THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in China Hanking Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker, other agent or other licensed securities dealer through whom the sale was effected for transmission to the purchaser or transferee.

罕王
HANKING

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

(incorporated in the Cayman Islands with limited liability)

(Stock code: 03788)

PROPOSALS FOR GENERAL MANDATES TO ISSUE SHARES AND REPURCHASE SHARES, RE-ELECTION OF RETIRING DIRECTORS, DECLARATION OF FINAL DIVIDEND, VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PURCHASE OF EQUITY INTERESTS OF TUOCHUAN (HONG KONG) AND NOTICE OF ANNUAL GENERAL MEETING

A notice convening the Annual General Meeting of China Hanking Holdings Limited to be held at Conference Room, 22nd Floor, Hanking Tower, No. 227, Qingnian Street, Shenhe District, Shenyang City, Liaoning Province, the PRC on Thursday, 30 May 2019 at 9:00 a.m. is set out on pages AGM-1 to AGM-5 of this circular. A form of proxy for use at the Annual General Meeting is also enclosed. Such form of proxy is also published on the websites of the Company (www.hankingmining.com) and of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). Whether or not you are able to attend the Annual General Meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting at the Annual General Meeting if they so wish.

29 April 2019

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Acquisition"	the acquisition of 100% of the equity interests in the Target Company by the Company from the Seller pursuant to the Agreement
"Agreement"	the Agreement for the Sale and Purchase of Tuochuan (Hong Kong) Limited, which was dated 1 April 2019 and entered into among the Company, the Seller, Mr. Yang (as Seller Guarantor) and Tuochuan Capital in relation to the sale and purchase of 100% equity interests of the Target Company
"Annual General Meeting"	the annual general meeting of the Company to be held at Conference Room, 22nd Floor, Hanking Tower, No. 227, Qingnian Street, Shenhe District, Shenyang City, Liaoning Province, the PRC on Thursday, 30 May 2019 at 9:00 a.m. or any adjournment thereof and notice of which is set out on pages AGM-1 to AGM-5 of this circular
"Articles of Association"	the articles of association of the Company effective on 30 September 2011, and as amended or supplemented from time to time
"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Company"	China Hanking Holdings Limited, an exempted company incorporated on 2 August 2010 with limited liability under the laws of the Cayman Islands, whose shares are listed on the main board of the Stock Exchange
"Completion"	the completion of the Acquisition pursuant to the terms of the Agreement
"Completion Date"	the date of the Completion
"Conditions"	the conditions precedent to Completion under the Agreement
"connected person"	has the meaning ascribed to it under the Listing Rules

"Consideration"	the purchase price of the 100% equity interests of the Target Company in the amount of RMB1,020 million payable by the Company to the Seller for the Acquisition under the Agreement
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Disposal"	the disposal of 70% equity interests of Hanking (Indonesia) by the Company to Tuochuan Capital pursuant to the Indonesia SPA
"Enlarged Group"	the Group and the Target Group
"Fushun Hanking D.R.I."	Fushun Hanking D.R.I. Co., Ltd. (撫順罕王直接還原鐵有限公司), a limited liability company established in the PRC. It is principally engaged in production and sale of high purity casting pig iron and ductile pig iron, 99% of its interest is indirectly owned by Ms. Yang
"Ginseng & Iron"	Fushun Hanking Ginseng & Iron Trading Company Limited (撫順罕王人參鐵貿易有限公司), a limited liability company established in the PRC
"Government Authority"	any nation or government, any state, municipality, or other political subdivision thereof, and any agency, department or other entity exercising executive, legislative, judicial, regulatory, administrative or other similar functions
"General Mandate"	a general mandate proposed to be granted to the Directors at the Annual General Meeting to allot, issue and/or deal with Shares not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the relevant resolution granting such general mandate, which general mandate is to be extended by adding to it the number of Shares repurchased by the Company under the Repurchase Mandate
"Group"	the Company and its subsidiaries
"Hanking Australia Investment"	Hanking Australia Investment Pty Ltd, a limited liability company established in Australia and a non wholly-owned subsidiary of the Company
"Hanking BVI" or the "Seller"	China Hanking (BVI) Limited, holding 100% equity interest of the Target Company. The Seller is 100% held by Ms. Yang, who is one of the controlling shareholders of the Company, holding 12.03% of the Shares

"Hanking Group"	Hanking Group Co., Limited (罕王實業集團有限公司), a limited liability company established in the PRC on 4 April 1996, whose shares are held as to 88.96% by Ms. Yang
"Hanking (Indonesia)"	Hanking (Indonesia) Mining Limited, a company incorporated in British Virgin Islands on 23 November 2012 with limited liability which was known as Northeastern Lion before 27 March 2013. As at the date of this circular, it was held as to 70% and 30% by the Company and Evergreen Mining Limited respectively, of which Evergreen Mining Limited is an indirect wholly-owned subsidiary of Hanking Group
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company comprising Mr. Wang Ping, Dr. Wang Anjian and Mr. Ma Qingshan, being all the independent non-executive Directors, which is formed to advise the Independent Shareholders on the Agreement and the transactions contemplated thereunder
"Independent Financial Adviser" or "Fortune Financial"	Fortune Financial Capital Limited, an independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder
"Independent Shareholders"	the Shareholders other than (i) Mr. Yang and Ms. Yang and (ii) any other Shareholders who have a material interest in the Agreement and the transactions contemplated thereunder
"Indonesia SPA"	the share sale and purchase agreement dated 5 July 2018, entered into among the Company (as the vendor), Tuochuan Capital (as the purchaser) and Mr. Yang (as the guarantor) in respect of the Disposal
"International Financial Reporting Standards"	The standard issued and/or adopted by the International Accounting Standards Board from time to time
"Latest Practicable Date"	24 April 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Liaoning Hanking"	Liaoning Hanking Investment Company Limited (遼寧罕王投資有限公司), a limited liability company established in the PRC and wholly owned by Mr. Yang and his spouse

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Long Stop Date"	the last day by the end of three months after the passing of shareholders resolutions of the Company approving the execution of the Agreement, or such later date as the parties may agree
"Maogong Mining"	Fushun Hanking Maogong Mining Co., Ltd. (撫順罕王毛公鐵礦有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
"Material Adverse Change"	any event, matter or circumstance arising or occurring after the date of the Agreement which is, or is reasonably likely to be, materially adverse to the business, operations, assets, liabilities (including contingent liabilities), condition (financial, trading or otherwise), financial results or prospects of the Target Group taken as a whole
"Mr. Yang" or the "Seller Guarantor"	Mr. Yang Jiye, who is (1) a Director of the Board, (2) a controlling shareholder of the Company, holding 60.19% of the Shares, (3) controlling shareholder, holding 100% of the shares of Tuochuan Capital and (4) the Seller Guarantor of the Agreement
"Ms. Yang"	Ms. Yang Min, a controlling shareholder of the Company, holding 12.03% of the Shares
"PRC"	the People's Republic of China, which for the purposes of this circular excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"PRC Legal Adviser"	Jingtian & Gongcheng
"Repurchase Mandate"	a general mandate proposed to be granted to the Directors at the Annual General Meeting to repurchase Shares not exceeding 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the relevant resolution granting such repurchase mandate
"Seller Parties"	the Seller and Mr. Yang
"Seller Parties' Warranties"	all the statement contained in schedule 3 of the Agreement

"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended from time to time
"Share(s)"	ordinary share(s) of nominal value of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers, as amended from time to time
"Target Company" or "Tuochuan (Hong Kong)"	Tuochuan (Hong Kong) Limited, a private company limited by shares incorporated in Hong Kong having its registered office at 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong
"Target Group"	the Target Company, together with its subsidiaries comprising Ginseng & Iron, Fushun Hanking D.R.I., and Lagu Branch of Fushun Hanking D.R.I. (撫順罕王直接還原鐵有限公司拉古分公司)
"Tuochuan Capital"	Tuochuan Capital Limited, a company established in British Virgin Islands and wholly-owned by Mr. Yang
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent

罕王
HANKING

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

(incorporated in the Cayman Islands with limited liability)

(Stock code: 03788)

Executive Directors:
Mr. Yang Jiye
Mr. Zheng Xuezhi
Dr. Qiu Yumin
Mr. Xia Zhuo

Non-executive Director:
Mr. Kenneth Jue Lee

Independent Non-executive Directors:
Mr. Wang Ping
Dr. Wang Anjian
Mr. Ma Qingshan

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

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

Principal place of business in Hong Kong:
31/F, Tower Two, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

29 April 2019

To the Shareholders

Dear Sir or Madam,

**PROPOSALS FOR
GENERAL MANDATES TO ISSUE SHARES AND REPURCHASE SHARES,
RE-ELECTION OF RETIRING DIRECTORS,
DECLARATION OF FINAL DIVIDEND,
VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PURCHASE OF EQUITY INTERESTS OF TUOCHUAN (HONG KONG)
AND
NOTICE OF ANNUAL GENERAL MEETING**

INTRODUCTION

The purpose of this circular is to provide you with information relating to the proposals to be put forward at the Annual General Meeting for the granting of the General Mandate and the Repurchase Mandate, the extension of the General Mandate by adding to it the number of Shares repurchased by the

Company under the Repurchase Mandate, the re-election of the retiring Directors, the declaration of final dividend, and the very substantial acquisition and connected transaction in relation to the purchase of equity interests of Tuochuan (Hong Kong) together with the notice of the Annual General Meeting.

GENERAL MANDATE

At the Annual General Meeting, an ordinary resolution will be proposed to grant the General Mandate to the Directors to exercise the powers of the Company to allot, issue and deal with Shares up to 20% of the number of the issued Shares as at the date of passing of the relevant resolution.

As at the Latest Practicable Date, the number of issued Shares was 1,827,829,000 Shares. Subject to the passing of the relevant resolution and on the basis that no further Shares are issued or repurchased after the Latest Practicable Date and up to the Annual General Meeting, the Company will be allowed to issue up to 365,565,800 Shares pursuant to the General Mandate.

Subject to approval by a separate resolution at the Annual General Meeting, the number of Shares purchased by the Company under the Repurchase Mandate will be added to extend the General Mandate provided that such additional amount shall not exceed 10% of the number of the issued Shares of the Company as at the date of passing the resolutions in relation to the General Mandate and Repurchase Mandate.

REPURCHASE MANDATE

In addition, an ordinary resolution will be proposed by the Company at the Annual General Meeting to approve the granting of the Repurchase Mandate to the Directors to exercise the powers of the Company to repurchase Shares on market/the Stock Exchange representing up to 10% of the number of the issued Shares of the Company as at the date of passing of the relevant resolution.

An explanatory statement required by the Listing Rules to be sent to the Shareholders in connection with the Repurchase Mandate is set out in Appendix II to this circular. The explanatory statement contains all information reasonably necessary to enable the Shareholders to make an informed decision on whether to vote for or against the relevant resolution at the Annual General Meeting.

Subject to the approval of the above resolutions by the Shareholders at the Annual General Meeting, the General Mandate and the Repurchase Mandate will expire at the earliest of: (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the Articles of Association to be held; or (iii) the revocation or variation of the authorities by an ordinary resolution of the Shareholders at a general meeting of the Company.

RE-ELECTION OF RETIRING DIRECTORS

In accordance with article 84(1) of the Articles of Association, Mr. Yang Jiye, Mr. Xia Zhuo and Mr. Wang Ping will retire by rotation at the Annual General Meeting, and being eligible, will offer themselves for re-election as Directors at the Annual General Meeting.

Nomination procedures for Directors

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

1. the Nomination Committee shall make proactive communications with relevant departments of the Company, study the Company's demand for new Directors, and make reports in writing in respect thereof;

2. the Nomination Committee may seek appropriate candidates for Directors in a broad scope in the Company and the Group, and from the talent market;

3. collect and assess the following information and aspects about the candidates, and form writing materials, including but not limited to:

   3.1 diversity in all aspects, including gender, age, cultural and educational background, professional experience, skills, knowledge and work experience;

   3.2 qualifications, including the achievements and experience in relevant industries related to the business of the Group;

   3.3 willingness to devote sufficient time to perform the duties as member of the Board and other responsibilities as a Director;

   3.4 integrity and reputation;

   3.5 independence of candidates for independent non-executive Directors, which is assessed with reference to the factors set out in Rule 3.13 of the Listing Rules and any other factors deemed appropriate by the Nomination Committee or the Board;

   3.6 potential contributions to the Board; and

   3.7 other aspects that apply to the business of the Group.

4. seek the nominee's consent to nomination, otherwise, the nominee cannot be a candidate for a Director;

5. convene a Nomination Committee meeting to examine the qualifications of the candidate against the criteria for the Directors;

6. make recommendations to the Board regarding the candidates for Directors and submit the relevant information to the Board one to two weeks prior to the election of new Directors;

7. take other follow-up actions according to the decision and feedback from the Board.

Recommendations of the Nomination Committee

The Nomination Committee has assessed the independence of each of the independent non-executive Directors (including Mr. Wang Ping) based on the independent criteria as set out in Rule 3.13 of the Listing Rules by reviewing the written confirmation of independence for 2018 submitted to the Company by each of them, and confirmed that all of them are independent.

In addition, the Nomination Committee has assessed and are satisfied with the performance of each of the retiring Directors for the year ended 31 December 2018. Therefore, the Nomination Committee nominated the retiring Directors to join the Board and recommended the Shareholders to re-elect them as Directors at the Annual General Meeting.

In particular, the Nomination Committee is also of the view that the Directors who are proposed to be subject to re-election at the Annual General Meeting would bring to the Board their own perspective, skills and experience, as further described in their biographies in Appendix I to this circular. Based on the board diversity policy adopted by the Company, the Nomination Committee considers that each of the Directors who will be subject to re-election (namely Mr. Yang Jiye, Mr. Xia Zhuo and Mr. Wang Ping) can contribute to the diversity of the Board, in particular, with their strong and diversified educational background and professional experience in their expertise, including their in-depth knowledge in the mining industry, legal and compliance, financial management, investor relations, investments strategies, international experience and connections in various industries.

The Board noted that as of the Latest Practicable Date, Mr. Wang Ping, an independent non-executive Director who will be subject to re-election at the Annual General Meeting, was a director of a total of 8 listed companies, respectively (including the Company). However, the Board is of the view that Mr. Wang Ping would still be able to devote sufficient time to the Board for the reasons stated below: (a) during the reporting period, Mr. Wang has attended all the meetings of Directors and general meetings held by the Company; (b) during the reporting period, Mr. Wang was able to attend all the meetings held by the specialized committees organized under the Board in which he was a member (including the audit committee of the Company (the "**Audit Committee**") and the remuneration committee of the Company (the "**Remuneration Committee**")); (c) as the chairman of the Audit Committee, Mr. Wang Ping has actively participated in various meetings with the auditors and provided a lot of valuable input and insight to the committee. As the chairman of the Remuneration Committee, Mr. Wang Ping contributed a lot in formulating the Company's remuneration policies; and (d) being a member of the Chinese Institute of Certified Public Accountants, Mr. Wang Ping has over 22 years of experience in corporate finance, audit and accounting. His extensive experience in financial management and financial report matters of listed companies, and his deep understanding of the Listing Rules and other legal and financial requirements applicable to listed companies made him a valuable member to the Board.

Therefore, in response to the recommendation of the Nomination Committee, the Board recommended all retiring Directors (namely Mr. Yang Jiye, Mr. Xia Zhuo and Mr. Wang Ping) to be re-elected as Directors at the Annual General Meeting. As a good corporate governance practice, each of the retiring Directors has abstained from voting at the relevant Board meeting on the resolution to recommend their re-election by the Shareholders at the Annual General Meeting.

Details of the retiring Directors who offered themselves for re-election at the Annual General Meeting are set out in Appendix I to this circular. Further information on the composition and the diversity of the Board and the attendance records of the Directors (including the retiring Directors) at the Board meetings and/or the meetings of the committees under the Board and general meetings are disclosed in the Corporate Governance Report as contained in the 2018 Annual Report of the Company.

DECLARATION OF FINAL DIVIDEND

At the meeting of the Board held on Wednesday, 27 March 2019, it was proposed that a final dividend of the Company of HK$0.02 per Share for the year ended 31 December 2018 will be paid to the Shareholders whose names appear on the register of members of the Company on Friday, 19 July 2019, subject to the Shareholders' approval at the Annual General Meeting.

A resolution will be proposed at the Annual General Meeting to approve the final dividend. Subject to the passing of such resolution, the final dividend is expected to be paid to the Shareholders by 15 August 2019.

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PURCHASE OF EQUITY INTERESTS OF TUOCHUAN (HONG KONG)

INTRODUCTION

On 1 April 2019 (after trading hours), the Company, the Seller, Mr. Yang and Tuochuan Capital entered into the Agreement, pursuant to which the Seller has conditionally agreed to sell, and the Company has conditionally agreed to purchase the 100% equity interests of the Target Company at the consideration of RMB1,020 million.

THE AGREEMENT

The principal terms of the Agreement are set out below:

Date

1 April 2019

Parties

(1) the Company;

(2) the Seller;

(3) Mr. Yang (as Seller Guarantor); and

(4) Tuochuan Capital.

Subject Matter

Pursuant to the Agreement, the Company agreed to acquire, and the Seller agreed to dispose of, 100% equity interests in the Target Company, subject to the terms and conditions of the Agreement.

The Target Company was established by Tuochuan Capital under the laws of Hong Kong with limited liability on 5 November 2015 and its equity interests were transferred to the Seller on 17 December 2018. As at the date of this circular, the Target Company is a wholly-owned subsidiary of the Seller.

Upon Completion, the Target Company will become a subsidiary of the Company and the financial information of the Target Group will be consolidated into the financial statements of the Group.

Consideration

Pursuant to the Agreement, the Consideration for the Acquisition is RMB1,020 million, which was determined after arm's length negotiations between the Company and Seller Parties on normal commercial terms with reference to a number of factors. In determining the Consideration, the Board considered that (i) the valuation report issued by an independent valuer, valued the fair value of 100% equity interests of the Target Group of approximately RMB1,040 million as at 31 December 2018; (ii) the Target Group has strong historical financial performance for the three years ended 31 December 2018, recording a steady growth in both revenue and profits. Moreover, the sales volume of wind power ductile pig iron, which is the main product of Fushun Hanking D.R.I., accounts for over 50% of the total volume of China, indicating a promising business development, revenue increase and profitability growth of the Target Group after the Acquisition; and (iii) the Target Group with principal business of iron ore smelting is a downstream processing company of the Company. Maogong Mining, a subsidiary of the Company, produces the iron ore concentrates with high quality and low impurity. With little titanium therein, such iron ore concentrates are suitable to be raw materials for manufacturing high-end casting products including wind turbine casts. Fushun Hanking D.R.I. has been purchasing iron ore concentrates from Maogong Mining since its establishment in 2002 and such purchase accounts for 80% of the total purchase of iron ore concentrates by Fushun Hanking D.R.I. in the last three years. Therefore, the Company will benefit from the synergy effect between the upper streams and down streams, as well as to expand and develop its existing principal business after the Acquisition. In 2019, Fushun Hanking D.R.I. starts to carry out technology improvements, expecting to increase output from the current 560,000 tons to approximately 660,000 tons in 2020, which will result in a further need to iron ore concentrates. The Board has reviewed the technology improvement plan of Fushun Hanking D.R.I. and considered it to be generally feasible. Taking into account of the above-mentioned reasons and the reasons mentioned under the section headed "REASONS FOR AND BENEFITS OF THE ACQUISITION", the Board is of the view that the Acquisition is in the interests of the Company and its shareholders as a whole, though the Enlarged Group's financial position will turn from net current assets of RMB351 million to net current liabilities of RMB737 million, and its net assets will decrease from RMB1,541 million to RMB519 million.

In considering the Acquisition and assessing the Consideration, the Board has, among other things, (i) engaged the PRC Legal Advisers to conduct legal due diligence on the Target Group; (ii) reviewed the legal due diligence report on the Target Group prepared by the PRC Legal Advisers and discussed the due diligence results with the PRC Legal Advisers; (iii) reviewed the audited consolidated financial statements of the Target Group prepared in accordance with the International Financial Reporting Standards for the three years ended 31 December 2018; (iv) conducted financial due diligence on the Target Group by having management discussion and analysis with the management of the Target Group; (v) conducted onsite due diligence; and (vi) reviewed the valuation report and enquired into the valuer on the methodology, basis and assumptions adopted therein.

In reviewing the assumptions used in the valuation report, the Directors conducted the following due diligence: (i) discussed with the valuer to understand the valuation report and its assumptions; (ii) reviewed the audited financial information of the Target Group and industry reports to verify the assumptions in relation to the financial forecast; (iii) reviewed the technology improvement plan and other upgrade/ expansion plans of the Target Group; and (iv) discussed with the Target Company's management.

The Directors consider the assumptions and financial forecast in the valuation report are fair and reasonable after taking into consideration that: (i) the valuer is an independent, qualified valuer with recognized reputation and work experience; (ii) the Company has the intention to retain the key management and technical personnel of the Target Group after the Acquisition; (iii) the Target Group will expand its manufacturing capacity after its technology improvements in 2019; (iv) the bad debt of the Target Group as at 31 December 2018 is RMB3,929,000, which will not materially affect their business operations; (v) the average growth rate of the revenue of the Target Group from 2016 to 2018 is around 22%; (vi) Fushun Hanking D.R.I. has stable base of customers and maintains long-term relationships with the top 10 customers; and (vii) the wind power industry has great development potential. According to the industry report issued by Hatch Associates Ltd. and other entities, the global wind power industry will continue to maintain a rapid growth in the next five to ten years, and the average annual growth rate will remain at around 10%. In the next five years, China's wind power industry will continue to develop rapidly. It is estimated that the installed capacity of wind power will be around 13 to 15 million kW per year. In the short-and-medium term, no risks of wind power castings (ductile iron castings) being replaced by other products have been found.

Disposal

Reference is made to the Company's announcement dated 5 July 2018 and circular dated 6 August 2018, in relation to the entering into of Indonesia SPA among the Company, Tuochuan Capital and Mr. Yang for the disposal of 70% equity interests of Hanking (Indonesia) by the Company to Tuochuan Capital. As of the date of this circular, the Disposal has not yet completed as a condition precedent, 99% equity interest of Ginseng & Iron having been pledged by Tuochuan (Hong Kong) to the Company, has not been fulfilled.

According to the regulatory requirements on registration and administration of foreign exchange in China, the shareholder of the Target Company should be a company registered with the local Administration of Foreign Exchange ("**AFE**") in order to obtain and procure the Target Company to pledge 99% equity interests of Ginseng & Iron to the Company under the Indonesia SPA. As Tuochuan Capital is not registered with the local AFE while Hanking BVI is a registered company, the equity interests of the Target Company were transferred to the Seller on 17 December 2018. The consideration was HK$1.00 which was a nominal consideration determined in consideration of the restructuring between Tuochuan Capital and Hanking BVI, which are respectively owned by Mr. Yang and Ms. Yang, thus are two companies controlled by persons acting in concert. As the Target Company has long been a holding company and did not run any substantial business before it acquired Ginseng & Iron, the net assets value of the Target Company was only RMB309,000 prior to the transfer and no goodwill has been recognized upon the transfer.

The Board's original intention was to use approximately 50% of the proceeds from the Disposal for the development (including exploration, environment protection and pre-feasibility study) of the gold mine project of Primary Gold Limited and use the rest 50% for the proposed acquisitions between the Company and identified potential sellers. As the development of the gold mine project of Primary Gold Limited is currently at a preliminary stage, the Board has changed its intention to re-allocate the entire proceeds from the Disposal for the Acquisition.

Payment

The Company and the Seller Parties agree that the consideration actually paid by the Company for the Acquisition shall be adjusted to RMB670 million (the "**Adjusted Payable Price**"), which will be paid by the Company with its own fund. Tuochuan Capital agrees to pay an amount equal to the Consideration less the Adjusted Payable Price in the same currency as paid by the Company to the Seller as agreed in the Agreement to the Seller (the "**Remaining Amount**"), for which purpose, Tuochuan Capital and the Seller will enter into a separate agreement to agree on the detailed arrangement in relation to the payment of such Remaining Amount. The completion of the payment of Remaining Amount is not the pre-requisite for the payment of the Adjusted Payable Price or the Completion.

In consideration of the payment of the Remaining Amount, Tuochuan Capital and the Company agree that the purchase price equal to RMB350 million to be paid by Tuochuan Capital to the Company in accordance with the Indonesia SPA will not be paid, provided that Tuochuan Capital pays the Remaining Amount to the Seller as agreed by them separately. The Seller Guarantor shall use his best effort to procure Tuochuan Capital to pay the Remaining Amount. The Seller Guarantor and Tuochuan Capital have irrevocably and unconditionally guaranteed to the Company the direct payment of the Disposal consideration of RMB350 million by Tuochuan Capital to the Seller to off-set as part of the Consideration. Upon Completion, the Company will record the "Remaining Amount" as "Receivable" and record the Consideration as "Payable" under its financial statements. As Tuochuan Capital and the Seller are companies controlled by persons acting in concert and pursuant to the terms and conditions of the Agreement, such "Receivable" and "Payable" will be offset in the financial statements of the Company upon Completion. The above accounting treatments have been agreed with the Company's auditors.

The Board considers that the above change in the use of the proceeds is more in line with the current business needs of the Company and is in the best interest of the Company and its Shareholders. The Board also considers that the non-payment of the Disposal consideration of RMB350 million by Tuochuan Capital directly to the Company does not constitute a material change to the terms under the Indonesia SPA. Pursuant to the Indonesia SPA, Tuochuan Capital should pay RMB350 million to the Company. Under the Agreement, the Company should pay RMB1,020 million to the Seller. To facilitate the payment, the Company, Tuochuan Capital and the Seller agree under the Agreement that Tuochuan Capital directly pays the Remaining Amount (i.e. RMB350 million, which is equal to the Disposal consideration) to the Seller as part of the Consideration. The Company therefore will only pay RMB670 million to the Seller.

Under the current arrangement, Tuochuan Capital is still obliged to pay the Disposal consideration and the Company will be deemed as having fully received the Disposal consideration when the Acquisition is completed. The current arrangement only changes the way in which Tuochuan Capital pays the Disposal consideration, but does not change its payment obligation, nor affect the Company's right to receive such consideration. It will not affect the substance of the Disposal. Therefore, the Directors consider it is not a material change to the Indonesia SPA but a better safeguard for the Company to get the Disposal consideration, which is in the best interest of the Company and its Shareholders.

Pursuant to the Agreement, the Adjusted Payable Price shall be payable by the Company to the Seller in RMB or its equivalent (using the average benchmark interest rate issued by the People's Bank of China for the five days before the date of the payment) by electronic transfer of immediately available funds through one or more instalments within one year after the Completion Date. The Company expects to pay RMB200 million upon the Completion and pay RMB235.28 million by end of the third month after the first instalment. The amount of RMB435.28 million will be used by the Seller to repay the outstanding loans extended to Liaoning Hanking. Once the Seller repays the outstanding loans of RMB435.28 million, the Company will pay the remaining part of the Adjusted Payable Price within one year after the Completion.

The Seller agrees and undertakes that on the date when the Seller has received a portion of the Adjusted Payable Price in the amount of RMB435.28 million, the Seller shall cause the outstanding loans in the total amount of RMB435.28 million extended to Liaoning Hanking by the Target Group to be repaid by using such portion of the Adjusted Payable Price received from the Company, evidenced by written documents in form and substance satisfactory to the Company. RMB435.28 million is the aggregated amount of several loans extended to Liaoning Hanking, the former shareholder of Ginseng & Iron, by the Target Group for the purpose of development and investment of its other business. The amount of RMB435.28 million cannot be offset as part of the Consideration because the offshore and onshore loans could not be directly offset due to restrictions of PRC policies on foreign exchange. As at 31 December 2018, the amount due from Liaoning Hanking to the Target Group was RMB564,282,000, and the amount due to Liaoning Hanking by the Target Group was RMB128,879,000. Such amounts could not be offset due to restrictions of PRC policies on foreign exchange. After the repayment of the loans extended to Liaoning Hanking of RMB435.28 million, the remaining balance of RMB129,002,000 is expected to be settled within one year after the Completion. The amount due to Liaoning Hanking by the Target Group of RMB128,879,000 is expected to be settled within one year after the Completion. Please refer to Note 39(b) and (e) of Appendix V to this circular.

Notwithstanding anything to the contrary in the Agreement, the Company may refrain from paying any amount resulting from Adjusted Payable Price less RMB435.28 million or its equivalent until the Seller causes such outstanding loans to be fully repaid as set forth in the Agreement. In no case shall such refrained payment of any outstanding Adjusted Payable Price by the Company as a result of the Seller's failure to repay such outstanding loans be deemed as a default under the Agreement.

Conditions

Completion of the Acquisition is subject to the satisfaction or, if applicable, the waiver of the following Conditions on or before 5:00 p.m. on the Long Stop Date:

(a) the representations and warranties of the Seller Parties set forth in the Agreement shall be true, complete and correct in all respects as of the date of the Agreement and as of the Completion Date;

(b) each Seller Party shall have performed and complied with each of the obligations and arrangements required by the Agreement to be performed or complied with by it or him on or prior to the Completion Date;

(c) there has been no Material Adverse Change to the Target Group taken as a whole since the date of the Agreement;

(d) the due execution of the Agreement that are required to be executed by each of the relevant parties thereto;

(e) the passing of resolutions of the shareholder and the sole director of the Seller in the agreed form approving the execution and performance of the Agreement;

(f) the passing of resolutions of the Shareholders and the Board of the Company approving the execution and performance of the Agreement;

(g) all applicable contractual and regulatory approvals and consents with respect to the transactions contemplated by the Agreement shall have been obtained by the Company, the Seller Parties and the Target Group; and

(h) the conduct of a due diligence investigation covering, among other things, the business, affairs, operations, assets, liabilities, financial condition, prospects and records of the Target Group having been completed and the results of such due diligence investigation being satisfactory to the Company at its sole discretion.

As at the Latest Practicable Date, the Conditions (d), (e) and (h) have been fulfilled. Pursuant to the Agreement, the Company may, in its discretion, waive any of the Conditions other than the Condition set out in paragraph (f) above.

As at the date of this circular, the Company has no present intention to waive any of the Conditions and will only exercise its right to waive such Conditions if it is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Seller Guarantor

The Seller Guarantor irrevocably and unconditionally guarantees to the Company the due and punctual performance of each obligation of the Seller. The Seller Guarantor shall pay to the Company from time to time on demand any sum of money which the Seller is at any time liable to pay to the Company which has not been paid at the time the demand is made. The Seller Guarantor's obligations are primary obligations and not those of a mere surety.

Completion

Completion shall take place remotely via electronic exchange of documents and signatures on the Completion Date.

The Seller shall deliver a copy of share certificate in the name of the Company showing the Company as registered holder of the shares of the Target Company on the Completion Date.

The Acquisition is not conditional on the completion of the Disposal. As the Company proposes to proceed with the Acquisition first and the Target Group should be free of any encumbrance before the Acquisition is completed, the Company decides to slow down the completion of the Disposal before the Shareholders' meeting of the Company has considered and approved the Acquisition (if applicable).

Pursuant to the Indonesia SPA, the pledge of 99% equity interests of Ginseng & Iron is a condition precedent to safeguard the Company get the Disposal consideration from Tuochuan Capital. If Tuochuan Capital fails to pay such consideration, the Company could exercise its right of pledge to get the consideration of RMB350 million (rather than RMB1,020 million). Under the current arrangement, if the Shareholders approve the Acquisition, Tuochuan Capital will pay the Disposal consideration directly to the Seller pursuant to the Agreement which, on the one hand, represents a fulfillment of its payment obligation to the Company under the Indonesia SPA, on the other hand, offsets a portion of the Company's payable amount of the Consideration. As at the Completion Date, the Company is deemed to receive the Disposal consideration of RMB350 million, it therefore no longer needs the pledge as a safeguard to get the Disposal consideration. Also, the Company will get the share certificate from the Seller showing the Company as registered holder of the shares of the Target Company. Such share transfer will occur prior to the Company's payment of Adjusted Payable Price. Moreover, the Company can get the Disposal consideration to complete the Disposal at an earlier stage and release its pressure to pay a large amount of money to the Seller.

If the Completion fails to take place for whatever reasons, without prejudice to any remedy available to the parties, the Seller Parties shall procure the Target Company to pledge all equity interests of Ginseng & Iron held by it to the Company as soon as practicable. The Company, Tuochuan Capital and Mr. Yang will proceed the Disposal to completion.

As at the date of this circular, the Company will not waive the condition precedent of the pledge of 99% equity interests of Ginseng & Iron for the Disposal. If the Acquisition does not proceed, the Company will continue to proceed the Disposal and use the pledge as a safeguard for getting the Disposal consideration. If the Acquisition is completed, the Company will directly hold the entire equity interests of the Target Company and indirectly hold 99% equity interest of Ginseng & Iron. As the Disposal consideration will have been paid at that time, the Company no longer needs the pledge as a safeguard of payment, it will waive the condition precedent of the pledge of 99% equity interest of Ginseng & Iron and complete the Disposal on the same day.

The Directors are of the view that such arrangement is a better safeguard to the Company's interest in respect of the Disposal and is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Termination

If, at any time before Completion:

(a) there is a Material Adverse Change to the Target Group taken as a whole;

(b) any Government Authority issues, promulgates or enforces any law, regulation, rule, policy, order or notice that prohibits the completion of the transactions contemplated by the Agreement;

(c) there is a material breach of any of the Seller Parties' Warranties as given on the date of the Agreement, or any event occurs which would constitute a material breach of any of the Seller Parties' Warranties as if the Seller Parties' Warranties were repeated on each day before the Completion Date by reference to the facts and circumstances then existing, and for this purpose only any references in the Seller Parties' Warranties to the "date of the Agreement" shall be construed references to the relevant date; or

(d) the Seller is in material breach of any provision of the Agreement,

the Company may by notice in writing to the Seller elect to proceed to Completion or terminate the Agreement.

Valuation

In making the valuation report, the independent valuer has applied the discounted cash flow ("**DCF**") method under income approach and based on certain assumptions, which constitutes a profit forecast under Rule 14.61 of the Listing Rules, and the requirements under Rule 14.62 of the Listing Rules are therefore applicable. The Valuation Report is set out in Appendix VII to this circular. A letter from the Board confirming they have made the forecast after due and careful enquiry is set out in Appendix VIII to this circular. A letter from the auditors confirming that they have reviewed the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the valuation is based is set out in Appendix IX to this circular.

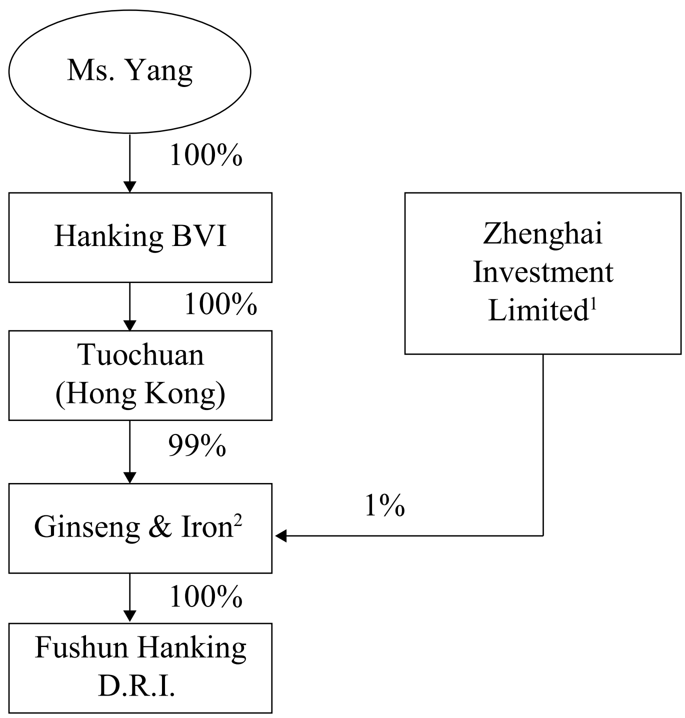
INFORMATION ON THE TARGET GROUP

Information on the Target Company

The Target Company was established by Tuochuan Capital under the laws of Hong Kong with limited liability on 5 November 2015 and its equity interests were transferred to the Seller on 17 December 2018. As at the date of this circular, it is a wholly-owned subsidiary of the Seller. The Target Group is principally engaged in production and sale of high purity casting pig iron and ductile pig iron.

Shareholding Structure of the Target Group

As at the date of this circular, the shareholding structure of the Target Group is as follows:

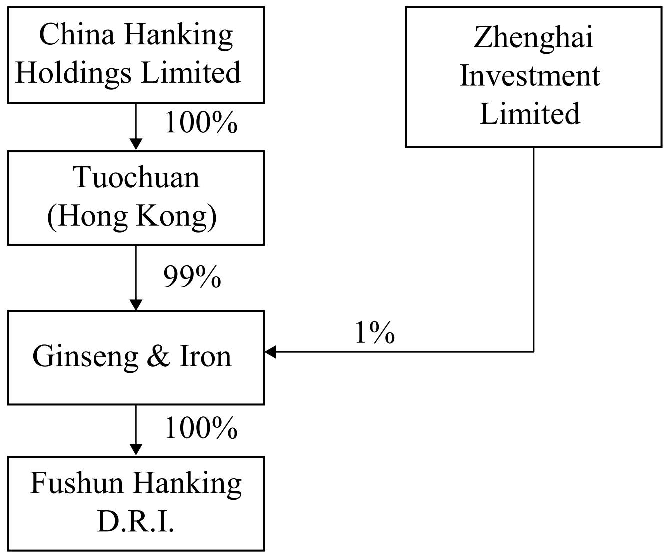


Note 1: On 26 June 2018, Zhenghai Investment Limited obtained 1% equity interest of Ginseng & Iron from Liaoning Hanking , at a consideration of RMB1,300,000, which was determined based on the original investment cost, with reference to the cost and tax incurred in the transaction. Zhenghai Investment Limited is a company incorporated in the British Virgin Islands and it is wholly-owned by Mr. Lu Zhanfeng, an independent third party of the Company. Neither Zhenghai Investment Limited nor Mr. Lu Zhanfeng has any relationship or arrangement with the Seller and its connected persons.

Note 2: On 29 June 2018, as part of the reorganisation of Hanking Group, the Target Company acquired 99% equity interest of Ginseng & Iron from Liaoning Hanking for a consideration of RMB128,700,000, which was determined based on the original investment cost, with reference to the cost and tax incurred in the transaction. According to the PRC tax regulatory requirements, the acquisition of any company running substantial business (such as Ginseng & Iron) should not be made on a nominal value, otherwise the parties may be deemed as tax evasion under the PRC laws and regulations.

Note 3: As at the Latest Practicable Date, the reorgnisation of Hanking Group in relation to Ginseng & Iron has been legally completed and all applicable contractual and regulatory approvals and consents with respect to the reorganisation (as mentioned in Notes 1 and 2) have been obtained by the relevant parties.

Upon Completion, the structure of the Target Group is as follows:



Ginseng & Iron was established by the controlling shareholders of the Company in 2011 and its then registered capital was RMB5 million. With its development, the registered capital was increased and as at the date of this circular, the registered capital of Ginseng & Iron is RMB56,090,000.

