quantitative following and electronic measuring system for the key indicators in the mines to carry out scientific measurements and calculations on the technical indicators such as the grades, the supply volume and the recovery rate of the ores, as well as the grades of the dry cinder and the concentration ratio. Moreover, it will calculate the final cost by collecting the costs of the technologies or sections that can be calculated individually, and will establish precise monthly reporting, weekly reporting or even daily reporting system in respect of the production costs.

It will establish a digital management and monitoring platform for the production data, and establish a 3D dynamic model for the reserve in each mine and a monitoring model for the mining sites and the processing plants by using modern software and technologies. It will also optimize the internal resource management and information system to improve the management efficiency of the human resources, administration, financial and legal departments. Moreover, it will enhance information sharing and circulation and ensure the completeness, accuracy and confidentiality of the information and data of the Company.

REPORT OF THE DIRECTORS

1. Principal Activities

The principal activities of the Group are iron ore mining and the production and sale of iron ore concentrates. Details of the principal subsidiaries of the Company are set out in note 36 to the financial statements respectively.

2. Results

The profit of the Group for the year ended 31 December 2011, and the position of the Company and the Group as at that date are set out on pages 69 to 71.

3. 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 2011 are set out in note 18 to the financial statements.

4. Share Capital

The Company was listed on the Hong Kong Stock Exchange on 30 September 2011. The total number of shares is 10,000,000,000 shares divided into shares of HK$0.1 each, and the total share capital is HK$1,000,000,000 with 1,830,000,000 shares in issued. During the year, the share capital of the Company remained unchanged.

5. Pre-Emption Right

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

6. Reserves

Details of movements in the reserves of the Company and the Group during the year are set out on pages 72 to 73, among which, details of reserves distributable to the equity holders of the Company are set out on page 72.

REPORT OF THE DIRECTORS (CONTINUED)

7. Dividends

The Board of the Company recommended the payment of a final dividend of RMB0.021 per share in cash in respect of the year ended 31 December 2011 to the shareholders. All dividends will be paid after being approved by the shareholders at the annual general meeting of the Company.

All dividends to be distributed will be denominated and declared in Renminbi and will be paid to shareholders of the Company in Hong Kong dollars. The amount of dividends payable in Hong Kong dollars shall be calculated based on the average benchmark exchange rate of Renminbi to Hong Kong dollars announced by the People's Bank of China between Monday, 4 June 2012 and Friday, 8 June 2012. The dividends are expected to be paid on or about 12 June 2012.

8. Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 15 May 2012 to Monday, 21 May 2012 (both dates inclusive, 5 business days in total) and Friday, 25 May 2012 to Thursday, 31 May 2012 (both dates inclusive, 5 business days in total) during which periods no transfer of shares will be registered. In order to attend the 2012 annual general meeting of the Company, all transfer forms 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 Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Monday, 14 May 2012. In order to participate in the payment of a final dividend in respect of the year ended 31 December 2011, all transfer forms 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 Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 24 May 2012.

9. Purchase, Redemption or Sale of Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities since the listing date of the Company on 30 September 2011 to 31 December 2011.

10. Major Customers and Suppliers

For the year ended 31 December 2011, the purchase from our five largest suppliers (as defined in the Listing Rules) in aggregate accounted for 58.1% of our total purchase for the year. In particular, the total purchase from the largest supplier accounted for 22.2% of our total purchase for the year.

For the year ended 31 December 2011, the sales to our five largest customers in aggregate contributed 95.5% to our total sales for the year. In particular, the sales to the largest customer contributed 49.0% to our total sales for the year.

So far as the Directors are aware, except for Fushun Hanking D.R.I and Fushun Deshan (details of which set out in the item 22 "Connected Transactions" of this section), none of the Directors, associates of Directors or any shareholders of the Company (who to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the five largest suppliers (as defined in the Listing Rules) or customers during the year.

REPORT OF THE DIRECTORS (CONTINUED)

11. Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Group as of 31 December 2011 are set out in note 27 to the financial statements.

12. Directors and Senior Management

The following table sets forth certain information concerning the Directors and senior management of the Company as at the listing date (30 September 2011) and up to the date of this report:

Name	Position in the Company	Date of Appointment	Date of Resignation
Yang Min (楊敏)	Chairlady and Non-executive Director	25 February 2011	N/A
Yang Jiye (楊繼野)	Vice Chairman and Non-executive Director	25 February 2011	N/A
Kenneth Jue Lee (李堅)	Non-executive Director	30 January 2012	N/A
Lan Fusheng (藍福生)	Non-executive Director	30 January 2012	N/A
Mao Guosheng (毛國勝)	Non-executive Director	25 February 2011	30 January 2012
Pan Guocheng (潘國成)	Executive Director, Chief Executive Officer and President	25 February 2011	N/A
Zheng Xuezhi (鄭學志)	Executive Director and Chief Financial Officer	25 February 2011	N/A
Xia Zhuo (夏茁)	Executive Director and Joint Company Secretary	25 February 2011	N/A
Qiu Yumin (邱玉民)	Executive Director and Vice President	30 January 2012	N/A
Lu Zengxiang (路增祥)	Executive Director and Vice President	25 February 2011	Resigned as an executive Director on 30 January 2012 and remained as the Vice President
Huang Jinfu (黃金夫)	Executive Director and General Manager of Aoniu Mining	25 February 2011	Resigned as an executive Director on 30 January 2012 and remained as the General Manager of Aoniu Mining
Wang Ping (王平)	Independent Non-executive Director	25 February 2011	N/A
Johnson Chi-King Fu (符致京)	Independent Non-executive Director	25 February 2011	N/A
Chen Yuchuan (陳毓川)	Independent Non-executive Director	16 September 2011	N/A
Wang Anjian (王安建)	Independent Non-executive Director	30 January 2012	N/A

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers that all of the independent non-executive Directors are independent of the Company.

REPORT OF THE DIRECTORS (CONTINUED)

13. Biographies of Directors and Senior Management

Detailed biographies of Directors and senior management are set out on pages 59 to 66 of this annual report.

14. Director's Service Contract

Each of the executive Directors and non-executive Directors, other than Mr. Qiu Yumin, Mr. Lan Fusheng and Mr. Kenneth Jue Lee, has entered into a service contract with the Company on 16 June 2011. The principal particulars of these service agreements are (a) for a term of three years commencing from listing date (30 September 2011) and (b) are subject to termination in accordance with their respective terms. The service agreements may be renewed in accordance with the Articles of Association and the applicable rules. Each of Mr. Qiu Yumin, Mr. Lan Fusheng and Mr. Kenneth Jue Lee has entered into a service contract with the Company on 30 January 2012 respectively. The principal particulars of these service agreements are (a) subject to renewal for another three years automatically from 30 January 2012 and up to the date of the annual general meeting if being elected on the annual general meeting, and (b) subject to termination in accordance with their respective terms. The service contract may be renewed in accordance with the Articles of Association and the applicable rules.

Each of the independent non-executive Directors, other than Mr. Chen Yuchuan and Mr. Wang Anjian, has signed an appointment letter with the Company on 16 June 2011. Mr. Chen Yuchuan signed his appointment letter on 16 September 2011. The principal particulars of these appointment letters are (a) for a term of three years commencing from listing date (30 September 2011) and (b) are subject to termination in accordance with their respective terms. The appointment may be renewed in accordance with the Articles of Association and the applicable rules. Mr. Wang Anjian has signed an appointment letter with the Company on 30 January 2012. The principal particulars of this appointment letter are (a) subject to renewal for another three years automatically from 30 January 2012 and up to the date of the annual general meeting if being elected on the annual general meeting, and (b) subject to termination in accordance with their respective terms. The service contract may be renewed in accordance with the Articles of Association and the applicable rules.

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

15. Remuneration for Directors and Top 5 Highest Paid Employees

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

For the year ended 31 December 2011, no Director with the Company has agreed to waive any remuneration.

The remuneration for the Directors with the Company was proposed by the remuneration committee, which would take into account remuneration of companies in the same categories, conditions of employment, responsibilities and individual performance when proposing the remuneration.

REPORT OF THE DIRECTORS (CONTINUED)

16. Director's Interests in Contracts of Significance

Save as disclosed in item 22 "Connected Transactions" in this report, for the year ended 31 December 2011, the Company has not directly or indirectly concluded contracts of significance, in which each Director has material interests, and in which the Company is a party and which still remain valid any time during the year or at the end of the year.

17. Major Subsequent Events

There is no any major subsequent event occurring during the period from 1 January 2012 to the Latest Practicable Date prior to the issue of this annual report.

18. Directors' and Controlling Shareholders' Interests in Competing Business

(1) Directors' and Controlling Shareholders' Interests in Competing Business

Prior to the Reorganization of our Company, Hanking Group was primarily engaged in iron ore mining and processing, the production and sales of iron ore concentrates, iron and steel manufacturing, mining and processing of other minerals, operation of department stores and property management etc. In anticipation of the global offering, we underwent the Reorganization, which was aimed at providing a clear delineation between our Company's core business and Hanking Group's other businesses. Our core business refers to iron ore mining and processing and the production and sale of iron ore concentrates ("Core Business"). Pursuant to the Reorganization, our Controlling Shareholders transferred to us the interests in the entities engaged in the Core Business, save for those as set out in this section below.

REPORT OF THE DIRECTORS (CONTINUED)

Immediately following the Reorganization, we were strategically positioned to engage primarily in iron ore mining and processing as well as the production and sale of iron ore concentrates as our Core Business. The operation of some mining related entities has been suspended and such entities will not be included in our Group; certain iron-ores mining and processing related businesses which are in operation will be excluded from our Group and will be retained by our Controlling Shareholders ("Excluded Businesses"). The details of the Excluded Businesses and the Hanking Group are as follows:

(A) Excluded Businesses

Our Group expects that, for the reasons set forth below, our Controlling Shareholders will continue to own and/or operate the Excluded Businesses. In order to safeguard the interest of the Group, the Controlling Shareholders have entered into a Non-Competition Agreement dated 16 June 2011 in favour of our Company. Pursuant to the Non-Competition Agreement, our Group received the option to acquire the Excluded Businesses and a right of first refusal in respect to any potential business opportunities that may compete with the Group.

(a) Fushun Hanking Shangma Iron Mine (撫順罕王上馬鐵礦) ("Fushun Shangma")

Fushun Shangma was established in the PRC in October 2000. As at the Latest Practicable Date, it is a sole-proprietorship enterprise wholly-owned by Mr. Yang. Fushun Shangma is primarily engaged in the business of mining and processing of iron ore fines and iron ore concentrates. The current estimated iron ore reserves of Fushun Shangma is approximately 9.24Mt. Fushun Shangma was excluded from our Group because the timing of obtaining the land use right certificate and the building ownership certificates for the mine in Shangma operated by Fushun Shangma ("Shangma Mine") is uncertain. The land on which the Shangma Mine is located comprises a parcel of rural collectively-owned land with an area of approximately 925,397.96 sq.m. Fushun Shangma has not obtained the land use right certificate and the building ownership certificates for an area of 197,014.43 sq.m. (part of the land used for iron mining) ("Shangma Mining Land") and the land use right certificate and the building ownership certificates for an area of 186,587.6 sq.m. (part of land used for tailing pond) ("Shangma Tailing Pond Land").

As advised by Jingtian & Gongcheng, our Company's legal advisers as to PRC law, according to PRC laws and regulations, the following steps are required to be taken for Fushun Shangma to obtain the relevant land use right certificate for the Shangma Mining Land:

- Fushun Shangma must negotiate with the local village committee (the representative organization of the occupants of the rural collectively owned land) to reach a compensation agreement regarding the Shangma Mining Land;

- Competent authorities must approve the conversion of agricultural land to construction land and the plan for land expropriation and authorities at and above the county level must make an announcement and organize the implementation of land expropriation;

- Fushun Shangma may submit an application together with the compensation agreement to the Fushun Planning Bureau (撫順市規劃局), which will issue an opinion on the location of the proposed construction project (建設項目選址意見書);

- Fushun Shangma may then submit the opinion on the land location and other related valuation reports with the application for the land use pre-approval (用地預審);

REPORT OF THE DIRECTORS (CONTINUED)

- Fushun Shangma may then submit an application to the land planning department for approval of the feasibility study report and an application to the environmental protection department for the approval of the environmental impact report, respectively;

- Fushun Shangma may then apply for a construction land planning permit (建設用地規劃許可證) from Fushun Planning Bureau;

- Fushun Shangma may then submit an application, with the construction land planning permit, to the Fushun State Land and Resources Bureau (撫順市國土資源局) to apply for construction land approval (建設用地批准書). The construction land approval may be issued after the payment of the land use right premium, including the compensation fee in accordance with the compensation agreement and the signing of a contract granting the right of use of State-owned land (國有土地使用權出讓合同);

- Fushun Shangma may then apply for the land use right certificate (國有土地使用證); and

- Subject to the fulfillment of the above, the Shangma Mining Land will be expropriated and converted into land for construction purposes and the Bureau of State Land and Resources (國土資源局) will grant the land use right certificate to Fushun Shangma.

As for the Shangma Mining Land, Fushun Shangma has been actively communicating and negotiating with the local village committee together with the local land authority in order to obtain the relevant land use right certificate for the Shangma Mining Land. On 1 September 2010, Fushun Shangma made its request to local occupants to acquire approximately 320,000 sq.m. (480 acres) of land. However, most of those requests were rejected and the compensation amounts haven't been agreed upon. Given that Fushun Shangma is not in a position to control the timing as to when the agreement with the villagers will be agreed upon, the expected dates for obtaining the land use right certificate for the Shangma Mining Land are uncertain.

The land to be used for the tailing pond is for agricultural use. Our legal advisers as to PRC law, Jingtian & Gongcheng, advises that pursuant to PRC laws, the land usage could be rectified by obtaining approval for the conversion of agriculture land (農業用地) into construction land (建設用地) (which includes usage for industrial purposes). Jingtian & Gongcheng further advises that the process can be commenced by an application for conversion by the on-site customer to acquire the land for construction/industrial purpose. Fushun Shangma has been actively communicating with the local government bureau, and the boundary survey and certain preliminary assessment have already been finished. However, the local government land bureau would need to undertake a series of internal procedures to issue the land certificate, which include: (i) securing a quota from the land bureau at the higher level for conversion of agricultural land into construction land as provided in the annual plan regarding land usage (土地利用年度計劃), (ii) the payment of compensation by the local government land bureau to the farmers or villagers which are entitled to use the land for agriculture purposes and (iii) the allocation of the conversion quota to the applicant for conversion of agricultural land into construction land. Given that the conversion process is primarily driven by the local government land bureau, Fushun Shangma is not in a position to control the timing as to when such conversion can be completed. Thus, the expected date for obtaining the land use right certificate for the Shangma Tailing Pond Land is currently uncertain.

REPORT OF THE DIRECTORS (CONTINUED)

Given that, as explained above, our Company is not in a position to control the timing of obtaining the land certificates relating to the Shangma Mining Land and Shangma Tailing Pond Land, our Directors consider that it is neither appropriate nor practicable to include such interest in the Group. Our Directors do not believe that the business of Fushun Shangma poses a competitive threat to our business for the following reasons: (i) the iron ore concentrates market is currently a seller's market, so the iron ore concentrates sales of our Group will not be affected and (ii) Fushun Shangma has entered into a management service agreement with our Company, which provides that if Fushun Shangma and our Group enter into a contract with a production customer and such customer will procure the same products from our Group and Fushun Shangma, our Group has the priority for the sale of products to such customer and the customers may only procure from Fushun Shangma if our Group cannot fulfill the customer's needs. In other words, when Fushun Shangma receives a purchase request from its current or potential customers, Fushun Shangma is required to notify the independent non-executive Directors of our Company in writing and provide related information which is necessary for the independent non-executive Directors to consider whether or not to take up such purchase request or business opportunity. Fushun Shangma could only take up the purchase request if the Independent non-executive Directors do not raise any concerns within 48 hours after receipt of such notice. Otherwise, Fushun Shangma is obliged to transfer the purchase order to our Company. Please refer to "Connected Transactions" for details of such management service agreement; in addition, the amount of iron ore reserves at Fushun Shangma is relatively small, compared to the size of our Group.

According to the Non-Competition Agreement (as described below), if and when the land use right certificates of Shangma Mining Land and Shangma Tailing Pond Land are obtained, Fushun Shangma shall forthwith give notice to our Company and our Company has the right to purchase the interests of Fushun Shangma at a price determined by an independent valuer. Once the Company decides to exercise such right after obtaining the approval of the independent non-executive Directors and/or the independent shareholders, as the case may be, Mr. Yang, the owner of Fushun Shangma, is obliged to transfer his interests in Fushun Shangma, to the Company. Therefore, our Directors are of the view that the nature of Fushun Shangma, the implementation of the management service agreement described above and the implementation of the provisions of the Non-Competition Agreement can sufficiently safeguard our interests and Fushun Shangma will not be competing with us during the period before Fushun Shangma has obtained all the necessary land use right certificates and building ownership certificates.

(b) *Benxi Iron Processing*

Benxi Iron Processing was established in the PRC in July 2010. As at the Latest Practicable Date, it was 100% owned by Hanking Group. Benxi Iron Processing is engaged in the iron processing business only. The ore processing business engaged in by Benxi Iron Processing used to be operated under Benxi Hanking Mining Co., Ltd. (本溪罕王礦業有限公司) ("Benxi Mining"), our subsidiary. Benxi Iron Processing has been excluded from the Group because the timing of obtaining the land use rights relating to the land on which its business is operated is uncertain. The reasons for this uncertainty are: (i) according to the urban planning programme ("城市規劃", the "Programme") of Benxi City prepared by the government of Benxi City and approved by the government of Liaoning Province, the land of Benxi Iron Processing is preserved as the "green land" (綠化用地) under the Programme, and therefore cannot be granted for use for other purposes, unless the Programme is amended and the use of such land is not restricted to "green" uses, (ii) if the planned usage of the

REPORT OF THE DIRECTORS (CONTINUED)

land is not altered in the Programme, then Benxi Iron Processing will not be able to apply for land use rights with the government authorities and (iii) according to applicable PRC laws, amendment of the Programme is subject to strict examination by government authorities at different levels (first by the government authorities of Benxi City and then finally approved by the government of Liaoning Province) and there is no set time limit within which such procedures would be completed. Therefore, Benxi Iron Processing and Hanking Group cannot control or predict the timing as to when or whether such land use right can be obtained. In the event Benxi Iron Processing is required to relocate as a result of the lack of land use right, it should be able to relocate to a suitable site in a timely manner.

The Controlling Shareholders have confirmed to us that Benxi Iron Processing has been excluded from the Group because the timing of obtaining the land use rights relating to the land on which its business is operated is uncertain. As at the Latest Practicable Date, the urban planning programme is under review by related authorities and Benxi Iron Processing will only be able to apply for the land use rights after the urban planning programme is altered. Benxi Iron Processing may not be able to obtain the land use rights in the next year or so.