Financial Information of the Target Group

Based on the audited consolidated financial statements of the Target Group prepared in accordance with the International Financial Reporting Standards, the financial information of the Target Group for the three years ended 31 December 2018 are as follows:

	For the year ended 31 December 2016 *(RMB'000)*	**For the year ended 31 December 2017** *(RMB'000)*	**For the year ended 31 December 2018** *(RMB'000)*
Revenue	1,108,829	1,517,971	1,662,781
Profit before taxation	117,702	204,523	263,165
Profit after taxation	89,940	175,251	229,491

As a smelting plant, Fushun Hanking D.R.I. purchases raw materials and sells its products after smelting and processing. Its revenue and profits will be influenced by the price of raw materials and the sale price. The fluctuation trends of these two prices are basically the same, but the specific ranges are not. In 2018, the revenue of the Target Group increased by approximately RMB144,810,000 or 9.5%, mainly because the sale price of its principal products increased by 18% in 2018 as compared with that in 2017. Due to the Target Group's continuous improvement on technology, reduction on proportion of coke and increase of iron recovery rate, the sale cost has been efficiently saved and only increased by RMB107,108,000 or 9.0% in 2018 as compared with 2017. As the growth rate of the sale cost is lower than the one of the revenue, the net profits recorded a relatively higher growth rate.

The audited consolidated net asset value of the Target Group as at 31 December 2018 was approximately RMB14,666,000. The net asset value of the Target Group as at 31 December 2018 is lower than its fair value of shares because (i) the share capital of Tuochuan (Hong Kong), the subject of the unaudited consolidated financial statements, is only HK$1.00; and (ii) most profits of the Target Group were distributed to the shareholders every year and the total equity is only RMB15 million approximately.

The financial guarantee contracts of the Target Group will be released before the Completion. The pledge of 20% equity interest of Hanking D.R.I. was released in March 2019 but the other pledge deposits or pledge of assets of the Target Group will not be released before the Completion as these assets are pledged in respect of the Target Group's trade payables, bank borrowings and bills payables arising from its own continuing operations which is irrelevant to the Acquisition. Please refer to Note 37 of Appendix V for further details.

INFORMATION ON THE SELLER

The Seller is a company incorporated with limited liability in British Virgin Islands having its registered office at Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands. The Seller mainly engages in investment holding.

Mr. Yang, the chairman, an executive Director and a controlling shareholder of the Company, holding 60.19% of the Shares. He is the son of Ms. Yang. He holds 100% equity interests of Tuochuan Capital.

Ms. Yang, a controlling shareholder of the Company and the mother of Mr. Yang, holding 12.03% of the Shares. She holds 100% equity interests of Hanking BVI.

INFORMATION ON THE COMPANY

The Company is an investment holding company. The Company is a fast-growing international mining and metals group of companies, mainly engaging in exploitation, mining and processing of mineral resources and marketing of mineral products.

INFORMATION ON TUOCHUAN CAPITAL

Tuochuan Capital, a wholly-owned subsidiary of Mr. Yang, is a company established in British Virgin Islands and is principally engaged in investment holding.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, Tuochuan (Hong Kong) will become a wholly-owned subsidiary of the Company. As such, the assets, liabilities and results of the Target Group will be consolidated into the Company after Completion.

Appendix VI to this circular presents the unaudited pro forma financial information of the Enlarged Group and describes the basis of preparation thereof.

(i) Earnings

Assuming that Completion had taken place on 31 December 2018, the unaudited pro forma net profit attributable to equity shareholders of the Company for the year ended 31 December 2018 of the Enlarged Group will increase from approximately RMB174,040,000 to RMB413,519,000 as indicated in the unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group contained in Appendix VI to this circular. Further details on the unaudited pro forma financial information of the Enlarged Group are set out in Appendix VI to this circular.

(ii) Assets and liabilities

Assuming that Completion had taken place on 31 December 2018, the unaudited pro forma total assets of the Enlarged Group as at 31 December 2018 will increase from approximately RMB3,683,601,000 to approximately RMB4,742,353,000 and total liabilities will increase from approximately RMB2,142,751,000 to approximately RMB4,223,506,000 as indicated in the unaudited pro forma consolidated statement of financial position of the Enlarged Group contained in Appendix VI to this circular.

REASONS FOR AND BENEFITS OF THE ACQUISITION

Extend the Company's Industrial Chain

The iron ore concentrate produced by the Maogong Mining, which is a subsidiary of the Company, has high grade and low impurity content, especially almost having no titanium. By using the high-quality iron ore concentrate produced by Maogong Mining, the smelted pig iron can meet the requirement for producing high-end casting products including wind turbine castings. According to the industry report provided by Hatch Associates Ltd., Funshun Hanking D.R.I. is the largest wind power ductile pig iron manufacture enterprise in China with the sales volume of its main product, wind power ductile pig iron, accounting for over 50% of China's total amount and in accordance with the historical data, the sales price for wind power ductile pig iron is higher than that of steel making pig iron. Therefore, the Acquisition will help the Company to extend its industrial chain into the ductile pig iron area and increase the value of the high-quality iron ore concentrate produced by the Company.

Improve the Company's Revenue Scale and Profitability

In the past three years ended 31 December 2018, the revenue of the Target Group were RMB1,108,829,000, RMB1,517,971,000 and RMB1,662,781,000, respectively. And the ratio compared with the revenue of the Company's continuing operations were 137%, 144% and 143% respectively. The net profit of the Target Group in the past three years ended 31 December 2018 were RMB89,940,000, RMB175,251,000 and RMB229,491,000 respectively, and the ratio compared with the net (loss)/profit of the

Company's continuing operations were (46)%, 135% and 124% respectively. The Acquisition will greatly enhance the Company's revenue scale and profitability, which lays a better foundation for the further development.

Reduce Connected Transactions Significantly

With the continuous increase of the iron ore concentrate production of Maogong Mining, the amount of iron ore concentrate sold by the Company to Fushun Hanking D.R.I. is also increasing. In the past three years, the transaction amount of the connected transactions between the Company and Fushun Hanking D.R.I. were RMB235,677,000, RMB413,700,000 and RMB452,456,000 respectively, accounting for 29%, 39% and 39% of the Company's sales revenue. In addition, Fushun Hanking D.R.I. planned to carry on a technological reform which would further increase its production in 2019. The amount of the connected transactions between the Company and Fushun Hanking D.R.I. will be expanded under this circumstance. The Company undertakes that after the Target Company becomes its subsidiary, it will directly supply iron ore concentrates to the Target Group instead of through any agent. In order to eliminate the connected transactions, the Company intends to complete the Acquisition to save the administrative cost for the Company.

Based on the foregoing, the Directors (other than the independent non-executive Directors who will express their views after receiving advice from the Independent Financial Adviser appointed by the Company) are of the view that the transactions contemplated under the Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

The Group will stick to its development of existing business, to achieve steady production of the iron ore business, increase resources reserve, enhance corporate management, lower production cost and continue to improve profitability. After the Completion, the existing business of the Group will not be changed and the Target Group will retain its key management and technical personnel to maintain their ongoing operations.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Agreement and the transactions contemplated thereunder exceed 100%, the Agreement and the transactions contemplated thereunder constitute a very substantial acquisition of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the Seller is 100% held by Ms. Yang, who is one of the controlling shareholders of the Company, the Seller is a connected person of the Company. Mr. Yang, the son of Ms. Yang, and Tuochuan Capital, a wholly-owned subsidiary of Mr. Yang, are also connected persons of the Company. As such, the Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

At the relevant Board meeting, Mr. Yang has abstained from voting on the resolution approving the Agreement and the transactions contemplated thereunder in which he and/or his associates are materially interested in.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Agreement and the transactions contemplated thereunder. The letter from the Independent Board Committee is set on pages 25 to 26 of this circular.

In this connection, an Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder. The letter from the Independent Financial Adviser is set out on pages 27 to 52 of this circular.

NOTICE OF ANNUAL GENERAL MEETING

Set out on pages AGM-1 to AGM-5 of this circular is the notice of the Annual General Meeting at which, among others, ordinary resolutions will be proposed to Shareholders to consider and approve the granting to the Directors the General Mandate and the Repurchase Mandate, the extension of the General Mandate by adding to it the number of Shares repurchased by the Company under the Repurchase Mandate, the re-election of the retiring Directors and the very substantial acquisition and connected transaction in relation to the purchase of equity interests of Tuochuan (Hong Kong).

As the Seller is 100% held by Ms. Yang, who is one of the controlling shareholders of the Company, the Seller is a connected person of the Company. Meanwhile, Ms. Yang's sister owns 96.24% of Dengta Hanking Liuhe Iron Ore Co., Ltd. (燈塔市罕王柳河鐵礦有限責任公司), which is one of the major suppliers of the Target Group. Ms. Yang's sister does not have any Share of the Company but the son of Ms. Yang's sister, Mr. Wang indirectly holds 2.35% Shares of the Company. Mr. Yang, the son of Ms. Yang, and Tuochuan Capital, a wholly-owned subsidiary of Mr. Yang, are also connected persons of the Company. Ms. Yang, Mr. Yang and Mr. Wang are considered to have a material interest in the Agreement and the transactions contemplated thereunder and will be required to abstain from voting on the resolutions in relation to the Agreement and the transactions contemplated thereunder.

Save as disclosed above, there are no other associates of the controlling shareholders need to abstain from voting on the resolutions in relation to the Agreement and the transactions contemplated thereunder.

FORM OF PROXY

A form of proxy is enclosed for use at the Annual General Meeting. Such form of proxy is also published on the websites of the Company at www.hankingmining.com and the Stock Exchange at www.hkexnews.hk. Whether or not you are able to attend the Annual General Meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for the holding of the Annual General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting at the Annual General Meeting if they so wish.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

GENERAL

The English text of this circular, the notice of the Annual General Meeting and the form of proxy for use at the Annual General Meeting shall prevail over the Chinese text in case of inconsistency.

RECOMMENDATION

The Directors consider that the proposed resolutions for the granting to the Directors the General Mandate and the Repurchase Mandate, the extension of the General Mandate by adding to it the number of Shares repurchased by the Company under the Repurchase Mandate, the re-election of the retiring Directors, the declaration of final dividend and the very substantial acquisition and connected transaction in relation to the purchase of equity interests of Tuochuan (Hong Kong) are in the interests of the Group and the Shareholders as a whole. The Directors therefore recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the Annual General Meeting.

Yours faithfully
By order of the Board
China Hanking Holdings Limited
Yang Jiye
Chairman and executive Director

罕王
HANKING

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

(incorporated in the Cayman Islands with limited liability)

(Stock code: 03788)

Date: 29 April 2019

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PURCHASE OF EQUITY INTERESTS OF TUOCHUAN (HONG KONG)

We refer to the circular of the Company (the "**Circular**") dated 29 April 2019 and despatched to the Shareholders which this letter forms part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed to form the Independent Board Committee to advise the Independent Shareholders in respect of the terms of the Agreement and the transactions contemplated thereunder, details of which are set out in the section headed "Letter from the Board" of the Circular. Fortune Financial has been appointed to advise the Independent Shareholders and us in this regard.

Details of the advice and the principal factors and reasons Fortune Financial has taken into consideration in rendering its advice, are set out in the section headed "Letter from the Independent Financial Adviser" of the Circular. Your attention is also drawn to the additional information set out in the Circular. Having taken into account the terms of the Agreement and the advice of Fortune Financial, we are of the opinion that though the entering into of the Agreement is not in the ordinary and usual course of business of the Group, the terms of the Agreement are on normal commercial terms, and are fair and reasonable, and the transactions contemplated under the Agreement are in the interests of the Company and the Shareholders as a whole.

We, therefore, recommend that you vote in favour of the resolution to be proposed at the Annual General Meeting to approve the Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee
Mr. Wang Ping, Dr. Wang Anjian and Mr. Ma Qingshan
Independent non-executive Directors

The following is the text of the letter of advice from Fortune Financial Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the Acquisition thereunder.

富強金融資本
FORTUNE FINANCIAL CAPITAL

Fortune Financial Capital Limited
43/F, Cosco Tower
183 Queen's Road Central
Hong Kong

29 April 2019

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PURCHASE OF EQUITY INTERESTS OF TUOCHUAN (HONG KONG)

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the Acquisition thereunder, details are set out in the letter from the Board (the "Letter from the Board") contained in the circular dated 29 April 2019 (the "Circular") of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in this Circular unless the context otherwise specifies.

On 1 April 2019, the Company entered into the Agreement with the Seller, Mr. Yang and Tuochuan Capital. Pursuant to the Agreement, the Company agreed to purchase, and the Seller agreed to dispose of, 100% of the issued share capital of the Target Company, a wholly-owned subsidiary of the Seller, at the consideration of RMB1,020 million, subject to the terms and conditions of Agreement.

The Target Company was established by Tuochuan Capital under the laws of Hong Kong with limited liability on 5 November 2015 and its equity interests were transferred to the Seller on 17 December 2018. As at the Latest Practicable Date, the Target Company is a wholly-owned subsidiary of the Seller. Upon Completion, the Target Company will become a subsidiary of the Company and the financial information of the Target Group will be consolidated into the financial statements of the Group.

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Agreement and the transactions contemplated thereunder exceed 100%, the Agreement and the transactions contemplated thereunder constitute a very substantial acquisition of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the Seller is 100% held by Ms. Yang, who is one of the controlling shareholders of the Company, the Seller is a connected person of the Company. Mr. Yang, the son of Ms. Yang, and Tuochuan Capital, a wholly-owned subsidiary of Mr. Yang, are also connected persons of the Company. As such, the Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Annual General Meeting will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Agreement and the transactions contemplated thereunder.

As the Seller is 100% held by Ms. Yang, who is one of the controlling shareholders of the Company, the Seller is therefore a connected person of the Company. Meanwhile, Ms. Yang's sister owns 96.24% of Dengta Hanking Liuhe Iron Ore Co., Ltd. (燈塔市罕王柳河鐵礦有限責任公司), which is one of the major suppliers of the Target Group. Ms. Yang's sister does not have any Share of the Company but Ms. Yang's sister's son, Mr. Wang indirectly hold 2.35% Shares of the Company. Mr. Yang, the son of Ms. Yang, is also a connected person of the Company. Therefore, Ms. Yang, Mr. Yang and Mr. Wang are considered to have a material interest in the Agreement and the transactions contemplated thereunder and will be required to abstain from voting on the resolutions in relation to the Agreement and the transactions contemplated thereunder. Save as disclosed above, there are no other associates of the controlling shareholders need to abstain from voting on the resolutions in relation to the Agreement and the transactions contemplated thereunder.

In this regard, the Independent Board Committee named Mr. Wang Ping, Dr. Wang Anjian and Mr. Ma Qingshan, comprising all independent non-executive directors of the Company, has been established to advise the Independent Shareholders as to whether the Agreement and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

As of the date of this circular, the Independent Board Committee has reviewed this letter.

OUR INDEPENDENCE

Fortune Financial Capital Limited is a licensed corporation to carry out regulated activities of advising on corporate finance under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"). Fortune Financial Capital Limited and its affiliates, whose ordinary business involves the trading of, dealing in and the holding of securities, may be involved in the trading of, dealing in, and the holding of the securities of the Company for client accounts.

As at the Latest Practicable Date, we did not have any relationship with or interest in the Group or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees in connection with this appointment as the Independent Financial Advisor, no other arrangements exist whereby we had received or will receive any fees or benefits from the Group or any other parties that could reasonably be regarded as relevant to our independence. As such, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and management of the Company regarding the Company, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Company and Target Group and their respective subsidiaries or associates nor have we carried out any independent verification of the information supplied. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, at the Latest Practicable Date.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of approving the Agreement and the transactions contemplated thereunder, and this letter, except for its inclusion in the Circular and for inspection as required under the Listing Rules, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Agreement and the Acquisition contemplated thereunder, we have taken into consideration in assessing the terms of Agreement, reasons for and benefits of the Acquisition and financial impacts of the Acquisition in giving our recommendation to the Independent Board Committee and the Independent Shareholders, details are set out as below:

1. Background Information

1.1 Information of the Company

The Company is an investment holding company. The Company is a fast-growing international mining and metals group of companies, mainly engaging in exploitation, mining and processing of mineral resources and marketing of mineral products.

1.2 Financial Information of the Company

Set out below is a summary of the Group's financial information for the three years ended 31 December 2018 in accordance with the International Financial Reporting Standards (the "IFRS") extracted from the Company's annual reports (the "Annual Report") of 2017 and 2018:

	For the year ended 31 December (audited)		
	2016	**2017 (Restated)**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	812,217	1,055,763	1,165,491
Gross profit	238,500	480,546	510,302
Profit for the period	(213.877)	864,987	174,040
Cash and Cash Equivalent	70,162	394,911	328,664
Total Assets	3,880362	3,932,650	3,683,601
Equity	805,169	1,401,838	1,540,850
Gearing Ratio*	56.00%	40.87%	30.09%

* Gearing ratio = interest-bearing borrowing/total asset

For the year ended 31 December 2017

According to the Company's Annual Report of 2017, we noted that the revenue from the Group was approximately RMB1,055.8 million for the year ended 31 December 2017, representing an approximate growth of RMB243.5 million or 30.00% for the corresponding period compared to the year of 2016, which is mainly due to: i) an increase of RMB144/metric ton in the selling price of iron ore concentrates with correspondent increased revenue in the amount of approximately RMB253.6 million for the year of 2017 and ii) the commencement of sales in nickel business from November 2017 with a revenue of approximately RMB35.3 million.

Meanwhile, the Group turned a net loss of RMB213.9 million for the year ended 31 December 2016 to a net profit of RMB 865.0 million for the year end 31 December 2017. This is mainly due to i) the growth in revenue as mentioned above; ii) an increase in gross profit margin from 29.36% to 45.52% from 2016 to 2017 and iii) there was a one-off consolidated profit of RMB734.9 million from discontinued gold business.

The gearing ratio, calculated by dividing the sum of interest-bearing borrowing by the total asset, decreased from 56.00% as at 31 December 2016 to 40.87% as at 31 December 2017. Such decline was caused by the payment of a bank borrowing amount of RMB451.0 million. A special dividend of RMB319.8 million was distributed to shareholders during the year of 2017.

For the year ended 31 December 2018

According to the Company's 2018 Annual Report, the revenue from the Group's continuing operations was amounted to approximately RMB1,165.5 million, representing an increase of approximately RMB109.7 million or 10.39% as compared to the year 2017. As disclosed in the 2018 Annual Report, such increase were mainly attributed to i) an increase of RMB48/metric ton in the selling price of iron ore concentrates with a correspondent increased revenue in the amount of approximately RMB85.4 million for the year of 2018 and ii) an increase of 37,000 metric tons or 2.11% in the sales volume of iron ore concentrates over the corresponding period compared to the year of 2017, resulting in an increase in revenue of RMB22.3 million.

We also noted that the Group's net profit decreased by 79.88% from RMB865.0 million for the year ended 31 December 2017 to RMB174.0 million for the year ended 31 December 2018, which is mainly due to the one-off consolidated profit of RMB734.9 million from discontinued gold business in 2017.

The total asset of the Group decreased by 6.33% from RMB3,932.7 million as at 31 December 2017 to RMB3,683.6 million as at 31 December 2018, such decline was because of the decrease in trade and bill receivables in the amount of RMB201.4 million.

1.3 Information of the Seller

The Seller is a company incorporated with limited liability in British Virgin Islands having its registered office at Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands. The Seller mainly engages in investment holding.

Mr. Yang, the chairman, an executive Director and a controlling shareholder of the Company, holding 60.19% of the Shares. He is the son of Ms. Yang. He holds 100% equity interests of Tuochuan Capital.

Ms. Yang, a controlling shareholder of the Company and the mother of Mr. Yang, holding 12.03% of the Shares. She holds 100% equity interests of Hanking BVI.

1.4 Information of Tuochuan Capital

Tuochuan Capital, a wholly-owned subsidiary of Mr. Yang, is a company established in British Virgin Islands and is principally engaged in investment holding.

1.5 Information of the Target Group

The Target Group, together with its subsidiaries, comprises Ginseng & Iron, Fushun Hanking D.R.I., and Lagu Branch of Fushun Hanking D.R.I.

Ginseng & Iron was established by the controlling shareholders of the Company in 2011 and its then registered capital was RMB 5 million. With its development, the registered capital was increased and as at the Latest Practicable Date, the registered capital of Ginseng & Iron is RMB56.09 million. 99% of its interest is directly hold by Tuochuan (Hong Kong).

Fushun Hanking D.R.I. is a limited liability company established in the PRC. It is principally engaged in production and sale of high purity casting pig iron and ductile pig iron, 99% of its interest is indirectly owned by Ms. Yang.

1.6 Information of the Target Company

The Target Company was established by Tuochuan Capital under the laws of Hong Kong with limited liability on 5 November 2015 and its equity interests were transferred to the Seller on 17 December 2018. As at the date of this circular, it is a wholly-owned subsidiary of the Seller. The Target Group is principally engaged in production and sale of high purity casting pig iron and ductile pig iron.

1.7 Financial Information of the Target Group

Based on the audited consolidated financial statements of the Target Group prepared in accordance with the International Financial Reporting Standards, the key financial information of the Target Group for the three years ended 31 December 2018 are as follows:

	For the year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	1,108,829	1,517,971	1,662,781
Gross profit	262,063	321,500	359,202
Profit for the period	89,940	175,251	229,491
Total Assets	1,133,556	1,407,079	1,291,420
Equity	100,918	267,911	14,666
Gearing Ratio*	38.29%	30.79%	32.41%

* Gearing ratio = interest-bearing borrowing/total asset

Based on the discussion with the management and our analysis, the revenue of the Target Group increased by approximately 36.90% from approximately RMB1,108.8 million as at 31 December 2016 to approximately RMB1,518.0 million as at 31 December 2017. Meanwhile, the profit of the Target Group increased by approximately 94.85% from approximately RMB89.9 million as at 31 December 2016 to approximately RMB175.3 million as at 31 December 2017. Such increase was mainly attributed to i) an increase of 46.03% in average sales price of from RMB1,861/ton in 2016 to RMB2,689/ton in 2017; ii) the increase in purchase price of raw material like iron power and coke; and iii) the decrease in distribution and selling expenses, and administrative expenses. The total asset of the Target Group increased by approximately 24.13% from approximately RMB1,133.6 million as at 31

December 2016 to approximately RMB1,407.1 million as at 31 December 2017. Such increase was mainly due to i) an increase of RMB131.6 million in amount due from a related party and ii) an increase in trade and other receivables, and bill receivables by RMB78.3 million.

Based on the discussion with the management and our analysis, the revenue of the Target Group increased by approximately 9.54% from approximately RMB1,518.0 million for the year ended 31 December 2017 to approximately RMB1,662.8 million for the year ended 31 December 2018. The profit of the Target Group increased by approximately 30.95% from approximately RMB175.3 million for the year ended 31 December 2017 to approximately RMB229.5 million for the year ended 31 December 2018. Such growth was mainly caused by the sale price of its principal products increased by 18% in 2018 as compared to that in 2017. Due to the Target Group's continuous improvement on technology, reduction on proportion of coke and increase of iron recovery rate, the sale cost has been efficiently saved and only increased by RMB107.1 million or 9.0% in 2018. As the growth rate of the sale cost is lower than the one of the revenues, the net profits recorded a relatively higher growth rate. The total asset of the Target Group decreased by approximately 8.22% from approximately RMB1,407.1 million as at 31 December 2017 to approximately RMB1,291.4 million as at 31 December 2018. Such decrease was mainly due to a decrease in bill receivables/receivables at FVTOCI of RMB158.8 million. Furthermore, the equity decreased by approximately 94.53% from approximately RMB267.9 million as at 31 December 2017 to approximately RMB14.7 million as at 31 December 2018. The decrease is mainly due to i) dividend declared by Ginseng & Iron during 2018 of RMB350.0 million; ii) the decrease in paid-in capital and other reserve of RMB128.7 million for the reorganization of the Target Group; and iii) partially offset by the net profit of RMB229.5 million during the year.

2. Reasons for and benefits of the Acquisition

In formulating our opinion on the Acquisition, we have taken into consideration the following principal factors and reasons:

2.1 Extend the Company's Industrial Chain

According to the Letter from the Board, the iron ore concentrate produced by the Maogong Mining, which is a subsidiary of the Company, has high grade and low impurity content, especially almost having no titanium. By using the high quality iron ore concentrate produced by Maogong Mining, the smelted pig iron can meet the requirement for producing high-end casting products including wind turbine castings. As advised by the Directors, the sales volume of the ductile pig iron for wind power accounts for over 50% of China's total amount and it is the main product of the Fushun Hanking D.R.I. Fushun Hanking D.R.I., which is the subsidiary of the Target Company, is the largest wind power ductile pig iron manufacture enterprise in China. Confirming by Fushun Hanking D.R.I. that it has been purchasing iron ore concentrates form Maogong Mining since its establishment, and the quality of the Maogong's production has been at a high-end level during the past. The abovementioned indicates the Acquisition will help the Company to extend its industrial chain into the ductile pig iron area and increase the value of the high-quality iron ore concentrate produced by the Company.

We have reviewed the Company's Annual Reports of 2017 and 2018, and noted that the main strategy of the iron ore business of the Group was to significantly increase the iron ore concentrate output of Maogong Mine, continue to carry out production technology improvement to improve the grade of iron ore concentrates and lower impurities. As disclosed in the Annual Report ended 31 December 2017, the average grade of iron ore concentrates was around 68.60%. The output of Maogong Mine amounted to 1,316 thousand metric tons in 2018 (2017: 1,129 thousand metric tons), representing a year-on-year increase of 16.56%, which accounted for 73.31% of the Group's output of iron ore concentrates. Driven by the output increase of Maogong Mine, the output of iron ore concentrates of the Group amounted to 1,795 thousand metric tons in 2018, representing a year-on-year increase of 1.76%. Based on the foregoing, we concur with the Directors that the iron ore produced by Maogong Mining with high quality concentrate can meet the requirement for producing high-end casting products. The Directors also advised that after the Acquisition, the Target Group is planned to overhaul the existing blast furnace from April to July in 2019 and carry out technical upgrading simultaneously. After the upgrading of the blast furnace technology, the Target Group's production capacity will increase the output from 560,000 tons to 660,000 tons per year. This technology improvement will benefit the Enlarged Group with its penetration into the ductile pig iron market.

To assess the business outlook of the Target Group, we have conducted research from the public domain on the PRC's ductile iron market and wind power industry.

The Outlook of ductile iron market in the PRC

According to the《鑄造行業「十三五」技術發展規劃綱要》(the 13th Five-Year Technology Development Plan of the Foundry Industry, the "13th Five-Year"), during the "13th Five-Year Plan" period, China's iron casting production will continue to grow, and the output of cast iron parts will be 33.38 million tons from 2015, and by 2020, the annual output of ductile iron parts accounts for more than 41% of the total output of cast iron parts, while the ratio of ductile iron to gray cast iron reaches 0.75. By 2025, the proportion of ductile iron parts to cast iron is over 47%, the ratio of ductile iron to gray cast iron is 1.0, and the annual output of ADI parts accounts for more than 10% of the output of ductile iron parts.

The Outlook of wind power industry in the PRC

As stated in the《風電行業「十三五」規劃》(The 13th Five-Year Plan for Wind Power Industry, the "13th Five-Year Plan"), global wind power industry has achieved a tremendous growth rate. As the most widely used and fastest-growing new energy technology, wind power has been developed and applied on a global scale. By the end of 2015, the cumulative installed capacity of wind power in the world had reached 432 million kilowatts, covering more than 100 countries and regions. During the "Twelfth Five-Year Plan" period, global wind power installed capacity increased by 238.238 billion kilowatts, with an average annual growth rate of 17%. It is the new energy technology for generating electricity with the largest increase in installed capacity.

The "13th Five-Year Plan" clearly sets out the development goals of the wind power industry. By the end of 2020, the cumulative installed capacity of wind power will be guaranteed to reach 210 million kilowatts, which means the installed capacity of wind power in China will be around 13 million to 15 million kilowatts per year.

Based on the abovementioned, we are of the view that the Acquisition is in line with the Company's long-term strategic development and will create synergetic effects with its existing business, and agree the Acquisition will not only broaden the income source and customer base of the Company, but will also enhance the profit of the Company as well as bringing long-term strategic benefits to the Group.

2.2 Improve the Company's Revenue Scale and Profitability

According to the Letter from the Board, for the three years ended 31 December 2018, the revenues of the Target Group were RMB1,108.8 million, RMB1,1518.0 million and RMB1,662.8 million, respectively. The net profit of the Target Group in the past three years were RMB 89.9 million, RMB175.2 million and RMB229.5 million respectively.

Based on our discussion with the Directors and according to the annual reports, the Target Group purchased the iron ore concentrates from the Group which amounted RMB235.7 million, RMB413.7 million and RMB452.5 million for the three years ended 31 December 2018 respectively. Such related party transactions will become intra-group transactions with the Company and thus will be eliminated in the consolidated financial statement of profit or loss and other comprehensive income after the Acquisition. Please find net increase in total revenue of the enlarged group based on our simple mathematical calculation as below:

	For the year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Revenue of the Target Company	1,108,829	1,517,971	1,662,781
Revenue of the Group derived from related party transaction regarding iron ore concentrates	235,677	413,700	452,456
Net increase	873,152	1,104,271	1,210,325

With the reference to the foregoing, we concur that the Acquisition will greatly enhance the Company's revenue scale and profitability, which lays a better foundation for the further development.

2.3 Reduce Connected Transaction Significantly

According to the Letter from the Board, with the continuous increase of the iron ore concentrate production of Maogong Mining, the amount of iron ore concentrate sold by the Company to Fushun Hanking D.R.I. increase correspondingly. For the three years ended 31 December 2018, the transaction amounts of the connected transactions between the Company and Fushun Hanking D.R.I. were RMB235.7 million, RMB413.7 million and RMB452.5 million respectively, accounting for 29.02%, 39.18% and 38.82% of the Company's sales revenue. In addition, Fushun Hanking D.R.I. planned to carry on a technological reform which would further increase its production in 2019. The amount of the connected transaction between the Company and Fushun Hanking D.R.I. will be expanded under this circumstance. The Company undertakes that after the Target Company becomes its subsidiary, it will directly supply iron ore concentrates to the Target Group instead of through any agent. In order to eliminate the connected transactions, the Company intends to complete the Acquisition which will save the administrative cost for the Company.

By reviewing the Annual Reports of the Company and Accountant's Reports of the Target Group, we confirmed that the disclosed transaction amounts of the connected transactions between the Company and Fushun Hanking D.R.I. were consistent with the abovementioned. As the transactions between the Company and the Target Group will no longer constitute connected transactions after the Acquisition, we concur with the view of the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

Having considered that i) the potential synergetic effects to be generated from the Acquisition; ii) the positive industry prospect and favourable government policies in relation to the Target Group's businesses; iii) the improving financial performance of the Target Group, the Acquisition would help being in additional revenue stream to the Company; and iv) the reduction of connected transaction cost, we concur with the view of Directors that entering into the Agreement and the Acquisition thereunder is not in an ordinary course of business and in the interest of the Company and the Shareholders as a whole.

3. The Agreement

3.1 Principal terms of the Agreement

The principal terms of the Agreement are set out below.

Date	1 April 2019
Parties	(1) The Company;
	(2) The Seller;
	(3) Mr. Yang (as Seller Guarantor); and
	(4) Tuochuan Capital.

Subject Matter

Pursuant to the Agreement, the Company agreed to acquire, and the Seller agreed to dispose of, 100% of the equity interests in the Target Company, subject to the terms and conditions of the Agreement.

The Target Company was established by Tuochuan Capital under the laws of Hong Kong with limited liability on 5 November 2015, and its equity interests were transferred to the Seller on 17 December 2018. As at the date of this circular, the Target Company is a wholly-owned subsidiary of the Seller.

Upon Completion, the Target Company will become a subsidiary of the Company and the financial information of the Target Group will be consolidated into the financial statements of the Group.

Considerations

According to the Letter from the Board, pursuant to the Agreement, the Consideration for the Acquisition is RMB1,020 million, which was determined after arm's length negotiations between the Company and Seller Parties on normal commercial terms with reference to a number of factors, including i) the valuation report issued by an independent valuer, which valued the fair value of 100% of the shares of the Target Group of approximately RMB1,040 million as at 31 December 2018; ii) the Target Group has strong historical financial performance for the three years ended 31 December 2018 which indicates a promising development of the Target Group after the Acquisition.; and iii) the Target Group with principal business of iron ore smelting is a downstream processing company of the Company, and the Company will benefit from the synergy effect between the upper streams and down streams, as well as to expand and develop its existing principal business after the Acquisition.

Payment

Pursuant to the Agreement, The Company and the Seller Parties agree that the consideration actually paid by the Company for the Acquisition shall be adjusted to RMB670 million (the "Adjusted Payable Price"), which will be paid by the Company with its own fund. Tuochuan Capital agrees to pay an amount equal to the Consideration less the Adjusted Payable Price in the same currency as paid by the Company to the Seller as agreed in the Agreement to the Seller (the "Remaining Amount"), for which purpose, Tuochuan Capital and the Seller will enter into a separate agreement to agree on the detailed arrangement in relation to the payment of such Remaining Amount. The completion of the payment of Remaining Amount is not the pre-requisite for the payment of the Adjusted Payable Price or the Completion.

Pursuant to the Indonesia SPA, Tuochuan Capital should pay RMB350 million to the Company. Under the Agreement, the Company should pay RMB1,020 million to the Seller. To facilitate the payment, the Company, Tuochuan Capital and the Seller agree under the Agreement that Tuochuan Capital directly pays the Remaining Amount (i.e. RMB350 million, which is equal to the Disposal consideration) to the Seller as part of the Consideration. The Company therefore will only pay RMB670 million to the Seller.

Under the current arrangement, Tuochuan Capital is still obliged to pay the Disposal consideration and the Company will be deemed as having fully received the Disposal consideration when the Acquisition is completed. The current arrangement only changes the way in which Tuochuan Capital pays the Disposal consideration, but does not change its payment obligation, nor affect the Company's right to receive such consideration. It will not affect the substance of the Disposal.

Pursuant to the Agreement, the Adjusted Payable Price shall be payable by the Company to the Seller in RMB or its equivalent (using the average benchmark interest rate issued by the People's Bank of China for the five days before the date of the payment) by electronic transfer of immediately available funds through one or more instalments within one year after the Completion Date. The Company expects to pay RMB200 million upon the Completion and pay RMB235.28 million by end of the third month after the first instalment. The amount of RMB435.28 million will be used by the Seller to repay the outstanding loans extended to Liaoning Hanking. Once the Seller fully repays the outstanding loans, the Company will pay the remaining part of the Adjusted Payable Price within one year after the Completion.

The Seller agrees and undertakes that on the date when the Seller has received a portion of the Adjusted Payable Price in the amount of RMB435.28 million, the Seller shall cause the outstanding loans in the total amount of RMB435.28 million extended to Liaoning Hanking by the Target Group to be fully repaid by using such portion of the Adjusted Payable Price received from the Company, evidenced by written documents in form and substance satisfactory to the Company. RMB435.28 million is the total amount of several loans extended to Liaoning Hanking, the former shareholder of Ginseng & Iron, by the Target Group for the purpose of development an investment of its other business. The amount of RMB435.28 million cannot be offset as part of the Consideration because the offshore and onshore loans could not be directly offset due to restrictions of PRC policies on foreign exchange.

Notwithstanding anything to the contrary in the Agreement, the Company may refrain from paying any amount resulting from Adjusted Payable Price less RMB435.28 million or its equivalent until the Seller causes such outstanding loans to be fully repaid as set forth in the Agreement. In no case shall such refrained payment of any outstanding Adjusted Payable Price by the Company as a result of the Seller's failure to repay such outstanding loans be deemed as a default under the Agreement.

Conditions

Completion of the Acquisition is subject to the satisfaction or, if applicable, the waiver of the following Conditions on or before 5:00pm on the Long Stop Date:

(a) the representations and warranties of the Seller Parties set forth in the Agreement shall be true, complete and correct in all respects as of the date of the Agreement and as of the Completion Date;

(b) each Seller Party shall have performed and complied with each of the obligations and arrangements required by the Agreement to be performed or complied with by it or him on or prior to the Completion Date;

(c) there has been no Material Adverse Change to the Target Group taken as a whole since the date of the Agreement;

(d) the due execution of the Agreement that are required to be executed by each of the relevant parties thereto;

(e) the passing of resolutions of the shareholder and the sole director of the Seller in the agreed form approving the execution and performance of the Agreement;

(f) the passing of resolutions of the shareholders and the Board of the Company approving the execution and performance of the Agreement;

(g) all applicable contractual and regulatory approvals and consents with respect to the transactions contemplated by the Agreement shall have been obtained by the Company, the Seller Parties and the Target Group; and

(h) the conduct of a due diligence investigation covering, among other things, the business, affairs, operations, assets, liabilities, financial condition, prospects and records of the Target Group having been completed and the results of such due diligence investigation being satisfactory to the Company at its sole discretion.

Pursuant to the Agreement, the Company may, in its discretion, waive any of the Conditions other than the Condition set out in paragraph (f) above.

As at the date of this circular, the (d), (e) and (h) of the Conditions has been fulfilled, and the Company has no present intention to waive any of the Conditions and will only exercise its right to waive such Conditions if it is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Seller Guarantor

The Seller Guarantor irrevocably and unconditionally guarantees to the Company the due and punctual performance of each obligation of the Seller. The Seller Guarantor shall pay to the Company from time to time on demand any sum of money which the Seller is at any time liable to pay to the Company which has not been paid at the time the demand is made. The Seller Guarantor's obligations are primary obligations and not those of a mere surety.

Completion

Completion shall take place remotely via electronic exchange of documents and signatures on the Completion Date.

The Seller shall deliver a copy of share certificate in the name of the Company showing the Company as registered holder of the shares of the Target Company on the Completion Date.

Reference is made to the Company's announcement dated 5 July 2018 and circular dated 6 August 2018, in relation to the entering into of Indonesia SPA among the Company, Tuochuan Capital and Mr. Yang for the disposal of 70% equity interests of Hanking (Indonesia) by the Company to Tuochuan Capital. As at the Latest Practicable Date, the Disposal has not yet completed as a condition precedent, 99% equity interest of Ginseng & Iron having been pledged by Tuochuan (Hong Kong) to the Company, has not been fulfilled.

The Acquisition is not conditional on the completion of the Disposal. As the Company proposes to proceed with the Acquisition first and the Target Group should be free of any encumbrance before the Acquisition is completed, the Company decides to slow down the completion of the Disposal before the Shareholders' meeting of the Company has considered and approved the Acquisition (if applicable).

Pursuant to the Indonesia SPA, the pledge of 99% equity interests of Ginseng & Iron is a condition precedent to safeguard the Company get the Disposal consideration from Tuochuan Capital. If Tuochuan Capital fails to pay such consideration, the Company could exercise its right of pledge to get the consideration of RMB350 million (rather than RMB1,020 million). Under the current arrangement, if the Shareholders approve the Acquisition, Tuochuan Capital will pay the Disposal consideration directly to the Seller pursuant to the Agreement which, on the one hand, represents a fulfillment of its payment obligation to the Company under the Indonesia SPA, on the other hand, offsets a portion of the Company's payable amount of the Consideration. As at the date of Completion, the Company is deemed to receive the Disposal consideration of RMB350 million, it therefore no longer needs the pledge as a safeguard to get the Disposal consideration. Also, the Company will get the share certificate from the Seller showing the Company as registered holder of the shares of the Target Company. Such share transfer will occur prior to the Company's payment of Adjusted Payable Price. Moreover, the Company can get the Disposal consideration to complete the Disposal at an earlier stage and release its pressure to pay a large amount of money to the Seller.

If the Completion fails to take place for whatever reasons, without prejudice any remedy available to the parties, the Seller Parties shall procure the Target Company to pledge all equity interests of Ginseng & Iron held by it to the Company as soon as practicable. The Company, Tuochuan Capital and Mr. Yang will proceed the Disposal to completion.

We have reviewed the Agreement and noted that the principal terms of the Agreement are consistent with the disclosure in the Letter from the Board.

3.2 Terms of Payment

Based on the discussion with the Directors, we understand that the condition precedent of the pledge of 99% interest of Ginseng & Iron for the disposal of Hanking (Indonesia) will not be waived by the Company. The Company will continue to proceed the disposal of Hanking (Indonesia) if the Acquisition does not proceed, otherwise the Company will directly hold the entire equity interests of the Target Company and indirectly hold 99% equity interest of Ginseng & Iron after the completion of the Acquisition. As the Disposal consideration will be settled, the Company shall waive the condition precedent of the pledge of 99% interest of Ginseng & Iron and complete the disposal of Hanking (Indonesia) concurrently, while the pledge will no longer be considered as the safeguard of payment. By reviewing the Agreement and the Indonesia SPA, we concur with the Directors that the non-payment of the Disposal consideration of RMB350 million by Tuochuan Capital directly to the Company does not constitute a material change to the terms under the Indonesia SPA. Based on the abovementioned, such payment arrangement is not a material change to the Indonesia SPA, and the one-off payment arrangement of Adjusted Payable Price in the amount of RMB670,000,000 is a better safeguard for the Company to get the Disposal consideration, which is in the best interest of the Company and its Shareholders.

Moreover, we have reviewed the Company's financial information for the year ended 31 December 2018 extracted from the 2018 Annual Report of the Company and obtained the most updated statement ended 28 February 2019 of the Company's management accounts. We noted that the cash and cash equivalent for the twelve months ended 31 December 2018 shown in the 2018 Annual Report and as of 28 February 2019 presented on the management accounts are RMB328.7 million and RMB473.1 million. Therefore, we concur with the Directors that the Company has sufficient internal resources for the portion of the Adjusted Payable Price in the amount of RMB435.28 million.

3.3 Valuation of the Target Group

We noted that the Company has engaged Savills Valuation and Professional Services Limited ("**Savills**" or "**Valuer**") to provide an opinion on the fair value of the equity interest in the Target Group (the "**Valuation**" or "**Valuation Report**") as at 31 December 2018 (the

"**Valuation Date**"). According to the Valuation Report, the Valuer is of the opinion that the Equity Valuation is in the amount of approximately RMB1,040 million based on the fair value of the Target Group as at the Valuation Date. As advised by the Directors, the Company has made reference to the Valuation Report when determining the consideration of the Acquisition.

Profile of the Valuer

We conducted an interview with Wiley W.F. Pun, who is the person in Savills responsible for the approval and issue of the Valuation Report. Mr. Pun is the Director of the Business Valuation practice in Savills, oversees the practice in Hong Kong and China. He has more than 10 years' experience in business valuation covering a wide range of industry including but not limited to industrial products. He has valued companies based in various geographies, including but not limited to China, Hong Kong, South East Asia and Europe. Mr. Pun is a member of the Hong Kong Institute of Certified Public Accountants, a non-practicing member of the Chinese Institute of Certified Public Accountants, and a Professional Risk Manager (PRM) designation holder issued by the Professional Risk Managers' International Association. According to the Valuation Report, the Valuer also confirmed the independence from the Company, the Target Company, their respective holding companies, subsidiaries and associated companies, and the value reported.

Methodology adopted by the Valuer in conducting the Equity Valuation

According to the Valuation Report and the discussion with the Valuer, we understand that the Valuer has considered certain approaches for the Valuation, namely the market approach, income approach and cost approach. Selection of valuation approach will be determined by the specific characteristics of the subject of the valuation and commonly adopted practice; two or more approaches may be used together.

According to the Valuation Report, the Valuer adopted asset approach to value Tuochuan (Hong Kong), as Tuochuan (Hong Kong) is considered as an investment holding company with minor consulting business, while asset approach was the most appropriate in its equity valuation.

According to the Valuation Report, the Valuer adopted income approach to value the item investment in a subsidiary, which accounts for 99.3% of the book value of the total asset of Tuochuan (Hong Kong). Investment in subsidiaries is the 99% equity interest at Ginseng & Iron. The Valuer considered that, the market approach and cost approach are not appropriate for the valuation of investments in Ginseng & Iron, because i) the market approach is not adopted as publicly listed companies with similar business as the Target Group usually conduct both upstream and downstream activities, while the Target Group only conducts downstream activities and the Company is its main upstream supplier. Therefore, implied trading multiples of those companies are not comparable to the Target Group. The Valuer is also not aware of any comparable transaction available for market approach valuation; and ii) the asset approach is not adopted because it cannot capture the future earning potential from Ginseng & Iron operation. The Valuer finally decided to adopt the income approach as the primary approach to estimate market value of Ginseng & Iron, as the income approach will capture the future operation growth of Ginseng & Iron, and the Target Company has prepared a five-year financial forecast for Ginseng & Iron.

Principle assumptions considered in the valuation

According to the Valuation Report, the valuation is in the amount of RMB1,040 million as at the Valuation Date. A table showing the details of the result of the valuation is set out below:

	Book Value	Market Value
	(RMB'000)	*(RMB'000)*
Assets		
Bank Balances and Cash	151	151
Other Receivables	694	694
Investment in a subsidiary	128,700	1,168,200
Total	129,545	1,169,045
Liabilities		
Other Payables	(517)	(517)
Amount due to a Related Party	(128,757)	(128,757)
Total	(129,274)	(129,274)
Net Equity Value	271	1,039,771

According to the Valuation Report, in preparing the Valuation Report, we understand the Valuer has adopted general and specific assumptions which are stated in the section headed "General Assumptions" and "Specific Assumptions" in the Valuation Report. The Board considers all the general and specific assumptions to be fair and reasonable based on their collective experience, professional judgments and careful due diligence on the Target Group. For further details of the valuation assumptions, please refer to the section headed "General Assumptions" and "Specific Assumption" in the Valuation report.

Valuation of Ginseng & Iron

According to the Valuation Report, the income approach technique known as discounted cash flow method was adopted in arriving at the market value of Ginseng & Iron. Discounted cash flows approach is regarded as a profit forecast under Rule 14.61 of the Listing Rules, and the Company is required to, and has, fully complied with Rule 14.62 of the Listing Rules.

According to the Valuation Report, the valuation of the investment in a subsidiary is based on the five-year financial forecast of Ginseng & Iron prepared by Target Company and reviewed by the Directors. We understand that the Directors have engaged a reporting accountant to review its discounted future estimated cash flow. The reporting accountant is in the opinion that the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the assumptions.

According to the Valuation Report, the Valuer has made the following assumptions in the valuation of Ginseng & Iron:

(a) The historical statements of financial positions and operating position of the Target and its group companies used in the valuation have been recorded correctly by the management and have been audited by the Company's auditor;

(b) The financial forecast of Ginseng & Iron adopted in their valuation can be achieved as forecasted from 2019 to 2023, in particular the timely completion of the manufacturing capacity expansion within the budgeted cost and the subsequent increase in sale at the projected margin; and

(c) Ginseng & Iron will reach stable operation after 2023 with a long-term growth rate 3% which is the expected China long-term inflation rate into perpetuity.

According to the Valuation Report, we noted that management of the Target Group has made major assumptions, including but not limit to the sales growth rate, growth profit margin and operating expense margin, in the five-year financial forecast from 2019 to 2023 of Ginseng & Iron. The assumptions of the revenue are as following:

a) The financial forecast is prepared based on sale prices and sales volume of products.

b) The average growth rate of the revenue of the Target Group from 2016 to 2018 is around 21%.

c) The Target Group will transform and upgrade their production plant in 2019 to achieve the expansion of manufacturing capacity, which will be increased from 560,000 ton in 2019 to 660,000 ton in 2023. However, the blast furnace will be suspended of production for four months in 2019 in order to get overhauled and modified with an additional capital expenditure of approximately RMB116 million, which has been calculated into the future cash flow. Due to factors such as the stability of the blast furnace after resumption of production, the tentative effective production period of the Target Group is assumed to be six months in

2019. Based on the original manufacturing capacity in 2018, the volume of production for 2019 is expected to be approximately 50% of that in 2018.

d) Since the sales volume of products and growth rate in 2019 will be affected by the abovementioned transform plan, based on the average sale price in 2018 and the basic inflation rate of 3%, the revenue in 2019 is expected to decrease by 48% as compared with that in 2018. The revenue will increase with the recovery of sales volume in 2020. Based on the growth rate of average sale price per ton which is estimated to be 3% in 2019 to 2023, same as the inflation rate, the growth rate of revenue after 2023 will be stable at 3%.

e) The growth rate of revenue of each year from 2019 to 2023 is -48%, 132%, 5%, 5% and 3%, and it will maintain a steady growth rate of 3% after 2023. Such change in revenue is mainly due to: i) the growth rate of production volume from 2020 to 2022 being respectively 125%, 2% and 2% due to the reasons mentioned in Item (c) above and the anticipated production volume remaining unchanged after 2023, and ii) the sale price being calculated based on a year-on-year increase of 3% in inflation rate.

For details of all the assumptions of the five-year financial forecast, please refer to Section "Investment in a subsidiary" in the Valuation Report.

According to the discussion with Directors, the Target Group will transform and upgrade their production plant in 2019 to achieve the expansion of manufacturing capacity, which will be increased from 560,000 ton in 2019 to 660,000 ton in 2023. The blast furnace will be suspended of production for four months in 2019 in order to get overhauled and modified. Due to factors such as the stability of the blast furnace after resumption of production, the tentative effective production period of the Target Group is assumed to be six months in 2019. Based on the original manufacturing capacity in 2018, the growth rate of volume of production for 2019 and 2020 is expected to be approximately -50% and 125% respectively. We have reviewed Target Group's internal memo of the blast furnace technical reform to confirm the aforesaid plan. We have obtained a copy of the approval letter issued by Fushun Development and Reform Bureau to confirm that the Fushun government had approved the project of casting and forging raw materials for the Fushun Hanking D.R.I. with regard to build a blast furnace in a volume of $580m^3$ and to expand the manufacturing capacity in 2003. Further, we obtained the Target Group's production capacity and output table for the past five year from 2014-2018 and noted that the manufacturing capacity of 2018 is 560,000 ton and the average utilization rate from 2014 to 2018 is 97.42%.

In terms of the gross profit margin and operating expense margin, the management of the Target Group has considered the average rates from 2016 to 2018, the growth of sales and the inflation rate to derive the margins in the financial forecast. We have also reviewed the historical financial performance of the Target

Group from 2016 to 2018 and noted the average gross profit margin, selling and marketing expense margin and general and administrative margin are consistent with the rates considered in the assumptions.

With regard to the inflation rate, we extracted the statistics about the inflation rate in China from 2008 to 2018 via Wind database and calculate the average inflation rate from 2008 to 2018 with a result of 2.6%, which we consider it is comparable to the inflation rate of 3.0% adopted in the financial forecast.

According to the Valuation Report, the discounted rate used in the valuation is 16.00%, and the Valuer has used the Capital Assets Pricing Model (the "CAPM") to estimate the cost of equity and then to estimate the Weighted Average Cost of Capital ("WACC") for the discounted cash flow model of Ginseng & Iron. The Valuer selected 11 comparable companies of Ginseng & Iron to obtain their average debt to equity ratio, unleveraged and leveraged beta, and capital structure as inputs in the CAPM and WACC.

According to the Valuation Report, the selection criteria of such comparable companies are i) Companies listed publicly in Hong Kong and/or the PRC; ii) The scope of business is limited to iron and steel product for wind power equipment component industries or relevant activities. We have discussed with the management and reviewed the breakdown of the Ginseng & Iron's sales, and noted that sales of iron for wind power equipment and component constitutes major portion of the total revenue. From 2015-2018, on average 88.5% of the total revenue of Ginseng & Iron comes from such sales. We have also reviewed the major business of such 11 companies from their annual reports, and confirmed that they all met the selection criteria.

We also noted that the Valuer used a size premium and company specific risk premium in the CAPM calculation. According to our discussion with Valuer, the risk factors considered in concluding those parameters included market risk in wind power industry, commodity price risk, environmental policy, uncertainty on Capacity Expansion project, and risk of supply chain. According to our discussion with the Valuer and the management, those factors all have significant impacts on the business and operation of the Ginseng & Iron.

Based on the above, we concur with the Valuer that the discount rate used in the valuation of Ginseng & Iron is fair and reasonable.

Taking into account that i) the methodology and modelling adopted by the Valuer in valuing Ginseng & Iron; ii) the principal assumptions considered by the Valuer; iii) the major assumptions adopted by the Target Group's management in the five-year financial forecast of Ginseng & Iron; iv) the discounted rate used in the discounted cash flow model; we concur with the Valuer and management that the valuation of Ginseng & Iron involved in the Valuation Report are fair and reasonable.

Assets/liabilities other than investment in a subsidiary

According to the Valuation Report, the Valuer also adopted book value as the market value of the assets and liabilities other than the investment in a subsidiary. The Valuer consider that there will not be material difference between the book value and the fair value of cash and cash equivalents, other receivables, other payables and amount due to a related party, as those balance are expected to be settled with no material indication of impairment identified as confirmed by the Company. For further details of the Valuer's basis applied to the assets/liabilities other than investment in a subsidiary, please refer to the section headed "Appendix VII – Valuation Report".

Taking into account that i) we have discussed with the independent Valuer about the terms of engagement, and we are of the view that the scope of work is appropriate to the opinion required to be given and not aware of that any limitation on the scope of work which might adversely impact on the work performed by the Valuer; ii) the profile of the Valuer and enquired the valuation standards adopted by the Valuer; iii) the methodology adopted by the Valuer in conducting the valuation and iv) major factors and assumptions considered in the fair value of certain principal items, we consider that the Valuation Report has been prepared by the Valuer on a reasonable basis without any unusual assumption which might lead to material misstatement on the Valuer's opinion of the valuation. In light of the above, we are of the view that the Valuation can be one of the factors for the Independent Board Committee and the Independent Shareholders to assess whether the consideration of the Acquisition is on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

3.4 Additional due diligence performed by us for the Consideration

According to our discussion with the Valuer, market approach is not adopted in the valuation of Ginseng & Iron, since publicly listed companies with similar business as Ginseng & Iron usually conduct both upstream and downstream activities, while Ginseng & Iron only conduct downstream business with the Company as its major supplier, and the Valuer is not aware of any comparable transaction available. However, as a part of our independent due diligence, we use market approach, which is a general method for independent financial advisor's valuation due diligence, to cross check if any material differences between our due diligence results and the Valuation.

According to the Valuation Report, the Valuer selected companies regarding iron and steel product for wind power equipment component industries or relevant activities to determine the WACC and CAPM for their discounted cash flow modelling. We have checked the price-to-earnings ratio ("P/E ratio"), which is a commonly used valuation multiple in evaluating value of a company, of the 11 comparable companies listed in mainland China, and noted that their P/E ratio[1] ranged from 15.64 times to 310.04 times, and its mean and median (excluding the maximum value) were 30.42 times and 21.94 times respectively. The P/E ratio of the Target Group, which is 4.44 times, is significantly lower than those comparable.

Note 1 The P/E ratio is based on the closing share price and the number of outstanding shares on April 24, 2019, being the Latest Practicable Date

Since the Target Group principally engaged in pig iron industry and the Company is a Hong Kong listed company, for our due diligence purpose, we also attempted to compare the P/E ratio implied by the consideration with that of companies listed on the Stock Exchange which are principally engaged in pig iron industry and generate a majority of their respective revenue from such business to cross check the reasonableness of the Consideration. Nevertheless, there is no company which exactly fits the aforesaid criteria. In this case, we have extended the selection criteria to include companies listed on the Stock Exchange, engaging in both iron and steel industry and with a major contribution of revenue in iron and steel businesses. We have, to our best effort, identified and made references to, so far as we are aware, six companies that meet the aforesaid criteria which is exhaustive. However, we have deselected Burwill Holdings Limited (SEHK: 0024), Newton Resources Limited (SEHK: 1231), Add New Energy Investment Holdings Group Limited (SEHK: 2623), China Vanadium Tatano-management Mining Company Limited (SEHK: 893) and Nickel Resources International Holdings Company Limited (SEHK: 2889) due to their net loss or suspension and thus no P/E ratios are available. Details of our analyses are set out in the following table:

Company Name (stock code)	**Principal Business**	**Market Cap** *(HK$ million) (Note 1) (1)*	**Profit After Taxation** *(HK$ million) (Note 2) (2)*	**P/E ratio (3)=(1)/(2)**
Maanshan Iron & Steel Company Limited (323)	Engage in the production and sales of iron and steel products	30,956.7	6,783.0	4.56x
Angang Steel Company Limited (347)	Produce and distribute hot-rolled steel sheet products, cold-rolled steel sheet products, medium and heavy sheets and other steel products in China and overseas markets	40,514.9	9,075.6	4.46x
China Oriental Group Company Limited (581)	Manufacture and sell iron and steel products, trade of steel products and iron ore, develop and sell properties	18,352.3	5,457.3	3.36x
Tiangong International Company Limited (826)	Manufacture and sell high speed steel (HSS), HSS tools, die steel; trade of billet steel and screw steel; manufacture and sell titanium alloy	5,128.9	295.4	17.36x

Company Name (stock code)	Principal Business	Market Cap *(HK$ million) (Note 1) (1)*	Profit After Taxation *(HK$ million) (Note 2) (2)*	P/E ratio (3)=(1)/(2)
Xiwang Special Steel Company Limited (1266) *(Note 5)*	Manufacture and sell ordinary steel products and special steel products; trade of commodities; sell by-products; purchase and sell steel scrap	3,470.8	1,097.4	3.16x
Chongqing Iron & Steel Company Limited (1053)	Manufacture and distribute iron and steel products	12,307.7	2,040.5	6.03x
Maximum				17.36x
Minimum				3.16x
Average				6.49x
Median				4.51x
Target Company *(Note 3)*				4.44x

Notes:

1. Based on the closing share price and the number of outstanding shares on April 24, 2019, being the Latest Practicable Date.

2. Based on the financial information as published in their respective latest annual report or annual performance announcement.

3. The P/E ratio of Target Company represented by the Consideration of HK$1,020.0 million divided by the net profit after taxation of HK$229.5 million (disclosed in the accountants' report on historical financial information of the Target Group for the year ended 31 December 2018).

4. Figures in RMB have been converted into HK$ using the approximate exchange rates of RMB1 to HK$1.141.

As set out in the table above, the P/E Ratio of the comparable companies (the "**Comparables**") ranged from approximate 3.16 times to approximate 17.36 times with a mean of approximately 6.49 times and a median of 4.51 times. The P/E Ratio of the Target Company is approximately 4.44 times, which falls within but a lower-end of the rage of the Comparable's P/E ratios. The P/E ratio of the Target Company is also lower than the mean and similar to the median of the Comparables' P/E ratios.

We have also researched on acquisition transactions announced by companies listed on the Stock Exchange in the past six months immediately preceding the date of the Agreement which involve the acquisition of company which principally engaged in pig iron industry. To our best effort, we have not identified, so far as we are aware, any comparable deals based on the aforesaid selection criteria.

As advised by the Directors, they have performed certain due diligence on the Target Group, including i) engaged the PRC Legal Advisers to conduct legal due diligence; ii) reviewed the legal due diligence report on the Target Group prepared by the PRC Legal Advisers and discussing the due diligence results with the PRC Legal Advisers; iii) reviewed the audited consolidated financial statements of the Target Group prepared in accordance with the International Financial Reporting Standards for the three years ended 31 December 2018; iv) conducted financial due diligence on the Target Group by having management discussion and analysis with the management of the Target Group; v) conducted onsite due diligence, and vi) reviewed the valuation report and enquired into the valuer on the methodology, basis and assumptions adopted therein.

Given the fact that i) the principal terms of the Agreement are determined by the parties involved after arms-length negotiation; ii) the Directors have made reference to several factors, among others, the prospect of the relevant industry and iii) the evaluation of the Consideration of the Target Group using price-to-earnings ratio is within the range of the comparable companies, we concur with the view of the Directors that the principal terms of the Agreement and the consideration for the Acquisition is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3.5 Possible Financial Effects of the proposed Transaction

Net Asset Value

According to the 2018 Annual Report, the net assets of the Company were approximately RMB1,540.9 million as at 31 December 2018, and it is expected that the net asset of the Company, with reference to the Pro Forma Information, would decrease to approximately RMB518.8 million upon the Completion assuming Completion was to take place on 31 December 2018.

Earnings

Having considered the recent financial performance of the Target Company, more particularly, the net profit generated by Target Company for the two years ended 31 December 2018 as described above, it is expected that the Acquisition would improve the profitability of the Company.

Based on the audited pro forma consolidated statement of comprehensive income of the Enlarged Group as set out in Appendix VI to this Circular, assuming Completion was to take place on 1 January 2018, for the twelve months ended 31 December 2018 after the Proposed Transaction, the Enlarged Group's pro forma revenues would increase from approximately RMB1,165.5 million to approximately RMB2,828.3 million, while the net profit would increase from approximately RMB174.0 million to approximately RMB386.9 million.

Net current liabilities

Based on the Accountant's Report of the Target Company, we noted that the Target Company recognized net current liabilities of RMB540.8 million, RMB358.1 million, RMB62.0 million for the three years ended 31 December 2018. There was an amount due from a related party of RMB422.5 million and RMB554.1 million included in the non-current asset as at two years ended at 31 December 2017 respectively, in 2018, such amount transferred to current asset of an amount of RMB564.3 million, which led to the significant decrease in net current liabilities.

With reference to the audited Pro Forma Statement of Asset and Liabilities of the Enlarged Group, we noted that the Enlarged Group recognized net current liabilities of RMB737.0 million as at 31 December 2018, which is mainly attribute to i) net current liabilities recognized by the Target Company of RMB62.0 million as at 31 December 2018 and ii) the consideration of RMB1,020 million to be paid for the Acquisition. (To be updated)

As advised by the Directors, taking into account that i) the Target Group has strong historical financial performance for the three years ended 31 December 2018, recording a growth in revenue of 36.90% and 9.54% for the two year ended 31 December 2018 respectively, and a growth in net profit of 94.85% and 30.95% the two year ended 31 December 2018 respectively; ii) Fushun Hanking D.R.I. has been carrying out technology improvements in 2019, expecting to increase output from the current 560,000 tons to approximately 630,000 tons in 2020, indicating a promising development of the Target Group after the Acquisition; iii) the reasons mentioned under the section headed "Reasons for and benefits of the Acquisition"; iv) the available banking facilities of RMB917.0 million and RMB95.0 million of the Company and the Target Group respectively as at 31 December 2018; v) the cash generated from the operating activities of the Target Group is RMB415.3 million for the year ended 31 December 2018; vi) the cash generated from the operating activities of Enlarged Group is RMB1,416.9 million according to the Pro Forma Statement of Cash Flows of the Enlarged Group for the year ended 31 December 2018; vii) The Controlling Shareholders themselves or/and their directly or indirectly controlled entities agreed to provide unconditional financial support (including but not limited to the provision of unsecured, unguaranteed and interest-free shareholders' loan of RMB650,000,000, with term not less than one year) to the Target Group for a period of 12 months after the issuance of the accountants' report in Appendix V. In addition, the Company has agreed on the condition that the Company's proposed acquisition of the entire 100% equity interests in the Target Group became successful, to provide sufficient funds to the Target Group so that the Target Group will be able to meet all current obligations as they fall due in the coming twelve months after the year ended 31 December 2018; viii) the management confirmed that the Target Group will have sufficient working capital for its operation according to their projection from April 2019 to March 2020; and ix) the projected free cash outflow for the Target Group is of RMB183.6 million for the year ended 31 December 2019, while the free cash inflows from the Target Group are RMB188.7 million, RMB240.4 million, RMB253.4 million, RMB243.8 million for the four years ended 31 December 2023. Therefore, we concur with the Directors that the net current liability position of the Target Group and the Enlarged Group will not have material negative impact to the business of the Group upon the Completion.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Company will be upon Completion. Independent Shareholders should refer to the key assumptions and bases used in preparing the Pro Forma Information.

Based on the above analysis, the Acquisition would have positive financial impact to the Company, and we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATIONS

Having considered the above factors and reasons set out above, we are of the opinion that insofar as the Acquisition is concerned, though the entering into of the Agreement is not in the ordinary and usual course of business of the Group, the terms of the Agreement are on normal commercial terms, and are fair, reasonable and in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the resolutions to approve the Agreement and the Acquisition at the Annual General Meeting.

Yours faithfully,
For and on behalf of
Fortune Financial Capital Limited
Yang Peng
Director
Investment Banking Department

Mr. Yang Peng is a licensed person of the Securities and Future Commission of Hong Kong and a Responsible Officer of Fortune Financial Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity as defined under the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong), and has over 9 years of experience in corporate finance in Hong Kong.

The followings are the particulars of the retiring Directors who offered themselves for re-election at the Annual General Meeting.

Mr. Yang Jiye ("Mr. Yang"), aged 41, is an executive Director, Chairman of the Board and chief executive officer and president of the Company. Meanwhile, he is also the chairman of the board of directors of Fushun Hanking Aoniu Mining Limited ("**Aoniu Mining**"), director of Hanking Australia Investment, HGM Resources Pty Ltd, Primary Gold Limited, Liaoning Hanking Green Building Materials Co., Ltd. (遼寧罕王綠色建材有限公司) and Hanking (Indonesia). Mr. Yang is currently serving as the chairman of the board of directors of Liaoning Hanking. Mr. Yang is the chairman of the Nomination Committee and member of the health, safety, environmental protection and community committee of the Company. With his previous and current positions in the Group, he has more than 16 years of experience in corporate governance and management. As at the Latest Practicable Date, Mr. Yang is interested in a long position of 1,100,241,500 Shares and a long position of 6,300,000 shares in Hanking Australia Investment required to be disclosed pursuant to Part XV of the SFO. Mr. Yang is the son of Ms. Yang, a controlling shareholder of the Company.

Mr. Yang has entered into a director service agreement with the Company for a term of three years commencing from 17 March 2018 which is subject to termination in accordance with the terms thereof. Mr. Yang's directorship is also subject to the retirement by rotation and re-election at annual general meeting of the Company in accordance with the Articles of Association. Mr. Yang is not entitled to any director's fee, but he is entitled to receive a salary of RMB1,912,000 per annum for his management services to the Group and a discretionary bonus as approved by the Board. Mr. Yang's annual emolument would be determined with reference to various factors such as his duties and performance as well as comparable market conditions and based on the recommendation from the Remuneration Committee and subject to the annual review conducted by the Remuneration Committee.

Mr. Xia Zhuo ("Mr. Xia"), aged 53, is an executive Director and vice president of the Company and the president of Hanking (Indonesia). He is responsible for daily administrative matters of the Group. He is currently serving as the director of Aoniu Mining, and the supervisor of Harvest Globe (Shenyang) Trading Co., Ltd., PT Konutara Sejati and PT Karyatama Konawe Utara. In addition, he is also serving as the director of Hanking Group. Mr. Xia has obtained more than 22 years of experience in the mining industry. As at the Latest Practicable Date, Mr. Xia is interested in a long position of 19,190,589 Shares required to be disclosed pursuant to Part XV of the SFO.

Mr. Xia has entered into a director service agreement with the Company for a term of three years commencing from 17 March 2018 which is subject to termination in accordance with the terms thereof. Mr. Xia's directorship is also subject to the retirement by rotation and re-election at annual general meeting of the Company in accordance with the Articles of Association. Mr. Xia is not entitled to any director's fee, but he is entitled to receive a salary of RMB960,000 per annum for his management services to the Group and a discretionary bonus as approved by the Board. Mr. Xia's annual emolument would be determined with reference to various factors such as his duties and performance as well as comparable market conditions and based on the recommendation from the Remuneration Committee and subject to the annual review conducted by the Remuneration Committee.

Mr. Wang Ping ("Mr. Wang"), aged 48, is an independent non-executive Director of the Company. He is a non-practicing member of the Chinese Institute of Certified Public Accountants. Mr. Wang has over 22 years of experience in corporate finance, audit and accounting. Mr. Wang is currently acting as the non-executive director of Chongyi Zhangyuan Tungsten Co., Ltd. (SZSE: 002378), a company listed on the Shenzhen Stock Exchange and Bojun Education Company Limited (HKSE: 1758), being a company listed on the Stock Exchange, and the independent non-executive director of Shenzhen Zowee Tech. Co., Ltd. (SZSE: 002369) and Yunnan Energy New Materials Co., Ltd. (formerly known as "Yunnan Chuangxin New Material Co., Ltd.") (SZSE: 002812), both being companies listed on the Shenzhen Stock Exchange, as well as China Sinostar Group Company Limited (HKSE: 485), China Tianrui Group Cement Company Limited (HKSE: 1252) and Tourism International Holdings Limited (formerly known as "Jia Yao Holdings Limited") (HKSE: 1626), all being companies listed on the Stock Exchange. He acted as independent non-executive director of Shenzhen Fuanna Bedding and Furnishing Co., Ltd. (SZSE: 002327) from December 2013 to September 2017 and Chongyi Zhangyuan Tungsten Co., Ltd. (SZSE: 002378) from November 2010 to May 2017, and the independent non-executive director and the non-executive director of Sichuan Crun Co., Ltd. (SZSE: 002272) from March 2016 to August 2017 and from August 2017 to March 2019 respectively, all being companies listed on the Shenzhen Stock Exchange. Mr. Wang graduated from Nanjing University (南京大學) majoring in Economics and Management in 1993 and obtained a master's degree in business administration from Lingnan (University) College of Sun Yat-Sen University (中山大學嶺南(大學)學院) in 2004. Mr. Wang is the chairman of the Remuneration Committee and the Audit Committee.

Mr. Wang has entered into a director service agreement with the Company for a term of three years commencing from 17 March 2018 which is subject to termination in accordance with the terms thereof. Mr. Wang's directorship is also subject to the retirement by rotation and re-election at annual general meeting of the Company in accordance with the Articles of Association. The director's fee of Mr. Wang is HK$250,000 per year, and his annual emolument would be determined with reference to various factors such as his duties and performance as well as comparable market conditions and based on the recommendation from the Remuneration Committee and subject to the annual review conducted by the Remuneration Committee.

Save as disclosed above and as at the Latest Practicable Date, none of the Directors mentioned above had and was deemed to have any interest or short position in any Shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), nor did they have any interest in the debenture of the Company and its associated corporations.

Save as disclosed above and immediately before the Latest Practicable Date, none of the Directors mentioned above has held any directorships in any other listed public companies in the last three years or any other positions with the Company or other members of the Group, nor did they have any other relationship with other Directors, senior management, substantial or controlling shareholders of the Company.

Save as disclosed above, there is no other matter regarding the re-election of these Directors that needs to be brought to the attention of the Shareholders, nor is there any other information to be disclosed by the Company pursuant to any of the requirements under Rule 13.51(2)(h) to (v) of the Listing Rules.

The following is an explanatory statement required to be sent to the Shareholders by the Listing Rules in connection with the proposed Repurchase Mandate.

SHARE CAPITAL

As at the Latest Practicable Date, the share capital of the Company in issue comprised 1,827,829,000 Shares of nominal value of HK$0.10 each. Subject to the passing of the resolution granting the Repurchase Mandate and on the basis that no further Shares are issued or repurchased after the Latest Practicable Date and up to the Annual General Meeting, the Company will be allowed to repurchase a maximum of 182,782,900 Shares on market/Stock Exchange which represent 10% of the issued share capital of the Company during the period ending on the earlier of (i) the conclusion of the next annual general meeting of the Company; or (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the Articles of Association to be held; or (iii) the revocation or variation of the authority by an ordinary resolution of the Shareholders at a general meeting of the Company.

REASONS AND FUNDING OF REPURCHASES

The Directors believe that it is in the best interests of the Company and the Shareholders as a whole to seek a general authority from the Shareholders to enable the Company to repurchase the Shares. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or its earnings per Share and will only be made when the Directors believe that such a repurchase will benefit the Company and the Shareholders as a whole.

Repurchases of Shares will be financed out of funds legally available for the purpose and in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands. Under the laws of the Cayman Islands, repurchases by the Company may only be made out of the profits of the Company or out of the proceeds of a fresh issue of Shares made for the purpose, or, if so authorised by the Articles of Association and subject to the provisions of the laws of the Cayman Islands, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of profits of the Company or out of the Company's share premium account, or, if so authorised by the Articles of Association and subject to the provisions of the laws of the Cayman Islands, out of capital.

The Directors have no present intention to repurchase any Shares and they would only exercise the power to repurchase in circumstances where they consider that the repurchase would be in the best interests of the Company and the Shareholders as a whole. The Directors consider that if the Repurchase Mandate was to be exercised in full, it may not have an adverse impact on the working capital and/or the gearing position of the Company, as compared with the positions disclosed in the audited consolidated financial statements of the Company as at 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up. The Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

GENERAL

To the best of their knowledge, having made all reasonable enquiries, none of the Directors or any of their close associates, as defined in the Listing Rules, currently intends to sell any Shares to the Company or its subsidiaries, if the Repurchase Mandate is approved by the Shareholders.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the power of the Company to make purchases under the Repurchase Mandate in accordance with the Listing Rules, the Articles of Association and the applicable laws of the Cayman Islands.

No core connected person, as defined in the Listing Rules, has notified the Company that he or she has a present intention to sell any Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is approved by the Shareholders.

TAKEOVERS CODE

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of Rule 32 of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert (within the meaning of the Takeovers Code), depending on the level of increase of the Shareholder's interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, to the best knowledge and belief of the Directors, Ms. Yang Min ("Ms. Yang") was deemed to be interested in a long position of 219,845,166 Shares and Mr. Yang Jiye ("Mr. Yang"), the son of Ms. Yang, was deemed to be interested in a long position of 1,100,241,500 Shares within the meaning of Part XV of the SFO, representing a total of approximately 72.22% of the issued share capital of the Company. In the event that the Directors exercised in full the Repurchase Mandate, the aggregate interests of Ms. Yang and Mr. Yang in the Company will be increased to approximately 80.25% of the issued share capital of the Company. To the best knowledge and belief of the Directors, such increase will not give rise to an obligation to make a mandatory offer under the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a result of any repurchase of Shares pursuant to the Repurchase Mandate.

The Listing Rules prohibit a company from making repurchase on the Stock Exchange if the result of the repurchase would be that less than 25% (or such other prescribed minimum percentage as determined by the Stock Exchange) of the issued share capital would be in public hands. The Directors do not propose to repurchase Shares which would result in less than the prescribed minimum percentage of Shares in public hands.

SHARE REPURCHASE MADE BY THE COMPANY

The Company repurchased a total of 1,205,000 Shares on the Stock Exchange on 10 and 11 December 2018, and cancelled such Shares on 28 December 2018. Details were as follows:

Date of repurchase	Number of Shares repurchased	Price per Share Highest *(HK$)*	Price per Share Lowest *(HK$)*	Aggregate repurchase price *(HK$)*
10 December 2018	574,000	0.89	0.83	503,470
11 December 2018	631,000	0.90	0.90	567,900

Save as disclosed above, no repurchases of Shares have been made by the Company in the 6 months prior to the Latest Practicable Date (whether on the Stock Exchange or otherwise).

SHARE PRICES

The highest and lowest prices at which the Shares have been traded on the Stock Exchange during the 12 calendar months preceding the Latest Practicable Date were as follows:

Month	Highest prices *HK$*	Lowest prices *HK$*
2018		
April	1.13	1.00
May	1.11	1.01
June	1.08	0.85
July	1.02	0.85
August	1.08	0.90
September	1.08	0.96
October	1.02	0.81
November	0.98	0.80
December	1.01	0.68
2019		
January	1.05	0.90
February	1.03	0.94
March	0.99	0.86
April (up to the Latest Practicable Date)	1.01	0.91

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2016, 2017 and 2018 are disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Group (www.hankingmining.com):

- The annual report of the Group for the year ended 31 December 2018 dated 29 April 2019 (pages 78 to 196);
- The annual report of the Group for the year ended 31 December 2017 published on 17 April 2018 (pages 80 to 179); and
- The annual report of the Group for the year ended 31 December 2016 published on 19 April 2017 (pages 90 to 167).

2. STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 28 February 2019, being the latest practicable date for the purpose of ascertaining the indebtedness of the Enlarged Group, the Enlarged Group had total outstanding interest-bearing bank borrowings of approximately RMB1,526,500,000.

The following table sets forth a breakdown of the Enlarged Group's borrowings as at 28 February 2019:

	The Group	**The Target Group**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Unsecured and guaranteed	68,000	110,000	178,000
Secured and unguaranteed	288,000	28,500	316,500
Secured and guaranteed	752,500	279,500	1,032,000
	1,108,500	418,000	1,526,500

Amounts due to related parties – non-trade nature

As at 28 February 2019, the Group and the Target Group had outstanding amounts due to related parties-non-trade nature of approximately RMB9,506,000 and RMB128,757,000, respectively, which were both unsecured and unguaranteed.

Lease liabilities

As at 28 February 2019, the Enlarged Group, as a lessee, has outstanding unpaid contractual lease payments* amounting to RMB23,942,000 in aggregate (excluding contingent rental arrangement) in relation to the remaining lease terms of certain lease contracts, which is secured by rental deposits and unguaranteed.

* *This is the undiscounted amount and has taken into account all assessments under IFRS 16.*

Financial guarantees

As at 28 February 2019, the Enlarged Group provided financial guarantees to several related parties controlled by Mr. Yang Jiye and Ms. Yang Min. The amount of the financial guarantees provided is RMB48,000,000.

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not, as at 28 February 2019, have any material outstanding (i) debt securities, whether issued and outstanding, authorised or otherwise created but unissued or term loan; (ii) other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits; (iii) mortgage or charge; (iv) guarantees or other contingent liabilities.

The Directors are not aware of any material change in the indebtedness and contingent liability position of the Enlarged Group since 28 February 2019.

3. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that after taking into account the present internal resources, cash flow from operations, available credit facilities available and the unconditional financial support pursuant to a letter of undertaking (the "Letter of Undertaking") dated 15 April 2019 issued by Mr. Yang and Ms. Yang, the controlling shareholders of the Company and the Target Company, pursuant to which Mr. Yang and Ms. Yang agreed to provide unsecured, unguaranteed and interest-free unconditional financial support to the Group for the purpose of the Group's working capital from time to time, in any situation where the Enlarged Group may encounter a shortfall in working capital as well as the effect of the Acquisition, the Enlarged Group will have sufficient working capital for its present requirements, that is for at least the next twelve months from the date of this circular, in the absence of any unforeseeable circumstances.

4. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis on the Group for the three years ended 31 December 2018. For further financial information of the Group, please refer to the section headed "Management Discussion and Analysis" of the Company's annual reports for the years ended 31 December 2016, 2017 and 2018.

For the year ended 31 December 2018

Financial review

For the year ended 31 December 2018, the revenue from continuing operations of the Group recorded approximately RMB1,165.49 million, representing an increase of approximately 10.39%, as compared with approximately RMB1,055.76 million in the corresponding period in 2017. The increase was mainly attributable to increase of average sell price and output of iron ore concentrates during the period.

The gross profit from continuing operations of the Group for the year ended 31 December 2018 was approximately RMB510.30 million, representing an increase of approximately RMB29.75 million or approximately 6.19%, as compared with approximately RMB480.55 million in the corresponding period in 2017. The profit after taxation from continuing operations of the Group for the year ended 31 December 2018 was approximately RMB184.92 million, representing an increase of approximately RMB54.86 million or approximately 42.18%, as compared with approximately RMB130.06 million in the corresponding period in 2017.

Segment Information

Iron Ore Business

In 2019, the increase in imported iron ore concentrates will slow down with the decreasing flexibility of the total supply of domestic iron ore concentrates. Driven by the supply-side structural reform, the demand for medium- and high-grade iron ore will further increase which is beneficial to high-quality iron ore concentrate producers including Hanking.

The Group completed phase four technology improvement of Maogong Mine as scheduled so as to ensure a steady enhancement in production. Hanking conducted various measures to control costs, including increasing the iron ore output of high-quality Maogong Mine, optimizing the management model that encourages the initiation of teams and individuals and strengthening the inventory management and thus continued to maintain the low-cost competitive advantages of the Company.

Benefiting from the premium from higher grade with lower with low content of sulfur, phosphorus and other impurity substance and a favourable market condition of its iron ore concentrate products, so as to ensure stable operation and development of the iron ore business.

As of the end of 2018, the Group owned approximately 99,978 thousand metric tons of iron ore resources while the differences from the resource amount at the end of 2017 was mainly due to the reduction in the resource amount owned by Xingzhou Mine that was disposed of. As of the end of 2018, the Group owned 43,900 thousand metric tons of JORC Code-compliant iron ore reserves while the differences from the resource amount at the end of 2017 was mainly due to the reduction of the reserved amount owned by Xingzhou Mine that was disposed of.

Gold Business

In the first half of 2018, the continued increase in the US dollar index suppressed the gold price. However, US stocks declined sharply since the fourth quarter while the yield on three-year and five-year US Treasury inverted. The United States suspended the tightening of its monetary policies. International gold price rebounded from August and the London gold price closed at US$1,278 per ounce at the end of the year and continued to rise steadily in early 2019.

Pursuant to the established strategy, the Company has been proactively developing the precious metal sector, in an effort to create maximum value for the shareholders. In June 2018, the acquisition of all issued shares of PGO was completed. The acquisition price of PGO by the Company, i.e. AUD5.75 cents per share, was lower than AUD8.8 cents per share, the evaluation price by an Australian independent agency. Compared with the SXO project sold, the project resources of PGO are more concentrated which is beneficial to the management and cost reduction.

As at the end of 2018, PGO had JORC Code-compliant resources of approximately 2 million ounces of gold at an average grade of 1.1 gram/ton and ore reserve of approximately 0.23 million ounces of gold at an average grade of 3.9 gram/ton.

Liquidity, financial resources and capital structure

For the year ended 31 December 2018, the Group managed its capital to ensure that the group entities would be able to continue as a going concern while maximizing the return to Shareholders through the optimisation of the debt and equity balances. The management of the Group reviewed the capital structure on an annual basis by considering the cost of capital and the risks associated with each class of capital.

As at 31 December 2018, the Group incurred net current assets of approximately RMB351.49 million, representing an increase of approximately RMB23.73 million or approximately 7.24%, as compared with approximately RMB327.76 million as at 31 December 2017.

As at 31 December 2018, there were RMB1,108.50 million short term interest-bearing bank borrowings owed by the Group, all of which are the fixed-rate bank loans. The gearing ratio, as calculated by dividing total liabilities by total assets, of the Group decreased from 64.35% as at 31 December 2017 to 58.17% as at 31 December 2018.

Pledge of assets

At the end of 2017 and 2018, the Group has pledged certain assets as securities for obtaining the bank borrowings and issuing of bills. Details of the pledged assets and the corresponding carrying amounts are set out below:

	Carrying amounts	
	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Mining rights	16,054	102,999
Available-for-sale investments	–	406,794
Financial assets at FVTPL	459,993	–
Pledged bank deposits	23,178	45,451
Prepaid lease payments	16,740	19,003
Property, plant and equipment	99,077	112,836
Bills receivables	–	245,164
Receivables at FVTOCI	275,014	–

Employees

As at 31 December 2018, the Group maintained an aggregate of 880 employees as compared with 978 employees as at 31 December 2017.

During the year ended 31 December 2018, the staff costs from continuing operations (including directors' remuneration in the form of salaries and other allowances) were approximately RMB119.44 million, representing an increase of approximately 30.55% as compared with approximately RMB91.49 million in the corresponding period in 2017. The increase was mainly attributable to the termination compensation incurred from the dismissal of production personnel of the Group during the period.

The salary and bonus policy of the Group is principally determined by the performance and working experience of the individual employee and with reference to prevailing market conditions.

Major risks

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

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

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

Foreign exchange risk: As at 31 December 2018, the reporting currency of the Group was RMB. Since RMB is not freely convertible, the risk that the Chinese government may take measures to interfere exchange rates may bring effects to the Group's net asset value, profit and the dividends declared to the extent that such dividends are subject to foreign exchange. In addition, the Group owns assets in Indonesia and Australia. Their assets and liabilities are denominated in Indonesian Rupiah and AUD respectively, which are subject to fluctuation in the foreign exchange rate and may affect the net assets value and profit of the Group to some extent. The management of the Group will continue to monitor the currency matching between the revenue and costs of the Group and exchange risks, and may consider taking appropriate measures to hedge material exchange risks when necessary.

Significant investment held

Save for the equity interests in two companies listed on Australian Securities Exchange held by the Group, the Group did not hold any significant investment as at 31 December 2018.

Material acquisition and disposal

In February 2018, Hanking Australia Investment, a subsidiary of the Company, and PGO, a company listed on the Australian Securities Exchange, through friendly negotiations, have entered into (i) the Bid Implementation Agreement, under which Hanking Australia Investment has agreed to make a recommended conditional takeover bid for all of the issued shares of PGO at an offer price of AUD0.0575 per share in cash; and (ii) in conjunction with the Bid Implementation Agreement, the Loan and Facility Agreement, pursuant to which Hanking Australia Investment has agreed to provide PGO with an unsecured loan facility of AUD1,500,000 to assist PGO in funding its short term capital needs and the working capital needs of other approved projects during the offer period. On 8 June 2018, the acquisition of all of PGO's shares was eventually completed. The total consideration for the acquisition of PGO was AUD35,386,000.

Aoniu Mining, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with an independent third party on 13 April 2017 to dispose of all its equity interests in Xingzhou Mining. The total consideration of the disposal was RMB360,000,000 with reference to the unaudited total assets of Xingzhou Mining and the shareholder's loan as at 28 February 2017. Aoniu Mining will receive RMB360,000,000 as a result of the disposal, including the recovery of the shareholder's loan at a sum of RMB340,000,000 and the equity consideration of RMB20,000,000. During the year, the above-mentioned disposal was completed, and a gain on disposal of RMB13,732,000 was recognised by the Group. Given the pledge over the mining rights and equipment, the registration of change of mining rights and registration of equity change of Xingzhou Mining are in process. As agreed in the agreement, RMB130,000,000 of the consideration has not been paid. The amount was included in other receivables by the Group.

On 5 July 2018, the Company entered into a share sale and purchase agreement with Tuochuan Capital and Mr. Yang Jiye (as the guarantor), pursuant to which, the Company has agreed to sell, and Tuochuan Capital has agreed to purchase, 70% equity interests of Hanking (Indonesia) for a total consideration of RMB350,000,000. It is expected that the Company will record a premium of approximately RMB130,000,000 as a result of the disposal. As the purchaser of the transaction is a controlling shareholder of the Company, the difference between the sale price and the profit attributable to the Company (i.e. the above-mentioned premium arising from the disposal) shall be credited to capital surplus. Accordingly, the Company will not record any profit or loss as a result of the disposal. The transaction was considered and approved by the independent shareholders of the Company at the extraordinary general meeting held on 24 August 2018. As of 31 December 2018, as one of the conditions precedent of the transaction, i.e. 99% equity interests of Ginseng & Iron having been pledged to the Company, was not satisfied, the transaction did not proceed to completion. The relevant assets and liabilities of the nickel mines in Indonesia have been classified as assets classified as held for sale and liabilities associated with assets classified as held for sale and are separately presented in the consolidated statement of financial position.

Save as aforesaid, the Group had no other material acquisitions or disposals of subsidiaries and associated companies during the year of 2018.

Contingent liabilities

As at 31 December 2018, the Group had no material contingent liabilities.

For the year ended 31 December 2017

Financial review

For the year ended 31 December 2017, the revenue from continuing operations of the Group recorded approximately RMB1,091.03 million, representing an increase of approximately 34.33%, as compared with approximately RMB812.22 million in the corresponding period in 2016. The increase was mainly attributable to increase of average sell price and commencement of sales in nickel business during the period.

The gross profit from continuing operations of the Group for the year ended 31 December 2017 was approximately RMB499.89 million, representing an increase of approximately RMB261.39 million or approximately 109.60%, as compared with approximately RMB238.50 million in the corresponding period in 2016. The profit after taxation from continuing operations of the Group for the year ended 31 December 2017 was approximately RMB99.96 million, representing a significant increase of approximately RMB320.11 million as compared with loss after taxation from continuing operations approximately RMB220.15 million in the corresponding period in 2016.

Segment Information

Iron Ore Business

In 2017, the price of imported iron ore in China went up before heading down, showing an overall trend of declining amid fluctuations and rising troughs. In 2017, the main strategy of the iron ore business was to significantly increase the iron ore concentrate output of its key mine, Maogong Mine, continue to carry out production technology improvement to improve the grade of iron ore concentrates and lower impurities.

Through continuous technology improvements, Maogong Mine of the Group has achieved steady growth in output, leading to continuous increase in the output of iron ore concentrates. In 2017, the sales volume of iron ore concentrates amounted to approximately 1,768 thousand metric tons (2016: 1,790 thousand metric tons).

During 2017, there was no material change in the resources and reserves of the iron ore business as compared to that at the end of 2016.

Gold Business

In 2017, the performance of gold price remained volatile within narrower range. With the announcement of the third interest hike by the Federal Reserve Board on 14 December 2017, the declining trend in gold price was halted the same night, and the gold price rallied and then surged to US$1,302/ounce on 29 December 2017.

By seizing favorable market conditions, the Company closed a deal for acquisition of the SXO Gold Project's assets at the price of AUD19.7 million in 2013. Through rational exploration and development, the SXO Gold Project was successfully put into commercial production and achieved substantial growth in its market values. Again the Company used a favorable market window to sell the SXO Gold Project at an enterprise value of AUD330 million in 2017. The Company realized an investment gain of approximately RMB763,223,000 within a 4-year investment cycle.

Besides SXO Gold Project, the Company held some equity interests in several listed companies in Australia through Hanking Australia Investment, including a shareholding of approximately 8.4% of PGO.

Nickel Business

In 2017, the domestic nickel market showed a trend of rising after decline. Nickel price registered slight increase in 2017. LME nickel price began the year at US$10,295/metric ton, and then surged to US$12,645/metric ton at the end of the year, representing an increase of approximately 23%. For the performance of nickel price for the whole year, it began to surge in early June 2017, and reached the peak of the year at US$12,680/metric ton on 3 November 2017, hitting a new high for the last two years.

In light of the demands for nickel ore in Indonesia, the nickel business of the Company initiated preparatory works to resume production in early 2017. PT Konutara Sejati and PT Karyatama Konawe Utara, both being non-wholly owned subsidiaries of the Company, joined hand with independent third parties to develop nickel resources in accordance with the cooperation agreements entered into among them. The nickel business resumed production in August 2017. In 2017, the nickel business produced in aggregate approximately 259 thousand metric tons, and sold approximately 223 thousand metric tons of nickel ore.

During 2017, there was no material change in the resources and reserves of the nickel ore business as compared to that at the end of 2016.

Liquidity, financial resources and capital structure

For the year ended 31 December 2017, the Group managed its capital to ensure that the group entities would be able to continue as a going concern while maximizing the return to Shareholders through the optimisation of the debt and equity balances. The management of the Group reviewed the capital structure on an annual basis by considering the cost of capital and the risks associated with each class of capital.

As at 31 December 2017, the Group incurred net current assets of approximately RMB327.76 million as compared to the net current liabilities of approximately RMB745.25 million as at 31 December 2016.

As at 31 December 2017, there were RMB445.00 million long term and RMB1,134.45 million short term interest-bearing bank borrowings owed by the Group and the fixed-rate bank loans were RMB1,579.45 million. The gearing ratio, as calculated by dividing total liabilities by total assets, of the Group decreased from approximately 79.25% on 31 December 2016 to approximately 64.35% on 31 December 2017.

Pledge of assets

At the end of 2016 and 2017, the Group has pledged certain assets as securities for obtaining the bank borrowings and issue of bills. Details of the pledged assets and the corresponding carrying amounts are set out below:

	Carrying amounts	
	31/12/2017	**31/12/2016**
	RMB'000	*RMB'000*
Mining rights	102,999	248,915
Available-for-sale investments	400,000	400,000
Pledged bank deposits	45,451	43,692
Restricted deposits	–	7,070
Prepaid lease payments	19,003	64,271
Property, plant and equipment	112,836	196,191
Bills receivables	245,164	9,000

At the end of 2016 and 2017, save as disclosed above, the carrying amounts of mining rights and property, plant and equipment eliminated upon transfer to assets classified as held for sale that were pledged as security for bank borrowings are RMB173,507,000 and RMB27,179,000 respectively.

Employees

As at 31 December 2017, the Group maintained an aggregate of 978 employees as compared with 1,265 employees at 31 December 2016.

During the year ended 31 December 2017, the staff costs from continuing operations (including directors' remuneration in the form of salaries and other allowances) were approximately RMB136.79 million, representing an increase of approximately 18.49% as compared with approximately RMB115.44 million in the corresponding period in 2016.

The salary and bonus policy of the Group is principally determined by the performance and working experience of the individual employee and with reference to prevailing market conditions.

Major Risk

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

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

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

Foreign exchange risk: As at 31 December 2017, the reporting currency of the Group was RMB. Since RMB is not freely convertible, the risk that the Chinese government may take measures to interfere exchange rates may bring effects to the Group's net asset value, profit and the dividends declared to the extent that such dividends are subject to foreign exchange. In addition, the Group owns assets in Indonesia and Australia. Their assets and liabilities are denominated in Indonesian Rupiah and AUD respectively, which are subject to fluctuation in the foreign exchange rate and affect net assets value and profit of the Group to some extent. The management of the Group will continue to monitor the currency matching between the revenue and costs of the Group and exchange risks, and may consider taking appropriate measures to hedge material exchange risks when necessary.

Significant investment held

Save for the equity interests in three companies listed on Australian Securities Exchange held by the Group, the Group did not hold any significant investment as at 31 December 2017.

Material acquisition and disposal

On 15 February 2017, the Company and the other vendors entered into a share sale agreement with the purchaser (Shandong Tianye Group Bid Co Pty Ltd) and the guarantor (Shandong Tianye Real Estate Development Group Co., Ltd., the ultimate holding company of the purchaser), to sell 100% of the shares in Hanking Australia (which held the SXO Gold Project and its assets) at an enterprise value of AUD330 million. The disposal of all the equity interests in the SXO Gold Project was completed in April 2017, and the closing base date agreed by both parties was 31 March 2017. Therefore, the results of Hanking Australia and its subsidiaries will no longer be consolidated into the consolidated financial statements of the Group after 1 April 2017. Through the disposal, the Company recorded an investment gain of approximately RMB763,223,000.

Aoniu Mining, a wholly-owned subsidiary of the Company, entered into an equity interest transfer agreement with an independent third party on 13 April 2017 to dispose of all its equity interests in Xingzhou Mining. The total consideration of the disposal was RMB360,000,000 with reference to the unaudited total assets of Xingzhou Mining as at 28 February 2017 and the shareholder's loan. Aoniu Mining will receive RMB360,000,000 as a result of the disposal, including the recovery of the shareholder's loan at a sum of RMB340,000,000 and the equity consideration of RMB20,000,000. As of 31 December 2017, as the pledge of some equity interests has not yet been released, and the assets and liabilities attributable to Xingzhou Mining have been classified as a disposal subsidiary held for sale and are separately presented in the consolidated statement of financial position.

Save as aforesaid, the Group had no other material acquisitions or disposals of subsidiaries and associated companies during the year of 2017.

Contingent liabilities

As at 31 December 2017, the Group had no material contingent liabilities.

For the year ended 31 December 2016

Financial review

For the year ended 31 December 2016, the revenue of the Group recorded approximately RMB1,707.20 million, representing an increase of approximately 39.96%, as compared with approximately RMB1,219.75 million in the corresponding period in 2015. The increase was mainly attributable to increase in revenue from the gold business as the gold business was in overall production for the whole year of 2016.

The gross profit of the Group for the year ended 31 December 2016 was approximately RMB295.58 million, representing an increase of approximately RMB5.05 million or approximately 1.74%, approximately RMB290.53 million in the corresponding period in 2015. The loss after taxation of the Group for the year ended 31 December 2016 was approximately RMB213.88 million, as compared with approximately RMB401.68 million in the corresponding period in 2015.

Segment Information

Iron Ore Business

In 2016, the price of iron ores showed a trend of wide fluctuations in line with performance of the steel marketplace, yet the prices were more flexible due to various factors such as government policies, seasonal fluctuation and capital market.

The Group continued its expansion in Maogong Mine production, maintained the advantage of low-cost operations of the iron ore business and pushed forward the construction of key projects so as to ensure stable and smooth production of the core operating mines.

During 2016, there was no material change in the resources and reserves of the iron ore business as compared to that at the end of 2015.

Nickel Business

In 2016, nickel price bottomed out following a declining trend in 2015, with its annual growth rate ranking among the best of base metals. In June 2016, the Philippine government implemented remedial measures towards the mines with severe pollution problems in the country. As of December 2016, more than 30 mines in the country were closed due to pollution problems, which almost covered over 50% of the nickel production capacity in Philippines. Due to the significant decrease in nickel supply, the international nickel price went up amidst fluctuations. On the other hand, the supply-side reform implemented in China boosted the prices of black metals to surge, while the downstream stainless steel price gradually picked up in line with rising costs. Due to the combined effect of upstream and downstream factors, the global nickel price surged up, with the nickel price once reaching a peak of US$12,145/metric ton, recording a new height since July 2015.

The nickel business focused on enhancement of its mining capability and construction of the infrastructure, with an annual mining capacity of 5 million metric tons. In 2016, in light of signs of improvement in the laterite nickel market in Indonesia with the commencement of new nicke l smelting facilities, the Group refocused on preparation to resume mining production activities. Some preliminary preparation work for the resumption of production pursuant to the resolution of the Board was carried out during 2016, and the team conducted various business discussions with a number of potential partners to promptly explore the world-class nickel resources.

During 2016, there was no material change in the nickel resources and reserves of the Group as compared to the corresponding period last year.

Liquidity, financial resources and capital structure

For the year ended 31 December 2016, the Group managed its capital to ensure that the group entities would be able to continue as a going concern while maximizing the return toShareholders through the optimisation of the debt and equity balances. The management of the Group reviewed the capital structure on an annual basis by considering the cost of capital and the risks associated with each class of capital.

As at 31 December 2016, the Group incurred net current liabilities of approximately RMB745.25 million as compared with approximately RMB1,433.35 million as at 31 December 2015.

As at 31 December 2016, there were RMB770.80 million long term and RMB1,286.03 million short term interest-bearing bank borrowings owed by the Group and the fixed-rate bank loans were RMB1,735.09 million. The gearing ratio, as calculated by dividing total liabilities by total assets, of the Group decreased from 80.33% on 31 December 2015 to 79.25% on 31 December 2016.

Pledge of assets

At the end of 2016, the Group has pledged certain assets as securities for bank borrowings. Details of the pledged assets and the corresponding carrying amounts are set out below:

	Carrying amounts	
	31/12/2016	**31/12/2015**
	RMB'000	*RMB'000*
Mining rights	248,915	359,651
Available-for-sale financial assets	400,000	110,727
Trade receivables	–	35,304
Bank deposits	43,692	913,785
Restricted deposits	7,070	6,600
Prepaid lease payments	64,271	–
Property, plant and equipment	111,759	–

Employees

As at 31 December 2016, the Group maintained an aggregate of 1,265 employees as compared with 1,837 employees at 31 December 2015.

During the year ended 31 December 2016, the staff costs from continuing operations (including directors' remuneration in the form of salaries and other allowances) were approximately RMB112.50 million, representing a decrease of approximately 27.22% as compared with approximately RMB154.58 million in the corresponding period in 2015. The decrease was mainly attributable to decrease of employees during the period.

The salary and bonus policy of the Group is principally determined by the performance and working experience of the individual employee and with reference to prevailing market conditions.

Major risks

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

Foreign exchange risk: As at 31 December 2016, the reporting currency of the Group was RMB. Since RMB is not freely convertible, the risk that the Chinese government may take measures to interfere exchange rates may bring effects to the Group's net asset value, profit and the dividends declared to the extent that such dividends are subject to foreign exchange. Meanwhile, the Group acquired mining assets in Indonesia and Australia in 2013. Their assets and liabilities are denominated in Indonesian Rupiah and AUD respectively, which are subject to fluctuation in the foreign exchange rate and affect net assets value and profit of the Group to some extent. The management of the Group will continue to monitor the currency matching between the revenue and costs of the Group and exchange risks, and may consider taking appropriate measures to hedge material exchange risks when necessary.

Significant investment held

Save for the equity interests in three companies listed on Australian Securities Exchange held by the Group, the Group did not hold any significant investment as at 31 December 2016.

Material acquisition and disposal

There was no material acquisition or disposal of subsidiaries and associated companies by the Group during the period.

Contingent liabilities

As at 31 December 2016, the Group had no material contingent liabilities.

5. FINANCIAL AND TRADING PROSPECTS

The Acquisition will help the Group to extend its industry chain. After the completion of the Acquisition, the Target Group plans to increase its production to 660,000 tons per year in the next three years, so as to further expand market share and increase profit margin through economies of scale. Through the processing and sales by the Target Group to wind power enterprises, the value of the high-quality iron concentrate produced by the existing iron ore business of the Group will be further enhanced, thus expanding the revenue scale and profitability of the Company.

After several years of technical transformation and optimization of management model, the Company's iron ore business has entered a stable development stage, and has provided the Group with a relatively stable cash flow and considerable net profit. On this basis, the Company will continue to focus on the development of the gold mining business in Australia. Leveraging the team with international prospective and operating experience, the Company will achieve value growth in the PGO gold mine project through continuous development and operations, and consolidate the presence of precious metal business of the Company through further mergers and acquisitions and integration.

In 2019, facing challenges such as rising protectionism and unilateralism, the global economy will slow down; and the Chinese economy will be under increasing downward pressure that lead to subdued consumption growth and sluggish meaningful investment. Despite these pressures, the global economy will maintain its growth. In particular, the resilient Chinese economy will continue to achieve mid-to-high level economic growth and the demand for most types of resources will maintain growth momentum. Meanwhile, after the decrease of capital investment in the mining industry over the years, the growth rate of most types of resources on the supply front has slowed down or even recorded negative growth, hence the supply-demand dynamic has become more balanced or even with surplus demand. We will actively develop new projects, at the same time continuously enhancing the competitiveness of our existing projects so as to seize the development opportunities brought by the changes in the supply-demand relationship in the mining industry.

Management Discussion and Analysis on the Target Group

The following sets out the management discussion and analysis of the Target Group for the three years ended 31 December 2016, 2017 and 2018.

Business Review and Financial Performance

For the financial years ended 31 December 2016, 2017 and 2018, the Target Group recorded revenue of approximately RMB1,108,829,000, RMB1,517,971,000 and RMB1,662,781,000, respectively. Revenue primarily consists of sales revenue from customer contracts.

Revenue and profit

The main products of the Target Group are wind power iron and high-end ductile pig iron, accounting for more than 98% of the total sales, which have become the core competitive advantages of the Target Group.

The Target Group's sales volume in 2016, 2017 and 2018 were approximately 594,807 tons, 557,302 tons and 517,900 tons, respectively. Sales volume in 2018 decreased by approximately 7.07% due to production suspension for planned maintenance in 2019 and planned increase in inventory in order to maintain long-term customers.

Due to the reasonable product structure, the product price of the Target Group has obvious advantages in the industry. The average sales price of products in 2016, 2017 and 2018 was RMB1,861/ton, RMB2,689/ton and RMB3,153/ton, respectively. The sales price represents an increasing trend, laying the foundation for the increase in sales revenue.

The gross profit of the Target Group for 2016, 2017 and 2018 was approximately RMB262,063,000, RMB321,500,000 and RMB359,202,000, respectively; the gross profit per unit sale was approximately RMB499/ton, RMB645/ton and RMB804/ton. Gross profit and gross profit per unit represent an increasing trend, mainly attributable to the improvement of product quality and the market environment. In addition, the Target Group also recorded sales revenue of other materials of approximately RMB2,076,000, RMB19,561,000 and RMB29,801,000 for the above three financial years.

For the financial years ended 31 December 2016, 2017 and 2018, the Target Group's profit after tax was approximately RMB89,940,000, RMB175,251,000 and RMB229,491,000, respectively, representing a continuous increasing trend.

Selling expenses

For the financial years ended 31 December 2016, 2017 and 2018, the Target Group recorded selling expenses of approximately RMB80,966,000, RMB77,891,000 and RMB81,286,000, respectively. Selling expenses mainly consisted of transportation fees, loading and unloading expenses and salaries of a small portion of sales staff, etc.

General administrative expenses

For each of the financial years ended 31 December 2016, 2017 and 2018, the Target Group recorded administrative expenses of approximately RMB33,964,000, RMB31,906,000 and RMB34,578,000, respectively. The administrative expenses mainly consisted of the salaries of management staff, office expenses and security fees, etc. The administrative expenses were basically unchanged for the three years and there would be no major changes in the foreseeable future.

Liquidity and financial resources

As of 31 December 2016, 2017 and 2018, the Target Group had:

(i) Cash and cash equivalents of approximately RMB13,042,000, RMB50,807,000 and RMB52,592,000, respectively;

(ii) Receivables from related party of approximately RMB0, RMB0 and RMB564,282,000, respectively, of which the receivables from related party included in long-term assets in 2016 and 2017 were approximately RMB422,546,000 and RMB554,125,000;

(iii) Current assets of approximately RMB491,805,000, RMB631,561,000 and RMB1,065,803,000, respectively;

(iv) Bank borrowings of approximately RMB434,070,000, RMB433,300,000 and RMB418,500,000, respectively, of which borrowings due within one year were approximately RMB434,070,000, RMB283,800,000 and RMB269,500,000, respectively; and

(v) Bills payables of approximately RMB256,000,000, RMB207,000,000 and RMB285,000,000, respectively, with a term of six months or one year, all of which were 50% margin.

The gearing ratio of the Target Group as at 31 December 2016, 2017 and 2018 was approximately 91%, 81% and 99%, respectively. The gearing ratio was calculated by dividing the total debt at the end of a period by the total value of assets at the end of a period multiplied by 100%.

Capital structure and capital resources

The capital resources of the Target Group included shareholders' contribution, cash inflows from operating activities and bank borrowings. As of 31 December 2018, shareholders' equity of the Target Group was RMB14,666,000, and the bank borrowings balance was RMB418,500,000, representing a decrease of RMB14,800,000 from the end of last year. The gearing ratio, calculated by dividing total liabilities by total assets, was 98.86%.

The financial department of the Target Group is responsible for the management and collection and payment of monetary funds, and centrally manages the use of monetary funds of its subsidiaries. The audit department works together with the financial department to supervise and inspect the management and use of monetary funds of various units.

As at the Latest Practicable Date, the Target Group's main businesses were based in China and was settled in RMB, thus no financial hedging measures were adopt.

Pledge of assets

As of 31 December 2016, 2017 and 2018, the assets pledged by the Target Group in respect of trade payables, bank borrowings and bills payables were approximately RMB373,978,000, RMB345,199,000 and RMB256,303,000, respectively.

Contingent Liability

As of 31 December 2017 and 2018, the amount of guarantee provided by the Target Group to the related parties in respect of the bank facilities granted by financial institutions was RMB686,249,000 and RMB256,249,000, respectively, which would be completely resolved before this Acquisition.

Employee and remuneration policies

Staff costs were approximately RMB54,928,000, RMB54,175,000 and RMB54,275,000, including employee benefits, such as basic salary, annual bonus and statutory social security.

The total amount of remuneration and benefits in kind due to the directors of the Target Group would not be subject to any change in the Acquisition.

As at 31 March 2019, the total number of the employees was 650.

Prospects

The sales volume of wind power pig iron which is the main product of the Target Group has accounted for more than 50% of the total sales volume in the PRC, representing a strong competitive advantage in market share. The Target Group has a stable customer base and maintains long-term relationships with the top ten customers.

Upon completion of the Acquisition, the Company will continue to provide high-quality raw materials with stable quantity to the Target Group in order to help the Target Group further expand its market share, continue to provide customers with high-quality products and create higher value.

Material investment held

The Target Group had no significant investments for the three years ended 31 December 2016, 2017 and 2018.

Material acquisitions and disposals of subsidiaries and associated companies

The Target Group had no material acquisitions and disposals for the three years ended 31 December 2016, 31 December 2017 and 31 December 2018.

Comments on the report of board of directors and the classified information provided in the accounts

The Target Group presents information such as financial statements, financial indicators and statistical indexes to the board of directors, which gives a true view of its operation, so that the board of directors can make reasonable decisions. The Target Group carries out final financial accounting at the end of the year to reflect its financial conditions, operating results and cash flows for the accounting year.

Plans for significant investments or purchase of capital assets in future

In 2019, the Target Group will undergo a transformation and upgrade to achieve capacity expansion with the capacity improving from 560,000 tons in 2019 to 660,000 tons in 2023. The related capital expenditure is approximately RMB116,000,000.

The following is the text of a report set out on pages V-1 to V-68, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF TUOCHUAN (HONG KONG) LIMITED AND ITS SUBSIDIARIES TO THE DIRECTORS OF CHINA HANKING HOLDINGS LIMITED (THE "COMPANY")

Introduction

We report on the historical financial information of Tuochuan (Hong Kong) Limited (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages V-4 to V-68, which comprises the consolidated statements of financial position of the Target Group as at 31 December 2016, 2017, 2018, the statements of financial position of the Target Company as at 31 December 2016, 2017, 2018, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for each of the three years ended 31 December 2018 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages V-4 to V-68 forms an integral part of this report, which has been prepared for inclusion in the circular of the Company dated 29 April 2019 (the "Circular") in connection with the Company's proposed acquisition of the 100% equity interests in the Target Group, constituting a very substantial acquisition and connected transaction under the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of the Circular in which the Historical Financial Information of the Target Group is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment

Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design 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. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Group's and the Target Company's financial position as at 31 December 2016, 2017, 2018, and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page V-4 have been made.

Dividends

We refer to Note 30(B) to the Historical Financial Information which contains information about the dividend declared by a Target Company's subsidiary in respect of the Relevant Periods and states that no dividend was declared or paid by the Target Company in respect of the Relevant Periods.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
29 April 2019

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand RMB'000 except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
	Notes	**2016**	**2017**	**2018**
		RMB'000	*RMB'000*	*RMB'000*
Revenue	*6*	1,108,829	1,517,971	1,662,781
Cost of sales		(846,766)	(1,196,471)	(1,303,579)
Gross profit		262,063	321,500	359,202
Other income	*8*	10,007	32,873	45,875
Other gains and losses	*9*	(39)	(3,763)	7,738
Distribution and selling expenses		(80,966)	(77,891)	(81,286)
Administrative expenses		(33,964)	(31,906)	(34,578)
Finance costs	*10*	(39,399)	(36,290)	(33,786)
Profit before tax	*11*	117,702	204,523	263,165
Income tax expense	*12*	(27,762)	(29,272)	(33,674)
Profit for the year		89,940	175,251	229,491
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
– Fair value gain on receivables measured at fair value through other comprehensive income ("FVTOCI")		–	–	797
Total comprehensive income for the year		89,940	175,251	230,288
Profit for the year attributable to:				
– Owners of the Target Company		89,117	173,803	227,542
– Non-controlling interests		823	1,448	1,949
		89,940	175,251	229,491
Total comprehensive income for the year attributable to:				
– Owners of the Target Company		89,117	173,803	228,339
– Non-controlling interests		823	1,448	1,949
		89,940	175,251	230,288

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2016 RMB'000	2017 RMB'000	2018 RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	14	172,537	179,025	174,347
Intangible assets	15	146	109	72
Prepaid lease payments	16	38,774	37,805	34,463
Amount due from a related party	39	422,546	554,125	–
Deferred tax assets	17	7,748	4,454	5,446
Finance lease receivables	18	–	–	11,289
		641,751	775,518	225,617
CURRENT ASSETS				
Inventories	19	108,503	142,171	168,982
Prepaid lease payments	16	969	969	886
Amount due from a related party	39	–	–	564,282
Trade and other receivables	20	83,692	109,378	77,417
Bills receivables	21	132,479	185,062	–
Receivables at FVTOCI	22	–	–	26,244
Tax recoverable		–	5,469	–
Pledged deposits	23	153,120	137,705	172,762
Finance lease receivables	18	–	–	2,638
Bank balances and cash	23	13,042	50,807	52,592
		491,805	631,561	1,065,803
CURRENT LIABILITIES				
Trade and other payables	24	328,564	497,062	386,242
Bills payables	25	256,000	207,000	285,000
Contract liabilities	26	–	–	49,001
Amount due to a related party	39	42	55	128,879
Bank borrowings	27	434,070	283,800	269,500
Tax liabilities		13,962	–	7,381
Deferred income for financial guarantee contracts	28	–	1,751	1,751
		1,032,638	989,668	1,127,754
NET CURRENT LIABILITIES		(540,833)	(358,107)	(61,951)
TOTAL ASSETS LESS CURRENT LIABILITIES		100,918	417,411	163,666
CAPITAL AND RESERVES				
Paid-in/share capital	30	55,529	55,529	–*
Reserves		44,337	209,882	13,717
Equity attributable to owners of the Target Company		99,866	265,411	13,717
Non-controlling interests		1,052	2,500	949
TOTAL EQUITY		100,918	267,911	14,666
NON-CURRENT LIABILITY				
Bank borrowings	27	–	149,500	149,000
		100,918	417,411	163,666

* *Less than RMB1,000.*

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2016	2017	2018
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSET				
Investment in a subsidiary *(note)*		–	–	128,700
CURRENT ASSETS				
Bank balances and cash	23	10	6	151
Other receivables		–	–	694
		10	6	845
CURRENT LIABILITIES				
Other payables		5	–	517
Amount due to a related party	39	42	55	128,757
		47	55	129,274
NET CURRENT LIABILITIES		(37)	(49)	(128,429)
TOTAL ASSETS LESS CURRENT LIABILITIES		(37)	(49)	271
CAPITAL AND RESERVES				
Share capital	30	–*	–*	–*
Reserves	40	(37)	(49)	271
TOTAL EQUITY		(37)	(49)	271

Note: On 29 June 2018, as part of the Group Reorganisation, the Target Company acquired 99% equity interest of Ginseng at a consideration of RMB128,700,000.

* *Less than RMB1,000.*

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company									
	Paid-in/ share capital *RMB'000*	**Other reserves** *RMB'000* *(note d)*	**Statutory surplus reserve** *RMB'000* *(note a)*	**Discretion-ary surplus reserve** *RMB'000*	**Future development funds reserve** *RMB'000* *(note b)*	**FVTOCI reserve** *RMB'000*	**Retained earnings** *RMB'000*	**Attributable to owners of the Target Company** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total** *RMB'000*
At 1 January 2016	55,529	(39,676)	11,400	1,899	4,257	–	25,697	59,106	229	59,335
Profit and total comprehensive income for the year	–	–	–	–	–	–	89,117	89,117	823	89,940
Appropriation to statutory surplus reserve	–	–	13,084	–	–	–	(13,084)	–	–	–
Deemed distribution arising from non-current interest-free loan to Hanking Investment *(note 39(b))*	–	(48,357)	–	–	–	–	–	(48,357)	–	(48,357)
Transfer to future development funds reserve, net of utilisation	–	–	–	–	4,849	–	(4,849)	–	–	–
At 31 December 2016	55,529	(88,033)	24,484	1,899	9,106	–	96,881	99,866	1,052	100,918
Profit and total comprehensive income for the year	–	–	–	–	–	–	173,803	173,803	1,448	175,251
Appropriation to statutory surplus reserve	–	–	14,305	–	–	–	(14,305)	–	–	–
Deemed distribution arising from non-current interest-free loan to Hanking Investment *(note 39(b))*	–	(6,470)	–	–	–	–	–	(6,470)	–	(6,470)
Deemed distribution arising from financial guarantees provided to related parties *(note 28)*	–	(1,788)	–	–	–	–	–	(1,788)	–	(1,788)
Transfer to future development funds reserve, net of utilisation	–	–	–	–	24	–	(24)	–	–	–
At 31 December 2017	55,529	(96,291)	38,789	1,899	9,130	–	256,355	265,411	2,500	267,911
Effect arising from adoption of IFRS 9 *(see note 3)*	–	–	–	–	–	(906)	(2,176)	(3,082)	–	(3,082)
Adjusted balance at 1 January 2018 (restated)	55,529	(96,291)	38,789	1,899	9,130	(906)	254,179	262,329	2,500	264,829
Profit and total comprehensive income for the year	–	–	–	–	–	797	227,542	228,339	1,949	230,288
Appropriation to statutory surplus reserve	–	–	48,672	–	–	–	(48,672)	–	–	–
Group Reorganisation (as defined in note 2) *(note c)*	(55,529)	(73,171)	–	–	–	–	–	(128,700)	–	(128,700)
Dividend declared *(note 30(B))*	–	–	–	–	–	–	(346,500)	(346,500)	(3,500)	(350,000)
Deemed distribution arising from financial guarantees provided to related parties *(note 28)*	–	(1,751)	–	–	–	–	–	(1,751)	–	(1,751)
Transfer to future development funds reserve, net of utilisation	–	–	–	–	3,889	–	(3,889)	–	–	–
At 31 December 2018	–	(171,213)	87,461	1,899	13,019	(109)	82,660	13,717	949	14,666

Notes:

(a) As stipulated by the relevant laws and regulations, the Target Company's subsidiaries in the People's Republic of China (the "PRC") are required to maintain a statutory surplus reserve fund which is non-distributable. Appropriations to such reserve is made out of net profit after taxation of the financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by their board of directors annually, until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these companies, provided that such fund is maintained at a minimum of 25% of the registered capital.