Since the land use right certificate(s) relating to the land on which the iron processing business is operated have not been obtained and the timing of obtaining such certificates is uncertain, the iron processing business was then transferred from Benxi Mining and retained by Hanking Group. On 16 June 2011, Benxi Mining and Benxi Iron Processing entered into a processing agreement, pursuant to which, for a term of three years, Benxi Iron Processing will process the iron ores extracted by Benxi Mining and deliver the iron ore concentrates produced to Benxi Mining. While the Directors had considered a number of restructuring plans in connection with the proposed Listing, our Company chose not to transfer the land without proper title to Benxi Iron Processing during the Reorganization for a number of reasons. First, despite the fact that ownership of land can be separated from ownership of the operations, given the importance of use of such land to Benxi Iron Processing, the Directors believed that it would not be commercially appropriate to separate the ownership of land from the overall business operations of Benxi Iron Processing. Second, the defect in the land title exists regardless of whether the operation of Benxi Iron Processing is transferred to our Company and as such, so long as Benxi Iron Processing continues to use the land for its processing operations, any defect in the land title, if not rectified, would have a potentially adverse impact on the operations of Benxi Iron Processing.

With its Controlling Shareholders for the use of the said land if only the operations of Benxi Iron Processing were transferred to our Company, which would constitute a new continuing connected transaction for our Company after the Listing. In the view of the Directors, such transaction would not be in the best interest of the Company because it would be difficult to assess and assign commercial value and derive the lease terms for the property being leased due to its inherent land title defect. In light of the above, and taking into account our Company's right to acquire Benxi Iron Processing after the listing should it be considered appropriate, the Directors believe that the current arrangement with respect to Benxi Iron Processing is the most prudent and sensible approach. As Benxi Iron Processing is an associate of Hanking Group (as defined under the Listing Rules), the entering into of the processing agreement constitutes a continuing connected transaction of the Group.

REPORT OF THE DIRECTORS (CONTINUED)

According to the Non-Competition Agreement (as described below), if and when the land use right certificate of Benxi Iron Processing is obtained, Benxi Iron Processing must promptly give notice to our Company and our Company has the right to purchase the interests of Benxi Iron Processing at a price determined by an independent valuer. Once the Company decides to exercise such right, after obtaining the approval of the independent non-executive Directors and/or the independent shareholders, as the case may be, Hanking Group, the owner of Benxi Iron Processing, is obliged to transfer its interests in Benxi Iron Processing to the Company. Therefore, our Directors are of the view that the Non-Competition Agreement can sufficiently safeguard our interest and Fushun Shangma will not be competing with us during the period before Benxi Iron Processing has obtained the related land use right certificate.

Financial Information for the Excluded Businesses
To the best knowledge of the Directors and based on the information available to the Directors, the table below sets out the key financial information of the Excluded Businesses:

	Fushun Shangma			**Benxi Iron Processing***		
Related Sectors	**31 December**			**31 December**		
	2008	**2009**	**2010**	**2008**	**2009**	**2010**
	RMB	**RMB**	**RMB**			**RMB**
	(million)	**(million)**	**(million)**			**(million)**
Total assets	137.2	116.2	272.9	N/A	N/A	37.8
Total liabilities	63.5	50.1	190.6	N/A	N/A	32.1
Revenue	262.2	119.6	135.6	N/A	N/A	12.7
Total net profit/loss	49.4	(7.6)	16.2	N/A	N/A	0.7

* Benxi Iron Processing was established in July 2010. Prior to its establishment, the iron ore processing business engaged in by Benxi Iron Processing used to be operated under Benxi Mining.

* Based on management accounts of Fushun Shangma and Benxi Iron Processing

(B) Hanking Group

Prior to the Reorganization, and through April 2010, Ms. Yang and Mr. Yang held 59.86% and 30% of the equity interests in Hanking Group, respectively. Hanking Group was mainly engaged in mining, metallurgy and department store operations, and it also acted as the holding company for the Controlling Shareholders to hold their interests in various businesses.

In mid-2010, the companies comprising our Group underwent a reorganization to rationalize the Group's structure and strengthen our business in preparation for the listing of the shares. As a result, our Company became the holding company of our operating subsidiaries engaging in the Core Business.

REPORT OF THE DIRECTORS (CONTINUED)

After the Reorganization and through August 2010, Ms. Yang and Mr. Yang held 60.67% and 28.29% of the equity interests in Hanking Group, respectively, and Hanking Group became a holding company of the Controlling Shareholders to hold their interests in other businesses, as follows: (i) Benxi Iron Processing: Hanking Group holds a 100% equity interest in Benxi Iron Processing, (ii) Iron ore mining related businesses with suspended operations: Hanking Group holds, through its wholly-owned subsidiary Fushun Hanking, a 100% equity interest in Fushun Metallurgy, a 100% equity interest in Fushun Hanking and a 50% equity interest in Fushun Bangze and (iii) Non-iron ore mining and processing related businesses, including Fushun Hanking Jingmao Mining Co., Ltd. (100%) which is mainly engaged in exploration management and consulting, Fushun D.R.I. (100%), Shengtai Property (30%) and Fushun Hanking Shopping Mall Co., Ltd. (30%).

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

On 31 December 2011, save as disclosed below, Directors and their related associates have not held other positions in any business which the Company, either directly or indirectly or likely to compete against:

Name of Directors	Positions in the Company	Other interests
Yang Min	Chairlady and Non-executive Director	Chairlady of the Board of Directors of Hanking Group
Yang Jiye	Vice chairman and Non-executive Director	Vice chairman of the Board of Directors of Hanking Group
Xia Zhuo	Executive Director and Joint Company Secretary	Director of Hanking Group

(3) Facts demonstrating that the Company is capable of carrying on its business independently of, and at arms length from the Excluded Businesses are disclosed in the Prospectus.

REPORT OF THE DIRECTORS (CONTINUED)

19. Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2011, the interests or short positions of the Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise 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 or chief executive	Status/Nature of interest	Number of shares held (long positions)	Percentage of shareholding
Yang Min[a]	Interests in controlled corporation	751,035,000	41.04%
	Founder of discretionary trust	29,953,500	1.64%
Yang Jiye[b]	Interests in controlled corporation	424,360,500	23.19%
Xia Zhuo[c]	Others	165,651,000	9.05%

(2) Interests in associated corporations of the Company

Name of director or chief executive	Interests in associated corporations	Number of shares held	Percentage of shareholding
Yang Min	China Hanking (BVI) Limited	1	100%
Yang Min	Best Excellence Limited	1	100% (held through controlling management trust)[d]
Yang Jiye	Bisney Success Limited	50,000	100%
Xia Zhuo	Splendour Ventures Limited	3,138	6.3%

Notes:

(a) Ms. Yang Min ("Ms. Yang") holds 100% interest in China Hanking (BVI) Limited and serves as settlor and beneficiary of management trust* which holds the entire issued share capital of Best Excellence Limited. As a result, Ms. Yang is deemed to own 751,035,000 shares held by China Hanking (BVI) Limited and 29,953,500 shares held by Best Excellence Limited.

(b) Mr. Yang Jiye ("Mr. Yang") holds 100% interest in Bisney Success Limited. As a result, Mr. Yang is deemed to own 424,360,500 shares held by Bisney Success Limited.

(c) Mr. Xia Zhuo holds 6.28% interest in Splendour Ventures Limited, which holds 165,651,000 shares of the Company.

REPORT OF THE DIRECTORS (CONTINUED)

(d) The management trust is a revocable discretionary trust settled by Yang Min as settlor with Credit Suisse Trust Limited as trustee for the purposes of recognizing and rewarding the contributions of certain eligible staff ("Beneficiaries"). On 2 June 2011, China Hanking (BVI) Limited transferred 19,969 shares of the Company, representing approximately 1.6% of the share capital of the Company after the listing, to Best Excellence Limited. It is the intention of Yang Min and the trustee that the Beneficiaries of the management trust include Yang Min herself and two groups of eligible staff. The first group comprises 11 persons who are employees of our Group including Mr. Pan Guocheng (潘國成), Mr. Zheng Xuezhi (鄭學志), Mr. Huang Jinfu (黃金夫) and Mr. Lu Zengxiang (路增祥), and these Beneficiaries may hold up to approximately 1.025% of the issued share capital of our Company. The second group comprises 16 individuals who are employees of Hanking Group, and the aggregate maximum amount of shares to be received by this group of Beneficiaries is expected to represent approximately 0.612% of the issued share capital of our Company. Credit Suisse Trust Limited as trustee has the discretionary powers to, among others, allocate all or a portion of the trust fund of the management trust (including the shares held by Best Excellence Limited), but Yang Min, as settlor of the management trust, may request Credit Suisse Trust Limited as trustee to make distributions of such shares to one or more Beneficiaries, including herself. As at the date of this annual report, no decision has been made by Yang Min or the trustee with respect to any such distribution.

Save as disclosed above, as at 31 December 2011, none of the Directors nor chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or are required, pursuant to the Model Code to be notified to the Company and the Hong Kong Stock Exchange.

20. Substantial Shareholders' Interests or Short Positions in the Shares and Underlying Shares of the Company

As at 31 December 2011, to the best of Directors' knowledge, having made all reasonable enquires, the following persons (other than the Directors and chief executives of the Company) own interests or short positions in the shares or underlying shares of the Company which shall be disclosed to the Company pursuant to Section 2 and 3 of Part XV of SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name of shareholders	Capacity/Nature of interest	Number of shares (long positions)	Percentage of issued share capital
China Hanking (BVI) Limited	Beneficial owner	751,035,000	41.04%
Bisney Success Limited	Beneficial owner	424,360,500	23.19%
Splendour Ventures Limited	Beneficial owner	165,651,000	9.05%
SAIF IV GP Capital Ltd*	Interest in a controlled corporation	93,107,000	5.09%
SAIF IV GP LP*	Interest in a controlled corporation	93,107,000	5.09%
SAIF Partners IV L. P.*	Beneficial owner	93,107,000	5.09%
Yan Andrew Y	Interest in a controlled corporation	93,107,000	5.09%

Note:

* These 93,107,000 shares belong to the same group of shares.

REPORT OF THE DIRECTORS (CONTINUED)

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 and debentures of the Company which would fall to be disclosed to the Company under the provisions of 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.

21. Management Contracts

For the year ended 31 December 2011, there is no contract entered into by the Company relating to its management and administration or subsisting during the year which is substantial to the entire or any part of business of the Group.

22. Connected Transactions

All related party transactions as disclosed in note 35 to the consolidated financial statements also constituted connected transactions or continuing connected transactions within the meaning of the Listing Rules. Details of such transactions have been disclosed in accordance with Chapter 14A of the Listing Rules. The major connected transactions of the Group during the year ended 31 December 2011 are as follows:

(1) Non-exempt one-off connected transactions

The Company was involved in the following non-exempt one-off connected transactions in the current year:

Aoniu Mining and Fushun Deshan Trade Co., Ltd. ("Fushun Deshan") concluded an agreement on purchase of iron ore concentrate fines on 31 October 2011. According to the agreement, Aoniu Mining agreed to purchase 70,000 tons of iron ore concentrate fines from Fushun Deshan for a total consideration of RMB60,900,000. As of 31 October 2011, the Group has actually purchased 58,500 tons of iron ore concentrates from Fushun Deshan for RMB52,236,000. Given the fact that Fushun Deshan is fully owned by Mr. He Baoxian (father-in-law of Yang Jiye, a Director and Controlling Shareholder of the Company), Fushun Deshan, being an associate of the Director and Controlling Shareholder of the Company, is a connected person pursuant to Chapter 14A of the Listing Rules. As a result, the transaction between Fushun Deshan and Aoniu Mining (fully-owed subsidiaries of the Company) constitutes the connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

The consideration under the iron ore concentrate fines agreement was determined based on market price and an arm's length negotiation by both parties. Purchase of iron ore concentrate fines from Fushun Deshan enabled the Company to better fulfill the responsibilities stated in the agreement on sale of iron ore concentrate fines it concluded with Fushun New Steel Co., Ltd., allowing the Company to make profit by taking advantage of price difference between the sales of iron ore concentrate fines to Fushun New Steel Co., Ltd. and the cost for the purchase of iron ore concentrate fines from Fushun Deshan as well as enhance its profitability through the extra premium of Fushun New Steel Co., Ltd.

REPORT OF THE DIRECTORS (CONTINUED)

(2) *Non-exempt Continuing Connected Transactions*

The Company was involved in several non-exempt continuing connected transactions in the current year.

The Company had acquired the approval from the Hong Kong Stock Exchange when listed for the annual cap of transaction amount in respect of each of the following non-exempt continuing connected transactions, and the Company was exempted from compliance of the requirements on announcement and approval of independent shareholders.

The annual cap and actual transaction amount of connected transactions in 2011 are listed as follows:

	Items of connected transactions	Associate	Annual Cap for 2011	Actual annual transaction amount for 2011
(a)	Procurement of steel balls	Dawei Casting	RMB11,400,000	RMB2,968,000
(b)	Benxi Iron Processing service	Benxi Iron Processing	RMB49,500,000	RMB36,450,000
(c)	Sales of iron ore concentrates	Fushun Hanking D.R.I.	RMB400,000,000	RMB323,152,000
(d)	Transport services	Mingcheng Transportation or its affiliated companies	RMB24,300,000	RMB22,886,000
(e)	Lease of properties and properties management	Shengtai Property	RMB4,800,000	RMB4,800,000

(A) Procurement of Steel Balls

Aoniu Mining and Fushun County Dawei Casting ("Dawei Casting") concluded an agreement on purchase of steel balls on 16 June 2011. According to the agreement, the Group continued to procure steel balls from Dawei Casting for a term of three years commencing from the listing date of the Company (30 September 2011). Dawei Casting is an entity fully owned by Yang Min, a Director of the Company and the entity, specializes in the production and sales of mining mechanical parts, iron metal artworks, cast pipe and cast-steel objects. Pursuant to Rule 14A.11 of the Listing Rules, Dawei Casting is a connected person of the Company. During the reporting period, the annual cap of the continuing connected transactions for 2011 was RMB11,400,000, and the actual transaction amount was RMB2,968,000.

(B) Benxi Iron Processing Service

Benxi Hanking Mining Co., Ltd. ("Benxi Mining") and Benxi Hanking Iron Processing Co., Ltd. ("Benxi Iron Processing") signed an agreement for the provision of iron processing services on 16 June 2011. According to the agreement, Benxi Iron Processing will provide iron processing services and process the iron ore provided by Benxi Mining, and deliver the iron ore concentrates produced to Benxi Mining for a term of three years commencing from the listing date of the Company (30 September 2011). Benxi Mining is an indirect wholly-owned subsidiary of the Company, specializing in iron ore exploration; Benxi Iron Processing is a wholly-owned subsidiary of Hanking Group, specializing in ore processing. According to Rule 14A.11 of the Listing Rules, both entities are the associates of the Company; during the reporting period, the annual cap of the continuing connected transactions for 2011 was RMB49,500,000, and its actual transaction amount was RMB36,450,000.

REPORT OF THE DIRECTORS (CONTINUED)

(C) Sales of iron ore concentrates

The Company concluded a procurement agreement with Fushun Hanking D.R.I. Co., Ltd. ("Fushun D.R.I.") on 16 September 2011. According to the agreement, the Company will, through our subsidiaries, including Aoniu Mining and Shenyang Toyo Steel Utility Co., Ltd. ("STSU"), provide iron ore concentrates to Fushun D.R.I. for a term of three years commencing from the listing date of the Company (30 September 2011). Fushun D.R.I. is a wholly-owned subsidiary of Hanking Group, specializing in producing direct reduced iron and pig iron and selling iron ore concentrates, iron ores and steel. According to Rule 14A.11 of the Listing Rules, Fushun D.R.I. is an associate of the Company. During the reporting period, the annual cap of the continuing connected transactions for 2011 was RMB400,000,000, and its actual transaction amount was RMB323,152,000.

(D) Transportation Services

Aoniu Mining concluded an agreement on transportation of iron ores with Fushun Mingcheng Transportation Co., Ltd. ("Mingcheng Transportation") on 16 September 2011. According to the agreement, Aoniu Mining appointed Mingcheng Transportation or its affiliated companies to provide transportation services for a term of three years commencing from the listing date of the Company (30 September 2011). Mr. Yang Xinhuan, a nephew of Yang Min, a Director of the Company, owns 100% interest in Mingcheng Transportation, and 70% interest in Fushun Mingyang Transportation Co., Ltd. Both Mingcheng Transportation and Mingyang Transportation specialize in transportation of common goods and mass goods by road. According to Rule 14A.11 of the Listing Rules, both Mingcheng Transportation and Mingyang Transportation are associates of the Company. During the reporting period, the annual cap of the continuing connected transactions for 2011 was RMB24,300,000, and its actual transaction amount was RMB22,886,000.

(E) Lease of Properties and Properties Management

Aoniu Mining, STSU and Shenyang Shengtai Property Management Co., Ltd. ("Shengtai Property") concluded a lease agreement on 16 September 2011. According to the agreement, Aoniu Mining and STSU continued to lease office premises located at No. 227, Qingnian Road, Shenhe District, Shenyang City, Liaoning Province, with a leased area of approximately 3,193.8 square meters from Shengtai Property, leased advertising sites in the same building, and engaged Shengtai Property to provide properties management service for a term of three years commencing from the listing date of the Company (30 September 2011). Given the fact that 96.69% of interest in Shengtai Property is indirectly held by the Controlling Shareholder of the Company, Shengtai Property is an associate of the Company in accordance with Rule 14A.11 of the Listing Rules. During the reporting period, the annual cap of the continuing connected transactions for 2011 is RMB4,800,000, and its actual transaction amount is RMB4,800,000.

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

(a) in the ordinary and usual course of business of the Company;

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

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

REPORT OF THE DIRECTORS (CONTINUED)

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to conduct a limited assurance engagement on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Over Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported their conclusion to the Board stating that:

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

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

(c) nothing has come to the auditor's attention that causes the auditors to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

(d) with respect to the aggregate amount of each of the continuing connected transactions set out above, nothing has come to the auditor's attention that causes the auditors to believe that such continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the section headed "Connected Transactions" in the Prospectus in respect of each of the disclosed continuing connected transactions.

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

23. Non-competition Agreement Compliance

As disclosed in the Company's Prospectus dated 20 September 2011, the Company signed a non-competition agreement ("Non-Competition Agreement") with the Controlling Shareholders on 16 June 2011. In accordance with the agreement, each Controlling Shareholder of the Company has undertaken to the Company (for itself and for the benefit of its subsidiaries) that with exception of the disclosed in the Prospectus of the Company, they would not and will procure their associates (exclusive of any members of the Group) that will not to carry out, and participate by himself/herself or along with or on behalf of any person, firm, company (inclusive of) business or activities or own equity in business or activity in relation to retained business, or acquire or hold, create, develop, operate or manage business or activities that compete against our Core Business, directly or indirectly, during the restricted time limit stated below. We would be granted by the Controlling Shareholder of the Company an option and the pre-emptive right to acquire certain interests in certain entities retained by the Controlling Shareholder after the Reorganization.

In accordance with the Non-Competition Agreement, the independent non-executive Directors of the Company is responsible for reviewing and considering whether exercising such option and pre-emptive right, as well as entitled to conduct annual review of implementation of the agreement on behalf of the Company. In 2011, each Controlling Shareholder of the Company has made annual confirmation of compliance of the Non-Competition Agreement, and the independent non-executive Directors of the Company have also reviewed the implementation of the Non-Competition Agreement, and confirmed that the Controlling Shareholders have fully abided by the agreement without any breach of the Non-Competition Agreement.

REPORT OF THE DIRECTORS (CONTINUED)

24. Retirement and Employees' Benefit Plan

Detailed information on the retirement and employees' benefit plan of the Company is provided in note 34 to financial statements.

25. Compliance with Code on Corporate Governance Practices

As a listed company on the main board of the Hong Kong Stock Exchange, the Company consistently commits to retaining higher level of corporate governance, and abides by the code provisions stated in the Code on Corporate Governance Practices ("Code") stated in the Appendix 14 of the Listing Rules. For further information, see the Corporate Governance Report in this Annual Report.

26. Public Float

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

27. Significant Legal Proceedings

For the year ended 31 December 2011, the Group has not been involved in any significant legal proceedings or arbitration. To the knowledge of the Directors, there is no significant legal proceedings or claim pending or threatened.

28. Audit Committee

The audit committee under the Board has reviewed the Company's annual results for 2011, and the financial statements for the year ended 31 December 2011.

29. Auditor

The consolidated financial statements stated in this annual report has been audited by Deloitte Touche Tohmatsu. A resolution for its re-appointment as the auditor for the ensuring year will be proposed at the forthcoming annual general meeting. No non-audit service was provided by Deloitte Touche Tohmatsu to the Company during the reporting period.

REPORT OF THE DIRECTORS (CONTINUED)

30. Financial Highlights

The operating performance, assets and liability highlights of the Group for the last four fiscal years are stated on pages 6 to 7 of this annual report.

31. Significant Contracts

Apart from as disclosed under the heading of the "Connected Transaction" in this report, neither the Company nor any one of its subsidiaries has signed a significant contract with the Controlling Shareholder or any one of its subsidiaries other than the Group, and no significant contract for delivery of service has been signed between the Group and the Controlling Shareholder or any one of its subsidiaries other than the Group.

32. Financial Assistance and Guarantee to Affiliated Company by the Company

For the year ended 31 December 2011, the Company has not granted financial assistance and guarantee to its affiliated company.

33. Loan to A Given Entity

For the year ended 31 December 2011, the Group has not granted any loan to a given entity.

34. Donation

For the year ended 31 December 2011, the charitable and other donations made by the Company amounted to RMB3,142,000.

By order of the Board of Directors
Ms. Yang Min
Chairlady of the Board of Directors

15 March 2012

CORPORATE GOVERNANCE REPORT

The Company has adopted the code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. Our Directors are committed to upholding the corporate governance of our Company to ensure that formal and transparent procedures are in place to protect and maximize the interests of the shareholders of our Company. The Code sets out the principles of good corporate governance and two levels of corporate governance practices as follows:

(1) code provisions which listed issuers are expected to comply with or to give considered reasons for deviation.

(2) recommended best practices for guidance only, which listed issuers are encouraged to comply with or to give considered reasons for any deviation.

The Company is based on the principles, code provisions and certain recommended best practices as set out in the Code. The Directors consider that for the year ended 31 December 2011, the Company has complied with the mandatory code provisions as set out in the Code.

The detailed discussions of the code provisions adopted and complied with by the Company during the period are set out below.

1. 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 as its own code of conduct regarding the Directors' dealings in the Company's securities. Specific enquiry has been made to all the Directors of the Company and the Directors have confirmed that they have complied with the Model Code throughout the period ended 31 December 2011.

CORPORATE GOVERNANCE REPORT (CONTINUED)

2. Board Composition and Practices

(1) *The Board*

The Board is collectively responsible for leading and overseeing the Group's business and to all the shareholders with the objective of enhancing shareholders' value.

For the period from 30 September 2011 (the listing date of the Company) to 31 December 2011, the Board of the Company consists of eleven members as follows:

Non-executive Directors
Ms. Yang Min *(chairlady)*
Mr. Yang Jiye *(vice chairman)*
Mr. Mao Guosheng

Executive Directors
Mr. Pan Guocheng *(chief executive officer)*
Mr. Zheng Xuezhi
Mr. Lu Zengxiang
Mr. Huang Jinfu
Mr. Xia Zhuo

Independent non-executive Directors
Mr. Wang Ping
Mr. Johnson Chi-King Fu
Mr. Chen Yuchuan

Up to the date of this report, the Board of the Company consists of twelve members as follow:

Non-executive Directors
Ms. Yang Min *(chairlady)*
Mr. Yang Jiye *(vice chairman)*
Mr. Kenneth Jue Lee
Mr. Lan Fusheng

Executive Directors
Mr. Pan Guocheng *(chief executive officer)*
Mr. Zheng Xuezhi
Mr. Xia Zhuo
Mr. Qiu Yumin

Independent non-executive Directors
Mr. Wang Ping
Mr. Johnson Chi-King Fu
Mr. Chen Yuchuan
Mr. Wang Anjian

CORPORATE GOVERNANCE REPORT (CONTINUED)

Up to the date of this report, the Company has four independent non-executive Directors in total, representing one-third of the total number of Directors of the Company. The detailed information of Directors is set out in "Biographies of Directors and Senior Management" of this annual report. Mr. Yang Jiye is the son of Ms. Yang Min. Save as the above, none of the members of the Board has connection with other members.

In accordance with the Company's Articles of Association and, at each annual general meeting of the Company, at least one-third of the Directors for the time being will retire from office by rotation but will be eligible for re-election.

The period from the Company's listing on 30 September 2011 to 31 December 2011, the Board met the requirements of the Listing Rules to appoint at least three independent non-executive Directors. The independent non-executive Directors of the Company consist of a fellow certified public accountant with accounting and financial management expertise, an expert with managerial experience in financial industry and a senior expert in mineral and geological field.

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 in writing confirmation of their independence from each of the independent non-executive Directors and considers them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgment. The Board considers that each of the non-executive Directors and independent non-executive Directors brings his/her own relevant expertise to the Board. The Company has received an annual confirmation from each independent non-executive Director of his/her independence pursuant to regulations.

The Board of the Company has convened ten meetings and signed written resolutions from the listing date of the Company on 30 September 2011 to 31 December 2011. The details of meeting attendance of Directors are as follows:

Name of Directors	Numbers of Board meetings during the reporting period	Attendance in person	Written resolution	Attendance by proxy
Non-executive Directors				
Yang Min *(chairlady)*	10	4	6	0
Yang Jiye *(vice chairman)*	10	4	6	0
Mao Guosheng	10	4	6	0
Executive Directors				
Pan Guocheng	10	4	6	0
Zheng Xuezhi	10	4	6	0
Lu Zengxiang	10	4	6	0
Huang Jinfu	10	4	6	0
Xia Zhuo	10	4	6	0
Independent non-executive Directors				
Wang Ping	10	4	6	0
Johnson Chi-King Fu	10	4	6	0
Chen Yuchuan	6	1	5	0

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Company has adopted the provisions of Code and issues meeting notices 14 days before convening a regular Board meeting (for interim Board meetings, a reasonable notice shall be given) so that all Directors can have sufficient time and plan to attend the meeting. All meeting papers will be sent to all Directors no less than three days before a meeting is convened. Matters discussed and resolved at Board meetings will be recorded in detail and a summary of minutes will be made of resolutions will be filed.

The Board is responsible for the overall development of the Group, approving and monitoring the overall development strategy of the Group, assessing, monitoring and controlling the operation and financial performance, ensuring the Directors perform their proper duties and act in the best interests of the Group and hold discussions on various important and proper businesses of the Company in a timely manner. All Directors are entitled to include any matter that needs to be submitted to the Board for discussion in the agenda of the Board meeting.

In respect of the separate roles of the chairman and chief executive officer of the Company, Ms. Yang Min, non-executive Director, is the chairlady of the Board and responsible for the management of effective operation of the Board, ensuring that all major and appropriate issues are discussed by the Board on a timely basis and in a constructive manner. Mr. Pan Guocheng is the chief executive officer of the Company, responsible for daily operational activities of the Group and responsible to the Board for the overall operations of the Group. The management shall provide members of the Board and specialized committees under the Board with appropriate and sufficient information in a timely manner so as to update them with the latest developments of the Company and facilitate discharge of duties better.

According to the Articles of Association of the Company, the newly appointed Directors of the Board are subject to re-election at the forthcoming annual general meeting. Furthermore, one-third of the Directors for the time being, if the number of Directors is not a multiple of three (3), then the number of Directors nearest to but not less than one-third, shall retire from office but eligible for re-election, and every Director should be subject to retirement by rotation at least once every three years at annual general meeting.

In November 2011, the Company took out liability insurance for its Directors and senior management with Allianz Insurance (Hong Kong) limited for a term of one year.

CORPORATE GOVERNANCE REPORT (CONTINUED)

(2) *Specialized Committees under the Board*

On 16 September 2011, the Company has established audit committee, remuneration committee and nomination committee to provide specialized decision support for the Board. Of which includes: for the period ended 31 December 2011, the audit committee is chaired by an independent non-executive Directors and more than half of the committee members are independent non-executive Directors; the nomination committee and remuneration committee are chaired by non-executive Director and more than half of the committee members are independent non-executive Directors. Up to the date of this report, the Company elects an independent non-executive Director as the new chairman of remuneration committee in accordance with the requirements of the amended Listing Rules and more than half of the remuneration committee members are independent non-executive Directors. Up to the date of this report, audit committee is fully comprise of independent non-executive Directors. The Company formulated Terms of Reference and Operating Model of the Audit Committee, Terms of Reference and Operating Model of the Nomination Committee and Terms of Reference and Operating Model of the Remuneration Committee.

(A) Audit Committee

For the period ended 31 December 2011, the audit committee's members of the Company are as follows:

Independent non-executive Directors
Wang Ping *(chairman)*
Johnson Chi-King Fu

Non-executive Director
Mao Guosheng

On 30 January 2012, Mao Guosheng resigned as Director and audit committee's member of the Company. The Board elected by resolution Mr. Wang Anjian as the audit committee's member of the Company for the time being. Therefore, up to the date of this report, the audit committee's members of the Company are as follows:

Independent non-executive Directors
Wang Ping *(chairman)*
Johnson Chi-King Fu
Wang Anjian

The terms of reference of the audit committee are as follows:

(a) proposing the appointment or replacement of external audit institutions;

(b) monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

(c) supervising Company's internal audit system and its implementation, ensuring that the internal audit function is adequately resourced and monitoring the effectiveness of the internal audit function;

CORPORATE GOVERNANCE REPORT (CONTINUED)

(d) facilitating communications between internal audit and external audit;

(e) reviewing the Company's financial information and its disclosure, reviewing the Company's accounting practices and policies;

(f) reviewing the Company's internal control system, providing opinions and recommendations for facilitating and optimizing the Company's internal control system;

(g) providing opinions and recommendations for appraisal and change of the Company's officer of internal audit department;

(h) reviewing letter issued by the external auditor's to the management, including any material queries raised by the auditor to management in respect of the accounting records, financial statements or internal control system and management's response;

(i) reviewing arrangements by which employees of the Company may, in reporting, raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;

(j) establishing relevant procedures to deal with the following complaints: (1) receiving, retaining and handling the proceedings related to the matters known by the company of accounting, internal accounting control or audit, (2) receiving and handling employees' complaints or anonymous reporting related to the matters of accounting or audit, and ensuring its confidentiality;

(k) keeping in touch with the Board, senior management and external auditors periodically and meeting with the Company's external auditor at least twice a year in the form of site meeting or correspondence meeting;

(l) the duties regulated by the Articles of Association of the Company;

(m) other relevant matters authorized by the Board.

The Company's audit committee formulated proceedings rules in 2011, reviewed annual results of the Company and internal control system and fulfilled other duties set out in the 2011 Code. No meeting was convened by the Company's audit committee in 2011.

CORPORATE GOVERNANCE REPORT (CONTINUED)

(B) Remuneration Committee

For the period ended 31 December 2011, the remuneration committee's members of the Company are as follows:

Non-executive Director
Mr. Yang Jiye *(chairman)*

Independent non-executive Directors
Mr. Wang Ping
Mr. Chen Yuchuan

According to the requirements prescribed in the newly revised Listing Rules, the chairman of the remuneration committee shall be an independent non-executive director. As such, the Board of the Company elected Wang Ping to be the chairman of the remuneration committee on 15 March 2012. As of the date of this report, the members of the remuneration committee of the Company are as follows:

Independent non-executive Directors
Mr. Wang Ping *(chairman)*
Mr. Chen Yuchuan

Non-executive Director
Mr. Yang Jiye

The primary duties and rights of the remuneration committee include:

(a) formulating remuneration packages or proposals according to the major areas, duties and importance of the management position of Directors and senior management and the remuneration for relevant positions of other relevant enterprises;

(b) remuneration package a proposal mainly including but not limited to the criteria, procedures and major assessment system for performance assessment and major proposals and systems for awards and punishments;

(c) reviewing the performance of duties and conducting annual performance assessment of the Company's Directors (other than independent non-executive Directors) and senior management;

(d) monitoring the implementation of the Company's remuneration system;

(e) ensuring that the remuneration of any Director or any of its associates is not determined by themselves;

(f) undertaking other tasks as assigned by the Board.

CORPORATE GOVERNANCE REPORT (CONTINUED)

During the year of 2011, the remuneration committee of the Company promulgated its rules of conduct, clarified the terms of reference and reviewed the remuneration policies of the Directors. The remuneration committee has been delegated by the Board to make recommendations on the remuneration packages of certain executive directors and senior management members. No meeting was held by the remuneration committee during 2011. In 2012, the remuneration committee will further perfect the remuneration packages of the Directors and senior management and the review system of the Company, and follow up with the remuneration policies of the Company and the review results of all the employees.

(C) Nomination committee

The existing members of the nomination committee of the Company are as follows:

Non-executive Director
Ms. Yang Min *(Chairlady)*

Independent non-executive Directors
Mr. Johnson Chi-King Fu
Mr. Chen Yuchuan

The primary duties and rights of the nomination committee include:

(a) reviewing the number, structure and composition of the Board at least once a year in light of the business activities, size of assets and shareholding structure of the Company, and making recommendations to the Board in respect of any proposed changes;

(b) assessing the independence of the independent non-executive Directors;

(c) researching on the criteria and procedures for the selection of Directors and senior management members, and making recommendations to the Board;

(d) extensively seeking suitable candidates for Directors and senior management members;

(e) carrying out reviews on the candidates for Directors and senior management members and making recommendations as to the appointment, re-appointment and succession of Directors and senior management members;

(f) carrying out reviews on other candidates for senior management members subject to the appointment of the Board, and making recommendations;

(g) undertaking other tasks assigned by the Board.

During the year of 2011, the nomination committee of the Company promulgated the rules of conduct, clarified the terms of reference and reviewed the policies and procedures for the nomination and the relevant criteria for the selection and recommendation of Directors. No meeting was held by the nomination committee of the Company during 2011.

On 30 January 2012, the nomination committee held a meeting, at which the members of the committee were all present, and Qiu Yumin was nominated to be the executive Director of the Company while Kenneth Jue Lee and Lan Fusheng as the non-executive Directors of the Company and Wang Anjian as an independent non-executive Director of the Company.

CORPORATE GOVERNANCE REPORT (CONTINUED)

(D) Corporate governance functions

The Board developed and reviewed the Company's policies and practices on corporate governance and made recommendations. It also reviewed and monitored the training and continuous professional development of the Directors and senior management; reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements; developed, reviewed and monitored the code of conduct and compliance manual applicable to employees and Directors; reviewed the Company's compliance with the Code and the disclosure in the Corporate Governance Report.

3. Remuneration of Auditors

For the year ended 31 December 2011, the Group's external auditor, Deloitte Touche Tohmatsu, provided annual audit service for the Group, and charged a total service fee of RMB1,468 thousand.

4. Directors' and Auditor's Responsibilities in Preparing the Financial Statements

The Directors acknowledged their responsibility for preparing the financial statements for the year ended 31 December 2011, which gave a true and fair view of the state of affairs of the Group and of the results and cash flows for that year. The Company allocated sufficient resources to prepare the audited accounts. Senior management was required to present and explain the financial reporting and matters that materially affected or may have material impact on the financial performance and operations of the Company to the audit committee and the Board and responded to the queries and concerns raised by the audit committee and the Board to their trust. The consolidated financial statements have been prepared in accordance with IFRS. In addition, the financial statements included appropriate disclosure made in accordance with the Listing Rules and the Companies Ordinance. The preparing responsibility of the external auditors of the Company on the financial statements of the Group were set out in the independent auditors' report of this annual report.

5. Internal Control

The Board had overall responsibility for the system of internal controls of the Group, including setting management structure and making appropriate authorization, identifying proper accounting policy and providing reliable financial information for internal and external use. The measures were designed to provide reasonable (but not absolute) assurance against material misstatement or loss, and to manage (but not fully eliminate) the mistakes of the Group's operational systems and the risks of failure to achieve the Group's business objectives.

The Group has formulated regulations on the segregation of duties of the Board and senior management. The senior management was entitled to manage and oversee the Group's operations.

The Group has established a specialized internal audit organ, and formulated relevant system, including internal reporting system, set up proper internal supervising procedures to ensure the effectiveness of internal supervising and extended to all the Group's holding subsidiaries. Annual audit plan of the audit department was approved by the audit committee.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Group has formulated "information disclosure system", which formulated the relevant procedures of handling price-sensitive information. The Board regularly considers the effectiveness of the internal control through annual report and interim report. The Board reviewed and considers that the internal control system the Company has adopted for the year ended 31 December 2011 was effective.

6. Communication Policy with Shareholders

The Company attached great importance to the communication with shareholders and promotes understanding and communication with shareholders through various channels of general meeting, results announcement conference, road show activities, receiving guests and telephone counseling. In 2011, the Company organized various road show activities and analysts meetings.