(b) Pursuant to the regulation of the PRC, 撫順直接還原鐵有限公司 (Fushun Hanking Direct Reduced Iron Co., Ltd.*) ("Hanking D.R.I."), a wholly owned subsidiary of 撫順罕王人參鐵貿易有限公司 (Fushun Hanking Ginseng & Iron Trading Co., Ltd.*) ("Ginseng"), is required to transfer an amount to a future development fund at 0.05%-3% of annual operating income of last year, 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 production of cast iron and is not available for distribution to shareholders.

(c) On 29 June 2018, as part of the Group Reorganisation (as defined in note 2), the Target Company acquired 99% equity interest of Ginseng from 遼寧罕王投資有限公司 (Liaoning Hanking Investment Co., Ltd.*) ("Hanking Investment"), which was owned as to 99% by Mr. Yang Jiye, one of the Controlling Shareholders (as defined in note 1 (a)) and 1% by Ms. He Wan (spouse of Mr. Yang Jiye), for a consideration of RMB128,700,000. This Group Reorganisation step resulted in a debit to paid-in capital of RMB55,529,000 and a debit to other reserves of RMB73,171,000, accordingly.

(d) Other reserves consist of:

(1) the deemed capital contribution/distribution arising from several group reorganisations;

(2) deemed capital contribution arising from the disposal of a subsidiary and an associate;

(3) and deemed distribution arising from the interest-free amount due from a related party and financial guarantees provided to related parties.

* *English name is for identification purpose only.*

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2016 *RMB'000*	**2017** *RMB'000*	**2018** *RMB'000*
OPERATING ACTIVITIES			
Profit before tax	117,702	204,523	263,165
Adjustments for:			
Finance costs	39,399	36,290	33,786
Interests on bank balances and pledged bank deposits	(2,379)	(1,204)	(1,286)
Release of imputed interest on amount due from a related party	(7,628)	(31,632)	(40,721)
Finance lease income	–	–	(654)
Impairment loss on trade and other receivables	276	4,116	3,929
Gain on disposal of property, plant and equipment *(note 9)*	(136)	–	(263)
Gain on derecognition of plant and equipment and prepaid lease payment under finance lease contract	–	–	(11,176)
Release of financial guarantee contracts *(note 28)*	–	(37)	(1,751)
Depreciation of property, plant and equipment	2,853	2,515	4,500
Release of prepaid lease payments	969	969	903
Amortisation of intangible assets	30	30	30
Operating cash flows before movements in working capital	151,086	215,570	250,462
Decrease (increase) in inventories	5,366	(18,588)	(15,441)
Decrease (increase) in trade and other receivables	39,327	(29,802)	25,472
Decrease in receivables at FVTOCI	–	–	154,413
Decrease (increase) in bills receivables	30,537	(53,639)	–
Increase (decrease) in trade and other payables	17,155	136,371	(68,745)
(Decrease) increase in bills payables	(451,000)	(49,000)	78,000
Increase in contract liabilities	–	–	12,541
Cash (used in) generated from operations	(207,529)	200,912	436,702
Income taxes paid	(24,911)	(45,409)	(21,412)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(232,440)	155,503	415,290
INVESTING ACTIVITIES			
Interest received	2,379	1,204	1,286
Proceeds on disposal of property, plant and equipment	923	209	3,834
Payments for acquisition of property, plant and equipment	(2,692)	(24,264)	(37,909)
Repayments received from a related party	571,819	457,825	142,802
Advance to a related party	(932,435)	(564,242)	(462,238)
Deposit received from a finance lease contract	–	8,543	–
Proceeds received from a finance lease contract	–	–	15,984
NET CASH USED IN INVESTING ACTIVITIES	(360,006)	(120,725)	(336,241)
FINANCING ACTIVITIES			
New borrowings raised	433,668	539,856	273,776
Repayment of borrowings	(318,318)	(546,091)	(288,576)
Interest paid	(31,867)	(29,499)	(29,531)
Withdrawal of pledged deposits	806,254	373,326	455,324
Placement of pledged deposits	(550,158)	(357,911)	(490,381)
Advance of loans from staffs	11,306	30,800	28,300
Repayment of loans from staffs	(2,126)	(7,507)	(26,300)
Loan raised from a related party	42	13	124
NET CASH FROM (USED IN) FINANCING ACTIVITIES	348,801	2,987	(77,264)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(243,645)	37,765	1,785
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	256,687	13,042	50,807
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	13,042	50,807	52,592

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

1(a) Corporate Information

The Target Company was incorporated in Hong Kong on 5 November 2015 with limited liability with its registered office at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. The Target Group is principally engaged in the production and sales of cast iron and sales of raw and leftover materials in the People's Republic of China (the "PRC").

Pursuant to the Group Reorganisation (as defined and detailed in note 2) completed on 17 December 2018, the Target Company became the holding company of the entities now comprising the Target Group since then.

Prior to the commencement of the Group Reorganisation (as defined in note 2) in 2018, throughout the Relevant Periods, the Target Company, Ginseng and Hanking D.R.I. are under the control of Mr. Yang Jiye ("Mr. Yang") and Ms. Yang Ming ("Ms. Yang"), mother of Mr. Yang. Mr. Yang and Ms. Yang have been acting in concert of each other and are collectively regarded as the "Controlling Shareholders" of the Target Group.

Prior to 17 December 2018, the Target Company is held by Glory Excel Ventures Limited (BVI) ("Glory Excel"), which was 100% owned and controlled by Controlling Shareholders. Subsequently on 17 December 2018, China Hanking (BVI) Limited ("Hanking BVI"), an entity which is 100% owned and controlled by Controlling Shareholders, acquired the entire equity interest of the Target Company, and Hanking (BVI) since then became the immediate holding company of the Target Company. Hanking BVI and Glory Excel both were companies with limited liabilities and incorporated in the British Virgin Islands (the "BVI").

The Historical Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of the Target Company.

1(b) Going Concern Assumption

The directors of the Target Company (the "Directors") have given careful consideration to the going concern of the Target Group in light of the fact that as of 31 December 2018, the Target Group's and the Target Company's current liabilities exceeded its current assets by RMB61,951,000 and RMB128,429,000, respectively. In addition, as at 31 December 2018, the Target Group had capital commitments amounting to RMB38,393,000 as disclosed in note 33.

The Controlling Shareholders themselves or/and their directly or indirectly controlled entities agreed to provide unconditional financial support (including but not limited to the provision of unsecured, unguaranteed and interest-free shareholders' loan of RMB650,000,000, with term not less than one year) to the Target Group for a period of 12 months after the issuance of the Accountants' Report. In addition, the Company has agreed on the condition that the Company's proposed acquisition of the entire 100% equity interests in the Target Group (the "Proposed Acquisition") became successful, to provide sufficient funds to the Target Group so that the Target Group will be able to meet all current obligations as they fall due in the coming twelve months after the year ended 31 December 2018.

Taking into account the above factors, the Directors are of the opinion that, together with the internal financial resources of the Target Group, the Target Group has sufficient working capital for its present requirements, that is for at least the next twelve months commencing from the date of the Accountants' Report. Hence, the Historical Financial Information have been prepared on a going concern basis.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("the IASB").

During the Relevant Periods, Hanking Investment was owned as to 99% by Mr. Yang and Ms. Yang and 1% by Ms. He Wan, spouse of Mr. Yang.

Hanking Investment effectively owned 99.89% equity interest in Ginseng and its wholly owned subsidiary, namely Hanking D.R.I. during the period from 1 January 2016 to 15 October 2017. On 16 October 2017, Hanking Investment acquired the remaining 0.11% equity interest in Ginseng and since then Ginseng was 100% wholly owned by Hanking Investment.

In preparing for the Proposed Acquisition, the entities comprising the Target Group underwent a group reorganisation as described below ("Group Reorganisation").

The major steps of Group Reorganisation comprised the following steps:

- On 26 June 2018, Zhenghai Investment Limited ("Zhenghai Investment"), an independent third party, obtained 1% equity interest of Ginseng from Hanking Investment, at a consideration of RMB1,300,000 as agreed between Zhenghai Investment and Hanking Investment which was owned as to 99% by the Controlling Shareholders and 1% by Ms. He Wan.

- On 29 June 2018, the Target Company, which was 100% owned and controlled by the Controlling Shareholders, acquired the 99% equity interests of Ginseng from Hanking Investment at a consideration of RMB128,700,000 as agreed between the Target Company and Hanking Investment and has then become the holding company of the Target Group. The 1% equity interest of Ginseng continued to be held by Zhenghai Investment and was accounted for as the Target Group's non-controlling interests.

- On 17 December 2018, Hanking BVI completed the Group Reorganisation by acquiring 100% equity interest of the Target Company at a consideration of HK$1 as agreed between Hanking BVI and Glory Excel and became the immediate holding company of the Target Group since then.

The Controlling Shareholders have reiterated their agreement in writing that Mr. Yang Jiye holds equity interest of RMB1 of Hanking Investment and Glory Excel on behalf of Ms. Yang Min, and Ms. Yang Min holds equity interest of RMB1 of Hanking BVI on behalf of Mr. Yang Jiye, and, in respect of the arrival and/or execution of all decisions, including but not limited to the activities that significantly affect the returns of and exposure to variable returns of the Ginseng and Hanking D.R.I., they have always been acting in concert. Since the Target Group, comprising the Target Company, Ginseng, Hanking D.R.I. resulting from the Group Reorganisation has always been under the common control of the Controlling Shareholders throughout the Relevant Periods regardless of the actual dates when they formally and legally became subsidiaries of the Target Company, therefore, the Target Group is regarded as a continuing entity and merge accounting has been applied for the preparation of the Historical Financial Information.

The Historical Financial Information has been prepared on the basis as if the Target Company had always been the holding company of the Target Group and the group structure upon completion of the Group Reorganisation had been in existence throughout the Relevant Periods. The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Relevant Periods include the results, changes in equity and cash flows of companies within the Target Group as if the Target Company had always been the holding company of the Target Group and the group structure upon completion of the Group Reorganisation had been in existence throughout the Relevant Periods. The consolidated statements of financial position of the Target Group as at 31 December 2016 and 2017 have been prepared to present the assets and liabilities of the companies now comprising the Target Group at the carrying amounts shown in the financial statements of the group entities as if the group structure upon completion of the Group Reorganisation had been in existence throughout the Relevant period.

The Historical Financial Information contained in this Circular does not constitute the Target Company's statutory annual financial statements for any of the financial years ended 31 December 2016, 2017 and 2018. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Target Company has delivered the financial statements for the period from 5 November 2015 (date of incorporation) to 31 December 2016 and the year ended 31 December 2017 to the Registrar of the Companies as required by Section 662(3) of, and Part 3 of Schedule 6, to the Companies Ordinance. No statutory financial statements of the Target Company for the year ended 31 December 2018 have been prepared as the financial statements have not yet been due to issue.

The Target Company's auditor has reported on these financial statements for the aforesaid periods. The independent auditor's report was unqualified for the abovesaid periods, include a reference to fundamental uncertainty to which the auditor drew attention by way of emphasis for the years ended 31 December 2016 and 2017; and did not contain a statement under either Sections 406(2), 407(2) or (3) of the Companies Ordinance.

3. APPLICATION OF NEW AND AMENDMENTS TO IFRSS

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Target Group has followed consistently applied all International Accounting Standards ("IASs"), IFRSs, amendments which are effective for the Target Group's accounting period beginning on 1 January 2018 consistently throughout the Relevant Periods, except that the Target Group adopted amendments to IAS 7 *"Disclosure Initiative"* since the year ended 31 December 2017, IFRS 9 *"Financial Instruments"* and IFRS 15 *"Revenue from Contracts with Customers"* on 1 January 2018 and adopted IAS 39 *"Financial Instruments: Recognition and Measurement"* and IAS 18 *"Revenue",* for each of the years ended 31 December 2016 and 2017.

3.1 Amendments to IAS 7 *"Disclosure Initiative"*

The Target Group has applied these amendments for the first time in the year ended 31 December 2017. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv)changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 29. Consistent with the transition provisions of the amendments, the Target Group has not disclosed comparative information for the year ended 31 December 2016. Apart from the additional disclosure in note 29, the application of these amendments has had no impact on the Group's Historical Financial Information.

3.2 IFRS 15 *"Revenue from Contracts with Customers"*

In the year ended 31 December 2018, the Target Group has applied IFRS15 for the first time. IFRS 15 superseded IAS 18 "*Revenue*", IAS 11 "*Construction Contracts*" and the related interpretations.

The Target Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Target Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain financial information may not be comparable as financial information for the years ended 2016 and 2017 was prepared under IAS 18 and the related interpretations.

The Target Group recognises revenue from the production and sales of cast iron and raw and leftover materials which arise from contracts with customers.

Information about the Target Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 6 and 4 respectively.

Except for the classification in respect of consideration received in advance from the customer from "other payables" to "contract liabilities" since 1 January 2018, the application of IFRS 15 in the year ended 31 December 2018 has had no material impact on the Target Group's financial performance and positions for the Relevant Periods and/or on the disclosures set out in these Historical Financial Information. The effects of initial application of IFRS 15 at the date of initial application on 1 January 2018 are set out in Note 3.4.

The following tables summarise the impacts of applying IFRS 15 on the Target Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Note	**As reported** *RMB'000*	**Reclassification** *RMB'000*	**Amounts without application of IFRS 15** *RMB'000*
Current Liabilities				
Trade and other payables	24	386,242	49,001	435,243
Contract liabilities	26	49,001	(49,001)	–

Impact on the consolidated statement of cash flows

	Note	**As reported** *RMB'000*	**Adjustments** *RMB'000*	**Amounts without application of IFRS 15** *RMB'000*
Operating activities				
Decrease trade and other payable		(68,745)	12,541	(56,204)
Increase in contract liabilities		12,541	(12,541)	–

3.3 IFRS 9 *"Financial Instruments"*

In the year ended 31 December 2018, the Target Group has applied IFRS 9 "*Financial Instruments*" and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, finance lease receivables and financial guarantee contracts) and 3) general hedge accounting.

The Target Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity as at 1 January 2018, without restating the financial information for the years ended 31 December 2016 and 2017.

Accordingly, certain financial information may not be comparable as financial information for the years ended December 2016 and 2017 was prepared under IAS 39.

Accounting policies resulting from application of IFRS 9 are disclosed in note 4.

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL and impacted upon adoption of IFRS 9 and IAS 39 at the date of initial application on 1 January 2018.

	Notes	**Receivables at FVTOCI**	**Amortised cost previously classified as loans and receivables (including cash and cash equivalents)**	**Deferred tax assets**	**FVTOCI reserve**	**Retained earnings**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Closing balance at 31 December 2017 – IAS 39		–	1,037,077	4,454	–	257,558
Effect arising from initial application of IFRS 9:						
Reclassification:						
From loans and receivables	*(a)*	185,062	(185,062)	–	–	–
Remeasurement:						
Impairment under ECL model of receivables	*(b)*	–	(2,560)	384	–	(2,176)
Fair value adjustment of receivables at FVTOCI	*(a)*	(1,066)	–	160	906	–
Opening balance at 1 January 2018		183,996	849,455	4,998	906	255,382

(a) Loans and receivables

As part of the Target Group's cash flow management, the Target Group has the practice of discounting part of the bills to financial institutions and endorsing part of the bills to suppliers before the bills are due for payment and derecognise the bills discounted or endorsed on the basis that the Target Group has transferred substantially all risks and rewards to the relevant counterparties. Accordingly, the Target Group's bills receivables of RMB185,062,000 were considered as within the business model both to hold to collect contractual cash flows and to sell, and reclassified to receivables at FVTOCI. The related difference of RMB1,006,000 between the fair value and carrying amount was adjusted to receivables at FVTOCI, and net of the deferred tax impact of RMB160,000, totalling RMB906,000 was charged to FVTOCI reserve as at 1 January 2018.

(b) Impairment under ECL model

The Target Group always applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. The ECL on trade receivables is assessed individually.

Loss allowances for other financial assets at amortised cost mainly comprise of other receivables, receivables at FVTOCI, amount due from a related party, pledged deposits, and bank balances measured on 12 month ECL ("12m ECL") basis and there had been no significant increase in credit risk since initial recognition, except for those financial assets which are measured on lifetime ECL basis as those credit risk had increased significantly since initial recognition.

For outstanding financial guarantees provided to related parties, the Target Group considers there has been no significant increase in credit risk since initial recognition and hence the loss allowance is assessed on 12m ECL basis. As ECL of the financial guarantee contracts is less than the unamortised income, there is no impact upon adoption of IFRS 9 as at 1 January 2018.

As at 1 January 2018, the additional credit loss allowance on trade receivables, totalling RMB2,560,000 is charged against the asset and the amount after netting off the deferred tax impact of RMB384,000, totalling RMB2,176,000, have been recognised against retained earnings under IFRS 9.

In addition, as at 1 January 2018, fair value adjustment of receivables at FVTOCI of RMB1,006,000, net of the deferred tax impact of RMB160,000, totalling RMB906,000 is recognised against the FVTOCI reserve.

No additional loss allowance was recognised for bank balances, receivables at FVTOCI, amount due from a related party, pledged deposits, and other receivables as at 31 December 2017 and 1 January 2018. All loss allowances for trade receivables as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Trade receivables
	RMB'000
At 31 December 2017- IAS 39	2,042
Amounts measured through opening retained earnings	2,560
Adjusted balance at 1 January 2018	4,602

There were no financial liabilities which the Target Group had previously designated as at fair value through profit or loss (FVTPL) or measured at amortised cost under IAS 39 that were subject to reclassification, or which the Target Group has elected to reclassify upon the application of IFRS 9.

3.4 Impacts on opening consolidated statement of financial position as at 1 January 2018 arising from the application of all new standards, amendments and interpretation

As a result of the changes in the Target Group's accounting policies above, the opening consolidated statement of financial position as at 1 January 2018 had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited)	IFRS 9	IFRS 15	1 January 2018 (Restated)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Deferred tax assets	4,454	544	–	4,998
Current assets				
Trade and other receivables	109,378	(2,560)	–	106,818
Bills receivables	185,062	(185,062)	–	–
Receivables at FVTOCI	–	183,996	–	183,996
Current liabilities				
Trade and other payables	497,062	–	(36,460)	460,602
Contract liabilities	–	–	36,460	36,460
Reserves	209,882	(3,082)	–	206,800
Equity attributable to owners of the Target Company	265,411	(3,082)	–	262,329

Note:

For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

3.5 New and amendments to IFRSs in issue but not yet effective

The Target Group has not early adopted the following new and amendments to IFRSs that have issued but not yet effective:

IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to IFRS 3	*Definition of a Business*[4]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IAS 1 and IAS 8	*Definition of Materials*[5]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015-2017 Cycle*[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on of after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new and amendments to IFRSs mentioned below, the Directors anticipate that the application of other new and revised IFRSs will have no material impact on the Historical Financial Information in the foreseeable future.

IFRS 16 "Leases"

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 "*Leases*" and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Target Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows respectively by the Target Group, upfront prepaid lease payment will continue to be presented as investing or operating cash flows in accordance to the nature as appropriate.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB580,000 as disclosed in note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Since the related lease contract is short-term lease and will terminate within 12 months, the Target Group elected to use the practical expedient to account for these contracts as "short-term leases".

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Target Group elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 "*Determining whether an Arrangement contains a Lease*" and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Target Group has not reassessed whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Target Group elected the modified retrospective approach for the application of IFRS16 as lessor and recognised the cumulative effect of initial application to opening retained earnings without restating comparative information.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with IFRSs issued by the IASB. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis, except for receivables at FVTOCI that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 "*Leases*", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "*Inventories*" or value in use in IAS 36 "*Impairment of Assets*".

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

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

The principal accounting policies are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Target Company and entities controlled by the Target Company and its subsidiaries. Control is achieved when the Target Company:

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

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

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

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

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

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

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

Changes in the Target Group's ownership interests in existing subsidiaries

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

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

When the Target Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Target Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Target Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39/IFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 3)

Under IFRS 15, the Target Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

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

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Target Group and when specific criteria have been. Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income 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.

Leases

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.

The Target Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Target Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Target Group's net investment outstanding in respect of the leases.

The Target Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building

When the Target Group makes payments for a property interest which includes both leasehold land and building elements, the Target Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Target Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Borrowing costs

All borrowing costs not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs and termination benefits

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

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

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

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of 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 a subsidiary, except where the Target 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.

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Target Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they related to items that are recognised in other comprehensive income, in which case, the current and deferred tax are also recognised in other comprehensive income.

Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes (i.e. construction in progress) are carried at cost, less any recognised impairment loss. Cost include professional fees in accordance with the Target Group's accounting policy. 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.

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

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

Prepaid lease payments

Upfront prepayments made for the land use rights and leasehold land are initially recognised in the consolidated statement of financial position as "prepaid lease payments" and are amortised over the lease term on a straight line base.

Intangible assets

Intangible assets acquired separately

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

Research expenditure

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

Impairment on tangible and intangible assets

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

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When 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 of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

Inventories

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

Provisions

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

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. 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.

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

Financial assets

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

The Target 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivables, amount due from a related party, pledged deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, 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 for financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Target Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, 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 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 trade 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.

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

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 3)

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

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

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL

(i) Amortised cost and interest income

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

(ii) Receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these receivables are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these receivables. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these receivables had been measured at amortised cost. When these receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 3)

The Target Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables, receivables at FVTOCI, amount due from a related party, pledged deposits and bank balances and cash), finance lease receivables and financial guarantee contracts. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Target Group always recognises lifetime ECL for trade receivables and finance lease receivables. The ECL on these assets are assessed individually.

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

(i) Significant increase in credit risk

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

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

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

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

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

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

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

(ii) Definition of default

For internal credit risk management, the Target Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Group, in full (without taking into account any collaterals held by the Target Group).

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

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

Generally, the ECL is the difference between all contractual cash flows that are due to the Target Group in accordance with the contract and the cash flows that the Target Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flow used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IAS17 "*Leases*".

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

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

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

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

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

Derecognition of financial assets

The Target 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 Target Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, bills payables, amounts due to a related party, and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

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

- the amount of the loss allowance determined in accordance with IFRS 9 (since 1 January 2018)/IAS 37 "*Provisions, Contingent Liabilities and Contingent Assets"* (before application of IFRS 9 on 1 January 2018); and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in note 4, the management of the Target Group is required to make judgements, estimates and assumptions about the carrying amounts of assets that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Judgement in determining the classification of bills receivables

As part of the Target Group's cash flow management, part of the bills will be discounted to financial institutions or endorsed to suppliers before the bills are due for payment. Upon the initial application of IFRS 9 on 1 January 2018, the management of the Target Group considered that the Target Group's business model over bills receivables is held to both collect contractual cash flows and sell them. Therefore, the management of the Target Group has satisfied that bills receivables are classified as receivables at FVTOCI.

Key sources of estimation uncertainty

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

Estimated impairment of financial assets and finance lease receivables

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

When there is an objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed an initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016 and 2017, the carrying amount of trade and other receivables is approximately RMB83,692,000 and RMB109,378,000 (net of allowance for doubtful debts of RMB3,927,000 and RMB8,043,000), respectively.

Since the adoption of IFRS 9 on 1 January 2018, the Directors estimate the amount of loss allowance for ECL on financial assets (including trade and other receivables, receivables at FVTOCI, amount due from a related party, pledged deposits and bank balances) and finance lease receivables based on the credit risk of these respective assets. The estimation of the credit risk of these respective assets involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

Useful lives and residual values of property, plant and equipment

The Directors determine the useful lives, residual values and related depreciation charges for the Target Group's property, plant and equipment. These estimates are based on the historical experience of the actual residual values and useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations. Management will increase the depreciation charge where useful lives are less than previously estimated.

Impairment of property, plant and equipment

In assessing the impairment of property, plant and equipment, the Target Group is required to estimate the recoverable amount of the cash-generating units or the relevant assets. The recoverable amount, which is determined by the higher of the value-in-use calculation and fair value less cost to sell, requires the Target Group to estimate the future cash flows expected to arise from the cash-generating units or the relevant assets and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which result in downward revision of future cash flows, further impairment loss may arise.

As at the end of each reporting period, the carrying amount of the property, plant and equipment is RMB172,537,000, RMB179,025,000 and RMB174,347,000, respectively.

Recognition of deferred tax assets

The Target Group recognised deferred tax assets for all deductible temporary differences to the extent that it is probable that taxable profit would be available against which the deductible temporary difference can be utilised.

In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the periods in which such a reversal takes place. In cases where the actual future profits generated are higher than expected, the deferred tax assets will be adjusted accordingly and recognised the corresponding amount in the consolidated statements of profit or loss and other comprehensive income in the periods in which such a situation takes place.

The Target Group has recognised deferred tax asset arising from unused tax losses and other deductible temporary differences in the amount of RMB7,748,000, RMB4,454,000 and RMB5,446,000 as at 31 December 2016, 2017 and 2018, respectively as set out in note 17.

6. REVENUE

A. For the two years ended 31 December 2016 and 2017

Revenue analysed by major products of the Target Group for the two years ended 31 December 2016 and 2017 under IAS 39 are as follows:

	Year ended 31 December	
	2016	**2017**
	RMB'000	*RMB'000*
Types of goods		
Sales of cast iron	1,106,753	1,498,410
Sales of raw and leftover materials	2,076	19,561
	1,108,829	1,517,971

B. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

Revenue analysed by major products of the Target Group for the year ended 31 December 2018 under IFRS9 is as follows:

	Year ended 31 December 2018
	RMB'000
Types of goods	
Sales of goods (at a point in time)	
Sales of cast iron	1,632,980
Sales of raw and leftover materials	29,801
	1,662,781

All revenue are derived from the PRC market during the Relevant Periods.

(ii) Performance obligations for contracts with customers

The Target Group produces and sells cast iron and raw and leftover materials directly to customers.

Revenue is recognised when control of the goods has transferred, being the time when the goods are delivered and accepted. Following acceptance, the customers have primary responsibility on the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 60 days upon acceptance. Therefore, the Directors have justified that the performance obligation in respect of the sales income is satisfied at a point in time and recognises revenue at a point in time. The Target Group may request certain of its customers to place up to 100% of the contract sum as deposit in respect of sales of cast iron, depending on the background, historical experience of and business relationship with them. The deposits received is accounted for as "contract liabilities" in note 26 since the initial adoption of IFRS 15 on 1 January 2018.

As the period between payment and transfer of the associated goods is less than one year, the Target Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

The transaction price allocated to the remaining performance obligation (unsatisfied or partially unsatisfied) as at 31 December 2018 amounting to RMB134,900,000 are expected to be recognised as revenue within one year.

7. SEGMENT INFORMATION

The Target Group has been operating in one operating and reportable segment, the production and sales of cast iron. The management of the Target Group, being the Directors who are the chief operating decision maker, to make decisions based on the Historical Financial Information of the Target Group prepared in conformity the IFRSs about resources allocation and performance assessments.

No analysis of the Target Group's assets and liabilities by operating and reportable segment is disclosed as it is not regularly provided to the chief operating decision maker for review.

The Target Group's revenue was all sourced from the PRC over the Relevant Periods, while the Target Group's non-current assets, which were all located in the PRC, excluding deferred tax assets, amount due from a related party and finance lease receivables amounted to RMB211,457,000, RMB216,939,000 and RMB208,882,000 as at 31 December 2016, 2017 and 2018, respectively.

Information about major customers

During the Relevant Periods, the revenue of sales of cast iron to customers individually contributing over 10% of the total sales of the Target Group are as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	N/A*	N/A*	283,623
Customer B	N/A*	N/A*	191,891
	N/A*	N/A*	475,514

* For the years ended 31 December 2016 and 2017, the corresponding revenue of these customers did not contribute over 10% of the total revenue of the Target Group for the Relevant Periods.

8. OTHER INCOME

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Interests on bank balances and pledged bank deposits	2,379	1,204	1,286
Release of imputed interest on amount due from a related party	7,628	31,632	40,721
Finance lease income *(note)*	–	–	654
Release of financial guarantees provided to related parties *(note 28)*	–	37	1,751
Others	–	–	1,463
	10,007	32,873	45,875

Note: It represents income arising from certain plant, machinery and prepaid lease payment of the Target Group leased out during the year ended 31 December 2018, with details set out in note 18.

9. OTHER GAINS AND LOSSES

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Gain on disposal of property, plant and equipment	136	–	263
Gain on derecognition of property, plant and equipment and prepaid lease payment under finance lease contract *(note 18)*	–	–	11,176
Recognition of loss allowance on trade receivables	(297)	(4,206)	(2,485)
Reversal (recognition) of loss allowance on other receivables	21	90	(1,444)
Others	101	353	228
	(39)	(3,763)	7,738

10. FINANCE COSTS

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Interests on bank borrowings	31,958	29,769	29,510
Interests on bills discounted	5,039	3,519	4,276
Financial guarantee charges for obtaining bank borrowings *(note)*	2,402	3,002	–
	39,399	36,290	33,786

Note: Financial guarantee charges represented the fee paid to independent financial institutions for the financial guarantee services provided for the Target Group in securing the bank borrowings advanced from those banks in the PRC. The charges will be released to profit or loss as finance costs over the borrowing period using the effective interest rate method.

11. PROFIT BEFORE TAX

Profit before tax for the years has been arrived at after charging:

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Auditors' remuneration	20	24	24
Minimum lease payment in respect of rented premises	1,469	1,549	–
Cost of inventories recognised as an expense	823,315	1,164,464	1,270,508
Depreciation of property, plant and equipment	20,164	17,588	15,863
Amortisation of intangible assets	37	37	37
Release of prepaid lease payments	969	969	903
	21,170	18,594	16,803
Total depreciation and amortisation capitalised in inventories	(18,915)	(16,541)	(13,454)
Total depreciation and amortisation charged to profit or loss	2,255	2,053	3,349
Analysed at:			
– charged in distribution and selling expenses	11	–	–
– charged in administrative expenses	2,244	2,053	3,349
	2,255	2,053	3,349
Salaries, wages and allowance (including directors)	45,197	42,839	43,005
Retirement benefits scheme contributions (including directors)	9,731	11,336	11,270
Bonus (including directors)	–	250	–
	54,928	54,425	54,275
Total staff cost (including directors) capitalised in inventories	(37,280)	(39,713)	(40,293)
Total staff cost (including directors) charged to profit or loss	17,648	14,712	13,982
Analysed at:			
– charged in distribution and selling expenses	993	922	903
– charged in administrative expenses	16,655	13,540	13,079
	17,648	14,462	13,982
Research expenditure capitalised in inventories			
– Raw materials consumed	32,570	42,556	73,542
– Depreciation and amortisation	628	492	1,181
– Staff cost	3,526	14,206	12,015
	36,724	57,254	86,738

12. INCOME TAX EXPENSE

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Current tax:			
– PRC Enterprise Income Tax ("EIT")	27,932	26,666	34,380
– Over provision in prior years	–	(688)	(118)
	27,932	25,978	34,262
Deferred tax:			
– Deferred tax (credit) expense *(note 17)*	(170)	3,294	(588)
Total income tax expense	27,762	29,272	33,674

No provision for Hong Kong Profits Tax was made in the Historical Financial Information as the Target Group did not have assessable income subject to Hong Kong Profits Tax during the Relevant Periods.

Provision for EIT during the Relevant Periods was made based on the estimated assessable profits calculated in accordance with income tax laws, and regulations applicable to the subsidiaries operated in the PRC.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the EIT rate applicable to the Target Group's PRC subsidiaries was 25% for the Relevant Periods. On 10 October 2017, Hanking D.R.I., a subsidiary of the Target Group, obtained "High Technology Enterprise" status for 3 years that entitled them a preferential tax rate of 15% for a period of three years starting from 2017 to 2019 according to PRC Tax Law. The tax rate for Ginseng was 25% throughout the Relevant Periods.

Income tax expense for the Relevant Periods can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	117,702	204,523	263,165
Tax at the PRC EIT rate of 25%	29,426	51,131	65,791
Tax effect of expense not deductible for tax purpose	242	970	683
Tax effect of income not taxable for tax purpose	(1,906)	(4,750)	(6,370)
Over provision in prior years	–	(688)	(118)
Tax effect of concessions granted to Hanking D.R.I.	–	(20,348)	(26,312)
Effect on deferred tax balances of Hanking D.R.I. due to the change in income tax rate from 25% to 15%	–	2,957	–
Income tax expense for the year	27,762	29,272	33,674

13. EARNINGS PER SHARE

No earnings per share information is presented for the purpose of this report as its inclusion is not considered meaningful.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Other equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2016	181,095	193,938	4,755	24,223	4,019	408,030
Additions	981	1,559	226	–	–	2,766
Disposals	–	(15)	–	(5,536)	–	(5,551)
At 31 December 2016	182,076	195,482	4,981	18,687	4,019	405,245
Additions	–	2,176	425	3,012	18,672	24,285
Transfer	3,651	–	–	–	(3,651)	–
Disposals	–	–	–	(1,964)	–	(1,964)
At 31 December 2017	185,727	197,658	5,406	19,735	19,040	427,566
Additions	1,074	1,759	93	2,031	33,901	38,858
Transfer	25,734	26,669	–	–	(52,403)	–
Disposals	–	(2,633)	(1,478)	(5,766)	–	(9,877)
Eliminated arising from finance lease contract *(note 18)*	(24,102)	–	–	–	–	(24,102)
At 31 December 2018	188,433	223,453	4,021	16,000	538	432,445
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2016	55,646	136,686	3,440	21,536	–	217,308
Provided for the year	8,646	10,059	806	653	–	20,164
Disposals	–	–	–	(4,764)	–	(4,764)
At 31 December 2016	64,292	146,745	4,246	17,425	–	232,708
Provided for the year	8,665	8,004	392	527	–	17,588
Disposals	–	–	–	(1,755)	–	(1,755)
At 31 December 2017	72,957	154,749	4,638	16,197	–	248,541
Provided for the year	8,726	5,819	189	1,129	–	15,863
Disposals	–	(1,400)	(1,300)	(3,606)	–	(6,306)
At 31 December 2018	81,683	159,168	3,527	13,720	–	258,098
CARRYING VALUE						
At 31 December 2016	117,784	48,737	735	1,262	4,019	172,537
At 31 December 2017	112,770	42,909	768	3,538	19,040	179,025
At 31 December 2018	106,750	64,285	494	2,280	538	174,347

The above items of property, plant and equipment (except for construction in progress) are depreciated on a straight-line basis to allocate their costs to their residual value over their estimated useful lives as follows:

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

Certain property, plant and equipment have been pledged to secure the bank borrowings granted to the Target Group during the Relevant Periods as detailed in note 37.

15. INTANGIBLE ASSETS

	Software
	RMB'000
COST	
At 1 January 2016, 31 December 2016, 2017 and 2018	381
ACCUMULATED DEPRECIATION	
At 1 January 2016	198
Provided for the year	37
At 31 December 2016	235
Provided for the year	37
At 31 December 2017	272
Provided for the period	37
At 31 December 2018	309
CARRYING VALUE	
At 31 December 2016	146
At 31 December 2017	109
At 31 December 2018	72

The software has definite useful lives and is amortised on a straight-line basis over ten years.

16. PREPAID LEASE PAYMENTS

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Non-current portion	38,774	37,805	34,463
Current portion	969	969	886
	39,743	38,774	35,349

The prepaid lease payments were amortised over the benefit periods of 50 years.

Certain prepaid lease payments have been pledged to secure the bank borrowings granted to the Target Group during the Relevant Periods as detailed in note 37.

During the year ended 31 December 2018, certain prepaid lease payments with carrying amount of RMB2,522,000 have been leased out under finance lease to a related party as disclosed in note 18.

17. DEFERRED TAXATION

For the purpose of presentation in the consolidated statements of financial position. The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax assets	7,748	4,454	5,446

The following are the major deferred tax balances recognised and movements thereon during the Relevant Periods:

	Loss allowance on trade and other receivables	**Impairment loss of inventories, property, plant and equipment**	**Accrued expense**	**Fair value change of receivables at FVTOCI**	**Tax losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	5,640	1,455	127	–	356	7,578
Credit to profit or loss	69	–	101	–	–	170
At 31 December 2016	5,709	1,455	228	–	356	7,748
Credit (charge) to profit or loss	9	–	10	–	(356)	(337)
Effect of change in tax rate	(2,284)	(582)	(91)	–	–	(2,957)
At 31 December 2017	3,434	873	147	–	–	4,454
Effect arising from adoption of IFRS 9	384	–	–	160	–	544
Adjusted balance at 1 January 2018	3,818	873	147	160	–	4,998
Credit to profit or loss	586	–	2	–	–	588
Charge to OCI	–	–	–	(140)	–	(140)
At 31 December 2018	4,404	873	149	20	–	5,446

As at 31 December 2016, 2017 and 2018, the Target Group has unused tax losses of RMB1,425,000, nil and nil, respectively, available for offset against future profits. Deferred tax assets have been recognised in respect of the tax losses as at 31 December 2016.

Under the 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 Historical Financial Information in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB82,389,000 as at 31 December 2018, as the Target 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.

18. FINANCE LEASE RECEIVABLES

Pursuant to the lease contract signed on December 2017, certain buildings and prepaid lease payment of the Target Group were leased out under finance leases to 遼寧罕王綠色建材有限公司 (Liaoning Hanking Green Building Materials Co., Ltd.*) ("Hanking Green Building Materials"), a wholly owned subsidiary of the Company since 1 January 2018. All interest rates inherent in the leases are fixed at the contract date over the lease terms.

The lease contract has a lease period of 20 years from 1 January 2018 to 31 December 2037 and the management of the Target Group classified such lease as a finance lease as the present value of the minimum lease payments amounted to substantially all of the fair value of the leased assets at the inception of the lease.

Pricing of rental of the buildings based on the construction and installation costs and relevant taxations of approximately RMB25,800,000 in relation to the buildings and constructions which shall be prepaid upon signing of the leasing contract. As at 31 December 2018, RMB23,527,000 has been paid. The remaining amount of RMB2,273,000 is expected to be settled within 12 months as represented by the Directors.

The annual rental fee for the land shall be RMB1,000,000 and the aggregate land rental receivable shall be RMB20,000,000 based on the lease term of twenty years. The finance lease receivables are calculated using internal rate of return of 5.45% per annum.

	As at 31 December 2018
	RMB'000
Analysed as:	
Current	2,638
Non-current	11,289
	13,927

* *English name is for identification purpose only.*

	Minimum lease payments 31 December 2018	Present value of minimum lease payments 31 December 2018
	RMB'000	*RMB'000*
Finance lease receivables comprise:		
Within one year	3,273	2,638
In more than one year but not more than two years	1,000	384
In more than two years but not more than five years	3,000	1,285
In more than five years	14,000	9,620
	21,273	13,927
Less: unearned finance income	(7,346)	N/A
Present value of minimum lease payment receivables	13,927	13,927

Finance lease receivables are secured over the buildings and prepaid lease payment leased. The Target Group is not permitted to repledge the collateral in the absence of default by the lessee.

19. INVENTORIES

	As at 31 December		
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	38,714	45,460	65,848
Work in progress	13,158	18,122	20,942
Finished goods	56,631	78,589	82,192
	108,503	142,171	168,982

There were no write-down of inventories during the years ended 31 December 2016, 2017 and 2018.

20. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
Third parties	63,633	86,632	59,840
Less: allowance for credit losses	(1,893)	(6,099)	(11,144)
	61,740	80,533	48,696
Advance to suppliers *(note i)*			
Third parties	18,400	22,774	20,045
Deposits	–	–	826
Value-added tax recoverable	179	638	2,363
Staff advance *(note ii)*	2,658	4,749	3,917
Prepaid rental expense	–	–	669
Others	715	684	901
	3,552	6,071	8,676
Total trade and other receivables	83,692	109,378	77,417

Notes:

(i) Advance to suppliers were prepayment to suppliers for the purchase of raw materials, which is expected by the management of the Target Group to be utilised within twelve months after the end of each reporting period.

(ii) The amount represented advance to staffs for business purpose.

The Target Group allows an average credit period of 60 days to its customers of cast iron. However, upon maturity of the credit period, the Target Group would further negotiate with its customers and may consider to accept a repayment to a later date, based on its customer's history of payments and credit quality, on a case-by-case basis.

The following is an aged analysis of trade receivables, net of loss allowance, presented based on the invoice dates at the end of each reporting period.

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within 60 days	59,653	79,476	44,200
61 days to 90 days	850	188	–
91 days to 1 year	257	45	4,496
1 year to 2 years	980	824	–
	61,740	80,533	48,696

According to the credit period policy of the Target Group, the trade receivables for sales to related and third parties has an ageing over 60 days for sales of cast iron were regarded as past due. When the trade receivables become due, certain of the Target Group's customers would arrange settlement by issuing bills to the Target Group. The Target Group would then analyse its working capital needs, and consider certain amount of which to be discounted to the banks as to obtain immediate funding for the Target Group's general working capital purpose or to endorse the bills to settle the Target Group's trade payables. More details are set out in note 21.

As at 31 December 2018, included in the Target Group's trade receivables balance are debtors with aggregate carrying amount of RMB6,890,000 which are past due as at the reporting date. Out of the past due balances, RMB3,658,000 has been past due 90 days or more and is not considered as in default based on individual credit analysis.

Aging of trade receivables which are past due but not impaired is set out below under the requirement of IAS 39 as at 31 December 2016 and 2017.

	As at 31 December	
	2016	**2017**
	RMB'000	*RMB'000*
Within 30 days	850	188
31 days to 1 year	257	187
1 year to 2 years	980	682
	2,087	1,057

The management of the Target Group assessed at each of the reporting date whether there is objective evidence that trade receivables are impaired. The Target Group would provide for individual receivable that were considered to be impaired based on management assessment performed at the end of each reporting period.

The following tables set out the movements in the allowance for doubtful debts of trade and other receivables for the Relevant Periods:

(A) Movement of allowance on trade receivables for the two years ended 31 December 2016 and 2017 under IAS 39

	As at 31 December	
	2016	**2017**
	RMB'000	*RMB'000*
At 1 January	1,596	1,893
Impairment losses recognised	303	4,219
Reversal of impairment losses recognised on trade receivables *(note)*	(6)	(13)
At 31 December	1,893	6,099

Note: Reversal of allowance of doubtful debts is due to the Target Group's recovery of receivables of doubtful debts that have been previously provided for an allowance.

(B) Movement of impairment on other receivables for the two years ended 31 December 2016 and 2017 under IAS 39

	As at 31 December	
	2016	**2017**
	RMB'000	*RMB'000*
At 1 January	2,055	2,034
Impairment losses recognised	105	–
Reversal of impairment losses recognised on other receivables	(126)	(90)
At 31 December	2,034	1,944

Included in the balance of allowance for doubtful debts are individually impaired trade and other receivables in full with aggregate balance of RMB3,927,000 and RMB8,043,000 as at 31 December 2016 and 2017, respectively, with reference to the historical experience of these receivables, the collection of these receivables may not be recoverable. The Target Group did not hold any collateral over these balances.

The Target Group did not provide an allowance on the remaining past due receivables as the amounts are still considered recoverable based on the historical experience and settlements collected subsequent to the year end date. The Target Group does not hold any collateral over these balances. Settlements are collected on a regular basis. The management of the Target Group is closely monitoring the settlement position and those receivables are still considered collectible.

(C) Movement of impairment on trade receivables for the year ended 31 December 2018 under IFRS 9

	Lifetime ECL (not credit impaired)	**Lifetime ECL (credit impaired)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2017 under IAS 39	–	6,099	6,099
Adjustment upon application of IFRS 9	2,560	–	2,560
As at 1 January 2018 – As restated	2,560	6,099	8,659
Changes due to financial instruments recognised as at 1 January:			
– Impairment losses recognised	–	2,992	2,992
– Impairment losses reversed	(507)	–	(507)
– Transfer to credit-impaired	(705)	705	–
As at 31 December 2018	1,348	9,796	11,144

As at 31 December 2018, included in the Target Group's trade receivables balance are debtors with aggregate carrying amount of RMB4,496,000 which are past due as at the reporting date. Out of the past due balances, RMB4,496,000 has been past due over 90 days, which is not considered as in default because the management of the Target Group, according to the historical settlement pattern, industry practice and the Target Group's historical actual loss experience, had assessed that the probability of settlement from their customers was high in respect of those debtors which had been past due over 90 days. The management of the Target Group considered that the risk of default became high and defaulted when those debtors had been past due over 2 years. For the past due balances, the management of the Target Group considered that the credit risk would increase significantly when those debtors had been past due over 90 days.

(D) Movement of impairment on other receivables for the year ended 31 December 2018 under IFRS 9

	Lifetime ECL (credit impaired) and total
	RMB$'000
As at 31 December 2017 and 1 January 2018	1,944
- Impairment losses recognised	1,444
As at 31 December 2018	3,388

21. BILLS RECEIVABLES

Included in the Target Group's bills receivable are amounts of RMB26,572,000 and RMB4,300,000 as at 31 December 2016 and 2017 being transferred to certain banks by discounting the bills on a full recourse basis, and RMB101,717,000 and RMB132,372,000 being endorsed to certain suppliers on a full recourse basis. If the bills receivables are not paid on maturity, the banks and the suppliers have the right to request the Target Group to pay the unsettled balance. As the Target Group has not transferred the significant risks and rewards relating to the bills receivables, it continues to recognise the full carrying amount of the bills receivables and has recognised the cash received as bank borrowings from discounting of the bills receivables and as payables from the endorsement of the bills with full recourse. The financial asset is carried at amortised cost in the consolidated statements of financial position.

	As at 31 December 2016		
	Bills receivables discounted to banks with full recourse	**Bills receivables endorsed to suppliers with full recourse**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of transferred assets	26,572	101,717	128,289
Carrying amount of associated liabilities	(26,349)	(101,717)	(128,066)
Net position	223	–	223

	As at 31 December 2017		
	Bills receivables discounted to banks with full recourse	**Bills receivables endorsed to suppliers with full recourse**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of transferred assets	4,300	132,327	136,627
Carrying amount of associated liabilities	(4,194)	(132,327)	(136,521)
Net position	106	–	106

Bills receivables amounting to RMB279,441,000 and RMB202,855,000 were endorsed or discounted and derecognised for the years ended 31 December 2016 and 2017, respectively. As those bills are issued by banks with high credit rating, the Directors had assessed and satisfied that the Target Group had transferred substantially all of the risks and rewards relating to those bills. The Target Group, therefore, had derecognised the full carrying amount of the abovementioned bills receivables.

As at 31 December 2016 and 2017, the Target Group's bills receivables that were not derecognised were with the following maturity.

	As at 31 December	
	2016	**2017**
	RMB'000	*RMB'000*
Within 6 months	120,927	147,189
6 months to 1 year	11,552	37,873
	132,479	185,062

The following is an aged analysis of bills receivables based on the issue date by the Target Group presented above:

	As at 31 December	
	2016	**2017**
	RMB'000	*RMB'000*
Within 6 months	112,298	163,831
6 months to 1 year	20,181	21,231
	132,479	185,062

On 1 January 2018, the Target Group adopted IFRS 9 "*Financial Instruments*". As part of the Target Group's cash flow management, the bills receivables held by the Target Group were managed within a business model whose objective is both to collect the contractual cash flows and to sell the bills receivables by discounting some of the bills to financial institutions and endorsing some of them to suppliers before the bills are due for payment, and derecognising the bills discounted and endorsed on the basis that the Target Group has transferred substantially all risks and rewards to the relevant counterparties. Therefore, these bills receivables were subsequently classified as receivables at FVTOCI which are included in note 22.

Certain bills receivables have been pledged to secure the bank borrowings granted to the Target Group during the Relevant Periods as detailed in note 37.

22. RECEIVABLES AT FVTOCI

	31 December 2018 *RMB'000*
Receivables at FVTOCI *(note)*	26,244

Note:

As at 31 December 2018, included in the Target Group's receivables at FVTOCI are amounts of RMB18,072,000 being endorsed to certain suppliers on a full recourse basis. If the bills are not paid on maturity, the suppliers have the right to request the Target Group to pay the unsettled balance. As the Target Group has not transferred the significant risks and rewards relating to the bills receivables it continues to recognise the full carrying amount of the receivables and has recognised the corresponding amount as payables from the endorsement of the bills with full recourse. The financial asset is carried at fair value in the consolidated statements of financial position.

	As at 31 December 2018	
	Receivables at FVTOCI endorsed to suppliers with full recourse *RMB'000*	**Total** *RMB'000*
Carrying amount of transferred assets	18,072	18,072
Carrying amount of associated liabilities	(18,072)	(18,072)
Net position	–	–

Bills receivables amounting to RMB267,657,000 were endorsed or discounted and derecognised as at 31 December 2018. As those bills receivables are issued by banks with high credit rating, the Directors had assessed and satisfied that the Target Group had transferred substantially all of the risks and rewards relating to those bills receivables. The Target Group had derecognised the full carrying amount of the above mentioned bills receivables and corresponding amount of trade payables.

23. PLEDGED DEPOSITS AND BANK BALANCES AND CASH

The Target Group

Bank balances carry interest at prevailing market interest rates ranging from 0.125% to 0.35% per annum during the Relevant Periods.

As at end of each reporting period, the Target Group's pledged deposits were security deposits for issue of bills and borrowings as set out in note 37. The pledge deposits carried prevailing interest rates of ranging from 0.35% to 3.99% per annum during the Relevant Periods.

The Target Company

Bank balances carry interest at prevailing market interest rate of 0.125% per annum during the Relevant Periods.

24. TRADE AND OTHER PAYABLES

The Target Group

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
Third parties	188,827	200,110	63,101
Related parties *(note 39(d))*	47,569	163,706	236,314
	236,396	363,816	299,415
Other payables			
Advance from customers *(note i)*	47,198	42,658	7,840
Other tax payables	6,307	13,478	8,884
Payable for acquisition of property, plant and equipment	522	543	1,492
Transportation fee payable	17,368	16,957	9,939
Accrued expenses	1,860	8,000	12,295
Salary and bonus payables	3,394	3,603	3,292
Interest payable	600	870	849
Advance from staffs *(note ii)*	13,478	36,771	38,771
Prepayment for finance lease	–	8,543	–
Others	1,441	1,823	3,465
	92,168	133,246	86,827
Total trade and other payables	328,564	497,062	386,242

Notes:

(i) Upon the initial adoption of IFRS 15 on 1 January 2018, advance from customers were classified as to contract liabilities since then.

(ii) The amounts represented short-term loan advanced from the key management personnel and other management personnel of the Target Group, which was unsecured, interest free and repayable on demand. The amounts advanced from key management personnel are disclosed in note 39(g). Subsequent to the Relevant Periods, the key management personnel and other management personnel of the Target Group, the Target Group and Hanking Investment entered into several offsetting agreements, pursuant to which the Target Group's advance from staffs amounting to RMB38,771,000 will be net off with amount due from Hanking Investment.

Payment terms with suppliers are mainly on credit within 15 days from the time when the invoices 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 each reporting period:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within 15 days	98,608	233,908	73,820
15 days to 90 days	26,472	69,135	99,103
91 days to 1 year	47,027	4,501	39,572
1 year to 2 years	56,404	1,772	33,180
Over 2 years	7,885	54,500	53,740
	236,396	363,816	299,415

25. BILLS PAYABLES

At the end of each reporting period, the Target Group's bills payables were issued by banks with maturity within 1 year and were secured by the Target Group's pledged bank deposits.

Payment terms with suppliers are mainly on credit within 15 days from the time when the invoices are received from suppliers. The Target Group will use bills payables to settle the trade payables upon due date, as agreed to the suppliers, depending on the Target Group's working capital condition. At the end of each reporting period, the Target Group's bills payables were issued by banks with the following maturity.

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within 6 months	224,000	60,000	–
6 months to 1 year	32,000	147,000	285,000
	256,000	207,000	285,000

The ageing of bills payables based on the issue date is analysed as follows:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within 6 months	256,000	115,000	203,000
6 months to 1 year	–	92,000	82,000
	256,000	207,000	285,000

26. CONTRACT LIABILITIES

	1/1/2018*	31/12/2018
	RMB'000	*RMB'000*
Amounts received in advance of sales of cast iron *(note)*	36,460	49,001

Note: The Target Group may request certain of its customers to place up to 100% of the contract sum as deposit in respect of sales of cast iron, depending on the background, historical experience of and business relationship with them. The receipt in advance was classified as contract liabilities, accordingly.

Revenue from sales of cast iron is recognised at a point in time when the control of the good is transferred, since only by that time the Target Group has a present right to receive payment from the customer.

* The amounts in this column are after the adjustments from the application of IFRS 15.

Revenue recognised during the year ended 31 December 2018 that was included in the contract liabilities balance as at 1 January 2018 was set out below:

	Year ended 31/12/2018
	RMB'000
Sales of cast iron	36,460

27. BANK BORROWINGS

	As at 31 December		
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Fixed-rate bank borrowings			
– Unsecured and guaranteed *(note a)*	256,998	110,000	110,000
– Secured and unguaranteed *(note b)*	36,072	32,800	28,500
– Secured and guaranteed *(note c)*	141,000	290,500	280,000
	434,070	433,300	418,500
The carrying amounts of the above borrowings are repayable *(note d)*:			
– Within one year	434,070	283,800	269,500
– More than one year but not exceeding two years	–	–	149,000
– More than two year but not exceeding five years	–	149,500	–
	434,070	433,300	418,500
Less: amounts due within one year shown as current liabilities	(434,070)	(283,800)	(269,500)
Amounts shown under non-current liabilities	–	149,500	149,000

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Target Group's borrowings are as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	%	%	%
Fixed-rate borrowings	4.35 – 8.25	4.35 – 9.03	4.35 – 7.4

Notes:

(a) Included in the balance as at 31 December 2016 was a short-term bank borrowing of RMB110,000,000, carrying interest rate of 5.7%, and was jointly guaranteed by each of the Controlling Shareholders, and the fellow subsidiaries controlled by the Controlling Shareholders. In addition, such balance was also guaranteed by independent financial institutions. The borrowing was originally matured in 2017 and was further extended in 2017 and 2018, respectively, with a renewed fixed interest rate of 5.22% per annum.

Another short-term bank loan amounting to RMB150,000,000 carrying an interest rate of 8.25% was guaranteed by several independent financial institutions of which was fully settled in cash by the Target Group during the year ended 31 December 2017.

(b) These bank borrowings carried a fixed interest rate of 4.35% per annum over the Relevant Periods and they are secured by pledged bank deposits or bills receivables held by the Target Group, details of which are set out in note 37.

(c) Save as the assets and equity interests pledged as security for bank borrowings as set forth in note 37, each of the Controlling Shareholders, Ms. He Wan, spouse of Mr. Yang, and the entities controlled by them also provided guarantee to secured bank loans.

(d) The amounts due are based on scheduled repayment dates set out in the loan agreements.

28. FINANCIAL GUARANTEE CONTRACTS

	Financial guarantee contracts
	RMB'000
Balance at 1 January 2016 and 31 December 2016	–
Recognised for the year	1,788
Released during in the year	(37)
Balance at 31 December 2017	1,751
Recognised for the year	1,751
Released during the year	(1,751)
Balance at 31 December 2018	1,751

During the two years ended 31 December 2017 and 2018, Hanking D.R.I. provided financial guarantees in favor of several banks enabling the Target Group's related parties to obtain bank borrowings over the period of 1 to 10 years. The financial guarantees were provided at nil consideration and accordingly, the related guarantee contracts with fair value of RMB1,788,000 and RMB1,751,000 on date of initial recognition during the years ended 31 December 2017 and 2018, respectively, were accounted for as deemed distribution and was charged to other reserves, accordingly. The maximum and total amount of borrowing utilised by the related parties were RMB688,000,000 and RMB258,000,000 as at 31 December 2017 and 2018, respectively.

The financial guarantee contracts would be all expired or released before May 2019, and the management of the Target Group expects that all financial guarantee contracts would be released prior to the completion of the Proposed Acquisition.

29. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES FLOWS

The table below details changes in the Target Group's liabilities and assets arising from financing activities, including both cash and non-cash changes. Liabilities and assets arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Target Group's consolidated statement of cash flows as cash flows from financing activities:

	Bank borrowings	**Amount due to a related party**	**Interest payable**	**Advance from staffs**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	(434,070)	(42)	(600)	(13,478)	(448,190)
Financing cash flows	6,235	(13)	29,499	(23,293)	12,428
Non-cash changes:					
Interests on bank borrowings	–	–	(29,769)	–	(29,769)
Interests on bills discounted	(2,463)	–	–	–	(2,463)
Release of financial guarantee charges	(3,002)	–	–	–	(3,002)
At 31 December 2017	(433,300)	(55)	(870)	(36,771)	(470,996)
Financing cash flows	14,800	(124)	29,531	(2,000)	42,207
Non-cash changes:					
Interests on bank borrowings	–	–	(29,510)	–	(29,510)
Interests on bills discounted	–	–	–	–	–
Dividend declared	–	(350,000)	–	–	(350,000)
Net off with amount due from a related party	–	350,000	–	–	350,000
Group Reorganisation	–	(128,700)	–	–	(128,700)
At 31 December 2018	(418,500)	(128,879)	(849)	(38,771)	(586,999)

30. EQUITY

(A) Paid–in/share capital

The amount represents 100% of the share capital of the Target Company and 98.9%, 99% and 99% of the paid-up capital of Ginseng attributable to the owners of the Target Group as at 31 December 2016, 2017 and 2018, respectively.

The amount represents the share capital of the Target Company since 29 June 2018 as detailed below:

The Target Company

On incorporation, the authorised share capital of the Target Company is HK$1, of which one ordinary share was issued and allotted as fully paid to the initial subscriber at par.

Ginseng

The paid-in capital of Ginseng was RMB56,090,000 and was effectively owned as to 98.9%, 99% and 99% by the Controlling Shareholders as at 31 December 2016, 2017 and 2018, respectively.

On 29 June 2018, as part of the Group Reorganisation, the Target Company acquired the 99% equity interest of Ginseng from Hanking Investment for a consideration of RMB128,700,000 and has become the holding company of the Target Group since then. The Group Reorganisation was completed on the same date.

(B) Dividend

On 28 June 2018, Ginseng, a 99% owned subsidiary of the Target Group, declared a dividend of RMB350,000,000. No dividend has been proposed by the Target Company during the Relevant Periods.

31. RETIREMENT BENEFIT SCHEMES

The employees of the Target Group's subsidiaries established in the PRC are members of state-managed retirement benefits scheme operated by the PRC government. These PRC subsidiaries are required to contribute a specific percentage of the total monthly basic salaries to the retirement benefits scheme. The only obligation of the Target Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

The Target Group made contributions to the retirement benefits schemes of RMB756,000, RMB1,243,000 and RMB1,317,000 for the years ended 31 December 2016, 2017 and 2018, respectively.

32. OPERATING LEASES

The Target Group as lessee

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Minimum lease payments paid under operating leases during the year:			
– Premises	1,469	1,549	317

At the each end of the reporting period, the Target Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,549	–	580

Operating lease payments represent rentals payable by the Target Group for certain of its office premises with fixed rental under the leases.

33. CAPITAL COMMITMENTS

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Capital expenditure contracted but not provided for in respect of acquisition of property, plant and equipment	1,899	12,789	38,393

34. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Target Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Target Group consists of debts (mainly including bank borrowings and loan advanced by related parties and the management of the Target Group), net of bank balances and cash, and equity attributable to owners of the Target Company, comprising registered capital and reserves.

The management of the Target Group reviews the capital structure from time to time. As part of this review, the management of the Target Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Target Company, the Target Group will balance its overall capital structure through the payment of dividends, issue of capital as well as the issue of new debt or the redemption of existing debts.

35. FINANCIAL INSTRUMENTS

Categorise of Financial Instruments

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
The Target Group			
Financial assets			
Financial assets at amortised cost (including cash and cash equivalents)	–	–	843,976
Loans and receivables (including cash and cash equivalents)	786,300	1,013,665	–
Receivables at FVTOCI	–	–	26,244
Finance lease receivables	–	–	13,927
	786,300	1,013,665	884,147
Financial liabilities			
Amortised costs	959,916	1,061,135	1,186,310
	959,916	1,061,135	1,186,310
The Target Company			
Financial assets			
Financial assets at amortised cost (including cash and cash equivalents)	–	–	845
Loans and receivables (including cash and cash equivalents)	10	6	–
	10	6	845
Financial liabilities			
Amortised cost	47	55	129,274

Financial Risk Management Objectives and Policies

The Target Group's major financial instruments include bank balances, pledged deposits, trade and other receivables, bills receivables, receivables at FVTOCI, amount due from a related party, finance lease receivables, bank borrowings, trade and other payables, bills payables, amount due to a related party and financial guarantee contracts. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (i.e., interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Target Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Target Group's operations were all carried out in the PRC during the Relevant Periods and it mainly earned revenue and incurred costs and expenses in RMB, the management of the Target Group assessed that currency risk is insignificant. The Target Group is exposed to other financial risks, including principally interest rate risk, credit risk and liquidity risk. Continuous monitoring of these risks ensures that the Target Group is protected against any adverse effects of such risks so far as it is possible and foreseeable.

Interest rate risk

The Target Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 27). The Target Group is also exposed to cash flow interest rate risk in relation to floating-rate pledged deposits and bank balances. The Target 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.

Credit risk and impairment assessment

The Target Group's maximum exposure to credit risk in relation to each class of recognised financial assets is the carrying amount of those assets. Other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk as stated in the consolidated statements of financial position, the Target Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of each reporting period which will cause a financial loss to the Target Group arising from the amount of financial guarantees provided by the Target Group is disclosed in note 28, net of total carrying amounts of RMB1,751,000 and RMB1,751,000 as at 31 December 2017 and 2018, respectively. The Target Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets and financial guarantee contracts, except that the settlement of certain trade receivables are backed by bills issued by reputable financial institutions.

The Target Group's credit risk is primarily attributable to its trade and other receivables, bills receivables, receivables at FVTOCI, amount due from a related party, finance lease receivables, pledged deposits, bank balances and cash, and financial guarantee contracts. In order to minimise the credit risk, the Target Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts, and reviews ECL/provision of financial guarantee contracts to ensure financial guarantee contracts are correctly measured to reflect the credit risk. In this regard, the Directors consider that the Target Group's credit risk is significantly reduced.

The Directors have assessed that the expected credit risk and credit loss for amount due from a related party is insignificant considering the internal credit rating and historical relationship with Hanking Investment. Thus, no loss allowance provision was recognised during the Relevant Periods.

Trade receivables and finance lease receivables

For trade receivables and finance lease receivables, the Target Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Target Group determines the ECL on these items on individual basis, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Target Group writes off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

Other receivables and receivables at FVTOCI

For other receivables and receivables at FVTOCI, the Target Group has applied the general approach in IFRS 9 to measure the loss allowance approximate to such at 12m ECL when the Directors did not expect any significant increase in credit risk. The Target Group determines the ECL on these items by assessed individually for certain debtors with disputes, estimated based on historical credit loss experience on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Pledged deposits and bank balances

The pledged deposits and bank balances are determined to have low risk at the end of the Relevant Periods. The credit risk on pledged deposits and bank balances is limited because the counterparties are reputable banks and the risk of inability to pay or redeem at the due date is low.

In order to minimise credit risk, the Target Group has tasked its operation management committee to develop and maintain the Target Group's credit risk gradings to categorise exposures according to their degree of risk of default.

The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Target Group's own trading records to rate its major customers and other debtors. The Target Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Target Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	**Description**	**Trade receivables/ finance lease receivables**	**Other financial assets/other items**
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Target Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The following table details the risk profile of the Target Group's trade receivables which are subject to ECL assessment:

As at 31 December 2018

	Internal credit rating for trade receivables				
	Low risk	**Watch list**	**Doubtful**	**Loss**	**Total**
Total gross carrying amount *(RMB'000)*	45,201	–	7,511	7,128	59,840
Weighted average expected credit loss rate	2.21%	–	40.14%	100.00%	18.62%
Lifetime ECL *(RMB'000)*	1,001	–	3,015	7,128	11,144

The Target Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

The following table details the risk profile of the Target Group's other receivables which are subject to ECL assessment:

As at 31 December 2018

	Internal credit rating for other receivables				
	Low risk	**Watch list**	**Doubtful**	**Loss**	**Total**
Total gross carrying amount *(RMB'000)*	8,002	–	1,917	2,145	12,064
Weighted average expected credit loss rate	2.75%	–	53.36%	100.00%	28.08%
ECL *(RMB'000)*	220	–	1,023	2,145	3,388

All other financial assets, including cash and cash equivalents, receivables at FVTOCI, pledged deposits and finance lease receivables, are determined to have low risk and ECL is considered to be insignificant as at 31 December 2018.

For financial guarantee contracts, the maximum amount that the Target Group has guaranteed under the respective contracts was RMB258,000,000 as at 31 December 2018. At the end of the reporting period, the Directors have performed impairment assessment, and concluded that there has been no significant increase in credit risk since initial recognition of the financial guarantee contracts. Accordingly, the ECL for financial guarantee contracts issued by the Target Group to related parties is measured at an amount equal to 12m ECL. Unrecognised revenue of RMB1,751,000 is larger than the ECL as at 31 December 2018 in accordance with IFRS 9, and thus no impairment losses was charged to profit or loss during the year ended 31 December 2018 for the financial guarantee contracts. Details of the financial guarantee contracts are set out in note 28.

The Target Group has concentration of credit risk in relation to its trade receivables as follows:

	Year ended 31 December		
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Amount due from the largest debtor as a percentage to trade receivables	24.10%	14.93%	20.76%
Total amounts due from the five largest debtors as a percentage to trade receivables	60.79%	61.13%	71.22%

The Target Group keeps exploring new customers to diversify and strengthen its customer base to reduce the concentration of credit risk.

The Target Group managed its concentration of credit risk so as to spread over to various customers. In order to minimise the credit risk, the Directors continuously monitor the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover the overdue debts.

The Target Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances and pledged deposits is limited because the majority of the counterparties are banks and independent financial institutions with good reputation and/or good credit rating.

Credit risk of finance lease receivable is also concentrated as it is only related to one counter party. The credit risk of finance lease receivable is limited as the counterparty has good credit quality under internal assessment by the Target Group.

Other than the above, the Target Group does not have significant concentration of credit risk.

Liquidity risk

The Directors have built an appropriate liquidity risk management framework for the management of the Target Group's short-term and long-term funding and liquidity management requirements. The Target Group manages liquidity risk by closely and continuously monitoring the Target Group's consolidated financial position. The Directors maintain the sufficiency of cash flows with internally generated funds. The Directors also review the forecasted cash flows on an on-going basis to ensure that the Target Group will be able to meet its financial obligations falling due and have sufficient capital for operation and expansion. Maturity of financial obligations will be re-negotiated with banks and changes on capital expansion plan will be made should the need arise.

The financial liabilities of the Target Company are all interest-free and repayable on demand and therefore, the Target Company's liquidity table is not presented, accordingly.

The following tables detail the remaining contractual maturity for the Target Group's non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows, include both principal and interest, on non-derivative financial liabilities based on the earliest date in which the Target Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity tables

	Weighted average interest rate	On demand or less than 3 month	3 months to 1 year	1-2 years	>2 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2016							
Bank borrowings at fixed rate	6.43%	101,640	349,453	–	–	451,093	434,070
Trade and other payables	–	269,805	–	–	–	269,805	269,805
Bills payables	–	256,000	–	–	–	256,000	256,000
Amount due to a related party	–	42	–	–	–	42	42
		627,487	349,453	–	–	976,940	959,917
As at 31 December 2017							
Bank borrowings at fixed rate	8.24%	27,395	282,377	14,352	156,381	480,505	433,300
Trade and other payables	–	420,780	–	–	–	420,780	420,780
Bills payables	–	207,000	–	–	–	207,000	207,000
Amount due to a related party	–	55	–	–	–	55	55
Financial guarantee contracts	–	–	688,000	–	–	688,000	1,751
		655,230	970,377	14,352	156,381	1,796,340	1,062,886
As at 31 December 2018							
Bank borrowings at fixed rate	7.82%	26,214	268,337	155,858	–	450,409	418,500
Trade and other payables	–	361,771	–	–	–	361,771	361,771
Bills payables	–	285,000	–	–	–	285,000	285,000
Amount due to a related party	–	128,879	–	–	–	128,879	128,879
Financial guarantee contracts	–	–	258,000	–	–	258,000	1,751
		801,864	526,337	155,858	–	1,484,059	1,195,901

The amounts included above for financial guarantee contracts are the maximum amounts the Target 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. The estimate of the carrying amount is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

In addition to the amounts shown in the above table, the Target Group may also be required to settle the maximum exposure to loss arising from discounted bills and endorsed bills arrangements with full recourse which were derecognised by the Target Group as detailed in notes 21 and 22 in the next year, amounting to RMB279,441,000, RMB202,855,000 and RMB267,657,000 as at 31 December 2016, 2017 and 2018, respectively.

36. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The fair value of the Target Group's financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Fair value of the Target Group's financial assets that are measured at fair value on a recurring basis

The Target Group's receivables at FVTOCI are measured at fair value at the end of 31 December 2018 since the adoption of IFRS 9 as at 1 January 2018. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial items	Fair value as at 31 December 2018	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Receivables at FVTOCI	Receivables at FVTOCI: RMB26,244,000	Level 2	Income approach – in this approach, the discounted cash flow method was used to capture the present value of the cash flows to be derived from the receivables, using the discount rate that reflected the credit risk of the corresponding banks which are observable.	N/A

The Directors consider that the carrying amount of financial assets and liabilities recorded at amortised cost in the Historical Financial Information approximates their fair value. There was no transfer between Level 1 and 2 during the Relevant Periods.

37. PLEDGE OF ASSETS

As at the end of 31 December 2016, 2017 and 2018, the Target Group had pledged 100% equity interest in Hanking D.R.I. to a bank in order to obtain several bank borrowings. The pledge of 20% equity interest of Hanking D.R.I. has been released in March 2019 subsequent to the Relevant Periods. The pledge of the remaining 80% equity interest of Hanking D.R.I. are all related to the bank borrowings obtained by the Target Group for its business operation and will not be released.

In addition, the following assets are pledged in respect of the Target Group's trade payables, bank borrowings and bills payables.

	Carrying amounts As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	76,100	54,773	50,907
Prepaid lease payments	16,469	16,049	14,562
Bills receivables	128,289	136,672	–
Receivables at FVTOCI	–	–	18,072
Pledged deposits	153,120	137,705	172,762
	373,978	345,199	256,303

38. CONTINGENT LIABILITIES

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Guarantee provided to financial institutions in respect of banking facilities granted to related parties:			
Total guaranteed amounts	–	688,000	258,000
Less: amounts recognised as liabilities for financial guarantee contracts *(note 28)*	–	(1,751)	(1,751)
	–	686,249	256,249

39. RELATED PARTY TRANSACTIONS

(a) Related party transactions

Save as disclosed elsewhere in the Historical Financial Information, the Target Group had the following transactions with its related parties during the Relevant Periods:

		Year ended 31 December		
	Notes	**2016**	**2017**	**2018**
		RMB'000	*RMB'000*	*RMB'000*
Purchases of goods from				
Fushun Deshan Trading Co., Ltd.* (撫順德山貿易有限公司)	*(i)*	236,889	411,861	461,871
Liaoning Hanking Mining Development Co., Ltd.* (遼寧罕王礦業發展有限公司)	*(i)*	–	27,128	28,119
Fushun Majuncheng Iron Co., Ltd.* (撫順市馬郡城鐵礦有限責任公司)	*(i)*	295	–	–
Shenyang Hanking Precision Bearing Co., Ltd.* (瀋陽罕王精密軸承有限公司)	*(i)*	93	142	–
		237,227	439,131	489,990
Rental expense charged by				
Shenyang Shengtai Property Management Co. Ltd.* (瀋陽盛泰物業管理有限公司)	*(i)*	1,469	1,549	–
Consulting service provided to the Company		–	–	1,404
Interest income from finance lease provided to Hanking Green Building Materials	*(iii)*	–	–	654

* *English name is for identification purpose only.*

(b) Amount due from a related party

	Note	As at 31 December		
		2016	**2017**	**2018**
		RMB'000	*RMB'000*	*RMB'000*
Hanking Investment	*(ii)*	422,546	554,125	564,282
Analysed for reporting purpose as:				
– Current		–	–	564,282
– Non-current		422,546	554,125	–
		422,546	554,125	564,282

The amount is non-trade in nature, unsecured, interest-free and repayable on demand. As at 31 December 2018, RMB435,280,000, out of the total Target Group's balance due from Hanking Investment of RMB564,282,000, will be settled by Hanking BVI, upon its receipt of the partial consideration paid by the Group as agreed by Hanking BVI in the agreement of the Proposed Acquisition (the "Settlement Arrangement"), which is expected to be settled within 3 months after the completion of the Proposed Acquisition. As represented by the Directors, the remaining balance of RMB129,002,000 will be settled within one year after the completion of the Proposed Acquisition.

The amount due from a related party was measured at amortised cost using the effective interest rate method, the weighted average effective interest rate applied was 7.5%, 6.5% and 6.5% per annum during each of the three years ended 31 December 2016, 2017 and 2018. The difference between the principal balances and fair value on dates of advance was accounted for as deemed distribution charged to other reserves.

A current account offsetting agreement (the "Current Account Offsetting Arrangement") dated 31 December 2018 had been entered into between Hanking Investment and the entities comprising the Target Group, pursuant to which the Target Group's amount due from Hanking Investment has been net off with the Target Group's dividend payable to Hanking Investment amounting to RMB350,000,000. The Target Group's amount due from Hanking Investment after net off with the said amount of dividend payable is then reduced to RMB564,282,000, accordingly.

The outstanding balance and maximum balance outstanding during the Relevant Periods are set out below:

	Notes	Outstanding balance At 31 December			Maximum balance outstanding during Year ended 31 December		
		2016	**2017**	**2018**	**2016**	**2017**	**2018**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Hanking Investment	*(ii)*	422,546	554,127	564,282	761,720	664,553	1,021,641

(c) Finance lease receivables

		As at 31 December		
	Note	**2016**	**2017**	**2018**
		RMB'000	*RMB'000*	*RMB'000*
Hanking Green Building Materials	*(iii)*	–	–	13,927
Analysed for reporting purpose as:				
- Current		–	–	2,638
- Non-current		–	–	11,289
		–	–	13,927

(d) Trade payables

		As at 31 December		
	Note	**2016**	**2017**	**2018**
		RMB'000	*RMB'000*	*RMB'000*
Liaoning Hanking Mining Development Co., Ltd.* (遼寧罕王礦業發展有限公司)	*(i)*	45,413	77,413	110,031
Fushun Deshan Trading Co., Ltd.* (撫順德山貿易有限公司)	*(i)*	2,102	86,293	126,283
Dengta Hanking Liuhe Iron Ore Co., Ltd. * (燈塔市罕王柳河鐵礦有限責任公司)	*(i)*	54	–	–
		47,569	163,706	236,314

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within 15 days	2,157	54,334	72,358
15 days to 90 days	–	63,960	66,910
91 days to 1 year	–	–	32,618
1 year to 2 years	45,412	–	30,111
Over 2 years	–	45,412	34,317
	47,569	163,706	236,314

* *English name is for identification purpose only.*

(e) Amount due to a related party

The Target Group

	Note	As at 31 December 2016 RMB'000	2017 RMB'000	2018 RMB'000
Hanking Investment *(note)*	*(ii)*	42	55	128,879

Note: The amount is reached after the Current Account Offsetting Arrangement as set in note 39(b).

The Target Company

	Note	As at 31 December 2016 RMB'000	2017 RMB'000	2018 RMB'000
Hanking Investment	*(ii)*	42	55	128,757

The amounts are non-trade in nature, unsecured, interest-free and as represented by the Directors, the amounts are to be settled within one year after the completion of the Proposed Acquisition.

Notes:

(i) This related party is an entity controlled by one of the Controlling Shareholders of the Target Group during the Relevant Periods.

(ii) Hanking Investment is controlled by one of the Controlling Shareholders of the Target Group and was also the immediate holding company of the entities comprising the Target Group prior to the completion of Group Reorganisation. Since 29 June 2018, Hanking Investment became a related party of the Target Group.

(iii) This related party is a subsidiary of the Company.

(f) Compensation of key management personnel

In addition to the above, the remuneration of Directors and other members of key management during the Relevant Periods were as follows:

	As at 31 December 2016 RMB'000	2017 RMB'000	2018 RMB'000
Salaries, wages and allowances	1,549	1,680	1,680
Retirement benefits scheme contributions	309	336	336
Bonus	–	250	–
	1,858	2,266	2,016

The remuneration of Directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

(g) Advance from key management personnel

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Advance from key management personnel	6,000	30,000	32,000

40. FINANCIAL INFORMATION OF THE TARGET COMPANY

(a) Investment in a subsidiary

	As at 31 December		
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Unlisted shares, at cost	–	–	128,700

Investment in a subsidiary represents the Target Company's investment in Ginseng since its acquisition of 99% equity interest of Ginseng from Hanking Investment at a consideration of RMB128,700,000 was completed on 29 June 2018.

(b) Movements of the Target Company's reserves

	(Accumulated losses) retained earnings
	RMB'000
At 1 January 2016	–
Loss for the year	(37)
At 31 December 2016	(37)
Loss for the year	(12)
At 31 December 2017	(49)
Profit for the year	320
At 31 December 2018	271

41. PARTICULARS OF SUBSIDIARIES

As at the date of this report, the Target Company has direct and indirect shareholders/equity interests in the following subsidiaries:

Name of subsidiary	Place and date of establishment	Issued and fully paid capital/registered capital	Equity interest attributable to owner of the Target Company as at				Principal activities	Note
			31 December 2016	31 December 2017	31 December 2018	Date of this report		
		RMB						
Directly held:								
Ginseng	The PRC, 4 August 2011	56,090,000	98.9%	99%	99%	99%	Sales of cast iron products	*(a)*
Indirectly held:								
Hanking D.R.I.	The PRC, 20 August 2002	400,000,000	98.9%	99%	99%	99%	Production and sales of cast iron products and sales of raw and leftover materials	*(a)*

All subsidiaries now comprising the Target Group are limited liability companies and have adopted 31 December as their financial year end date.

Note:

(a) The statutory financial statements of Ginseng and Hanking D.R.I for each of the years ended 31 December 2016, 2017 and 2018 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by Liaoning Huijin Certified Public Accounts Limited Company, certified public accountants registered in the PRC.