(1) The rights of shareholders

The Board was committed to maintain a dialog with shareholders and made timely disclosure to shareholders and investors for the significant development of the Company. The annual general meeting of the Company provided a forum for communication between shareholders and the Board. The notice of convening annual general meeting will be despatched to each shareholder at least 21 clear days and not less than 20 business days before the commencing of the annual general meeting. All other extraordinary general meeting can commence in advance before the notice of at least 14 clear days and not less than 10 clear business days, while provided that approved by the following persons and permitted by designated stock exchange and subject to the Act, the meeting can convene with a notice in a shorter period: (a) as for the convening of annual general meeting, all members entitled to attend and vote at the meeting, and (b) as for any other meetings, the majority, namely the shares hold together are not less than 95% in nominal value of the issued shares giving that right, of members entitled to attend and vote at the meetings.

The Board can convene extraordinary general meeting when it considers appropriate. The members holding not less than one-tenth of paid-up capital of the Company entitled to vote at the meeting on the date of submitting requirements, are entitled to give written requirements to the Board or the Company secretary to request the Board to convene interim general meeting at any time and to handle the matters set out in the above requirements; the above meeting will commence in two (2) months after the delivery of relevant requirements. If the Board had not convened the meeting in 21 days after the delivery of requirements, the persons delivering the requirements can convene the meeting while all the reasonable expenses of petitioners caused by the Board failing to convene the meeting should be compensated by the Company.

The chairman of the Board as well as the chairmen of all the committees of the Board, or in their absence, other members of the respective committees, are available to answer any questions asked at the annual general meeting. According to the Listing Rules, any vote of the shareholders at the general meeting must be taken by poll. The result of the vote is considered as the resolution of the meeting.

CORPORATE GOVERNANCE REPORT (CONTINUED)

(2) Shareholders' enquiries

Any enquiries relating to your shareholding, for example transfers of shares, change of name or address, lost share certificates or dividend cheques, should be sent to and contact Computershare Hong Kong Investor Services Limited, the Company's Share Registrars in Hong Kong:

Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
Tel: (852) 2862-8628
Fax: (852) 2865-0990, (852)2529-6087
Website: www.computershare.com.hk

(3) Investor Relations and Communication

The Company fulfills a proactive policy of promoting investor relations and communications by maintaining regular dialog and fair information disclosure with institutional investors, fund managers, analysts and media. The management meets with the investors regularly and also attends several investor meetings. Many analysts will also follow up the Group's situation and regularly publish report related to the Group.

The Company promotes the effective communication with shareholders, investors and other rights persons and duly issues company consultancy and other related financial information at the company's website, www.hankingmining.com, including detailed information related to the operations performance and momenta disclosed by annual report, interim report, news release and notice.

As a channel to further promote effective communication, the Group maintains a website at http://www.hankingmining.com where the Company's announcements, news release, business developments and operations, financial information, corporate governance and other information are posted.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

1. Composition of Directors

For the period from the listing date of the Company on 30 September 2011 to 31 December 2011, the Board of the Company consists of five executive Directors, three non-executive Directors and three independent non-executive Directors. As at the date of this report, the Board of the Company consists of four executive Directors, four non-executive Directors and four independent non-executive Directors. Independent non-executive directors represent one-third of the Board. The following table sets forth certain information in respect of our Directors:

Name	Age	Position/Title in the Group	Date of appointment	Date of termination	Roles and responsibilities
Ms. Yang Min (楊敏女士)	57	Non-executive Director, Chairlady	25 February 2011	N/A	She is responsible for the overall business strategies of the Group, but not participating in the day-to-day management of the business operations of the Group
Mr. Yang Jiye (楊繼野先生)	34	Non-executive Director, Vice Chairman	25 February 2011	N/A	He is responsible for providing strategic advice to the Group, but not participating in the day-to-day management of the business operations of the Group
Mr. Pan Guocheng (潘國成先生)	55	Executive Director, Chief Executive Officer and President	25 February 2011	N/A	He is responsible for general management and daily operation of the Group
Mr. Zheng Xuezhi (鄭學志先生)	42	Executive Director, Chief Financial Officer	25 February 2011	N/A	He is responsible for financial management of the Group
Mr. Lu Zengxiang (路增祥先生)	46	Executive Director, Vice President	25 February 2011	Resigned as an executive Director on 30 January 2012 and remained as the Vice President	He is responsible for production operation of the Group
Mr. Xia Zhuo (夏茁先生)	46	Executive Director, Joint Company Secretary	25 February 2011	N/A	He is responsible for the daily work of the Board and the matters related to investors relations
Mr. Huang Jinfu (黃金夫先生)	55	Executive Director	25 February 2011	Resigned as an executive Director on 30 January 2012 and remained as the general manager of Aoniu Mine	He is responsible for the management and day to day operation of Aoniu Mine
Mr. Mao Guosheng (毛國勝先生)	47	Non-executive Director	25 February 2011	30 January 2012	He is responsible for administrative matters of the Group and research in respect of the mining industry.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Name	Age	Position/Title in the Group	Date of appointment	Date of termination	Roles and responsibilities
Mr. Deng Jiniu (鄧吉牛先生)*	48	Independent Non-executive Director	25 February 2011	14 July 2011	N/A
Mr. Wang Ping (王平先生)	41	Independent Non-executive Director	25 February 2011	N/A	N/A
Mr. Johnson Chi-King Fu (符致京先生)	57	Independent Non-executive Director	25 February 2011	N/A	N/A
Mr. Chen Yuchuan (陳毓川先生)	77	Independent Non-executive Director	16 September 2011	N/A	N/A
Mr. Qiu Yumin (邱玉民先生)	49	Executive Director	30 January 2012	N/A	He is responsible for exploration and development of the Group
Mr. Kenneth Jue Lee (李堅先生)	44	Non-executive Director	30 January 2012	N/A	N/A
Mr. Lan Fusheng (藍福生先生)	47	Non-executive Director	30 January 2012	N/A	N/A
Mr. Wang Anjian (王安建先生)	58	Independent Non-executive Director	30 January 2012	N/A	N/A

2. Executive Directors and Non-executive Directors

Ms. Yang Min, aged 57, is a non-executive Director and the chairlady of the Board. Ms. Yang is the founder of our Group. She is responsible for the overall business strategies of our Group. She has been serving as the chairlady of the board of Aoniu Mining since August 2008, and served as chairlady of the board of Fushun Hanking Aoniu Iron Mine Co. Ltd., the predecessor of Aoniu Mining, since its incorporation in March 1998. She also serves as executive director of Benxi Mining, Maogong Mining and Xingzhou Mining. Ms. Yang is currently serving as the chairlady of the board of directors of Hanking Group. With her previous and current positions with our Group, Ms. Yang has obtained more than 14 years of experience in the mining industry. Ms. Yang is currently holding a number of positions with various organizations. She serves as a representative of the eleventh National People's Congress (第十一屆全國人大代表), vice-president of the ninth and tenth executive committee of Liaoning Federation of Industry and Commerce (遼寧省工商聯第九屆、第十屆執行委員會) and a presidium member of China Mining Association (中國礦業聯合會主席團). She has also received a number of awards, including Outstanding Constructor of Socialism with Chinese Characteristics (優秀中國特色社會主義事業建設者) in 2004, National Model Worker (全國勞動模範) in 2005 and Top Ten Outstanding Business Women of China (中國十大傑出經濟女性) in 2005. From 1997 to 1999, she completed her part-time graduate studies at Graduate Class of Beijing Normal University (北京師範大學) in Economic Management and obtained a graduate diploma. Over the past three years, she has not been a director of other listed companies. Ms. Yang is the mother of Mr. Yang.

Mr. Yang Jiye, aged 34, is a non-executive Director and vice chairman of the Board. He joined our Group in 2008. He has been serving as chairman of the board of directors of Liaoning Hanking Investment Co., Ltd. (遼寧罕王投資有限公司) since June 2009, and is currently the vice-chairman of the board of directors of Hanking Group. With his previous and current positions in our Group, he has more than 9 years of experience in the corporate governance and management. He has been serving as chairman of Hanking Group Shenyang Toyo Steel Co., Ltd. (瀋陽東洋製鋼有限公司) since June 2004, Shenyang Hanking Department Store Co., Ltd. (瀋陽罕王商場有限公司) since September

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

2004 and Fushun Hanking Department Store (撫順罕王商場有限公司) since January 2004 till now, and served as vice-chairman of Hanking Group from October 2003 to January 2004, general manager of Fushun Hanking Department Store from January 2003 to October 2003, and manager of Fushun Hanking Tian Tian Hao Supermarket Co., Ltd (撫順罕王天天好超市有限公司) from August 2002 to January 2003. Over the past three years, he has not been a director of other listed companies. Mr. Yang is the son of Ms. Yang.

Mr. Pan Guocheng, aged 55, is an executive Director. He is also chief executive officer and president of our Company and is responsible for general management and daily operation of our Group. Mr. Pan Guocheng joined Hanking Group in 2005. From June 2005 to July 2006, he served as president of Hanking Group and Fushun Hanking Mining Co., Ltd.. He has been serving as president of Hanking Group and Aoniu Mining since October 2008 and November 2008, respectively. Prior to joining our Group, Mr. Pan Guocheng held positions (including management positions) with various organizations, including director of technical development department at AngloGold North America, president of GeoSight, Inc. and China general manager of Golden Fields (BVI) Ltd.. With his previous and current positions with our Group, Mr. Pan Guocheng has obtained more than 21 years experience in operation and management of mining companies. He has published papers and reports in the areas of mineral exploration, mining engineering, mining reserve estimate, economic evaluation and resource modeling. In particular, he published the academic work entitled "Information Synthesis for Mineral Exploration" as the first co-author through Oxford University Press in 2000. Mr. Pan Guocheng received the prestigious President Prize for 1990 by International Association for Mathematical Geology. Mr. Pan Guocheng graduated from Peking University (北京大學) in Petrologic and Geochemistry in 1982, obtained a master's degree in Mathematical Geology from Changchun Institute of Geosciences (長春地質學院) in 1985, and a PhD in Mining Economics from The University of Arizona in 1989. Over the past three years, he has not been a director of other listed companies.

Mr. Zheng Xuezhi, aged 42, is an executive Director. He also serves as chief financial officer of our Company and is responsible for financial management of our Group. Currently he is also a director of Liaoning Hanking Investment Co., Ltd. and Aoniu Mining. He joined our Group in 2008 and served as director and chief financial officer of Hanking Group until May 2011 and November 2010, respectively. Prior to joining our Group, he held positions in various organizations, including deputy general manager of Zhongxi Certified Public Accountants (中喜會計師事務所) from January 2004 to December 2007, and manager of audit department at Weifang Yuandu Certified Public Accountants LLP (濰坊鳶都有限責任會計師事務所) from May 2001 to December 2003. With his previous and current positions with our Group, Mr. Zheng Xuezhi has obtained more than 10 years of experience in corporate finance and accounting. By passing the Higher Education Examinations for Self-Learners, Mr. Zheng Xuezhi graduated from Liaoning University in 2010, majored in business administration, and graduated from Northeast University (東北大學) in January 2012 with Executive Master of Business Administration degree. He is a certified public accountant and a certified public valuer in the PRC. Over the past three years, he has not been a director of other listed companies.

Mr. Lu Zengxiang, aged 46, is a vice president of our Company and is responsible for business operation of our Group, especially the day-to-day operation of Maogong Mine, Xingzhou Mine and Benxi Mine. He also served as an executive Director from February 2011 to January 2012. He joined our Group in 2008. He is currently serving as director and chief operating officer of Aoniu Mining. Prior to joining us, Mr. Lu held positions in various organizations, including senior engineer and manager of production safety department at Shandong Laizhou Jincang Mining Limited Company (山東萊州金倉礦業有限公司), the predecessor of Shandong Gold Group Jincang Mining Limited Company (山東黃金集團金倉礦業有限公司), from January 2004 to August 2007; engineer, senior engineer, director of expansion project department and director of science and technology department at Wang'ershan gold mine of Shandong Laizhou Jincang Mining Limited Company (山東萊州金倉礦業有限公司望兒山金礦) from January 1995 to December

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

2003 and technician, engineer and head of infrastructure construction projects at Wang'ershan gold mine from July 1988 to December 1995. With his previous and current positions with our Group, Mr. Lu Zengxiang has obtained more than 22 years of experience in the mining industry. He has also received a number of national or provincial science and technology development awards, such as the first prize of science and technology awarded by China Gold Association (中國黃金協會) in 2009. He received a bachelor's degree in Mine Construction from Xi'an University of Science and Technology (西安科技大學) (formerly known as Xi'an Institute of Mining (西安礦業學院)) in 1988 and a master's degree in Mining Engineering from Changsha Institute of Mining Research (長沙礦山研究院) in 2004. He has been pursuing his PhD in Mining from University of Science and Technology Beijing (北京科技大學) from September 2007. Mr. Lu Zengxiang is a senior mining engineer with extensive academic products in the areas of metal mine construction, ore dressing and safety management. Over the past three years, he has not been a director of other listed companies. He resigned as executive director on 30 January 2012 but remains as vice president of the Company.

Mr. Xia Zhuo, aged 46, is an executive Director. He also serves as joint company secretary of our Company and is responsible for daily administrative matters of our Group. He has been serving as director and board secretary of Aoniu Mining since August 2008, and served as director and board secretary of Fushun Hanking Aoniu Iron Mine Co. Ltd., the predecessor of Aoniu Mining, since its incorporation in March 1998 and May 1998, respectively. He has been serving as director of Hanking Group since 1996 and served as board secretary of Hanking Group from 1996 to 2011. Currently he also serves as director of Liaoning Hanking Investment Co., Ltd. Prior to joining us, he worked for Fushun Import & Export Company (撫順進出口公司) from 1985 to 1995. With his previous and current positions with our Group, Mr. Xia Zhuo has obtained more than 15 years of experience in the mining industry. Mr. Xia graduated from Liaoning Foreign Trade School (遼寧省對外貿易學校) in 1985. From 1997 to 1999, he completed his part-time graduate studies at Graduate Class of Beijing Normal University in Economic Management and obtained a graduate diploma. Over the past three years, he has not been a director of other listed companies.

Mr. Huang Jinfu, aged 55, currently serves as a director of Aoniu Mining and general manager of Aoniu Mine and is responsible for its management and day-to-day operation. He served as an executive Director from February 2011 to January 2012. He previously served as head of Fushun Shangma and deputy general manger of Fushun Hanking Mining Co, Ltd. after he joined our Group in 2008. Prior to joining us in 2008, he held various positions (including management positions) in Lingyuan Iron & Steel Beipiao Baoguo Iron Mine Co., Ltd. (凌鋼股份北票保國鐵礦有限公司) from 1980 to 2008, including despatch operator, engineer, director of quality inspection department, director of workshop, director of planning department and deputy director of the mine. With his previous and current positions in our Group, he has more than 30 years of experience in the mining industry. Mr. Huang Jinfu completed technical secondary studies at Shenyang Gold Technical School (瀋陽黃金專科學校) in 1980. He is an ore processing engineer. Over the past three years, he has not been a director of other listed companies. He resigned as executive director on 30 January 2012 but remains as general manager of the Aoniu Mining.

Mr. Mao Guosheng, aged 47, currently serves as general manager and director of Hanking Development and director of Yunnan Guorui Mining Limited Company (雲南國瑞礦業有限公司). He also served as a non-executive Director from February 2011 to January 2012. He joined our Group in 2008. Prior to joining us, he held a number of positions in various organizations, including general manager of the management department of Dongfeng project of Shandong Gold Mining Co., Ltd. (山東黃金礦業股份有限公司) from April 2007 to December 2007, assistant general manager of Shandong Jincang Mining Co., Ltd. (山東金倉礦業股份有限公司) from May 2006 to March 2007, general manager of Laizhou Jincang Iron Mining Co., Ltd. (萊州金倉鐵礦有限公司) from July 2000 to April 2006 and deputy director of Shandong Laizhou Wang'ershan gold mine (山東萊州望兒山金礦) from September 1996 to June 2000. With his previous and current positions in our Group, he has obtained more than 14 years of experience in the mining industry. Mr. Mao Guosheng graduated from Shandong University (山東大學) in Economic Management in 1992. He is a professor-level senior engineer. Over the past three years, he has not been a director of other listed companies. He resigned as non-executive Director on 30 January 2012.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Qiu Yumin, aged 49, is an executive Director. He also serves as the vice president of the Company. He is also a director of Aoniu Mining. Mr. Qiu is responsible for exploration business and development of the Group and he joined the Group in 2011. Mr. Qiu is a member of Australian Institute of Geoscientists and has published geological papers in international academic periodical of Australia, the PRC, France, Japan and the USA. Mr. Qiu has over 14 years of experience in exploration and business development, including his experience as a member of senior management in international mining companies for over 10 years. Before joining the Group, Mr. Qiu held various management positions in international mining companies, namely the general manager for Chinese geological and new projects at Eldorado Gold Corporation, a company listed in New York (NYSE: EGO), Toronto (TSE: ELD) and Australia (ASX: EAU), from January 2010 to June 2011 and the manager (1999–2002), senior manager (2002–2003), deputy general manager (2003–2005) and general manager (2005–2009), the director of exploration and business development (2008–2009) and a member of the executive committee (2008–2009) of Sino Gold Mining Limited, a company listed in Australia (ASX: SGX) and Hong Kong (SEHK: 1862). He, as a qualified person for international mining companies, has signed JORC and 43–101 reports published by stock exchanges in Australia, New York, Toronto and Hong Kong. Mr. Qiu was granted various rewards, including the First Prize of Technological Innovation by the State Gold Administration Bureau of China in 1993, Outstanding Young Scientists Award of Liaoning Province in 1993, a scholarship by the Australian government in 1994 and Honorary Citizen of Baishan City by Baishan government in 2006. He received a doctorate degree in economic geology from the University of Western Australia in 1997. Currently, save for the directorship in the Company, he is also an executive director of Hanking Australia Pty Ltd., the subsidiary of the Company, and a non-executive director of Goodrich Resources Ltd. (ASX: GRX) in Australia.

Mr. Kenneth Jue Lee, aged 44, has been a non-executive Director of the Company since 30 January, 2012. He is a executive director at SAIF Partners, which is one of the largest and most successful growth venture capital funds focused on China. SAIF Partners IV L.P. beneficially holds 93,107,000 shares of the Company, representing approximately 5.1% of the issued capital of the Company. Currently, Mr. Lee is also a non-executive director on the boards of Sinovac Biotech Ltd. (NASDAQ-GM: SVA) and Yayi International Inc. (OTC: YYIN). He has more than 15 years of experience across private equity investment, corporate finance, and business development in China. Before joining SAIF Partners in 2007, Mr. Lee had served as the chief financial officer of Topsec Holdings Limited from 2006 to 2007. From 2004 to 2005, he worked as a Principal at RimAsia Capital Partners. Prior to RimAsia Capital Partners, Mr. Lee served in various positions at Delta Associates — the exclusive advisor to Asia Equity Infrastructure Fund, CNK Telecommunications Limited, H&Q Asia Pacific, and Salomon Brothers Inc. in New York. Mr. Lee graduated from Amherst College in Massachusetts, USA in 1990 and obtained a Bachelor of Arts degree in Philosophy.

Mr. Lan Fusheng, aged 47, is a non-executive Director. He has been an executive director of Zijin Mining Group Co., Ltd. (SEHK: 2899; SSE: 601899) since September 2000, responsible for investment and merger and acquisition. He is also the chairman of Gold Mountains (Hong Kong) International Mining Co., Ltd. To the best of our Directors' knowledge, to the date of this report, Gold Mountains (Hong Kong) International Mining Co., Ltd beneficially holds 62,071,000 shares of the Company, representing approximately 3.4% of the issued share capital of the Company. Mr. Lan has extensive experience in geological exploration and investment. He was a technician of Minxi Geological Brigades from August 1984 to August 1990, the deputy manager of Shanghang County Mineral Resources Company (上杭縣礦產公司) from September 1984 to August 1992, the manager of Shanghang County Xinhui Jewellery Company from August 1992 to August 1994 and the deputy general manager of Minxi Zijin Mining Group Co., Ltd. from August 1994 to September 2000. Mr. Lan graduated from Fuzhou University with a bachelor's degree in geology in July 1984. Other than the foregoing, over the past three years, he has not been a director of other listed companies.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

3. Independent Non-executive Director

Mr. Deng Jiniu*, aged 48, was appointed as an independent non-executive Director in February 2011. He served as a director of West Mining Co., Ltd. (西部礦業股份有限公司) since 2004 until April 2008, the shares of which are listed on the Shanghai Stock Exchange (stock code: 601168). He is also a director of Qinghai West Resources Investment Company Limited (青海西部資源投資有限公司), the chairman and president of Qinghai West Resources Company Limited (青海西部資源有限公司) and the chairman of Qinghai West Rare and Precious Metal Company Limited (青海西部稀貴金屬有限公司). From 1990 to 2007, Mr. Deng Jiniu conducted research in petrology, geological exploration, mining, petroleum and mineral general investigation and exploration at China Nonferrous Metal Industrial Company (中國有色金屬工業總公司), China University of Geosciences (Beijing) (中國地質大學(北京)) and Central South Industrial University (中南工業大學). He obtained his doctor's degree from China University of Geosciences (中國地質大學) in 1993 and completed postdoctoral studies in Central South Industrial University (中南工業大學) in 1995. He is a professor — level senior engineer and was a post doctoral candidate advisor. He held a number of positions in various organizations, including adjunct professor at China University of Geosciences (Beijing), instructor at General Research Institute for Nonferrous Metals (北京有色金屬研究總院) and is deputy director of Geology and Mineral Resources Branch of China Nonferrous Metals Industry Association (中國有色金屬工業協會地質礦產分會). He is also a member of the Standing Committee of 10th Qinghai Political Consultative Conference (青海省第十屆政協常務委員會) and a member of the 12th Central Committee of Jiu San Society (九三學社第十二屆中央委員會). Mr. Deng Jiniu received Qinghai Material Contribution Award (青海省重大貢獻獎) in 2004. With his previous and current positions in our Group, he has obtained more than 20 years of experience in the areas of mineral resources and geology. Saved as disclosed hereto, over the past three years, Mr. Deng Jiniu has not been a director of other listed companies, and has not by himself or through the institution in which he works, provided any professional services to the Company.

Mr. Wang Ping, aged 41, was appointed as an independent non-executive Director in February 2011. He is currently the chief financial officer of China Vehicle Components Technology Holdings Limited (stock code: 01269), which he joined in December 2010 as senior vice president of its subsidiary, Guang Da (China) Automotive Components Holdings Limited, responsible for investment management. He worked for EV Capital Pte Ltd., a financial advisory and consulting firm focusing on initial public offerings, capital raising and private equity investments, from May 2007 to March 2010 as vice president and subsequently as director in May 2008. From February 2004 to March 2007, he served as chief financial officer for China Jishan Holdings Limited, the shares of which are listed on the main board of Singapore Exchange. From September 1999 to August 2002, he served as senior accountant and subsequently manager for audit department of Deloitte Touche Tohmatsu CPA Ltd. He has over 15 years of experience in corporate finance, audit, accounting and taxation. Since November 2010, he served as an independent non-executive director of Chongyi Zhangyuan Tungsten Co., Ltd. (崇義章源鎢業股份有限公司), which is listed on the Shenzhen Stock Exchange. He graduated from Nanjing University in 1993 and obtained a Master's Degree in Business Administration from Lingnan (University) College of Sun Yat Sen University in 2004. He is a fellow member of the Chinese Institute of Certified Public Accountants.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Johnson Chi-King Fu, aged 57, was appointed as an independent non-executive Director in February 2011. He is currently the country manager, China of Rabobank Nederland. From February 2010 to August 2010, he served as director and chief executive officer of ChemChina Finance Co., Ltd. (中國化工財務有限公司), a wholly-owned subsidiary of China state owned ChemChina Group (China National Chemical Corporation). From August 2005 to May 2009, he worked for Hang Seng Bank Limited, Hong Kong including an assignment as executive director and chief executive of Hang Seng Bank (China) Limited (恆生銀行(中國)有限公司). From 1996 to 2005, he held various management positions in various organizations including Commerzbank AG as regional head of corporate banking and corporate finance for Asia Pacific and alternate chief executive of Hong Kong Branch. Between 1983 and 1991, he held various management positions in the Standard Chartered Bank including a posting as country chief manager, Taiwan. From 1976 to 1983, he worked for Manufacturers Hanover Trust Company (now part of JP Morgan Chase Bank). With his previous and current positions in our Group, he has over 30 years of experience in the financial industry. Mr. Fu obtained a bachelor's degree in Business Administration from Loyola University in 1975 and MBA from the University of California, Berkeley in 1976. He is also an adjunct professor of Yunnan University, Wong Sam Hang China America Management Education College (雲南大學黃心衡中美管理教育學院). Over the past three years, Mr. Johnson Fu has not been a director of other listed companies and has not by himself or through the institution in which he works, provided any professional services to the Company over the past three years.

Mr. Chen Yuchuan, aged 77, was appointed as an independent non-executive Director in September 2011. He is currently the director of the Science and Technology Committee of the Chinese Academy of Geological Sciences (中國地質科學院科技委) and the director of the Mine and Geology Specialist Committee (礦床地質專業委員會). Mr. Chen Yuchuan held a number of positions in various organizations, including the vice chairman of the International Association of the Genesis of Ore Deposits (國際礦床成因協會), the vice chairman of the China Ocean Mineral Resource R&D Association (中國大洋礦產資源研究開發協會) from 1994 to 1999, the head of the Chinese Academy of Geological Sciences (中國地質科學院) from 1986 to 1997, a researcher of the Chinese Academy of Geological Sciences since 1985. With his previous positions in various organizations and his current positions in our Group, he has obtained more than 52 years of experience in the area of mining and geology. He is also a member of the ninth National Committee of the Chinese People's Political Consultative Conference (第九屆全國政協委員). Mr. Chen has received a number of awards, including the National Science and Technology Advancement Award (國家科技進步獎) and the title of Young and Middle-aged Specialist with Outstanding Contributions (有突出貢獻中青年專家). He was elected as an academician of the Chinese Academy of Engineering (中國工程院) in 1997. Mr. Chen currently serves as an independent non-executive director of Zijin Mining Group Co., Ltd. (紫金礦業集團股份有限公司), which is listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange respectively. He is also an independent non-executive director of Chongyi Zhangyuan Tungsten Co., Ltd. (崇義章源鎢業股份有限公司), which is listed on the Shenzhen Stock Exchange.

Mr. Wang Anjian, aged 58, was appointed as an independent non-executive Director in January 2012, and has been the director and researcher of the Research Center for Strategy of Global Mineral Resources, Chinese Academy of Geological Sciences since 2000, responsible for the organization, research and training. Mr. Wang has extensive experience in research of resource strategy. He was a lecturer at Changchun College of Geology from 1982 to 1990, an associate professor at Changchun College of Geology from 1991 to 1992, a professor at Changchun College of Geology from 1992 to 1997 and the director and researcher of the Promising Delineation Planning Office of Chinese Academy of Geological Sciences from 1997 to 2000. Mr. Wang holds various positions in several organizations, including the director of China Geology Centre of World Data Centre, the standing director of Chinese Society for Environmental Sciences and the adjunct professor of China University of Geosciences (Beijing). Mr. Wang obtained a bachelor's degree in comprehensive mineral exploration in 1975, a master's degree in science in 1981 and a doctorate degree in science in 1988 from Changchun College of Geology. Over the past three years, he has not been a director of other listed companies.

* Mr. Deng Jiniu resigned as an independent non-executive director of the Company on 14 July 2011.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

4. Senior Management

Name	Age	Position/Title	Biography
Pan Guocheng	55	Chief Executive Officer and President	See "Executive Directors and Non-executive Directors"
Zheng Xuezhi	42	Chief Financial Officer	See "Executive Directors and Non-executive Directors"
Lu Zengxiang	46	Vice President	See "Executive Directors and Non-executive Directors"
Qiu Yumin	49	Vice President	See "Executive Directors and Non-executive Directors"
Xia Zhuo	46	Company Secretary	See "Executive Directors and Non-executive Directors"
Huang Jinfu	55	General Manager of Aoniu Mine	See "Executive Directors and Non-executive Directors"

5. Joint Company Secretary

Ms. Mok Ming Wai, an Associate Director of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. She has over 15 years of professional and in-house experience in company secretarial field. Prior to joining KCS Hong Kong Limited, she worked in the KPMG Hong Kong and acted as the company secretary for a group of two Hong Kong Main Board listed companies. Ms. Mok is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom.

Mr. Xia Zhuo is our joint company secretary. For details regarding Mr. Xia's experience, see "Directors — Executive Directors and non-executive Directors" above.

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)

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 69 to 121, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report 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. We conducted our audit in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
15 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Revenue	8	1,452,277	1,297,498
Cost of sales		(425,295)	(465,973)
Gross profit		1,026,982	831,525
Other income	9	32,008	1,546
Other expenses	10	(37,075)	(12,425)
Selling and distribution expenses		(23,693)	(23,208)
Administrative expenses		(120,511)	(94,650)
Net foreign exchange gain		13,380	—
Finance costs	11	(270,105)	(35,598)
Profit before tax	12	620,986	667,190
Income tax expense	13	(214,183)	(170,889)
Profit and total comprehensive income for the year		406,803	496,301
Attributable to:			
Owners of the Company		403,544	444,007
Non-controlling interests		3,259	52,294
		406,803	496,301
EARNINGS PER SHARE			
— Basic (RMB cent per share)	17	26	30

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	18	436,873	209,803
Intangible assets	19	307,999	294,179
Prepaid lease payments	20	231,946	107,073
Deferred tax assets	21	6,734	2,670
Deposit on acquisition of property, plant and equipment		14,010	16,606
		997,562	630,331
CURRENT ASSETS			
Inventories	22	38,046	62,551
Prepaid lease payments	20	18,594	15,944
Trade and other receivables	23	399,524	164,107
Tax recoverable		6,070	—
Loans to related parties	24	—	342,898
Bank balances and cash	25	315,701	53,305
		777,935	638,805
CURRENT LIABILITIES			
Trade and other payables	26	201,937	166,532
Borrowings	27	250,000	295,000
Loans from related parties	28	—	10,578
Consideration payable	29	2,350	31,000
Tax liabilities		191,786	122,039
		646,073	625,149
NET CURRENT ASSETS		131,862	13,656
TOTAL ASSETS LESS CURRENT LIABILITIES		1,129,424	643,987

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CAPITAL AND RESERVES			
Share capital/Paid-in capital	30	149,137	162,042
Reserves		980,287	232,119
Equity attributable to owners of the Company		1,129,424	394,161
Non-controlling interests		–	69,826
TOTAL EQUITY		1,129,424	463,987
Non-current liabilities			
Borrowings	27	–	180,000
		1,129,424	643,987

The consolidated financial statements on pages 69 to 121 were approved and authorised for issue by the Board on 15 March 2012 and are signed on its behalf by:

Yang Min	**Zheng Xue Zhi**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital/ Paid-in capital RMB'000	Reserves: Share premium RMB'000	Reserves: Special reserve RMB'000	Reserves: Statutory surplus reserve RMB'000 (note a)	Reserves: Future development funds reserve RMB'000 (note b)	Reserves: Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2010	188,102	—	(6,047)	60,102	185,158	155,864	583,179	140,919	724,098
Acquisition of non-controlling interest (note c)	—	—	14,934	—	—	—	14,934	(74,934)	(60,000)
Exchange of share upon group reorganisations (note d)	(26,060)	—	(96,329)	(3,657)	(29,225)	—	(155,271)	12,859	(142,412)
Profit and total comprehensive income for the year	—	—	—	—	—	444,007	444,007	52,294	496,301
Transfer (note a)	—	—	—	16,824	—	(16,824)	—	—	—
Transfer to future development funds reserve	—	—	—	—	42,875	(42,875)	—	—	—
Acquisition of equity interest from non-controlling shareholders (note e)	—	—	5,195	—	—	—	5,195	(9,195)	(4,000)
Dividends	—	—	—	—	—	(497,883)	(497,883)	(52,117)	(550,000)
Balance at 31 December 2010	162,042	—	(82,247)	73,269	198,808	42,289	394,161	69,826	463,987
Acquisition of equity interest from non-controlling shareholders (note f)	—	—	61,085	—	—	—	61,085	(73,085)	(12,000)
Distribution to the then equity shareholders upon group reorganisations (note g)	(162,042)	—	(387,958)	—	—	—	(550,000)	—	(550,000)
Shareholder's contribution (note 27(ii))	—	—	175,960	—	—	—	175,960	—	175,960
Share capitalization (note 30)	122,229	(122,229)	—	—	—	—	—	—	—
New issue of shares by way of public offering (note 30)	26,908	648,488	—	—	—	—	675,396	—	675,396
Transaction costs attributable-to issue of new shares	—	(30,722)	—	—	—	—	(30,722)	—	(30,722)
Profit and total comprehensive income for the year	—	—	—	—	—	403,544	403,544	3,259	406,803
Transfer to future development funds reserve	—	—	—	—	68,598	(68,598)	—	—	—
Balance at 31 December 2011	149,137	495,537	(233,160)	73,269	267,406	377,235	1,129,424	—	1,129,424

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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2011

(b) Pursuant to regulation in the PRC, Fushun Hanking Aoniu Mining, Limited. ("Aoniu Mining"), Benxi Hanking Mining Co., Ltd. ("Benxi Mining"), Fushun Maogong Mining Co., Ltd. ("Maogong Mining"), Fushun Xingzhou Mining Co., Ltd. ("Xingzhou Mining") and Fushun Jing Jia Iron Mine ("Jingjia Mining") are required to transfer an amount to a future development fund at RMB22 per ton of iron ore mined annually which will be used for enhancement of safety production environment and improvement of facilities. The fund can only be used for the future development of the iron ore mining business and is not available for distribution to shareholders. RMB83,976,000 (2010: RMB55,635,000) of future development fund was provided and RMB15,378,000 (2010: RMB12,760,000) of future development fund was utilised during the year ended 31 December 2011.

(c) On 9 June 2010, Aoniu Mining acquired the remaining 30% equity interest in Xingzhou Mining with a consideration of RMB60,000,000 and since then Xingzhou Mining became a wholly owned subsidiary of Aoniu Mining. The Group paid RMB33,000,000 and RMB24,650,000 during the year ended 31 December 2010 and 2011, respectively. Then the remaining consideration of RMB27,000,000 and RMB2,350,000 was recorded as current liabilities as at 31 December 2010 and 2011, respectively.

(d) The amount recorded in the special reserve, resulting from the group reorganisation completed on 18 January 2011 (the "Group Reorganisation") involving share exchange transactions as detailed in Note 2 below, includes:

- On 30 April 2010, the mining operations of Jingjia Mining and its related assets and liabilities had been transferred to Maogong Mining. The remaining retained net assets of RMB40,412,000 was treated as distribution as species to the then equity owners.

- On 4 August 2010, Aoniu Mining acquired 100% equity interests in Maogong Mining from Hanking Industrial Group Co., Ltd. ("罕王實業集團有限公司"), with a consideration of RMB30,000,000. Hanking Industrial Group Co., Ltd. is controlled by the ultimate controlling parties (Ms. Yang Min ("楊敏") and Mr. Yang Jiye ("楊繼野")) (the "Controlling Parties").

- On 20 August 2010, Aoniu Mining acquired 10% and 90% equity interests in Benxi Mining from Yang Min and Liaoning Hanking Mining Development Co. Ltd. ("遼寧罕王礦業發展有限公司"), respectively, with a consideration of RMB72,000,000.

(e) The amounts recorded in special reserve during the year ended 31 December 2010 are resulted from the following transactions:

- Special reserve with credit amount of RMB5,177,000 arising from the acquisition of additional 1.07% effective equity interest in Aoniu Mining by the Controlling Parties represents the net carrying amount of the respective equity interests in these subsidiaries at the date of acquisition through the intermediate holding company.

- Special reserve with debit amount of RMB3,593,000 arising from the acquisition of additional 2.53% effective equity interest in Shenyang Toyo Steel Utility Co., Ltd ("STSU") resulting from the acquisition of 25% equity interest in STSU from Hanking Industrial Group Co., Ltd. by China Hanking Hong Kong Limited.("Hanking HK") on 31 December 2010 with a consideration of RMB4,000,000.

- Special reserve with credit amount of RMB3,611,000 arising from the acquisition of additional 22.47% effective equity interest in STSU by the Controlling Parties represented the net carrying amount of the respective equity interests in STSU at the date of acquisition through the intermediate holding company.

(f) Special reserve arising from the acquisition of additional 7.60% effective equity interest in STSU resulting from the acquisition of 75% equity interest in STSU from Hanking Industrial Group Co., Ltd. by Hanking HK on 18 January 2011 with a consideration of RMB12,000,000.