42. MAJOR NON-CASH TRANSACTION

During the Relevant Periods, the Target Group's major non-cash transaction mainly represented the Current Account Offsetting Arrangement as set out in note 39 and finance lease arrangement as set out in note 18 to the Historical Financial Information.

43. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in the report, there were no other significant events taken place subsequent to the end of the Relevant Periods.

44. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group, the Target Company or any of its subsidiaries have been prepared in respect of any period subsequent to the end of the Relevant Periods.

The information set out in this Appendix does not form part of the Accountants' Reports of the Target Group from Deloitte Touche Tohmatsu, the Company's reporting accountants, as set out in "Appendix VI – Accountants' Report of the Target Group" and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the Accountants' Reports.

A. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(I) Basis of Preparation

The pro forma financial information presented below is prepared to illustrate (a) the financial position of the Enlarged Group as if the sales and purchases of 100% of the issued share capital of the Target Company (the "Acquisition") had been completed on 31 December 2018; and (b) the results and cash flows of the Enlarged Group as if the Acquisition had been completed on 1 January 2018.

This pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 December 2018 or at any future date had the Acquisition been completed on 31 December 2018 or the results and cash flows of the Enlarged Group for the year ended 31 December 2018 or for any future period had the Acquisition been completed on 1 January 2018.

The pro forma financial information is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2018, the audited consolidated statement of profit or loss and other comprehensive income and audited consolidated statement of cash flows of the Group for the year ended 31 December 2018 extracted from the Group's annual report on audited consolidated financial statements of the Group for the year ended 31 December 2018 published on 29 April 2019 after giving effect to the pro forma adjustments described in the accompanying notes which are directly attributable to the Acquisition and factually supportable and was prepared in accordance with paragraph 4.29 of the Listing Rules.

(II) PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 31 December 2018 as if the Acquisition had been completed on 31 December 2018

	The Group	Pro forma adjustments in respect of the Acquisition of the Target Group							The Enlarged Group
	Consolidated statement of financial position of the Group as at 31 December 2018	Consolidated statement of financial position of the Target Group as at 31 December 2018	Elimination of balances between the Group and the Target Group arising from consulting service	Elimination of balances between the Group and the Target Group arising from finance lease	Adjusted Payable Price and Remaining Amount	Pro forma adjustment on resulting tax in relation to the Acquisition	Recognition of professional fee	Total pro forma adjustments	As at 31 December 2018
	(Audited)	(Audited)							(Unaudited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 1*	*Note 2(a)*	*Note 2(b)*	*Note 3*	*Note 4*	*Note 5*		
Non-current Assets									
Property, plant and equipment	710,054	174,347	–	(1,698)	–	–	–	172,649	882,703
Intangible assets	279,270	72	–	–	–	–	–	72	279,342
Finance lease receivables	–	11,289	–	(11,289)	–	–	–	–	–
Financial assets at fair value through profit or loss ("FVTPL")	9,359	–	–	–	–	–	–	–	9,359
Prepaid lease payments	117,480	34,463	–	(8,473)	–	–	–	25,990	143,470
Deposits on acquisition of property, plant and equipment	1,498	–	–	–		–	–	–	1,498
Loan receivable	10,000	–	–	–	–	–	–	–	10,000
Restricted deposits	21,102	–	–	–	–	–	–	–	21,102
Pledged bank deposits	3,020	–	–	–	–	–	–	–	3,020
Deferred tax assets	72,516	5,446	–	–	–	–	–	5,446	77,962
	1,224,299	225,617	–	(21,460)	–	–	–	204,157	1,428,456
Current Assets									
Inventories	73,294	168,982	–	–	–	–	–	168,982	242,276
Prepaid lease payments	28,226	886	–	(446)	–	–	–	440	28,666
Trade, bills and other receivables	442,505	77,417	(394)	–	–	–	–	77,023	519,528
Amount due from a related party	–	564,282	–	–	–	–	–	564,282	564,282
Receivables at fair value through other comprehensive income ("FVTOCI")	275,014	26,244	–	–	–	–	–	26,244	301,258
Financial assets at FVTPL	459,993	–	–	–	–	–	–	–	459,993
Pledged bank deposits	20,158	172,762	–	–	–	–	–	172,762	192,920
Finance lease receivables	–	2,638	–	(2,638)	–	–	–	–	–
Assets classified as held for sale	831,448	–	–	–	–	–	–	–	831,448
Bank balances and cash	328,664	52,592	–	–	(200,000)	(1,020)	(6,710)	(155,138)	173,526
	2,459,302	1,065,803	(394)	(3,084)	(200,000)	(1,020)	(6,710)	854,595	3,313,897

	The Group	Pro forma adjustments in respect of the Acquisition of the Target Group							The Enlarged Group
	Consolidated statement of financial position of the Group as at 31 December 2018	Consolidated statement of financial position of the Target Group as at 31 December 2018	Elimination of balances between the Group and the Target Group arising from consulting service	Elimination of balances between the Group and the Target Group arising from finance lease	Adjusted Payable Price and Remaining Amount	Pro forma adjustment on resulting tax in relation to the Acquisition	Recognition of professional fee	Total pro forma adjustments	As at 31 December 2018
	(Audited)	(Audited)							(Unaudited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 1*	*Note 2(a)*	*Note 2(b)*	*Note 3*	*Note 4*	*Note 5*		
Current Liabilities									
Trade, bills and other payables	565,057	671,242	(394)	–	–	–	–	670,848	1,235,905
Amounts due to related parties	–	128,879	–	–	820,000	–	–	948,879	948,879
Tax liabilities	77,215	7,381	–	–	–	–	(1,678)	5,703	82,918
Obligation under a finance lease	2,638	–	–	(2,638)	–	–	–	(2,638)	–
Borrowings	1,108,500	269,500	–	–	–	–	–	269,500	1,378,000
Contract liabilities	3,167	49,001	–	–	–	–	–	49,001	52,168
Liabilities associated with assets classified as held for sale	351,237	–	–	–	–	–	–	–	351,237
Deferred income for financial guarantee contracts	–	1,751	–	–	–	–	–	1,751	1,751
	2,107,814	1,127,754	(394)	(2,638)	820,000	–	(1,678)	1,943,044	4,050,858
Net Current Assets (Liabilities)	351,488	(61,951)	–	(446)	(1,020,000)	(1,020)	(5,032)	(1,088,449)	(736,961)
Total Assets Less Current Liabilities	1,575,787	163,666	–	(21,906)	(1,020,000)	(1,020)	(5,032)	(884,292)	691,495
Non-current Liabilities									
Borrowings	–	149,000	–	–	–	–	–	149,000	149,000
Obligation under a finance lease	11,289	–	–	(11,289)	–	–	–	(11,289)	–
Rehabilitation provision	23,648	–	–	–	–	–	–	–	23,648
Total Non-current Liabilities	34,937	149,000	–	(11,289)	–	–	–	137,711	172,648
Net Assets (Liabilities)	1,540,850	14,666	–	(10,617)	(1,020,000)	(1,020)	(5,032)	(1,022,003)	518,847
Capital and Reserves									
Share capital	148,960	–	–	–	–	–	–	–	148,960
Reserves	1,203,483	13,717	–	(10,617)	(1,020,000)	(1,020)	(5,032)	(1,022,952)	180,531
Equity attributable to owners of the Company/Target Company	1,352,443	13,717	–	(10,617)	(1,020,000)	(1,020)	(5,032)	(1,022,952)	329,491
Non-controlling interests	188,407	949	–	–	–	–	–	949	189,356
Total Equity	1,540,850	14,666	–	(10,617)	(1,020,000)	(1,020)	(5,032)	(1,022,003)	518,847

Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group for the year ended 31 December 2018 as if the Acquisition had been completed on 1 January 2018

	The Group	Pro forma adjustments in respect of the Proposed Acquisition of the Target Group							The Enlarged Group
	Consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2018 (Audited) RMB'000 *Note 1*	Consolidated statement of profit or loss and other comprehensive income of the Target Group for the year ended 31 December 2018 (Audited) RMB'000 *Note 1*	Elimination of transactions between the Group and the Target Group arising from consulting service RMB'000 *Note 2(a)*	Elimination of transactions between the Group and the Target Group arising from finance lease RMB'000 *Note 2(b)*	Elimination of sales and purchase of iron ore concentrates between the Group and the Target Group via Agencies RMB'000 *Note 2(c)*	Pro forma adjustment on resulting tax in relation to the Acquisition RMB'000 *Note 4*	Recognition of professional fee RMB'000 *Note 5*	Total pro forma adjustments RMB'000	For the year ended 31 December 2018 (Unaudited) RMB'000
Revenue	1,165,491	1,662,781	–	–	(422,851)	–	–	1,239,930	2,405,421
Cost of sales	(655,189)	(1,303,579)	–	559	454,212	–	–	(848,808)	(1,503,997)
Gross profit	510,302	359,202	–	559	31,361	–	–	391,122	901,424
Other income	4,174	45,875	(1,404)	(654)	–	–	–	43,817	47,991
Other gains and losses	(66,217)	7,738	–	(11,176)	–	–	–	(3,438)	(69,655)
Distribution and selling expenses	(38,082)	(81,286)	–	–	–	–	–	(81,286)	(119,368)
Administrative expenses	(182,461)	(34,578)	1,404	–	–	(1,020)	(6,710)	(40,904)	(223,365)
Research and development expenses	(5,004)	–	–	–	–	–	–	–	(5,004)
Finance costs	(90,582)	(33,786)	–	654	–	–	–	(33,132)	(123,714)
Profit before tax	132,130	263,165	–	(10,617)	31,361	(1,020)	(6,710)	276,179	408,309
Income tax credit (expense)	52,792	(33,674)	–	–	(4,704)	–	1,678	(36,700)	16,092
Profit for the year from continuing operations	184,922	229,491	–	(10,617)	26,657	(1,020)	(5,032)	237,479	424,401
Loss for the year from discontinued operations	(10,882)	–	–	–	–	–	–	–	(10,882)
Profit for the year	174,040	229,491	–	(10,617)	26,657	(1,020)	(5,032)	239,479	413,519
Other comprehensive (expense) income:									
Items that may be reclassified to profit or loss:									
– Exchange differences arising on translation of foreign operations	(20,715)	–	–	–	–	–	–	–	(20,715)
– Fair value (loss) gain on receivables measured FVTOCI	(5,172)	797	–	–	–	–	–	797	(4,375)
Other comprehensive (expense) income for the year, net of income tax	(25,887)	797	–	–	–	–	–	797	(25,090)

	The Group	Pro forma adjustments in respect of the Proposed Acquisition of the Target Group							The Enlarged Group
	Consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2018 (Audited) *RMB'000* *Note 1*	Consolidated statement of profit or loss and other comprehensive income of the Target Group for the year ended 31 December 2018 (Audited) *RMB'000* *Note 1*	Elimination of transactions between the Group and the Target Group arising from consulting service *RMB'000* *Note 2(a)*	Elimination of transactions between the Group and the Target Group arising from finance lease *RMB'000* *Note 2(b)*	Elimination of sales and purchase of iron ore concentrates between the Group and the Target Group via Agencies *RMB'000* *Note 2(c)*	Pro forma adjustment on resulting tax in relation to the Acquisition *RMB'000* *Note 4*	Recognition of professional fee *RMB'000* *Note 5*	Total pro forma adjustments *RMB'000*	For the year ended 31 December 2018 (Unaudited) *RMB'000*
Total comprehensive income for the year	148,153	230,288	–	(10,617)	26,657	(1,020)	(5,032)	240,276	388,429
Profit (loss) for the year attributable to:									
– Owners of the Company	179,660	227,542	–	(10,511)	26,390	(1,020)	(5,032)	237,369	417,029
– Non-controlling interests	(5,620)	1,949	–	(106)	267	–	–	2,110	(3,510)
	174,040	229,491	–	(10,617)	26,657	(1,020)	(5,032)	239,479	413,519
Total comprehensive income (expense) for the year attributable to:									
– Owners of the Company	158,360	228,339	–	(10,511)	26,390	(1,020)	(5,032)	238,166	396,526
– Non-controlling interests	(10,207)	1,949	–	(106)	267	–	–	2,110	(8,097)
	148,153	230,288	–	(10,617)	26,657	(1,020)	(5,032)	240,276	388,429

Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group for the year ended 31 December 2018 as if the Acquisition had been completed on 1 January 2018

	The Group	Pro forma adjustments in respect of the Acquisition of the Target Group									The Enlarged Group
	Consolidated statement of cash flows of the Group for the year ended 31 December 2018	Consolidated statement of cash flows of the Target Group for the year ended 31 December 2018	Elimination of cash flows between the Group and the Target Group arising from consulting service	Elimination of cash flows between the Group and the Target Group arising from finance lease	Elimination of sales and purchase of iron ore concentrates between the Group and the Target Group via Agencies	Payment of Adjusted Payable Price	Settlement Arrangement in relation to the Acquisition	Pro forma adjustment on resulting tax in relation to the Acquisition	Payment of professional fee	Total pro forma adjustments	For the year ended 31 December 2018
	(Audited)	(Audited)									(Unaudited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 1*	*Note 2(a)*	*Note 2(b)*	*Note 2(c)*	*Note 3*	*Note 3*	*Note 4*	*Note 5*		
OPERATING ACTIVITIES											
Profit before tax from continuing and discontinued operations	123,272	263,165	–	(10,617)	31,361	–	–	(1,020)	(6,710)	276,179	399,451
Adjustments for:											
Finance costs	91,184	33,786	–	(654)	–	–	–	–	–	33,132	124,316
Interest income	(4,241)	(1,286)	–	–	–	–	–	–	–	(1,286)	(5,527)
Impairment loss on property, plant and equipment and prepaid lease payments	64,188	–	–	–	–	–	–	–	–	–	64,188
Loss (gain) on disposal of property, plant and equipment	11,060	(263)	–	–	–	–	–	–	–	(263)	10,797
Release of imputed interest on amount due from a related party	–	(40,721)	–	–	–	–	–	–	–	(40,721)	(40,721)
Finance lease income	–	(654)	–	654	–	–	–	–	–	–	
Impairment loss on trade and other receivables	406	3,929	–	–	–	–	–	–	–	3,929	4,335
Depreciation of property, plant and equipment	96,146	4,500	–	(85)	–	–	–	–	–	4,415	100,561
Release of prepaid lease payments	28,554	903	–	(474)	–	–	–	–	–	429	28,983
Amortisation of intangible assets	48,780	30	–	–	–	–	–	–	–	30	48,810
Gain on disposal of subsidiaries after tax	(6,779)	–	–	–	–	–	–	–	–	–	(6,779)
Release of financial guarantee contracts	–	(1,751)	–	–	–	–	–	–	–	(1,751)	(1,751)
Fair value gain on disposal of financial assets at FVTPL	(7,883)	–	–	–	–	–	–	–	–	–	(7,883)
Net foreign exchange gain	(3,580)	–	–	–	–	–	–	–	–	–	(3,580)
Waiver of capital injection from a director	6,280	–	–	–	–	–	–	–	–	–	6,280
Gain on derecognition of plant and equipment and prepaid lease payment under a fiannce lease contract	–	(11,176)	–	11,176	–	–	–	–	–	–	–

	The Group	Pro forma adjustments in respect of the Acquisition of the Target Group									The Enlarged Group
	Consolidated statement of cash flows of the Group for the year ended 31 December 2018	**Consolidated statement of cash flows of the Target Group for the year ended 31 December 2018**	**Elimination of cash flows between the Group and the Target Group arising from consulting service**	**Elimination of cash flows between the Group and the Target Group arising from finance lease**	**Elimination of sales and purchase of iron ore concentrates between the Group and the Target Group via Agencies**	**Payment of Adjusted Payable Price**	**Settlement Arrangement in relation to the Acquisition**	**Pro forma adjustment on resulting tax in relation to the Acquisition**	**Payment of professional fee**	**Total pro forma adjustments**	**For the year ended 31 December 2018**
	(Audited)	(Audited)									(Unaudited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 1*	*Note 2(a)*	*Note 2(b)*	*Note 2(c)*	*Note 3*	*Note 3*	*Note 4*	*Note 5*		
Operating cash flows before movements in working capital	447,387	250,462	–	–	31,361	–	–	(1,020)	(6,710)	274,093	721,480
Increase in inventories	(18,223)	(15,441)	–	–	–	–	–	–	–	(15,441)	(33,664)
(Decrease) increase in trade, bills and other receivables	(201,803)	25,472	394	–	133,725	–	–	–	–	159,591	(42,212)
Decrease in receivables at FVTOCI	324,396	154,413	–	–	–	–	–	–	–	154,413	478,809
Increase in trade, bills and other payables	443,047	9,255	(394)	–	(126,283)	–	–	–	–	(117,422)	325,625
Increase in contract liabilities	3,040	12,541	–	–	–	–	–	–	–	12,541	15,581
Cash generated from (used in) operations	997,844	436,702	–	–	38,803	–	–	(1,020)	(6,710)	467,775	1,465,619
Income tax paid	(23,200)	(21,412)	–	–	(4,123)	–	–	–	–	(25,535)	(48,735)
NET CASH FROM OPERATING ACTIVITIES	974,644	415,290	–	–	34,680	–	–	(1,020)	(6,710)	442,240	1,416,884

	The Group	Pro forma adjustments in respect of the Acquisition of the Target Group									The Enlarged Group
	Consolidated statement of cash flows of the Group for the year ended 31 December 2018 (Audited) *RMB'000* *Note 1*	Consolidated statement of cash flows of the Target Group for the year ended 31 December 2018 (Audited) *RMB'000* *Note 1*	Elimination of cash flows between the Group and the Target Group arising from consulting service *RMB'000* *Note 2(a)*	Elimination of cash flows between the Group and the Target Group arising from finance lease *RMB'000* *Note 2(b)*	Elimination of sales and purchase of iron ore concentrates between the Group and the Target Group via Agencies *RMB'000* *Note 2(c)*	Payment of Adjusted Payable Price *RMB'000* *Note 3*	Settlement Arrangement in relation to the Acquisition *RMB'000* *Note 3*	Pro forma adjustment on resulting tax in relation to the Acquisition *RMB'000* *Note 4*	Payment of professional fee *RMB'000* *Note 5*	Total pro forma adjustments *RMB'000*	For the year ended 31 December 2018 (Unaudited) *RMB'000*
Investing activities											
Interest received	4,241	1,286	–	–	–	–	–	–	–	1,286	5,527
Purchase of property, plant and equipment	(205,071)	(37,909)	–	–	–	–	–	–	–	(37,909)	(242,980)
Payments for prepaid lease payments	(12,754)	–	–	–	–	–	–	–	–	–	(12,754)
Addition on intangible assets	(32,810)	–	–	–	–	–	–	–	–	–	(32,810)
Net cash outflow on acquisition of Primary Gold Limited	(169,988)	–	–	–	–	–	–	–	–	–	(169,988)
Net cash outflow arising from disposal of Fushan Hanking Shangma Mining Co., Ltd.	(605)	–	–	–	–	–	–	–	–	–	(605)
Capital gain tax paid for disposal of Hanking Australia Pty Ltd with its subsidiaries	(14,241)	–	–	–	–	–	–	–	–	–	(14,241)
Purchases of financial assets at FVTPL	(554,507)	–	–	–	–	–	–	–	–	–	(554,507)
Proceeds on disposal of financial assets at FVTPL	507,144	–	–	–	–	–	–	–	–	–	507,144
Proceeds on disposal of property, plant and equipment	33,881	3,834	–	–	–	–	–	–	–	3,834	37,715
Proceeds received from a finance lease contract	–	15,984	–	(15,984)	–	–	–	–	–	–	–
Payment of consideration payable for acquisition of subsidiaries	(2,000)	–	–	–	–	–	–	–	–	–	(2,000)
Advance to a related party	–	(462,238)	–	–	–	–	–	–	–	(462,238)	(462,238)
Repayments received from a related party	–	142,802	–	–	–	–	435,280	–	–	578,082	578,082
Placement of restricted deposits	(3,722)	–	–	–	–	–	–	–	–	–	(3,722)
Net cash (used in) from investing activities	(450,432)	(336,241)	–	(15,984)	–	–	435,280	–	–	83,055	(367,377)

	The Group	Pro forma adjustments in respect of the Acquisition of the Target Group									The Enlarged Group
	Consolidated statement of cash flows of the Group for the year ended 31 December 2018	Consolidated statement of cash flows of the Target Group for the year ended 31 December 2018	Elimination of cash flows between the Group and the Target Group arising from consulting service	Elimination of cash flows between the Group and the Target Group arising from finance lease	Elimination of sales and purchase of iron ore concentrates between the Group and the Target Group via Agencies	Payment of Adjusted Payable Price	Settlement Arrangement in relation to the Acquisition	Pro forma adjustment on resulting tax in relation to the Acquisition	Payment of professional fee	Total pro forma adjustments	For the year ended 31 December 2018
	(Audited)	(Audited)									(Unaudited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 1*	*Note 2(a)*	*Note 2(b)*	*Note 2(c)*	*Note 3*	*Note 3*	*Note 4*	*Note 5*		
Financing activities											
New borrowings raised	1,056,082	273,776	–	–	–	–	–	–	–	273,776	1,329,858
Repayment of borrowings	(1,575,476)	(288,576)	–	–	–	–	–	–	–	(288,576)	(1,864,052)
Interest paid	(50,932)	(29,531)	–	–	–	–	–	–	–	(29,531)	(80,463)
Withdrawal of pledged bank deposits in relation to borrowings and credit facilities	30,317	455,324	–	–	–	–	–	–	–	455,324	485,641
Placement of pledged bank deposits in relation to borrowings and credit facilities	(8,044)	(490,381)	–	–	–	–	–	–	–	(490,381)	(498,425)
Payment of finance lease for a finance lease contract	(15,984)	–	–	15,984	–	–	–	–	–	15,984	–
Repurchase and cancellation of ordinary shares	(1,740)	–	–	–	–	–	–	–	–	–	(1,740)
Advance of loans from staffs	–	28,300	–	–	–	–	–	–	–	28,300	28,300
Repayment of loans from staffs	–	(26,300)	–	–	–	–	–	–	–	(26,300)	(26,300)
Dividend paid to owners of the Company	(14,962)	–	–	–	–	–	–	–	–	–	(14,962)
Loans raised from a related party	–	124	–	–	–	–	–	–	–	124	124
Net cash outflow on acquisition of the Target Group	–	–	–	–	–	(670,000)	–	–	–	(670,000)	(670,000)
Net cash (used in) from financing activities	(580,739)	(77,264)	–	15,984	–	(670,000)	–	–	–	(731,280)	(1,312,019)
Net (decrease) increase in cash and equivalents	(56,527)	1,785	–	–	34,680	(670,000)	435,280	(1,020)	(6,710)	(205,985)	(262,512)
Bank balances and cash of Hanking (Indonesia) eliminated upon transfer to assets classified as held for sale	(8,980)	–	–	–	–	–	–	–	–	–	(8,980)
Cash and cash equivalents at 1 January	394,911	50,807	–	–	–	–	–	–	–	50,807	445,718
Effect of foreign exchange rate changes	(740)	–	–	–	–	–	–	–	–	–	(740)
Cash and cash equivalents at 31 December	328,664	52,592	–	–	34,680	(670,000)	435,280	(1,020)	(6,710)	(155,178)	173,486

(III) Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The financial information of the Group is extracted from the annual report of the Company for the year ended 31 December 2018 as published on 29 April 2019. The financial information of the Target Group is extracted from the accountants' reports as set out in Appendix VI to this Circular, respectively.

   In respect of the Acquisition, since Mr. Yang Jiye and Ms. Yang Min are both collectively the controlling shareholder of the Company and the Target Group. The Group's acquisition of 100% interest in the Target Group was regarded as a business combination involving entities under common control and was accounted for using principle of merger accounting.

   As a result, the Group recognises the assets and liabilities of the Target Group at their carrying amounts as at 31 December 2018. No amount is recognised in respect of goodwill nor adjustments made in respect of differences between the fair value of Target Group's identifiable assets and liabilities as at 31 December 2018 and contingent liabilities and their carrying amounts.

2. The adjustment represents the elimination of the transaction amounts and cash flows for the year ended 31 December 2018 and balances as at 31 December 2018 between the Target Group and the Group, which should be eliminated at the Enlarged Group level upon completion of the Acquisition. The transactions between the Group and the Target Group comprised the following:

   (a) The consulting service provided by the Target Company to the Company; and

   (b) Finance lease arrangement in respect of leasing of land, buildings and constructions from the Target Group to 遼寧罕王綠色建材有限公司 (Liaoning Hanking Green Building Materials Co., Ltd*) ("Hanking Green Building Materials"), a wholly owned entity of the Group.

   (c) The sales and purchase of iron ore concentrates between the Group and the Target Group via the intermediary agencies, which are related parties of the Group and the Target Group.

   A commitment letter dated 24 April 2019 has been issued by the Company, pursuant to which upon completion of the Acquisition, the Group will directly supply iron ore concentrates to the Target Group instead of through any intermediary agencies (including 撫順德山貿易有限公司 (Fushun Deshan Trading Co., Ltd.*) and 大連華仁貿易有限公司 (Dalian Huaren Trade Co., Ltd.*) (collectively referred to as the "Agencies")). Accordingly, for the purpose of unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash

* *English name is for identification purpose only.*

flows of the Enlarged Group, assuming the Acquisition had been completed on 1 January 2018, the Group's sales of iron ore concentrates to and the Target Group's purchase of iron ore concentrates from the Agencies for the year ended 31 December 2018 would be reversed.

3. Pursuant to the agreement (the "Acquisition Agreement") in relation to the Acquisition, the total consideration for the Acquisition (the "Consideration") is RMB1,020,000,000. The Company, China Hanking BVI Limited ("Hanking BVI" or the "Seller of the Target Group") and Mr. Yang Jiye agreed that the consideration to be paid by the Company for the Acquisition shall be adjusted to RMB670,000,000 (the "Adjusted Payable Price") which will be paid by the Company with its own fund, while the remaining amount of RMB350,000,000 (the "Remaining Amount") would be paid by Tuochuan Capital Limited ("Tuochuan Capital") which is 100% owned by Mr. Yang Jiye to Hanking BVI. The Company shall pay RMB200,000,000 upon the completion of the Acquisition and the total unpaid Adjusted Payable Price amounted to RMB470,000,000 on that date, and the Company shall pay RMB235,280,000 by end of the third month after the first instalment. The amount of partial Consideration of RMB435,280,000 upon receipt by Hanking BVI as aforementioned will be used by Hanking BVI to repay to the Target Group, in respect of the Target Group's outstanding amount due from 遼寧罕王投資有限公司 (Liaoning Hanking Investment Co., Ltd.*) as agreed by Hanking BVI (the "Settlement Arrangement"), which is expected to be settled within three months after the completion of the Acquisition (the "Settlement Arrangement"). Once Hanking BVI fully repays the outstanding loans, the Company will pay the remaining part of the Adjusted Payable Price amounting to RMB234,720,000 within one year after the completion of the Acquisition and had been assumed as cash payment paid by the Company during the year ended 31 December 2018 for the purpose of preparation of the pro forma consolidated statement of cash flows.

   Pursuant to another agreement (the "Disposal Agreement") entered into between the Company and Tuochuan Capital for the disposal of the Group's entire equity interests of Hanking (Indonesia) Mining Limited (the "Disposal") as announced on 5 July 2018, a consideration of RMB350,000,000 shall be paid by Tuochuan Capital to the Group. Such Disposal has not been completed as at 31 December 2018.

   Upon payment of the first installment of RMB200,000,000 upon Completion of the Acquisition, total Consideration payable amounting to RMB820,000,000 is included in amounts due to related parties for the purpose of the preparation of unaudited pro forma consolidated statement of financial position of the Enlarged Group, and will be off set with the resulting consideration receivable from Tuochuan Capital upon completion of the Disposal.

* *English name is for identification purpose only.*

4. This represents the stamp duty tax incurred and paid arising from Acquisition. Stamp duty is payable on the transfer of (i) equity interest of the Target Group at a rate of 0.1% on Consideration. The amount of stamp duty is subject to change when amounts are reviewed and finalised by the relevant tax authority upon the completion of Acquisition.

5. This represents the recognition of professional fee incurred and paid by the Company for the Acquisition. The amount is subject to change upon the actual completion of the Acquisition.

   Except for the pro forma adjustment set out in Note 2 relating to the adjustment on elimination of the transactions between the Group and the Target Group which are expected to have a continuing impact on the financial performance of the Group, other pro forma adjustments to the consolidated statement of profit and loss and other comprehensive income and consolidated statement of cash flows are not expected to have continuing impact to the Group.

6. As at 31 December 2018, the Target Group has deferred income for financial guarantee contracts of RMB1,751,000 provided to its related parties. As represented by the management of the Target Group, such financial guarantee contracts would be released prior to the completion of the Acquisition. Had the financial guarantee contracts been released upon completion of the Acquisition, it would result in the Enlarged Group's reported unaudited pro forma net current liabilities and net assets as at 31 December 2018 to decrease from RMB736,961,000 to RMB735,648,000 and to increase from RMB518,847,000 to RMB520,160,000, respectively. There would be no impact to the unaudited pro forma consolidated statement of profit or loss and other comprehensiveincome of the Enlarged Group and the overall cash flows to operating, investing and financing activities in respect of the Enlarged Group's reported unaudited pro forma consolidated cash flows for the year ended 31 December 2018.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Enlarged Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of China Hanking Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Hanking Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of financial position as at 31 December 2018, the unaudited pro forma statement of profit or loss and other comprehensive income for the year ended 31 December 2018, the unaudited pro forma statement of cash flows for the year ended 31 December 2018 and related notes as set out on pages 10 to 12 of Appendix VI to the circular issued by the Company dated 25 April 2019 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages 1 to 12 of Appendix VI to the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the 100% equity interest in Tuochuan (Hong Kong) Limited (the "Target Company", together with its subsidiaries collectively referred to as the "Target Group"), constituting a very substantial and connected transaction (the "Acquisition") on the Group's financial position as at 31 December 2018 and the Group's financial performance and cash flows for the year ended 31 December 2018 as if the Acquisition had taken place at 31 December 2018 and 1 January 2018, respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's audited consolidated financial statements for the year ended 31 December 2018, on which an auditor's report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock

Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2018 or 1 January 2018 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 April 2019

The following is the text of letter and valuation report prepared for the purpose of incorporation in this circular, received from Savills Valuation and Professional Services Limited, an independent valuer, in connection with its valuation as at 31 December 2018 of the equity interests of Tuochuan (Hong Kong) Limited to be acquired by the Group.

The Board of Directors
Shenyang Toyo Steel Utility Co., Ltd.
22nd Floor, Hanking Tower
No. 227, Qingnian Street
Shenhe District
Shenyang 110016
Liaoning Province
The People's Republic of China

Savills Valuation and
Professional Services Limited
1208, Cityplaza One
1111 King's Road, Taikoo Shing
Hong Kong

T : (852) 2801 6100
F : (852) 2530 0756

EA Licence: C-023750
savills.com

29 April 2019

Dear Sirs,

RE: VALUATION OF 100% EQUITY INTEREST IN TUOCHUAN (HONG KONG) LIMITED.

In accordance with the instructions of China Hanking Holdings Limited (the "**Company**" or the "**Purchaser**"), we have undertaken a valuation to determine the Market Value (to be defined below) of 100% equity interest ("**Equity**") in Tuochuan (Hong Kong) Limited (拓川資本有限公司) ("**Tuochuan**" or the "**Target**") as at 31 December 2018 (the "**Valuation Date**").

1. PURPOSE OF VALUATION AND STANDARD OF VALUE

The purpose of this valuation is to express an independent opinion of the Market Value of the Equity in Tuochuan as at the Valuation Date for public disclosure purpose.

According to International Valuation Standards ("**IVS**"), Market Value is defined as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

2. BACKGROUND

2.1 Background of Transaction

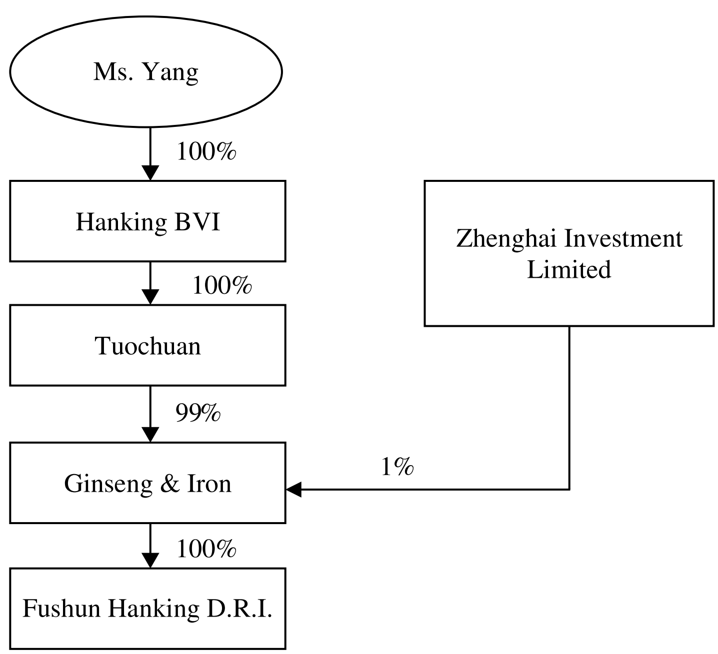
On 1 April 2019, the Company announced that the Purchaser, China Hanking (BVI) Limited ("**Hanking BVI**" or the "**Seller**"), Yang Jiye ("**Mr. Yang**", son of Ms. Yang Min ("**Ms. Yang**"), a controlling shareholder of the Company) and Tuochuan Capital Limited entered into a sale and purchase agreement (the "**Acquisition Agreement**") dated 1 April 2019 (the "**Announcement**"). According to the Acquisition Agreement, the Purchaser conditionally agreed to acquire, and Mr. Yang conditionally agreed to sell the entire issued share capital of Tuochuan, a wholly owned subsidiary of the Seller, at an aggregate consideration of RMB1,020,000,000 (the "**Acquisition**").

2.2 Tuochuan

Tuochuan was established by Hanking BVI primarily for investment holding purpose under the laws of Hong Kong with limited liability on 5 November 2015. The Target, through its subsidiaries, is principally engaged in casting and sale of high purity pig iron and ductile pig iron. Tuochuan holds 99% equity interest in Fushun Hanking Ginseng & Iron Trading Company Limited (撫順罕王人參鐵貿易有限公司) ("**Ginseng & Iron**") which holds 100% equity interest of Fushun Hanking D.R.I. Co., Ltd. (撫順罕王直接還原鐵有限公司) ("**Fushun Hanking D.R.I**") as of the Valuation Date.

The Target Group comprises the Target, together with its subsidiaries comprising Ginseng & Iron, Fushun Hanking D.R.I., and Lagu Branch of Fushun Hanking D.R.I. (撫順罕王直接還原鐵有限公司拉古分公司).

Group structure of the Target Group as at the Valuation Date.



Source: The Announcement

Please refer to the original documents for details of the Acquisition.

As instructed by the Company, we will perform the valuation of the entire issued share capital of Tuochuan as at the Valuation Date.

2.2.1 Financial information

We received the audited historical financial performance of Tuochuan from the management of the Target, and the key parameters has been described as follow:

2.2.2 Overall operating performance

Based on the audited consolidated financial statements of Tuochuan prepared in accordance with the International Financial Reporting Standards, the overall operating performance for last three years ended 31 December 2018 are as follows:

(RMB'000)	**For the year ended 31 December 2016**	**For the year ended 31 December 2017**	**For the year ended 31 December 2018**
Revenue	1,108,829	1,517,971	1,662,781
Growth rate %	16.5%	36.9%	9.5%
Profit before taxation	117,702	204,523	263,165
Profit after taxation	89,940	175,251	229,491
Net Profit Margin %	8.1%	11.5%	13.8%

Source: Announcement, Savills' analysis

Profit margin has grown from 8.1% in 2016 to 13.8% in 2018, which is primarily driven by the significant increase in product price and a lower effective tax rate attributable to the certification of high tech enterprise at Fushun Hanking D.R.I. since 2017.

More detailed analysis on the historical performance is including in Section 2.3 on Ginseng & Iron.

2.3 FUSHUN HANKING GINSENG & IRON TRADING COMPANY LIMITED

Ginseng & Iron is a limited liability company established in China in 2011. Its business is primarily trading of high purity casting pig iron and ductile pig iron. Ginseng & Iron holds 100% equity interest of Fushun Hanking D.R.I.

2.3.1 Financial information

We received the audited historical financial performance of Ginseng & Iron from the management of the Target, and the key parameters has been described as follow:

2.3.2 Overall operating performance

Based on the audited consolidated financial statements of Ginseng & Iron prepared in accordance with the International Financial Reporting Standards, the overall operating performance for last three years ended 31 December 2018 are as follows:

(RMB'000)	**For the year ended 31 December 2016**	**For the year ended 31 December 2017**	**For the year ended 31 December 2018**
Revenue	1,108,829	1,517,971	1,661,277
Profit before taxation	117,739	204,538	262,843
Profit after taxation	89,977	175,266	229,169

Source: Target, Savills' analysis

2.3.3 Revenue

According to the audited data provided by the management of the Target, the growth rate of revenue from 2016 to 2018 is 16.5%, 36.9% and 9.4% respectively. The upward trending of the revenue growth for 2016 is caused by the higher manufacturing capacity while for 2017 and 2018 is mainly due to increase of the products' price.

2.3.4 Cost of Goods Sold

The cost of goods comprises mainly raw material for iron, labour cost, depreciation and amortization, electricity and utilities and research and development cost.

The cost to revenue ratio from 2016 to 2018 is 76.4%, 78.8% and 78.5% respectively.

2.3.5 Operating Expense

The operating expense comprises mainly selling and marketing expense and general and administrative expense.

Selling and marketing expense as a percentage of revenue is 7.3%, 5.1% and 4.9% during the period from 2016 to 2018 respectively.

General and administrative expense as a percentage of revenue is 3.1%, 2.1% and 2.0% during the period from 2016 to 2018 respectively.

2.3.6 Financial Expense

The financial expense as percentage of revenue is 3.6%, 2.4% and 2.0% during the period from 2016 to 2018.

2.3.7 Income Tax

The statutory tax rate for Ginseng & Iron is 25% from 2016 to 2018. Fushun Hanking D.R.I. which is 100% held by Ginseng & Iron obtained the certification of high-tech enterprises in October 2017 and the effective income tax rate in 2017 and 2018 was approximately 15% at Ginseng & Iron consolidated level.

2.3.8 Net Profit

According to the audited data provided by the management of the Target, the net profit margin are around 8.1%, 11.5% and 13.8% during the period from 2016 to 2018 including other gain or loss.

2.3.9 Working capital

The working capital contains operating cash, account receivables and portion of other receivables, inventory, account payables and portion of other payables, deposit receivables, accrued payroll and tax payables according to the management of the Target.

The ratio of net working capital to revenue from 2016 to 2018 is 0.9%, 2.2% and -4.8% respectively.

2.3.10 Capital Expenditure

Capital expenditure as a percentage of revenue is 0.2%, 1.6% and 2.3% during the period from 2016 to 2018 respectively.

More detailed analysis of the financial performance is included in section 4.3 on the financial forecast.