(g) On 18 January 2011 STSU and Shenyang Yuanzheng Industry Limited ("Shenyang Yuanzheng") acquired 99% and 1% equity interests in Aoniu Mining from Hanking Industrial Group Co., Ltd. and Ms. Yang Min for a cash consideration of RMB544,500,000 and RMB5,500,000, respectively. It is accounted for distribution to the then equity shareholders.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES		
Profit before tax	620,986	667,190
Adjustments for:		
Finance costs	270,105	35,598
Interest income	(2,008)	(336)
Reversal of doubtful debt	—	(1,066)
Loss on disposal of property, plant and equipment	151	2,558
Depreciation of property, plant and equipment	37,001	34,585
Release of prepaid lease payments	19,701	12,551
Amortisation of intangible assets	18,970	34,405
Net foreign exchange gain	(13,380)	—
Operating cash flows before movements in working capital	951,526	785,485
Decrease (increase) in inventories	24,505	(11,109)
Increase in trade and other receivables	(260,256)	(172,311)
Decrease (increase) in trade and other payables	6,818	(57,686)
Cash generated from operations	722,593	544,379
Interest paid	(73,063)	(35,598)
Income tax paid	(154,570)	(69,441)
NET CASH FROM OPERATING ACTIVITIES	494,960	439,340
INVESTING ACTIVITIES		
Withdraw of pledged bank deposits	—	10,000
Interest received	2,008	336
Purchases and deposit paid for acquisition of property, plant and equipment	(233,590)	(103,015)
Repayments of loans to related parties	376,481	330,861
Advance to related parties	(33,583)	(447,336)
Purchase of intangible assets	(32,790)	(36,991)
Payments for prepaid lease payments	(147,224)	(97,136)
Proceeds on disposal of property, plant and equipment	25,390	655
NET CASH USED IN INVESTING ACTIVITIES	(43,308)	(342,626)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
FINANCING ACTIVITIES		
Gross proceeds from issue of shares by way of initial public offering	675,396	—
Transaction costs attributable to issue of new shares	(30,722)	—
Loans from related parties	20	15,859
Repayments of loans from related parties	(10,598)	(77,519)
Proceeds from borrowings	982,203	475,000
Repayment of borrowings	(1,180,342)	(415,000)
Transaction costs attributable to the issue of other borrowing	(21,082)	—
Distribution to the then equity shareholders	(550,000)	—
Acquisition of non-controlling interests	(40,650)	(33,000)
Net cash outflow on deemed distribution (Note 31)	—	(303)
Dividend paid		
— owners of the Company	—	(29,809)
— non-controlling interests	—	(1,540)
NET CASH USED IN FINANCING ACTIVITIES	(175,775)	(66,312)
NET INCREASE IN CASH AND CASH EQUIVALENTS	275,877	30,402
CASH AND CASH EQUIVALENTS AT 1 JANUARY	53,305	22,903
Effect of foreign exchange rate changes	(13,481)	—
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash	315,701	53,305

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. General Information

The Company is a limited company incorporated in the Cayman Islands on 2 August 2010 and acts as an investment holding company. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 September 2011.

The address of principal place of business of the Company is 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road, Central, Hong Kong.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and its subsidiaries, which is the currency of the primary economic environment where the Company and the principal subsidiaries of the Company operate.

The Company is an investing holding company. The Group is engaged in iron ore mining and processing. Details of the Company's subsidiaries are set out in note 36.

2. Preparation of Consolidated Financial Statements

Prior to the Group Reorganisation, Ms. Yang Min and Mr. Yang Jiye, through their direct equity interest and ownership in certain related companies which had equity interest in, effectively controlled the companies comprising the Group as follows:

	1 January 2010 to 8 June 2010	9 June 2010 to 25 July 2010	6 July 2010 to 4 August 2010	5 August 2010 to 6 August 2010	7 August 2010 to 20 August 2010	21 August 2010 to 30 December 2010	31 December 2010 to 17 January 2011	18 January 2011 to 31 December 2011 (Note)
STSU	67.40%	67.40%	67.40%	67.40%	67.40%	67.40%	92.40%	100.00%
Aoniu Mining	88.00%	88.00%	89.07%	89.07%	89.07%	89.07%	89.07%	100.00%
Xingzhou Mining	61.60%	88.00%	89.07%	89.07%	89.07%	89.07%	89.07%	100.00%
Jingjia Mining	100.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benxi Mining	92.70%	92.70%	92.70%	92.70%	92.70%	89.07%	89.07%	100.00%
Shenyang Yuanzheng	N/A	N/A	N/A	N/A	67.40%	67.40%	92.40%	100.00%
Maogong Mining	89.86%	89.86%	89.86%	89.07%	89.07%	89.07%	89.07%	100%

Note: Since completion of the Group Reorganisation, the Company has direct or indirect equity interest in the companies comprising the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

2. Preparation of Consolidated Financial Statements (continued)

The major steps of the Group Reorganisation were as follows:

(i) On 30 April 2010, the mining operations of Jinjia Mining, a company wholly owned by Ms. Yang Min, and its related assets and liabilities were transferred to Maogong Mining.

(ii) On 25 July 2010, Ms. Yang Min, Mr. Yang Jiye and other seven PRC individual shareholders of Aoniu Mining entered into equity transfer agreements with Hanking Industrial Group Co., Ltd. ("撫順罕王實業集團有限公司") to exchange a 99% equity interest in Aoniu Mining. After the equity transfer, Hanking Industrial Group Co., Ltd. and Ms. Yang Min held 99% and 1% equity interest in Aoniu Mining, respectively. Hanking Industrial Group Co., Ltd. was also controlled by the Controlling Parties.

(iii) On 2 August 2010, the Company was incorporated under the law of the Cayman Islands as an exempted company. Ms. Yang Min became the sole shareholder on the same day.

(iv) On 4 August 2010, Aoniu Mining acquired 100% equity interests in Maogong Mining from Hanking Industrial Group Co., Ltd., with a consideration of RMB30,000,000.

(v) On 12 August 2010, one share of China Hanking Investment Limited ("Hanking Investment") was alloted and issued to the Company.

(vi) On 17 August 2010, Ms. Yang Min acquired Favor Hero International Limited, which was incorporated under the laws of British Virgin Islands on 25 April 2008 and changed the name to China Hanking (BVI) International Limited ("Hanking International") on 16 September 2010.

(vii) On 20 August 2010, Aoniu Mining acquired 10% and 90% equity interests in Benxi Mining from Yang Min and Liaoning Hanking Mining Development Co. Ltd. ("遼寧罕王礦業發展有限公司"), respectively, with a consideration of RMB72,000,000. Hanking Industrial Group Co., Ltd. and Ms. Yang Min held 80% and 20% equity interests in Liaoning Hanking Mining Development Co., Ltd.

(viii) On 26 August 2010, Hanking International acquired 100% equity interest in Ascent Power Investments Limited, which was incorporated in Hong Kong on 23 December 2008 and changed its name to China Hanking (Hong Kong) Limited ("Hanking HK") on 1 September 2010.

(ix) On 3 December 2010, Ms. Yang Min transferred her share in Hanking International to Hanking Investment at par value.

(x) On 30 December 2010, Hanking HK acquired the 25% equity interest in STSU from Hanking Industrial Group Co., Ltd. On the same day, Hanking Industrial Group Co. Ltd. acquired another 25% equity interest in STSU from a third party. These share transfer became effective on 31 December 2010.

(xi) On 29 October 2010, Hanking Industrial Group Co. Ltd. entered into an equity transfer agreement with Hanking HK whereby Hanking Industrial Group Co. Ltd. agreed to sell its 75% equity interest in STSU to Hanking HK. This share transfer became effective on 18 January 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

2. Preparation of Consolidated Financial Statements (continued)

(xii) On 5 October 2010, Hanking Industrial Group Co. Ltd. and Ms. Yang entered into an equity transfer agreement with STSU and Shenyang Yuanzheng whereby Hanking Industrial Group Co. Ltd. agreed to sell its 99% equity interest in Aoniu Mining to STSU for a cash consideration of RMB544,500,000 and Ms. Yang Min agreed to sell her 1% equity interest in Aoniu Mining for a cash consideration of RMB5,500,000 to Shenyang Yuanzheng. These share transfer became effective on 18 January 2011.

The Company became the holding company of the Group on 18 January 2011. The consolidated financial statements of the Group throughout the years ended 31 December 2010 and 2011 has been prepared using the principles of merger accounting, and includes the results and cash flows of the companies comprising the Group pursuant to the Group Reorganisation as if the business combination had occurred from the date when the combining entities or business first came under the control of the Controlling Parties, Ms. Yang Min and Mr. Yang Jiye, except that the results attributable to the owners of the group companies other than Ms. Yang Min and Mr. Yang Jiye prior to the Group Reorganisation were treated as non-controlling interests. The consolidated statements of financial position of the Group as at 31 December 2010 have been prepared in accordance with the principles of merger accounting to present the assets and liabilities of the companies comprising the Group as if the group structure had been in existence as at those dates and in accordance with the respective equity interests in the individual companies attributable to Ms. Yang Min and Mr. Yang Jiye as at those dates.

3. Application of International Financial Reporting Standards

In the current year, the Group has applied a number of International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and Interpretations ("IFRICs") (here collectively referred to as "new IFRSs") issued by the International Accounting Standards Board ("IASB").

The Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

Amendments to IFRS 7	Disclosures — Transfers of Financial Assets[1]
Amendments to IFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to IAS 12	Deferred Tax — Recovery of Underlying Assets[4]
IAS 19 (as revised in 2011)	Employee Benefits[2]
IAS 27 (as revised in 2011)	Separate Financial Statements[2]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[6]
IFRIC-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

3. Application of International Financial Reporting Standards (continued)

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 January 2012
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2014.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The directors of the Company anticipate that the application of IFRS9 will have no material impact on the consolidated financial statements.

3. Application of International Financial Reporting Standards (continued)

IFRIC-Int 20 Stripping Costs in the Production Phase of a Surface Mine

IFRIC-Int 20 Stripping Costs in the Production Phase of a Surface Mine applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). Under the Interpretation, the costs from this waste removal activity ("stripping") which provide improved access to ore is recognised as a non-current asset ("stripping activity asset") when certain criteria are met, whereas the costs of normal ongoing operational stripping activities are accounted for in accordance with IAS 2 Inventories. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

IFRIC-Int 20 is effective for annual periods beginning on or after 1 January 2013 with transitional provisions. The directors of the Company anticipate that the application of IFRIC-Int 20 will have no material impact on the consolidated financial statements.

4. Summary of Significant Accounting Policies

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

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year (other than business combinations involving entities under common control) are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

4. Summary of Significant Accounting Policies (continued)

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary 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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. 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.

Merger accounting for business combination involving entities under common control

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

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

4. Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Borrowing costs

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

Property, plant and equipment

Property, plant and equipment including building held for use in the production or supply of good or services, 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 accumulated impairment losses.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction 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 the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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.

Leasing

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

4. Summary of Significant Accounting Policies (continued)

Leasing (continued)

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Prepaid lease payments

The payments made on the rental of land are accounted for as an operating lease which is released to the profit or loss on a straight-line basis over their relevant lease terms.

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 recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the 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.

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.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Mining rights

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

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

4. Summary of Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

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 as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 differences between the carrying amounts of assets and liabilities in the these financial statements and the corresponding tax base 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 difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss.

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

Retirement benefit costs

Payments to state-managed retirement benefits schemes are charged as expenses when employees have rendered service entitling them to the contributions.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, loans to related parties and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been impacted. The objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit terms of the customers, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. 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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

4. Summary of Significant Accounting Policies (continued)

Impairment losses on tangible and intangible assets

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 cashgenerating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

5. Key Source of Estimation Uncertainty

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

Useful lives of mining rights

As at 31 December 2011, mining rights of RMB306,160,000 (2010: RMB292,986,000) has been recognised in the Group's consolidated statement of financial position. Mining rights are amortised over the shorter of the unexpired period of the rights or the estimated useful lives of the mines using the units of production method. The useful lives are estimated based on the total proven and probable reserves of iron mine. Changes in the estimate of mine reserve will affect the future amortisation cost incurred.

5. Key Source of Estimation Uncertainty (continued)

Useful lives of mining rights (continued)

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

Useful lives of property, plant and equipment

The Group estimates useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and actions of its competitors. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will record reserve for technically obsolete assets. The carrying amount of property, plant and equipment at 31 December 2011 were RMB436,873,000 (2010: RMB209,803,000).

6. Capital Risk Management

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

The capital structure of the Group consists of debts which includes the borrowings disclosed in note 27, and equity attributable to owners of the Company, comprising share capital and reserve.

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 associates with each class of capital. Based on recommendations of the management, the Group will balance its overall structure through the payment of dividends, capital injection as well as the issue of new debt or the redemption of existing debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

7. Financial Instruments

(1) *Categories of financial instruments*

	2011 RMB'000	2010 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	573,210	515,196
Financial liabilities:		
Amortised costs	340,709	598,635

(2) *Financial risk management objectives and policies*

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

Market risk

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

Interest risk

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

The Group is also exposed to cash flow interest rate risk in relation to floating-rate bank borrowings (see note 27 for details of these borrowings) and floating-rate bank balances. The Group arranged borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for its floating rate bank borrowing. The analysis is prepared assuming the floating rate bank borrowing outstanding at the end of the reporting period were outstanding for the whole year. 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2011 would decrease/increase approximately by RMB480,000 (2010: decrease/increase approximately by RMB953,000). This is mainly attributable to the Group's exposure to interest rates on its floating-rate bank borrowings.

7. Financial Instruments (continued)

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

Interest risk (continued)

Sensitivity analysis (continued)

The sensitivity analyses below have been determined based on the exposure to interest rates for its floating rate bank balances. The analysis is prepared assuming the floating rate bank balances outstanding at the end of the reporting period were outstanding for the whole year. 10 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 10 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2011 would increase/decrease approximately by RMB1,416,000 (2010: increase/decrease approximately by RMB400,000). This is mainly attributable to the Group's exposure to interest rates on its floating-rate bank balances.

Currency risk

The Group has bank balance denominated in United States Dollars ("USD") and Hong Kong Dollars ("HKD"), which expose the Group to foreign currency risk.

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

	USD	
	Assets RMB'000	**Liabilities** RMB'000
As at 31 December 2010	—	—
As at 31 December 2011	78,345	—

	HKD	
	Assets RMB'000	**Liabilities** RMB'000
As at 31 December 2010	—	—
As at 31 December 2011	9,719	—

7. Financial Instruments (continued)

(2) Financial risk management objectives and policies (continued)

Currency risk (continued)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD and HKD, 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where a 5% weakening of RMB against USD and HKD. For a 5% strengthen of RMB against USD and HKD, there would be an equal and opposite impact on the post-tax profit and the balances below would be negative.

	2011 RMB'000	2010 RMB'000
Profit for the year	3,233	—

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

Credit risk management

As at the end of reporting date, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantee provided by the Group is arising from:

— the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and

— the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 35.

In order to minimize the credit risk, the directors of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the directors of the Company review the recoverability of each trade debt and loans to the related parties at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The directors also review the financial position of the counterparty of the financial guarantee at the end of the reporting period to ensure no financial loss will be incurred. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

7. Financial Instruments (continued)

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

Credit risk management (continued)

The Group has concentration of credit risk as 100% of the Group's trade and bill receivables as at 31 December 2011 of approximately RMB233,043,000(2010: RMB77,751,000), were derived from two customers (2010: ten customers).In addition, as at 31 December 2010, the Group has concentration of credit risk on loans to related parties of approximately RMB342,898,000. In order to minimise the credit risk, the directors of the Company 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 and the Company 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 or banks with good credit rating and with good reputation.

Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with the terms of borrowings.

The following table details the Group's 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 of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

7. Financial Instruments (continued)

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

Liquidity risk management (continued)

Liquidity table

	Weighted average interest rate	Repayable on demand or less than 3 months	4 months to 1 year	1 year to 2 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2011						
Trade and other payables	—	88,359	—	—	88,359	88,359
Consideration payable	—	2,350	—	—	2,350	2,350
Bank borrowings — floating rate	6.85	53,698	205,023	—	258,721	250,000
		144,407	205,023	—	349,430	340,709
As at 31 December 2010						
Trade and other payables	—	82,057	—	—	82,057	82,057
Consideration payable	—	31,000	—	—	31,000	31,000
Bank borrowings						
— fixed rate	6.47	—	203,421	—	203,421	195,000
— floating rate	5.70	—	114,678	180,482	295,160	280,000
Loan from related parties	—	10,578	—	—	10,578	10,578
Financial guarantee	—	150,000	—	—	150,000	—
		273,635	318,099	180,482	772,216	598,635

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at 31 December 2010, the Group considers that it is more likely than not that no amount will be payable under the arrangement. The guarantee was released during the year ended 31 December 2011.

(3) *Fair value of financial instruments*

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximates their fair value.

8. Revenue and Segment Information

(1) Revenue

	2011 RMB'000	2010 RMB'000
Sales of goods	1,452,277	1,297,498

(2) Segment information

The Group has operating in one segment, being the iron ore mining and processing. The Group identified an operating segment which is a component of the Group (a) that engages in business activities from which it may earn revenues and incur expenses; and (b) whose operating results are reviewed regularly by the executive directors, the chief operating decision maker, to make decisions about resources allocation and assess its performance.

The accounting policies of the operating segment are the same as those described in the summary of significant accounting policies expect that the financial impact of deferred taxation, effective interest on other borrowings and listing expenses had not been considered by the Group's chief operating decision maker to make decisions about resources to be allocated and assess performance. Reconciliation from the operating segment to the consolidated financial statements is as following:

	2011 RMB'000	2010 RMB'000
Segment revenue	1,452,277	1,297,498
Segment result	674,613	505,336
Less: Listing expenses	32,448	6,844
Deferred taxation	(4,064)	2,191
Effective interest on other borrowings	239,426	—
Profit for the year	406,803	496,301

All of the Group's revenue are derived from the PRC and the non-current assets are located in the PRC and therefore, no geographical information is presented.

8. Revenue and Segment Information (continued)

(2) Segment information (continued)

The following illustrates the revenue from customers which contributing over 10% of the total revenue of the Group are as follows:

	2011 RMB'000	2010 RMB'000
Customer A	711,535	547,909
Customer B	323,152	308,403
Customer C	265,574	157,044

9. Other Income

	2011 RMB'000	2010 RMB'000
Interest income	2,008	336
Government grants (note)	30,000	1,210
	32,008	1,546

Note: The amount of RMB30,000,000 recognised in 2011 represented an unconditional government grant in recognition of the Group's contribution to environmental protection, restoration and rehabilitation. The amount of RMB1,210,000 recognised in 2010 represented other tax paid and interest expenses subsidy during the year ended 31 December 2010. Government grants are recognised in the consolidated statement of comprehensive income when received and when all conditions as specified in the grants have been met.

10. Other Expenses

	2011 RMB'000	2010 RMB'000
Loss on disposal of property, plant and equipment	151	2,558
Tax late payment surcharge	99	174
Donations	3,142	2,340
Listing expenses	32,448	6,844
Others	1,235	509
	37,075	12,425

11. Finance Costs

	2011 RMB'000	2010 RMB'000
Interests on bank borrowings wholly repayable within five years	19,679	27,595
Interests on bills discounted with non-recourse	11,000	8,003
Effective interest on other borrowing wholly repayable within five years	239,426	—
	270,105	35,598

Effective interest on other borrowing included the interest expense of RMB42,384,000 calculated on the basis of interest rate of 8% per annum and the value of the warrants of RMB175,960,000 and the transaction costs of approximately RMB21,082,000 related to US$120 million term loan. Details refer to Note 27(ii).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

12. Profit Before Tax

Profit before taxation has been arrived at after charging (crediting):

	2011 RMB'000	2010 RMB'000
Cost of inventories recognized as an expense	370,913	419,048
Auditors' remuneration	1,468	19
Reversal of doubtful debt	—	(1,066)
Release of prepaid lease payments	19,701	12,551
Depreciation and amortisation:		
— Property, plant and equipment	37,001	34,585
— Intangible assets	18,970	34,405
	55,971	68,990
Staff costs (including directors):		
— Salary and other benefits	71,290	68,670
— Retirement benefits scheme contributions	5,630	3,718
	76,920	72,388

13. Income Tax Expense

	2011 RMB'000	2010 RMB'000
Income tax expenses comprise:		
PRC enterprise income tax ("EIT") — current	216,321	166,265
Under provision in prior years	1,926	2,433
Deferred tax — current year (Note 21)	(4,064)	2,191
	214,183	170,889

The Company was incorporated in the Cayman Islands and is not subject to any income tax.

Hanking Investment and Hanking International were incorporated in the BVI and are not subject to income tax of any jurisdiction since their incorporation.

13. Income Tax Expenses (continued)

Hanking HK was incorporated in Hong Kong and has had no assessable profits subject to Hong Kong Profits Tax since its incorporation.

Hanking Australia Pty Ltd. was incorporated in Australia and has no assessable profits subject to Australia profits tax since its incorporation.

The subsidiaries established in the PRC other than Jingjia Mining, are subject to enterprise income tax at a statutory tax rate of 25% (2010: 25%). Jingjia Mining was an enterprise owned by an individual before it was disposed in 2010, it's income tax was calculated on the basis of profit before taxation less a pre-determined amount and applying an income tax rate of 35%.

The tax charge for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2011 RMB'000	2010 RMB'000
Profit before tax	620,986	667,190
Tax at the PRC income tax rate of 25% (2010: 25%)	155,247	166,798
Tax effect of expenses that are not deductible for tax purpose (note)	57,667	446
Effect of different tax rate of a subsidiary	(866)	2,050
Tax effect of deductible temporary differences not recognised	209	—
Utilization of deductible temporary differences not recognized in prior years	—	(838)
Under provision in prior years	1,926	2,433
	214,183	170,889

Note: The amount mainly represented tax late payment surcharge, effective interest expense of facility loan and other non-deductible expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

14. Directors' Emoluments

The emoluments paid or payable to each of the 11 (2010: 11) directors were as follows:

	For the year ended 31 December 2011				
	Directors' fees RMB'000	Retirement benefit scheme contributions RMB'000	Salary, wages and other allowances RMB'000	Performance incentive payments RMB'000	Total RMB'000
Executive directors:					
— Pan Guocheng	—	—	3,000	900	3,900
— Zheng Xuezhi	—	111	484	479	1,074
— Lu Zengxiang	—	75	311	326	712
— Xia Zhuo	—	82	346	401	829
— Huang Jinfu	—	86	518	561	1,165
Non-executive directors:					
— Yang Min	1,800	—	—	—	1,800
— Yang Jiye	600	—	—	—	600
— Mao Guosheng	—	—	—	—	—
Independent non-executive directors:					
— Chen Yuchuan	39	—	—	—	39
— Wang Ping	39	—	—	—	39
— Johnson Fu	172	—	—	—	172
	2,650	354	4,659	2,667	10,330

14. Directors' Emoluments (continued)

	For the year ended 31 December 2010				
	Directors' fees RMB'000	Retirement benefit scheme contributions RMB'000	Salary, wages and other allowances RMB'000	Performance incentive payments RMB'000	Total RMB'000
Executive directors:					
— Pan Guocheng	—	—	2,100	2,094	4,194
— Zheng Xuezhi	—	24	276	514	814
— Lu Zengxiang	—	24	196	239	459
— Xia Zhuo	—	23	276	501	800
— Huang Jinfu	—	48	415	764	1,227
Non-executive directors:					
— Yang Min	1,243	—	—	—	1,234
— Yang Jiye	611	—	—	—	611
— Mao Guosheng	—	17	159	314	490
Independent non-executive directors:					
— Chen Yuchuan	—	—	—	—	—
— Wang Ping	—	—	—	—	—
— Johnson Fu	—	—	—	—	—
	1,845	136	3,422	4,426	9,829

Note: The performance related payment is mainly determined on the basis of the Group's and individual performance for years ended 31 December 2011 and 2010.

In the year ended 31 December 2011, 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 in the year ended 31 December 2011.

15. Employees' Emoluments

The five highest paid individuals in 2011 and 2010 were all directors of the Company and details of their emoluments are included in note 14 above.

16. Dividends

No dividend has been paid/declared by the Company during the year ended 31 December 2011. Prior to the Group Reorganisation, Aoniu Mining, Benxi Ming, Maogong Mining and Jingjia Mining had declared dividends in aggregate of RMB550,000,000 to their then equity owners during the year ended 31 December 2010.

The final dividend of RMB2.1 cents in respect of the year ended 31 December 2011 per share (total: RMB38,430,000) has been proposed by the directors of the Company and is subject to approval by the shareholders in general meeting.

17. Earnings Per Share

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company and the weighted average number of 1,584,082,192 shares (2010:1,500,000,000 shares). The weighted average number of ordinary shares for the purpose of basic earnings per share have been retrospectively adjusted for the Group Reorganisation and assuming that the Group Reorganisation had been in effective at 1 January 2010, and has been adjusted for the effect of 1,499,000,000 shares issued pursuant to the capitalisation issue as disclosed in note 30.

No diluted earnings per share is presented as the Company did not have dilutive potential ordinary shares in issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

18. Property, Plant and Equipment

	Buildings	Plant and machinery	Other equipment	Moto vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 31 December 2009	61,171	120,648	3,263	98,443	9,259	292,784
Additions	9,234	23,984	1,616	25,578	48,531	108,943
Transfer	7,018	1,686	—	—	(8,704)	—
Distribution of assets/ liabilities of Jingjia Mining (Note 31)	—	(1,437)	—	(1,072)	—	(2,509)
Disposals	(16,028)	(34,822)	(396)	(17,939)	—	(69,185)
At 31 December 2010	61,395	110,059	4,483	105,010	49,086	330,033
Additions	4,150	12,960	4,152	39,364	204,147	264,773
Transfer	18,001	21,225	—	—	(39,226)	—
Disposals	—	(887)	(11)	(773)	—	(1,671)
At 31 December 2011	83,546	143,357	8,624	143,601	214,007	593,135
ACCUMULATED DEPRECIATION						
At 31 December 2009	18,564	56,438	1,207	51,389	—	127,598
Provided for the year	3,069	13,441	1,010	17,065	—	34,585
Distribution of assets/ liabilities of Jingjia Mining (Note 31)	—	(197)	—	(623)	—	(820)
Elimination on disposals	(5,147)	(19,618)	(176)	(16,192)	—	(41,133)
At 31 December 2010	16,486	50,064	2,041	51,639	—	120,230
Provided for the year	3,406	11,821	1,401	20,373	—	37,001
Elimination on disposals	—	(748)	(7)	(214)	—	(969)
At 31 December 2011	19,892	61,137	3,435	71,798	—	156,262
CARRYING VALUES						
At 31 December 2010	44,909	59,995	2,442	53,371	49,086	209,803
At 31 December 2011	63,654	82,220	5,189	71,803	214,007	436,873

18. Property, Plant and Equipment (continued)

The Group is in the process of applying for the title certificates for certain properties with carrying amount of RMB29,895,000 as at 31 December 2011 (2010: RMB13,014,000).

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

Buildings	3 to 20 years
Plant and machinery	3 to 10 years
Other equipment	3 to 5 years
Motor vehicles	3 to 6 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

19. Intangible Assets

	Software RMB'000	Mining rights RMB'000	Total RMB'000
COST			
At 31 December 2009	1,273	326,409	327,682
Addition	365	36,626	36,991
Distribution of assets/liabilities of Jingjia Mining (Note 31)	—	(253)	(253)
At 31 December 2010	1,638	362,782	364,420
Addition	1,090	31,700	32,790
At 31 December 2011	2,728	394,482	397,210
AMORTISATION			
At 31 December 2009	184	35,886	36,070
Amortisation for the year	261	34,144	34,405
Distribution of assets/liabilities of Jingjia Mining (Note 31)	—	(234)	(234)
At 31 December 2010	445	69,796	70,241
Amortisation for the year	444	18,526	18,970
At 31 December 2011	889	88,322	89,211
CARRYING VALUES			
At 31 December 2010	1,193	292,986	294,179
At 31 December 2011	1,839	306,160	307,999

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

As at 31 December 2011, the Company has pledged mining rights of having a net book value of approximately RMB251,655,000 (2010: RMB252,238,000) to secure the bank borrowings of RMB200,000,000 (2010: RMB280,000,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

20. Prepaid Lease Payments

	2011 RMB'000	2010 RMB'000
Analysed for the reporting purpose as:		
Current portion	18,594	15,944
Non-current portion	231,946	107,073
	250,540	123,017

The prepaid lease payments were amortised over the benefit periods from 5 to 50 years. Amount of RMB167,463,000 (2010: RMB87,587,000), represented the pre-paid rental to various farmers and no land certificates for these pre-paid rental have been obtained.

21. Deferred Taxation

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

	Allowance for bad debt RMB'000	Accelerated tax depreciation RMB'000	Accrued expense RMB'000	Tota RMB'000
At 31 December 2009	444	2,125	2,292	4,861
Credit (charge) to profit or loss	4	(1,066)	(1,129)	(2,191)
At 31 December 2010	448	1,059	1,163	2,670
(Charge) credit to profit or loss	—	2,092	1,972	4,064
At 31 December 2011	448	3,151	3,135	6,734

Under EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary difference attributable to accumulated profit of the PRC subsidiaries amounting to RMB553 million (2010: RMB50 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

22. Inventories

	2011 RMB'000	2010 RMB'000
Auxiliary materials	19,109	11,801
Work in progress	17,085	28,554
Finished goods	1,852	22,196
	38,046	62,551

23. Trade and Other Receivables

	2011 RMB'000	2010 RMB'000
Trade receivables		
— related parties	6,917	29,998
— third parties	10,153	6,097
— bills receivables	215,973	41,656
	233,043	77,751
Other receivables		
— advances to suppliers	2,363	7,643
— prepaid listing expense	—	2,394
— deposits	15,417	13,151
— other tax recoverable	137,466	33,408
— staff advances	2,186	1,669
— consideration receivable for disposal of property, plant and equipment due from a related party (note)	—	24,839
— others	9,049	3,252
	166,481	86,356
Total trade and other receivables	399,524	164,107

Note: The entity is a related party which is controlled by Ms. Yang Min. The amount was settled during the year ended 31 December 2011.

23. Trade and Other Receivables (continued)

The Group allows an average credit period of 7 days to its customers. Prior to 1 July 2011, the Group did not have a credit period policy to its related party customers and the related party customers normally settled trade receivables within three months. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	2011 RMB'000	2010 RMB'000
Within 7 days	17,070	20,295
8 days to 3 months	–	6,472
3 months to 1 year	–	9,266
1 year to 2 years	–	62
	17,070	36,095

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

As at 31 December 2011, the Company has pledged bills receivable with carrying amount of RMB51,250,000(2010: Nil) to secure the bank borrowings of RMB50,000,000 (2010: Nil).

Movement in the allowance for other receivable

	2011 RMB'000	2010 RMB'000
Opening and closing balance	182	182

23. Trade and Other Receivables (continued)

Movement in the allowance for other receivable (continued)

According to the credit period policy of the Group, the trade receivables due from third parties which has an ageing over 7 days and the trade receivables due from related parties which has an ageing over 3 months were regarded as past due. Ageing of trade receivables which are past due but not impaired is analysed as following:

	2011 RMB'000	2010 RMB'000
8 days to 3 months	–	64
3 months to 1 year	–	9,266
1 year to 2 years	–	62
	–	9,392

The Group did not provide an allowance on the remaining past due receivables as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience and subsequent settlement. The Group does not hold any collateral over these balances.

Movement of allowance for doubtful debts on other receivables

	2011 RMB'000	2010 RMB'000
Opening balance	1,604	4,644
Reversed	–	(1,066)
Distribution of assets/liabilities of Jinjia Mining	–	(1,974)
Closing balance	1,604	1,604

24. Loan to Related Parties

	2011 RMB'000	2010 RMB'000	Maximum amount outstanding during the year RMB'000
Hanking Industrial Group Co., Ltd. 撫順罕王實業集團有限公司 (note a)	–	294,951	310,689
Fushun Hanking Mining Co., Ltd. 撫順罕王礦業有限公司 (note a)	–	17,884	35,723
Fushun Hanking Department Store 撫順罕王商場有限公司 (note a)	–	210	210
Fushun County Dawei Foundry 撫順縣大維鑄造廠 (note a)	–	51	51
PT. Hanking Aoniu Mining Indonesia 罕王傲牛礦業（印尼）有限公司 (note a)	–	27,649	27,649
Fushun Hanking Mining Metallurgy Co., Ltd. 撫順罕王冶金礦山有限公司 (note a)	–	1,250	1,250
Fushun County Hailang Concentration 撫順縣海浪選礦廠 (note a)	–	353	359
Fushun Fusen Mining Machinery Parts Sales Co., Ltd. 撫順富森礦山機械配件銷售有限公司 (note a)	–	550	550
	–	342,898	

Notes:

(a) These companies are the related parties which are controlled by Ms. Yang Min. The loans were interest-free, unsecured and repayable on demand. These amounts have been settled during the year ended 31 December 2011.

(b) These individuals are the relatives of Ms. Yang Min or the key management members of the Group. The loans were interest-free, unsecured and repayable on demand. These amounts have been settled during the year ended 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

25. Bank Balances and Cash

Bank balances and cash of the Group comprise cash and short term bank deposits with an original maturity of three months or less. The bank balances carry variable interest rates of 0.50% (2010: 0.50%) per annum.

The bank balances which are denominated in the USD and HKD, foreign currency of the respective group entities, are as follows:

	2011 RMB'000	2010 RMB'000
HKD	9,719	—
USD	78,345	—

26. Trade and Other Payables

	2011 RMB'000	2010 RMB'000
Trade payable		
— related parties	1,396	9,963
— third parties	8,925	21,257
— bills payable	10,235	—
	20,556	31,220
Other payables		
— advance from customers	60,000	60,000
— other tax payables	34,746	18,285
— payable of acquisition of property, plant and equipment	40,881	12,294
— outsourced service payable	5,209	10,380
— transportation fee payable (note)	7,262	19,470
— accrued expenses	10,170	6,190
— accrued listing expenses	8,662	—
— salary and bonus payables	5,469	2,466
— others	8,982	6,227
	201,937	166,532

Note: Amounts of approximately RMB6,843,000 was due to Fushun Mingyang Transportation Co., Ltd. (撫順名揚運輸有限公司) as at 31 December 2011. Amounts of approximately RMB15,138,000 was due to Fushun Mingcheng Transportation Co., Ltd. (撫順名城運輸有限公司) as at 31 December 2010. Ms. Yang Min has significant influence on these entities.

26. Trade and Other Payables (continued)

Payment terms with suppliers are mainly on credit within 90 days from the time when the goods are received from suppliers. The following is an aged analysis of trade payables based on the date of the goods received at the end of the reporting period:

	2011 RMB'000	2010 RMB'000
Within 3 months	9,375	26,680
3 months to 1 year	357	410
1 year to 2 years	498	324
Over 2 years	91	3,806
	10,321	31,220

27. Borrowings

	2011 RMB'000	2010 RMB'000
(i) Bank borrowings:		
Fixed-rate bank loans-secured	–	195,000
Floating-rate bank loans-secured (note)	250,000	280,000
	250,000	475,000
Amount repayable:		
Due within one year (amount shown under current liabilities)	250,000	295,000
More than one year, but not exceeding two years (amount shown under non-current liabilities)	–	180,000
	250,000	475,000
Effective interest rates of bank borrowings	6.85%	6.07%

Note: The fixed-rate bank loans carry interest of 7.56% in 2010. The floating-rate bank loans carry interest at 105% to 110% of the interest rate of RMB loan promulgated by the People's Bank of China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

27. Borrowings (continued)

(i) (continued)

The bank borrowings of RMB200,000,000 (2010: RMB280,000,000) were secured by the mining rights with the carrying amounts of RMB251,655,000 (2010: RMB252,238,000) and the bank borrowing of RMB50,000,000 was secured by the bills receivable with carrying amount of RMB51,250,000 (2010: Nil). In addition, the bank borrowings of RMB100,000,000 as of 31 December 2010 were also guaranteed by related parties, Hanking Industrial Group Co., Ltd. and its subsidiaries. The guarantee was released during the year ended 31 December 2011.

(ii) Other borrowings:

On 24 December 2010, the Company entered into a facility agreement (the "Facility Agreement", which was amended and restated on 21 January 2011 and further amended on 2 February 2011, 25 March 2011 and 24 June 2011) with certain lenders (the "Facility Lenders"). Pursuant to the Facility Agreement, the Facility Lenders made available to the Company a US$120 million term loan facility with an annual interest rate of 8%. On 25 January 2011 (the "Drawdown Date"), the Company drew down the full amount of US$120 million (equivalent to RMB790,572,000) under the Facility Agreement. The Company should repay an amount equal to one-third of the then outstanding loan on the first anniversary of the Drawdown Date and all remaining amounts outstanding under the loan on the date falling 18 months from the Drawdown Date. The Company is required to repay the outstanding loan in full immediately if an initial public offering (the "IPO") (including a listing of the Company's shares on the Stock Exchange) occurs, in which case the Company must apply any IPO proceeds the Company received towards the repayment in full of the outstanding loan. As one of the conditions precedent to the provision of the loan under the Facility Agreement, and pursuant to warrant instrument A and warrant instrument B, China Hanking (BVI) Limited issued warrant A and warrant B exercisable into 12.6667% and 0.6667% of the Company's fully diluted post-listing shares on the Stock Exchange respectively to the Facility Lenders with exercise price of US$90 million. China Hanking (BVI) Limited is the entity through which Ms. Yang Min indirectly holds approximately a 58.67% equity interest in the Company. In relation to the Facility Agreement, (i) the shares of China Hanking (BVI) Limited and Bisney Success Limited, a shareholder of the Company, (ii) the shares of the Company held by China Hanking (BVI) Limited and Bisney Success Limited and (iii) all the shares of Hanking Investment, Hanking International and Hanking HK and all the equity interest of STSU had been pledged to the Facility Lenders. On 30 September 2011, the Company's shares are listed on the Stock Exchange and the loan with interest payable was repaid in full to the Facility Lender by the Company.

The Company considered the warrants granted by China Hanking (BVI) Limited to the Facility Lenders as a capital contribution made by the controlling shareholder and recorded the fair value of those warrants of RMB175,960,000 as a deemed contribution in the consolidated statement of changes in equity. The fair value of the warrants as at 25 January 2011 was based on an external valuation analysis carried out by Jones Lang LaSalle Sallmanns Limited, a qualified valuer whose address is 6th Floor, Three Pacific Place, 1 Queen's Road East, Hong Kong. The valuation analysis utilizes generally accepted valuation methodologies such as the income approach. The income approach measures the current value of the net assets of the Group by calculating the present value of its future economic benefits by discounting expected cash flows at a rate of return that compensates for the risks associated with the particular investment. As the warrant represented direct and incremental costs associated with obtaining the loan, the value of the warrants of RMB175,960,000 on the Drawdown Date together with the transaction costs of approximately RMB21,082,000 were netted off against the original loan principal. Effective interest expense of RMB239,426,000 (including the interest expense of US$6,546,000 (equivalent to RMB42,384,000) calculated on the basis of interest rate of 8% per annum and US$120 million of the loan principal) was recognised as finance costs during the year ended 31 December 2011.

28. Loan from Related Parties

	2011 RMB'000	2010 RMB'000
Hanking Industrial Group Co., Ltd. 撫順罕王實業集團有限公司 (note a)	–	5,000
Fushun Fusen Mining Machinery Parts Sales Co., Ltd. 撫順富森礦山機械配件銷售有限公司 (note a)	–	312
Shenyang Toyo Steel Co., Ltd. 瀋陽東洋制鋼有限公司 (note a)	–	30
Fushun Jingjia Iron Mine 撫順景佳鐵礦 (note a)	–	2,899
Ms. Yang Min (note b)	–	618
Other individuals (note b)	–	1,719
	–	10,578

Notes:

(a) These companies are the related parties which are controlled by Ms. Yang Min. The loans were interest-free, unsecured and repayable on demand. These amounts have been settled during the year ended 31 December 2011.

(b) These individuals are the relative of Ms. Yang Min or the key management members of the Company. The loans were interest-free, unsecured and repayable on demand. These amounts have been settled during the year ended 31 December 2011.

29. Consideration Payable

As at 31 December 2010, included in total consideration payable is RMB27,000,000 which represented the consideration payable arising from the acquisition of 30% non-controlling interests in Xingzhou Mining from third parties. The remaining RMB4,000,000 as at 31 December 2010 represented the consideration payable arising from the acquisition of 25% equity interests in STSU from Hanking Industrial Group Co., Ltd.

As at 31 December 2011, consideration payable of RMB2,350,000, represented the remaining balance of consideration payable arising from the acquisition of 30% non-controlling interests in Xingzhou Mining from third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

30. Paid-in Capital/Share Capital

Paid-in capital of the Group at 31 December 2010 represented the combined paid-in capital of Aoniu Mining and STSU attributable to the ultimate controlling parties (Ms. Yang Min and Mr. Yang Jiye). The amount at 31 December 2011, represented the then issued share capital of the Company, details of movements of share capital of the Company are as follow:

	Number of share	Share capital	Shown in the consolidated financial statements
		HK$'000	RMB'000
Ordinary shares of HK$0.1 each			
Authorised:			
On date of incorporation and at 31 December 2010	3,900,000		
Increased on 16 June 2011	9,996,100,000		
At 30 June 2011	10,000,000,000		
Issued:			
On incorporation	1	—	—
Issued and paid with nil consideration on 6 December 2010	999,999	—	—
At 31 December 2010	1,000,000	—	—
Issue by capitalisation of the share premium account relating to capitalisation issue	1,499,000,000	149,900	122,229
New issue of shares by way of initial public offering	330,000,000	33,000	26,908
At 31 December 2011	1,830,000,000	182,900	149,137

On 16 June 2011, pursuant to the resolutions in writing passed by the shareholders of the Company, the increase of the authorised share capital of the Company from HK$390,000 divided into 3,900,000 shares of a nominal or par value of HK$0.10 each to HK$1,000,000,000 divided into 10,000,000,000 shares of a nominal or par value of HK$0.10 each by the creation of 9,996,100,000 shares, which shall rank pari passu in all respects with the shares in issue as at the date of this resolution, was approved.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

30. Paid-in Capital/Share Capital (continued)

Pursuant to the resolutions in writing of the shareholders of the Company passed on 16 September 2011, conditional on the share premium account of the Company being credited as a result of the issue of the offer shares by the Company pursuant to the initial public offering of shares of the Company and subject to the IPO price, the sum of HK$149,990,000 be capitalised and be applied in paying up in full at par 1,499,000,000 shares, each of which was allotted and issued to the shareholders of the Company.

In connection with the Company's initial public offering, 330,000,000 shares of HK$0.10 each were issued at a price of HK$2.51 per share for a total cash proceeds of approximately HK$828,300,000 (equivalent to RMB675,396,000). Dealings in these shares on the Main Board of the Stock Exchange commenced on 30 September 2011.

31. Distribution of Assets/Liabilities of Jingjia Mining

On 9 June 2010, the mining operations of Jingjia Mining, a company wholly owned by Ms. Yang Min and had not been transferred to the Group as part of the Group Reorganisation, and its related assets and liabilities were transferred to Maogong Mining. Other assets and liabilities of Jingjia Mining had been retained by Jingjia Mining which is held by Ms. Yang and were treated as a distribution as species to the equity owners. The details of these assets and liabilities as at 9 June 2010 are as following:

	RMB'000
Property, plant and equipment	1,689
Prepaid lease payments	5,738
Intangible assets — mining rights	19
Inventories	21
Trade and other receivables	57,486
Bank balances and cash	303
Trade and other payables	(9,246)
Tax liabilities	(15,598)
Net assets retained by Jingjia Mining	40,412
Net cash outflow on deemed distribution	303

32. Major Non-Cash Transactions

During year ended 31 December 2010, Maogong Mining, Benxi Mining and Aoniu Mining declared dividends of RMB115,000,000, RMB120,000,000 and RMB290,000,000 to the then equity owners. The payment was partly offset with loans due from Hanking Industrial Group Co., Ltd. of RMB519,700,000 pursuant to the agreements entered into among Liaoning Hanking Mining Development Co. Ltd., Maogong Mining, Benxi Mining, Aoniu Mining, Ms. Yang Min and Hanking Industrial Group Co., Ltd..

On 20 August 2010, Aoniu Mining acquired 10% and 90% equity interests in Benxi Mining from Ms. Yang Min and Liaoning Hanking Mining Development Co. Ltd., respectively, with a consideration of RMB72,000,000. The payment was off set with loan due from Hanking Industrial Group Co., Ltd. of RMB72,000,000 pursuant to the agreements entered into among Liaoning Hanking Mining Development Co. Ltd., Ms. Yang Min, Aoniu Mining and Hanking Industrial Group Co., Ltd..

On 4 August 2010, Aoniu Mining acquired 100% equity interests in Maogong Mining from Hanking Industrial Group Co., Ltd. with a consideration of RMB30,000,000. The payment was off set with loan due from Hanking Industrial Group Co., Ltd. of RMB30,000,000.

33. Capital Commitments

	2011 **RMB'000**	2010 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the Financial Statements	**34,254**	64,125

34. Retirement Benefit Plans

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

The amounts of contributions made by the Group in respect of the retirement benefit scheme are disclosed in Note 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

35. Related Party Transactions

During the year, save as disclosed in the consolidated financial statements, the Group had the following related party transactions:

	2011 RMB'000	2010 RMB'000
Sales of goods to:		
Fushun Hanking Mining Metallurgy Co., Ltd. 撫順罕王冶金礦山有限責任公司 (note a)	–	61,156
Fushun Hanking D.R.I. Co., Ltd. 撫順罕王直接還原鐵有限公司	323,152	308,403
Fushun Majuncheng Iron Co., Ltd. 撫順市馬郡城鐵礦有限責任有限公司	–	5,045
Fushun Hanking Shangma Iron Mine 撫順罕王上馬鐵礦	333	5,082
Benxi Hanking Iron Processing Co. Ltd. 本溪罕王鐵選有限公司	7,454	9,107
Fushun Hanking New Building Materials. Co., Ltd. 撫順罕王新型建材有限公司	10	647
Dengta Hanking Liuhe Iron Co., Ltd. 燈塔市罕王柳河鐵礦有限責任公司	–	66
Fushun County Dawei Foundry 撫順縣大維鑄造廠	65	61
Shenyang Toyo Steel Co., Ltd. 瀋陽東洋制鋼有限公司	–	1,097
Liaoning Hanking Mining Development Co., Ltd. 遼寧罕王礦業發展有限公司	–	64
	331,014	390,728
Sales of property, plant and equipment to:		
Benxi Hanking Iron Processing Co. Ltd. 本溪罕王鐵選有限公司	–	24,839
PT. Hanking Aoniu Mining Indonesia 罕王傲牛礦業（印尼）有限公司	–	100
	–	24,939
Property, plant and equipment purchase from:		
Fushun Fusen Mining Machinery Parts Sales Co., Ltd. 撫順富森礦山機械配件銷售有限公司	–	995
Material purchased from:		
Fushun Fusen Mining Machinery Parts Sales Co., Ltd 撫順富森礦山機械配件銷售有限公司	–	28,523
Fushun County Dawei Foundry 撫順縣大維鑄造廠	2,968	3,337
Fushun Hanking Department Store. 撫順罕王商場有限公司	–	70
	2,968	31,930

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

35. Related Party Transactions (continued)

	2011 RMB'000	2010 RMB'000
Goods purchased from:		
Fushun Hanking Shangma Iron Mine 撫順罕王上馬鐵礦	–	66,684
Fushun Deshan Trade Co., Ltd. 撫順德山貿易有限公司 (note b)	52,236	–
Fushun Majuncheng Iron Co., Ltd. 撫順市馬郡城鐵礦有限責任公司 (note c)	–	45,935
	52,236	112,619
Processing fee paid to:		
Benxi Hanking Iron Processing Co. Ltd. 本溪罕王鐵選有限公司	36,450	12,703
Rental expense paid to:		
Shenyang Shengtai Property Management Co., Ltd. 瀋陽盛泰物業管理有限公司	4,800	4,825
Transportation fee paid to		
Fushun Mingyang Transportation Co., Ltd. 撫順名揚運輸有限公司	22,886	–
Fushun Mingcheng Transportation Co., Ltd. 撫順名城運輸有限公司	–	18,549
	22,886	18,549

Notes:

(a) The related party of the Group acted as sales agent of the Group and was not the ultimate customer of the Group.

(b) Except for Fushun Deshan Trade Co., Ltd. which is wholly owned by Mr. He Baoxian, the father-in-law of Mr. Yang Jiye, the other related parties were controlled by Ms. Yang Min.

(c) On 15 October 2010, Fushun Majuncheng Iron Co., Ltd. ceased to be related party of the Group, as Ms. Yang Min no longer has control over this company.

As at 31 December 2010, the Group provided guarantee to Fushun Hanking D.R.I. Co., Ltd. (撫順罕王直接還原鐵有限公司) in relation to bank borrowings of RMB150,000,000. The guarantee has been released during the year ended 31 December 2011. The Group considers that the fair value of the guarantee is immaterial at inception.

36. Subsidiaries

Details of the company's subsidiaries as at 31 December 2010 and 2011 are as follows.

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 as at 31 December 2010 %	31 December 2011 %
Directly held:					
Hanking Investment	Investment holding	The British Virgin Island ("BVI")	Ordinary shares USD1.00	100.00	100.00
Indirectly held:					
Hanking International	Investment holding	BVI	Ordinary shares USD1.00	100.00	100.00
Hanking HK	Investment holding	Hong Kong	Ordinary shares HK$1.00	100.00	100.00
Hanking Australia Pty Ltd	Investment holding	Australia	Ordinary shares AUD100.00	N/a	100.00
STSU (note a)	Investment holding	PRC	Registered and paid-in capital JPY1,507,000,000	92.40	100.00
Shenyang Yuanzheng (note b)	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB5,000,000	92.40	100.00
Aoniu Mining (note b)	Sales of iron ore mining products	RPC	Registered and paid-in capital RMB100,000,000	89.07	100.00
Maogong Mining (note b)	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB5,000,000	89.07	100.00
Xingzhou Mining (note b)	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB2,000,000	89.07	100.00
Benxi Mining (note b)	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB20,000,000	89.07	100.00

36. Subsidiaries (continued)

Notes:

(a) Wholly-owned foreign enterprise.

(b) Private owned enterprise with limited liability.

37. Information about the Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period includes:

	31/12/2011 RMB'000	31/12/2010 RMB'000
Investment in a subsidiary (note)	—	—
Amounts due from subsidiaries	502,089	—
Bank balances and cash	83,736	—
Interest receivable	21,893	—
Total assets	607,718	—
Trade and other payables	8,261	—
Total liabilities	8,261	—
Share capital (see note 30)	149,137	—
Reserves	450,320	—
Total equity	599,457	—

Note: As of 31 December 2011 and 2010, the Company had investment of one ordinary share of USD$1 each in Hanking Investment.

The Company was incorporated on 2 August 2010 with an authorised share capital of HK$390,000 divided into 3,900,000 shares of HK$0.1 each. As at 31 December 2010, the Company issued 1,000,000 shares with nil paid; and has minimal assets and liabilities. The Company has not carried on any business since its date of incorporation to 31 December 2010, hence there was no distributable reserve as at 31 December 2010.

DEFINITIONS

"Aoniu Mne"	located at Hou'an Town, Fushun City, an iron mine operated through Aoniu Mining, a subsidiary of the Company
"Aoniu Mining"	Fushun Hanking Aoniu Mining Limited (撫順罕王傲牛礦業股份有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of our Company
"Articles of Association "	the articles of association approved by the Company at the general meeting held on 16 September, effective as from the time when the trading of the Company's shares commenced on the Stock Exchange of Hong Kong Limited and as amended from time to time
"Benxi Iron Processing"	Benxi Hanking Iron Processing Co., Ltd. (本溪罕王鐵選有限公司), a company established in the PRC
"Benxi Mining"	Benxi Hanking Mining Co., Ltd. (本溪罕王礦業有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of our Company
"Benxi Northern Iron"	Benxi Northern Iron Co., Ltd. (本溪北方鐵業有限公司), a limited liability company established in the PRC
"Board"	the board of Directors of the Company
"China" or "PRC"	the People's Republic of China. Unless the context requires, references in this annual report to the PRC or China do not include Hong Kong, Macau and Taiwan
"Code"	Corporate Governance Practices Code set out in Appendix 14 of the Listing Rules
"Companies Ordinance"	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (as amended from time to time)
"Company" or "our Company" or "we"	China Hanking Holdings Limited
"Controlling Shareholders"	has the meaning ascribed in the Listing Rules and unless the context requires otherwise, refers to Mr. Yang, Ms. Yang, China Hanking (BVI) Limited, Bisney Success Limited and Best Excellence Limited
"Dawei Casting"	Fushun County Dawei Casting Factory (撫順縣大維鑄造廠), a company established in the PRC and wholly-owned by Ms. Yang Min
"Directors"	the directors of the Company

DEFINITIONS (CONTINUED)

"Fushun Bangze"	Fushun Hanking Bangze Mining Co., Ltd. (撫順罕王邦澤礦業有限公司) is a limited liability company established in the PRC on 26 April 2005 and its equity interests are held by Hanking Group (50%) and Fushun Hanking (50%), and was mainly engaged in the processing and sale of iron ores and concentrates. It is a company controlled by the Controlling Shareholders and was dissolved in June 2011
"Fushun Deshan"	Fushun Deshan Trading Co., Ltd. (撫順德山貿易有限公司), a company established in the PRC. The equity interest in Fushun Deshan is wholly-owned by Mr. He Baoxian (何寶賢), Mr. Yang Jiye's father-in-law
"Hanking Group"	Hanking Group Co., Limited (罕王實業集團有限公司), a company established in the PRC on 4 April 1996, whose shares are held by Ms. Yang (60.67%), Mr. Yang (28.29%) and other individuals. Hanking Group is a holding company. It is a company controlled by the Controlling Shareholders
"Fushun Hanking"	Fushun Hanking Mining Co., Ltd. (撫順罕王礦業有限公司), a company established in the PRC on 9 May 1997 as a wholly-owned subsidiary of Hanking Group, and is mainly engaged in the purchase and sale of machinery and electronic equipment, iron ore concentrates, steel, pig iron and molten iron. It is a company controlled by the Controlling Shareholders
"Fushun Hanking D.R.I."	Fushun Hanking D.R.I. Co., Ltd. (撫順直接還原鐵有限公司), a limited liability company established in the PRC
"Fushun Metallurgy"	Fushun Hanking Metallurgical Mining Co., Ltd. (撫順罕王冶金礦山有限責任公司) is a limited liability company established in the PRC on 30 November 1998 with a registered capital of RMB4.03 million, whose shares are held by Hanking Group (15.38%) and Fushun Hanking (84.62%), and is mainly engaged in the sale of iron ore related productions, construction materials and metallic materials. It is a company controlled by the Controlling Shareholders. Fushun Metallurgy was dissolved in June 2011
"Fushun New Steel"	Fushun New Steel Co., Ltd. (撫順新鋼鐵有限責任公司), a limited liability company established in the PRC
"Group"	China Hanking Holdings Limited and its subsidiaries
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"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 (CONTINUED)

"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 data may not be known with a reasonable level of reliability
"Latest Practicable Date"	26 March 2012, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report prior to its publication
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Maogong Mine"	located at Shiwen Town, Fushun City, an iron mine operated through Maogong Mining, a subsidiary of the Company
"Maogong Mining"	Fushun Hanking Maogong Mining Co., Ltd. (撫順罕王毛公鐵礦有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of our Company
"Mengjia Mine"	located at Pingshan District, Benxi City, an iron mine operated by Benxi Mining, a subsidiary of the Company
"Mingcheng Transportation"	Fushun Mingcheng Transportation Co., Ltd. (撫順名城運輸有限公司), a company established in the PRC
"Prospectus"	the prospectus the Company published on 20 September 2011
"Reorganization"	the reorganization of the group of companies now comprising our Group in preparation for the Listing, details of which are set out in "History, Development and Reorganization" section of the Prospectus
"RMB"	Renminbi Yuan, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (as amended from time to time)
"Shengtai Property"	Shenyang Shengtai Properties Management Co., Ltd (瀋陽盛泰物業管理有限公司), a company established in the PRC
"the 12th Five-Year Plan"	the Twelfth Five-Year Plan for National Economic and Social Development of the People's Republic of China
"US$" or "US dollars"	United States dollars, the lawful currency of the United States
"Xingzhou Mine"	located at Dongzhou District, Fushun City, an iron mine operated through Xingzhou Mining, a subsidiary of the Company
"Xingzhou Mining"	Fushun Xingzhou Mining Limited (撫順興洲礦業有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of our Company