2.4 Fushun Hanking D.R.I. Co., Ltd

Fushun Hanking D.R.I. is a limited liability company established in China in 2002. Its business is primarily production and sale of high purity casting pig iron and ductile pig iron. It sells to both Ginseng & Iron and third parties.

3. VALUATION METHODOLOGY AND BASIS

In conducting the valuation, we have considered three generally accepted approaches, including income approach, market approach and cost approach (or asset approach). Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Selection of valuation approach will be determined by the specific characteristics of the subject of the valuation and commonly adopted practice.

i) Cost approach/Asset approach

According to the IVS, the cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence.

In the business valuation context, cost approach is often presented as asset approach, in which Market Value of the business entity is derived from the sum of Market Value of its existing assets less the Market Value of its liabilities.

ii) Market approach

According to the IVS, the market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available.

In the business valuation context, the market approach valuation shall analyse recent transaction(s) in the equity interest of the valuation subject and/or comparable companies and benchmark the valuation subject with the selected comparable(s).

iii) Income approach

According to the IVS, the income approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset.

In the business valuation context, under income approach, value of the business entity is derived primarily from the present value ("**PV**") of its future cash flow, typically through the use of discounted cash flow ("**DCF**") method.

4. VALUATION ANALYSIS

Given that Tuochuan is an investment holding company with insignificant operation, we have adopted asset approach to value its equity by valuing the investment in a subsidiary (i.e. Ginseng & Iron) as well as other assets and liabilities on the statement of financial position of Tuochuan. Based on the audited financial statements as at the Valuation Date provided by the Company, the assets and liabilities held at Tuochuan's level are as follows:

Assets:

1) Cash and cash equivalents;
2) Investment in a subsidiary;
3) Other receivables;

Liabilities:

4) Other payables; and
5) Amount due to a related party

4.1 Cash and cash equivalents

For the cash and cash equivalents, we have adopted the book value in the audited financial statements provided as the Market Value in our valuation.

4.2 Other Receivables

For the Other Receivables, we have adopted the book value in the audited financial statements provided as the Market Value in our valuation based on the audited recoverable amount assessed by the Target.

4.3 Investment in a subsidiary

For the Investment in a subsidiary which is the 99% equity interest at Ginseng & Iron, we have considered the three generally accepted approaches above-mentioned in arriving at the Market Value of Ginseng & Iron.

The Market Approach is not adopted as publicly listed companies with similar business as the Target Group usually conduct both upstream and downstream activities, while the Company is the main upstream supplier to the Target Group, therefore implied trading multiples of those companies are not comparable to the Target Group. We are also not aware of any comparable transaction available for market approach valuation.

The asset approach is not adopted because it cannot capture the future earning potential from Ginseng & Iron's operation.

We have adopted the income approach technique known as discounted cash flow method as the primary approach to estimate Market Value of Ginseng & Iron given the availability of a consolidated cash flow forecast prepared by the Target and the close relationship between cash flow and value of an operating company. Under the said method, we have discounted the projected cash flow of Ginseng & Iron to PV based on the cash flow forecast reviewed and confirmed by the Company and other relevant documents and information provided by the Company.

For the purpose of our valuation, we have derived the future consolidated cash flows of Ginseng & Iron, which reflect the forecast for both Ginseng & Iron and Fushun Hanking D.R.I. at a consolidated level, based on the available information and prevailing operating conditions of the business and by taking into consideration of other pertinent factors, which primarily include the following:

– the market and the business risks of Ginseng & Iron and Fushun Hanking D.R.I.;

– the general economic outlook as well as investment environment for the business;

– the nature and current financial status of Ginseng & Iron and Fushun Hanking D.R.I.;

– the historical performance Ginseng & Iron and Fushun Hanking D.R.I.;

– the market expectation and required rate of return for similar business; and

– the assumptions as stated in the Specific and General Assumptions of this report.

The five-year financial forecast from 2019 to 2023 is prepared by the Target, reviewed by the directors of the Company and adopted by us. Details by items are set out in the following sections.

4.3.1 Revenue

Revenue is projected based on forecast sale prices and sales volume of products.

The Target Group will transform and upgrade their production plant in 2019 to expand manufacturing capacity from 560,000 ton in 2019 to 660,000 ton in 2023. However, the blast furnace will be suspended of production for four months in 2019 in order to get overhauled and modified with an additional capital expenditure of approximately RMB116 million ("**Capacity Expansion**"). Due to factors such as the stability of the blast furnace after resumption of production, the tentative effective production period of the Target Group is assumed to be six months in 2019. Based on the original manufacturing capacity in 2018, the volume of production for 2019 is expected to be approximately 50% of that in 2018.

Since the sales volume of products and growth rate in 2019 will be affected by the above-mentioned Capacity Expansion plan, based on the average sale price in 2018 and the inflation rate of 3%, the revenue in 2019 is expected to decrease by 48% as compared with that in 2018. The revenue will increase with the recovery of sales volume in 2020.

The historical average growth rate of the revenue of the Target Group from 2016 to 2018 is around 21%. The growth rate of revenue of each year from 2019 to 2023 is -48%, 132%, 5%, 5% and 3%, and it will maintain a steady growth of 3% after 2023. The above change in revenue is mainly due to:

i) the growth rate of production volume at 125%, 2% and 2% from 2020 to 2022 respectively due to the reasons mentioned above; and

ii) the increase in sale price at projected inflation rate of 3%.

4.3.2 Cost of goods

The cost of goods comprises raw material for iron, labour cost, depreciation and amortization, electric charge, spare parts cost, research and development cost and others. The average percentage of cost to revenue from 2016 to 2018 is around 77.9%.

In 2019, the percentage of total cost to revenue will be 84.0% primarily due to the decrease of output by 50% and the increase of fixed cost-to-revenue ratio. The percentage of total cost to revenue will decrease to 79.5% in 2020, and the percentage of total cost to revenue for each year from 2021 to 2023 will be maintained at 79.0%, resulting in a stable gross profit margin level that is slightly less than the historical level.

4.3.3 Operating Expense

The main operating expense comprises selling and marketing expense and general and administrative expense.

The selling and marketing expense is mainly marketing activity cost and salary for salesforce. The average selling and marketing expense as percentage of revenue from 2016 to 2018 is around 5.8%. With the increase of revenue, selling and marketing expense as percentage of revenue will decrease from 5.7% in 2019 to 5% in 2023.

The general and administrative expense is mainly utilities and management salary. The general and administrative expense as percentage of revenue from 2016 to 2018 is around 2.4%. With the increase of revenue, general and administrative expense as percentage of revenue will decrease from 3.8% in 2019 to 1.9% in 2023.

4.3.4 Income Tax

Fushun Hanking D.R.I. which is 100% held by Ginseng & Iron obtained the certification of high-tech enterprises in October 2017. 15% concessionary income tax rate will be applicable until 2019 and the normal 25% statutory income tax rate will be applied from 2020.

4.3.5 Working Capital

Operating cash is assumed to be one month expenses excluding D&A. Operating Cash is assumed to be stable at 7% of total revenue during the projection period.

Account receivables are outstanding payments to be collected from the clients. The turnover days of account receivables are assumed to be stable at 30 days during the projection period.

Other receivables are mainly prepayment to suppliers and purchase PPE. The turnover days of other receivables are assumed to be stable at 5 days during the projection period.

The turnover days of inventory are assumed to be stable at 45 days during the projection period.

Accounts payable mainly is the outstanding payments of purchased raw material. The turnover days of accounts payables are assumed to be stable at 70 days during the projection period.

The turnover days of other payables are assumed to be stable at 60 days during the projection period.

The turnover days of advance from customers are assumed to be stable at 20 days during the projection period.

The ratio of accrued payroll to selling and marketing expense and general and administrative expense are assumed to be stable at 2% during the projection period.

The turnover days for value-added tax and additional tax and income tax are assumed to be stable at 30 days and 90 days respectively during the projection period.

4.3.6 Capital Expenditure Plan

As mentioned above, the Target Group will transform and upgrade the production facility in 2019 with an additional capital expenditure of approximately RMB116 million to achieve the expansion of manufacturing capacity, which will be increased from 560,000 ton in 2019 to 660,000 ton in 2023.

The Target Group will conduct environment protection alteration with a budget of RMB22 million in 2019.

The Target Group forecasts that the capital expenditures for equipment maintenance will be around RMB10 million each year from 2020 to 2023.

We have assessed the reasonableness and adopted the forecast projection of Ginseng & Iron in our valuation as at the Valuation Date. We calculated Free Cash Flow to Firm ("**FCFF**") and discounted FCFF to arrive at the enterprise value of Ginseng & Iron, and then adjusted for net debt and non-operating assets to determine the equity value of the Ginseng & Iron. Value of Fushun Hanking D.R.I is being reflected both in the FCFF and the adjustment of net debt and non-operating assets on a consolidated basis at Ginseng & Iron level.

4.3.7 Discount Rate

In estimating an appropriate discount rate for Ginseng & Iron, we have used the Capital Assets Pricing Model (the "**CAPM**") to estimate the cost of equity and then to estimate the Weighted Average Cost of Capital ("**WACC**") for the discounting of FCFF to PV.

Under CAPM, cost of equity is the sum of the risk-free rate and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the cost of equity of Ginseng & Iron may be subject to other firm specific risk factors (e.g. size premium) that are independent of the general market.

The WACC is determined to be 16% based on the then prevailing risk-free rate, required market return, estimated beta, firm specific risk factors, cost of debt and debt-to-equity ratio prevailing as at the Valuation Date.

The following table depicts the components and source of WACC calculation:

Items	31 December 2018	Note
Unlevered Beta	0.93	Average of comparable companies' 2-year weekly beta
Debt-to-equity ratio	17.15%	Average of comparable companies D/E ratio
Tax rate	25.00%	PRC corporate tax rate as at the Valuation Date
Levered Beta	1.05	Derived from releveraging formula
Risk free rate	3.30%	Estimated 10-year Chinese government bond yield as at Valuation Date
Equity risk premium	6.38%	Damodaran data adjusted for country risk premium for the respective year
Size premium	5.37%	2018 Valuation Handbook – U.S. Guide to Cost of Capital
Company specific risk premium	3.00%	Subjective judgment from valuer for uncertainty of the forecast specific to the Target on top of size premium
Cost of equity	18.38%	CAPM formula
Cost of debt (pre-tax)	4.90%	5 year+ lending rate in China as at the Valuation Date
Cost of debt (post-tax)	3.68%	Cost of debt (pre-tax) adjusted with tax
Percentage of debt	15%	
Percentage of equity	85%	
WACC	16.22%	
WACC adopted	16.00%	Rounded WACC

Details of selected comparable companies and formula for WACC and CAPM are shown in Appendix I.

Only 99% of equity value of Ginseng & Iron is attributable to Tuochuan's holding in our valuation of Tuochuan.

4.4 Other payables

For the other payables, we have adopted the book value in the audited financial statements provided as the Market Value in our valuation.

4.5 Amount due to a related party

For the amount due to related party, based on information provided by the Management, it is an amount due to the original shareholders of Ginseng & Iron which are related party, we have adopted the book value in the audited financial statements provided as the Market Value in our valuation.

4.6 Valuation Conclusion

The Market Value of 100% equity interest in Ginseng & Iron based on the income approach is approximately RMB1,180 million as at the Valuation Date. The corresponding value of 99% equity interest held by Tuochuan is then approximately RMB1,168 million, which represents an uplift of RMB1,039.5 million to the cost of investment in Ginseng & Iron at RMB128.7 million on Tuochuan's statement of financial position. The 100% value of equity interest in Tuochuan based on the asset approach is then approximately RMB1,040 million upon reflecting such uplift to the original net assets value of RMB271,000 as at the Valuation Date. The significant value uplift is attributed to the ability of Ginseng & Iron to generate sustainable positive cash flow in future as supported by recent historical financial performance of Ginseng & Iron.

Based on analysis above, the calculation of Market Value of 100% equity interest in the Target Group as at the Valuation Date is as follows:

RMB'000	**Audited Book Value**	**Market Value Adjustment**	**Market Value**
Assets			
Bank Balances and Cash	151	–	151
Other Receivables	694	–	694
Investment in subsidiary	128,700	1,039,500	1,168,200
Total	**129,545**	**1,039,500**	**1,169,045**
Liabilities			
Other Payables	(517)	–	(517)
Amount due to a Related Party	(128,757)	–	(128,757)
Total	**(129,274)**	**–**	**(129,274)**
Net Equity Value	**271**	**1,039,500**	**1,039,771**

4.7 Sensitivity Analysis

As part of our analysis, we have performed sensitivity analysis on the impact from changes in key valuation parameters to the equity value of Ginseng & Iron. Based on our analysis, we identified discount rate and long-term growth rate used in the equity valuation for Ginseng & Iron to be the key parameters for our sensitivity analysis to illustrate the equity value of Tuochuan upon a respective change of 1% and 0.5% on the discount rate and long-term growth rate, where the result is tabulated below.

RMB'000		**Discount Rate**		
		17.00%	*16.00%*	*15.00%*
Long-term Growth Rate	2.5%	961,000	1,010,000	1,079,000
	3.0%	990,000	1,040,000	1,109,000
	3.5%	1,010,000	1,079,000	1,149,000

Source: Savills' analysis

We note that the value of the Target will decrease by 7.6% in the worst case within this range of sensitivity analysis (i.e. discount rate increase by 1% while long-term growth rate decrease by 0.5%) when compared to the base case, while it will increase by 10.5% in the best case within this range of sensitivity analysis (i.e. discount rate decrease by 1% while long-term growth rate increase by 0.5%) when compared to the base case.

We draw reader's attention that the applicable discount rate and long-term growth rate may vary beyond the range of our sensitivity analysis subsequent to the Valuation Date. The above sensitivity analysis is only intended to illustrate the possible value of the Target upon change of the identified key valuation parameters.

5. RISK FACTORS

We have identified several key risk factors in the business of the Target and these risk factors may affect the valuation:

- **Market risk in wind power industry:** Any policy changes in downstream industries of the Target may affect demand and price of the Target's products, directly affecting the value of the Target. There has been high wind abandoning rate in the past for wind farm. Any unforeseen structural changes in the power industry may also lead to lower demand of wind power, which may slow the growth of installation of wind power and reduction in demand or price of the Target's products.

- **Commodity price risk:** Iron ore concentrate and charcoal represent the most significant raw material cost, comprising approximately 70-75% of total cost of goods sold historically and in future forecast. Any change in commodity price may significantly affect the cost of the Target's products, and if the Target could not pass along the cost increase to customers, profitability and the value of the Target will be adversely affected.

- **Environmental policy:** Chinese government has recently enforced stricter environment protection policies where heavy industries manufacturers are the main target given their potential pollution impact. More stringent environmental policies and standards may require the Target to spend further on environmental protection measures which may affect its profitability.

- **Uncertainty on capacity expansion project:** As in the typical nature of any capacity expansion project, there are uncertainties on the achievement of Capacity Expansion in time and within the budget. There are also uncertainties towards the product quality and production stability subsequent to the completion of Capacity Expansion.

- **Risk of supply chain:** The iron ore concentrate of the Target is currently purchased mainly from the Maogong mine held by the Company and located closely to the Target's production facilities. The iron ore concentrate supplied by the Maogong mine is of suitable quality for Target's products which has strict requirement on purity and metallic composition. Any disruption to the supply of iron ore concentrate may lead to increase in cost as a result of higher transportation cost or purification cost.

The above list of risk factors is not intended to be exhaustive and other abrupt changes in macro-economic or micro-economic factors may also affect the value of the Target and the project companies

6. SPECIFIC ASSUMPTION

A number of specific assumptions have been made in the preparation of the reported figures.

The major specific assumptions are set out below:

- The historical statements of financial positions and operating position of the Target and its group companies that we used in valuation has been recorded correctly by the Management and have been audited by the Company's auditors;

- The financial forecast of Ginseng & Iron adopted in our valuation can be achieved from 2019 to 2023, in particular the timely completion of the manufacturing capacity expansion within the budgeted cost and the subsequent increase in sale at the projected margin; and

- Ginseng & Iron will reach stable operation after 2023 with a long-term growth rate 3% which is the expected China long-term inflation rate into perpetuity.

7. GENERAL ASSUMPTIONS

A number of general assumptions have been made in the preparation of the reported figures. The assumptions are:

- There will be no major changes in existing political, legal, technological, tax, fiscal or economic conditions in the country or district where the business is in operation;
- The long term inflation rate, interest rates and currency exchange rate will not differ materially from those presently prevailing;
- The Target Group will retain sufficient management and technical personnel to maintain their ongoing operations;
- There will be no major business disruptions through international crisis, industrial disputes, industrial accidents or severe weather conditions that will significantly affect the existing business;
- The business is not and will not be subject to any unusual or onerous restrictions or encumbrances which may render the Target and its group companies defaulted against its outstanding commitment or obligations;
- Target's Group business are unaffected by any statutory notice and the operation of the business gives, or will give, no rise to a contravention of any statutory requirements. All applicable laws and regulations were and will be complied with;
- Any potential bad debt will not significantly affect the value of the Target Group companies; and,
- The Target Group will remain free from claims and litigation against the business or its customers that will have a material impact on value;

8. LIMITING CONDITIONS

The Acquisition, if materialized, and the corresponding transaction price would be the result of negotiations between the purchaser and the shareholder of the Target. The management of the purchaser should be solely responsible for determining the consideration of the Acquisition, in which we were not involved in the negotiation and have no comment on the agreed consideration. Our work does not constitute any buy or sell recommendation.

We have been provided with extracts of copies of relevant documents and financial information relating to the Target. We have relied upon the aforesaid information and certain data from various databases in forming our opinion of the Market Value. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. Our work has relied to a considerable extent on the information provided by the Management and does not constitute an audit and no assurance is given by us to the information supplied to us. We are not in a position to, nor have been instructed to, comment on the lawfulness of the businesses and the Target's possession of the assets. In the course of our valuation, we have assumed that the assets have obtained all required registration and are freely transferable in the market without any significant obstacles.

Details of our principal information sources are set out in the report and we have satisfied ourselves, so far as possible, that the information presented in our report is consistent with other information which was made available to us in the course of our work. However, we cannot guarantee the reliability or accuracy of the information sources.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Furthermore, the assumptions adopted are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, the Target and its group companies and us. While we have exercised our professional knowledge and cautions in adopting assumptions and other relevant key factors in our valuation, those factors and assumptions are still vulnerable to the change in one or more of these factors subsequent to the Valuation Date. We must emphasis that the realization of any prospective financial information set out within our report is dependent on the continuing validity of the assumptions on which it is based. We accept no responsibility for the realization of any prospective financial information. Actual results are likely to be different from those shown in the prospective financial information because events and circumstances frequently do not occur as expected, and the differences may be material.

The Company will appreciate that in providing the Company with our report, we shall have regard to market conditions as at the Valuation Date. Naturally, these are subject to change and it is therefore important that the Company takes account of any such change in conditions that may occur from the Valuation Date before making any binding decision in relation to the Target.

The valuation expressed herein is valid only for the stated purpose as of the Valuation Date. In accordance with our standard practice, we must state that this valuation report shall be for the use only of the party to whom it is addressed for the stated purpose and no responsibility is accepted to any other party for the whole or any part of its contents.

We shall be under no obligation to update our report in respect of events or information which comes to our attention subsequent to the date of this report. Notwithstanding this, we reserve the right, should we consider it necessary, to revise our valuation in light of any information which existed at the Valuation Date but which becomes known to us subsequent to the date of this report.

Neither the whole, nor any part of this report and valuation, nor any reference thereto may be included in any documents, circular or statement without our written approval of the form and context in which it will appear.

Draft reports, if provided, will be sent on the basis that they are provisional (i.e. subject to completion of our final report) and for its internal purposes only. They must not be published or disclosed and the Company will not be entitled to rely upon them for any purpose whatsoever. We neither owe nor accept a duty of care to the Company in connection with any drafts and shall not be liable to the Company for any loss, damage, cost or expense of whatever nature caused by its use of or reliance on them. Should the Company choose to rely upon a draft the Company does so entirely at its own risk and the Company is responsible for carrying out your own independent investigations.

We shall not testify or attend in court due to this exercise, with reference to the valuation described herein. Should there be any further services required, the corresponding expenses and provision of services will be reimbursed from the Company and such additional work may incur without prior notification.

9. MANAGEMENT CONFIRMATION OF FACTS

A draft of this report and our calculation has been sent to management of the Company. They have reviewed and orally confirmed to us that facts as stated in this report and calculation are accurate in all material respects and that they are not aware of any material matters relevant to our engagement which have been excluded.

10. CONFIRMATION OF INDEPENDENCE

We hereby confirm that we have neither present nor prospective interests in the Company, the Target, and their respective holding companies, subsidiaries and associated companies, nor the value reported herein.

11. OPINION OF VALUE

Based on our analysis and method employed, we are of the opinion that the Market Value of 100% equity interest in Tuochuan as at the Valuation Date is **RMB1,040,000,000 (RENMINBI ONE BILLION AND FORTY MILLION ONLY**).

Our report is issued subject to our terms of engagement with the Company and the limiting conditions set out in section 8.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Wiley W.F. Pun
HKICPA CICPA (non-practising) PRM
Director

APPENDIX I – LIST OF SELECTED COMPARABLE COMPANIES AND FORMULA FOR WACC AND CAPM

Identification of comparable companies:

We have conducted research on comparable companies from Bloomberg Terminal and our own research from other public sources to obtain our list of comparable companies. Selection criteria of comparable companies are listed as follows:

– Companies listed publicly in Hong Kong and/or the PRC.

– The scope of business is limited to iron and steel product for wind power equipment component industries or relevant activities.

Based on the above criteria, we have identified 11 comparable companies listed below. To the best of our knowledge, the selection of comparable companies is conducted based on our best effort, and unbiased research and analysis done on Bloomberg Terminal and other public sources.

Company Name	Bloomberg Ticker	Listing Location	Business Description
Xinjiang Goldwind Science & Technology Co., Ltd.	002202 CH	China	Xinjiang Goldwind Science & Technology Co., Ltd. manufactures wind generation equipment. The Company produces wind turbines, wind turbine components, wind power generation sets, and other equipment. Xinjiang Goldwind Science & Technology also operates wind farm development, photovoltaic products making, and other businesses.
Riyue Heavy Industry Co., Ltd.	603218 CH	China	Riyue Heavy Industry Co., Ltd. manufactures metal casting products. The Company designs, produces, and sells heavy industrial equipment casting and forging parts. Riyue Heavy Industry serves customers around the world.
Qingdao Tianneng Heavy Industries Co., Ltd.	300569 CH	China	Qingdao Tianneng Heavy Industries Co., Ltd manufactures and distributes wind power equipment. The Company designs, produces, and sells wind turbine towers, metal structures, and other related equipment. Qingdao Tianneng Heavy Industries operates throughout China.
Titan Wind Energy (Suzhou) Co., Ltd.	002531 CH	China	Titan Wind Energy (Suzhou) Co., Ltd. manufactures and distributes wind energy equipment. The Company produces wind towers, blades, and other related parts. Titan Wind Energy (Suzhou) also conducts new energy development and financial service businesses.

Company Name	Bloomberg Ticker	Listing Location	Business Description
Zhejiang JIULI Hi-tech Metals Co., Ltd.	002318 CH	China	Zhejiang JIULI Hi-tech Metals Co., Ltd. manufactures and distributes steel products. The Company produces austenitic stainless steel pipes, duplex stainless steel, clad pipes, titanium alloys, and pipe fitting products. Zhejiang JIULI Hi-tech Metals exports its products to the United States, Canada, Brazil, United Kingdom, Germany, and other countries.
Nanfeng Ventilator Co., Ltd	300004 CH	China	Nanfeng Ventilator Co., Ltd designs, developes, manufactures and sales fans, ventilation facilities, air-conditioners, fan coils and, fire protection products.
YongXing Special Stainless Steel Co., Ltd.	002756 CH	China	Yongxing Special Stainless Steel Co., Ltd. produces steel products. The Company develops, produces, and sells stainless steel rods and wires used in petrochemical, basic energy, equipment manufacturing, and other industrial fields. Yongxing Special Stainless Steel markets its products throughout China.
Zhongyuan Special Steel Company Ltd.	002423 CH	China	Zhongyuan Special Steel Company Ltd. produces forgings for equipment manufacturers. The Company manufactures oil drilling tools, cast iron pipe, rollers, and die steel.
Shanghai Taisheng Wind Power Equipment Co., Ltd.	300129 CH	China	Shanghai Taisheng Wind Power Equipment Co., Ltd designs and manufactures wind towers. The Company's products include wind power generation devices, chemical treatment facilities and spare parts.
Shandong Shuangyi Technology Co., Ltd.	300690 CH	China	Shandong Shuangyi Technology Co., Ltd. manufactures and distributes industrial machinery products. The Company produces non metallic molds, wind turbine covers, construction machinery covers, agricultural machinery covers, ship shells, medical device shells, and other products. Shandong Shuangyi Technology also produces advanced composite materials.
Huayi Electric Co., Ltd.	600290 CH	China	Huayi Electric Co., Ltd. mainly produces Switchgear Panels, Outdoor Transmission & Distribution Systems, High Voltage Switch Components, Current Transformer & Potential Transformer, and 1.5MW & 2.5MW Wind Turbines.

Source: Bloomberg

Formula for WACC and CAPM

$$WACC = Ke * E/(D+E) + Kd * (1-T) * D/(D+E)$$

Where:
Ke = Cost of equity
E = Market value of equity
Kd = Cost of debt
D = Market value of debt
T = Corporate tax rat

$$Ke = R_f + b \times ERP + \alpha$$

Where:
R_f = *risk free rate*
ERP = equity risk premium
b = the beta factor
α = *firm specific risk factors (alpha)*

LETTER FROM THE BOARD OF DIRECTORS OF CHINA HANKING HOLDINGS LIMITED

Dear Sirs or Madams,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION OF CHINA HANKING HOLDINGS LIMITED (THE "COMPANY")

ACQUISITION OF THE ENTIRE EQUITY INTERESTS OF TUOCHUAN (HONG KONG) LIMITED

The board of directors of China Hanking Holdings Limited confirmed that the following valuation of the fair value of the shares of Tuochuan (Hong Kong) Limited and its subsidiaries based on the income approach is determined by the board of directors after due and careful enquiry:

According to the valuation report issued by Savills Valuation and Professional Service Limited on 1 April 2019, the fair value of the shares of Tuochuan (Hong Kong) Limited and its subsidiaries based on the income approach is amounted to RMB1,040 million as at 31 December 2018.

On behalf of the board of directors
China Hanking Holdings Limited
Yang Jiye
Chairman and executive Director

1 April 2019

As at the date of this letter, the executive directors of the Company are Mr. Yang Jiye, Mr. Zheng Xuezhi, Dr. Qiu Yumin and Mr. Xia Zhuo; the non-executive director of the Company is Mr. Kenneth Jue Lee; and the independent non-executive directors of the Company are Mr. Wang Ping, Dr. Wang Anjian and Mr. Ma Qingshan.

29 April 2019
The Directors
China Hanking Holdings Limited
31/F, Tower Two, Times Square
1 Matheson Street, Causeway Bay
Hong Kong

INDEPENDENT ASSURANCE REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF 100% EQUITY INTERESTS IN TUOCHUAN (HONG KONG) LIMITED

TO THE DIRECTORS OF CHINA HANKING HOLDINGS LIMITED

We have examined the calculations of the discounted future estimated cash flows on which the valuation prepared by Savills Valuation and Professional Services Limited dated 1 April 2019 (and supplemented on 29 April 2019), of 100% equity interests in Tuochuan (Hong Kong) Limited (the "**Target Company**"), as at 31 December 2018 (the "**Valuation**") is based. The Target Company is a company established in Hong Kong which, together with its subsidiaries, are principally engaged in casting and sale of high purity pig iron and ductile pig iron. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and is included in a circular dated 29 April 2019 issued by China Hanking Holdings Limited (the "**Company**") in connection with the very substantial acquisition and connected transaction in relation to the purchase of equity interests of the Target Company (the "**Circular**").

Directors' Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out in the sections headed "VALUATION METHODOLOGY AND BASIS" "VALUATION ANALYSIS", "SPECIFIC ASSUMPTION" and "GENERAL ASSUMPTIONS" in Appendix VII of the Circular (the "**Assumptions**"). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work was limited primarily to making inquiries of the Company's management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of 100% equity interests in the Target Company.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 April 2019

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive 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) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange were as follows:

(a) Interests in the shares of the Company:

Name of Director and Chief Executive	Status/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Yang Jiye[1]	Founder of discretionary trust	494,360,500 (long positions)	27.05%
	Interest in controlled corporation	605,881,000 (long positions)	33.15%
Xia Zhuo[2]	Interest in controlled corporation	19,130,589 (long positions)	1.05%
	Beneficial owner	60,000 (long positions)	Less than 0.01%
Zheng Xuezhi	Beneficial owner	2,452,000 (long positions)	0.13%

Notes:

1. Mr. Yang Jiye is the founder of management trust which holds the entire issued share capital of Bisney Success Limited and holds 100% interest in Tuochuan Capital Limited. As a result, Mr. Yang Jiye is deemed to hold interest in 494,360,500 shares of the Company held by Bisney Success Limited and 605,881,000 shares of the Company held by Tuochuan Capital Limited.

2. Mr. Xia Zhuo holds 54.38% interest in Splendour Ventures Limited. As a result, Mr. Xia Zhuo is deemed to hold interest in 19,130,589 shares of the Company held by Splendour Ventures Limited. The accurate percentage of the 60,000 shares of the Company beneficially owned by Mr. Xia Zhuo is 0.00328258%.

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

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

Notes:

1. Dr. Qiu Yumin holds 100% equity interests in Golden Resource Pty Ltd. Hence, Dr. Qiu Yumin is deemed to be interested in 6,300,000 shares in Hanking Australia Investment held by Golden Resource Pty Ltd.

2. Each of Mr. Yang Jiye and Mr. Zheng Xuezhi holds 33.33% equity interests in Best Fate Limited. Hence, each of Mr. Yang Jiye and Mr. Zheng Xuezhi is deemed to be interested in 6,300,000 shares in Hanking Australia Investment held by Best Fate Limited.

3. These 6,300,000 shares are the same block of shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were deemed or taken to have under such provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company under Section 352 of the SFO; or to be notified to the Company and the Stock Exchange pursuant to the Model Code.

3. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS

As at the Latest Practicable Date, so far as was known to the Directors, the interests and short positions of the persons (other than the interests and short positions of the Directors or chief executive of the Company as disclosed above) in the shares and/or underlying shares of the Company (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or as otherwise notified to the Company are set out below:

Name of Shareholders	Status/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Yang Min[1]	Interest in controlled corporation	206,025,000 (long positions)	11.27%
	Founder of discretionary trust	13,820,166 (long positions)	0.76%
China Hanking (BVI) Limited	Beneficial owner	206,025,000 (long positions)	11.27%
Bisney Success Limited	Beneficial owner	494,360,500[2] (long positions)	27.05%
Le Fu Limited	Interest in controlled corporation	494,360,500[2] (long positions)	27.05%
UBS Nominees Limited	Nominee for the Trustee	494,360,500[2] (long positions)	27.05%
UBS Trustees (BVI) Limited	Trustee	494,360,500[2] (long positions)	27.05%
Tuochuan Capital Limited	Beneficial owner	605,881,000 (long positions)	33.15%
China Citic Bank Corporation Limited	Person having a security interest in Shares	280,000,000 (long positions)	15.32%
Xinfu Branch, Bank of Fushun Co., Ltd.	Person having a security interest in Shares	500,000,000 (long positions)	27.35%

Notes:

1. Ms. Yang Min 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. Thus Ms. Yang Min is deemed to have an interest in 206,025,000 Shares of the Company held by China Hanking (BVI) Limited and 13,820,166 Shares of the Company held by Best Excellence Limited.

2. These 494,360,500 Shares belong to the same group of Shares.

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

Save as disclosed in the paragraph headed "Competing interests" below, so far as is known to the Directors or chief executive of the Company, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which has an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

4. COMPETING INTERESTS

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

Name of Directors	Positions in the Company	Positions
Xia Zhuo	Executive Director	director of Hanking Group
Mr. Yang	Executive Director	the son of Ms. Yang, who holds 88.96% shares of Hanking Group

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors are aware, none of the Directors was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group or any conflict of interest which any such person has or may have with the Group other than those businesses to which the Directors and their respective associates were appointed to represent the interests of the Company and/or the Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there was no existing or proposed service agreement between any Director or any member of the Enlarged Group (excluding agreements expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

6. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS OF SIGNIFICANCE AND ASSETS

Sales of Iron Ore Concentrates

Fushun Hanking D.R.I. is principally engaged in production and sale of high purity casting pig iron and ductile pig iron, 99% interest of which is indirectly owned by Ms. Yang Min. According to Chapter 14A of the Listing Rules, Fushun Hanking D.R.I. is a connected person of the Company. The Company concluded a procurement agreement with Fushun Hanking D.R.I. on 16 September 2011. According to the agreement, the Company will, through its subsidiaries, provide iron ore concentrates to Fushun Hanking D.R.I. for a term of three years commencing from the listing date. On 15 October 2013, the Company entered into the New Iron Ore Concentrates Sale Agreement with Fushun Hanking D.R.I. and Dalian Huaren (as an agent of Fushun Hanking D.R.I.) for a term of three years commencing from 1 January 2014 and ending on 31 December 2016. The annual transaction amount cap for each of the three years is RMB480,000,000.

On 22 November 2016, the Company, through its subsidiaries, entered into the New Iron Ore Concentrates Sale Agreement with Fushun Hanking D.R.I., Dalian Huaren and Fushun Deshan (both are the agents of Fushun Hanking D.R.I.) for a term of three years commencing from 1 January 2017 and ending on 31 December 2019. The annual transaction amount cap for each of the three years is RMB345,000,000.

On 26 September 2017 and 10 November 2017 respectively, the Company, through its subsidiaries, entered into the supplemental agreements with Fushun Hanking D.R.I., Dalian Huaren and Fushun Deshan to revise each annual transaction amount cap under the New Iron Ore Concentrates Sale Agreement dated 22 November 2016 to RMB484,000,000. The actual transaction amount of the continuing connected transaction for 2018 was RMB452,456,000.

Save as disclosed above and save as the Agreement, details of which are set out in this circular, as at the Latest Practicable Date, none of the Directors had: (i) any direct or indirect interest in any assets which have been, since 31 December 2018, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group; and (ii) any material interest in any contracts or arrangements entered into by any member of the Enlarged Group, which were subsisted as at the Latest Practicable Date and were of significant in relation to the business.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest audited financial statements of the Group were made up.

8. LITIGATIONS

As at the Latest Practicable Date, no litigation or claims of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

9. MATERIAL CONTRACTS

Set out below are the material contracts (not being contracts entered into in the ordinary course of business) entered or to be entered into by any member of the Enlarged Group within the two years immediately preceding the Latest Practicable Date:

(i) Bid Implementation Agreement entered into on 20 February 2018 between Hanking Australia Investment and Primary Gold Limited in relation to a recommended conditional takeover bid made by Hanking Australia Investment for all of the issued shares of Primary Gold Limited at an offer price of AUD0.0575 cash per share and the aggregate offer price to be paid by Hanking Australia Investment amounted to AUD34.5 million;

(ii) Loan and Facility Agreement, in conjunction with the Bid Implementation Agreement, entered into on 20 February 2018 in relation to an AUD1.5 million unsecured loan facility provided to Primary Gold Limited by Hanking Australia Investment;

(iii) Indonesia SPA entered into on 5 July 2018 among the Company (as the vendor), Tuochuan Capital (as the purchaser) and Mr. Yang (as the guarantor) in respect of the Disposal at a consideration of RMB350 million; and

(iv) The Agreement.

Save as disclosed above, there is no material contract (not being entered into in the ordinary course of business) entered into by any member of the Enlarged Group within the two years immediately preceding the Latest Practicable Date.

10. EXPERTS AND CONSENT

The following are the qualifications of the expert who had given opinion contained in this circular:

Name	**Qualifications**
Fortune Financial Capital Limited	A corporation licensed to conduct type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Savills Valuation and Professional Services Limited	Independent professional valuer
Jingtian & Gongcheng	PRC legal adviser of the Company

As at the Latest Practicable Date, the experts above had no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and had no interest, either direct or indirect, in any assets which had been since 31 December 2018 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

The experts above have given and have not withdrawn its written consent to the issue of this circular with the inclusion of its report/opinion and the reference to its name in the form and context in which it appears.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal office hours at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong on the date of this circular and up to and including the date of the Annual General Meeting:

(i) the Agreement;

(ii) the Articles of Association;

(iii) the material contracts of the Enlarged Group as set out in the sub-paragraph headed "9. Material Contracts" in this appendix;

(iv) the letter from the Board, the text of which is set out on pages 6 to 24 of this circular;

(v) the letter from the Independent Board Committee, the text of which is set out on pages 25 to 26 of this circular;

(vi) the letter from Independent Financial Advisor, the text of which is set out on pages 27 to 52 of this circular;

(vii) the annual reports of the Company for the three years ended 31 December 2016, 2017 and 2018;

(viii) the accountant's report on the Target Group, the text of which is set out in Appendix V to this circular;

(ix) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix VI to this circular;

(x) the Valuation Report, the text of which is set out in Appendix VII to this circular;

(xi) a copy of this circular; and

(xii) the letters of consent referred to under the section headed "Experts and Consent" in this appendix.

12. GENERAL

(i) The joint company secretaries of the Company are Ms. Zhang Jing and Ms. So Lai Shan. Ms. Zhang Jing obtained the bachelor degree of law from China University of Political Science and Law in July 2003 and then obtained the master degree specialising in international business law and European Union law from the University of Sheffield in UK in November 2004. Ms. Zhang has over ten years of experience in corporate governance, listing compliance as well as investor relationship management. Ms. So Lai Shan is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

(ii) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business of the Company in Hong Kong is 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

(iii) The share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(iv) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of inconsistency.

罕王
HANKING

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

(incorporated in the Cayman Islands with limited liability)

(Stock code: 03788)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of China Hanking Holdings Limited (the "**Company**") will be held at Conference Room, 22nd Floor, Hanking Tower, No. 227, Qingnian Street, Shenhe District, Shenyang City, Liaoning Province, the PRC on Thursday, 30 May 2019 at 9:00 a.m. for the purposes of considering and, if thought fit, passing the following resolutions (with or without modifications). Unless indicated otherwise, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 29 April 2019.

Ordinary Resolutions

1. To consider and approve the audited consolidated financial statements of the Company and the reports of the Directors and auditors of the Company for the year ended 31 December 2018.

2. To declare the final dividend of the Company of HK$0.02 per Share for the year ended 31 December 2018.

3. (A) Each as a separate resolution, to re-elect the following retiring Directors:

   (i) To re-elect Mr. Yang Jiye as an executive Director.

   (ii) To re-elect Mr. Xia Zhuo as an executive Director.

   (iii) To re-elect Mr. Wang Ping as an independent non-executive Director.

   (B) To authorise the Board to fix the remuneration of the Directors.

4. To re-appoint Deloitte Touche Tohmatsu as the auditors of the Company and authorise the Board to fix their remuneration.

5. To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

(A) "**That**:

(i) subject to paragraph (iii) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue or otherwise deal with additional shares in the share capital of the Company or securities convertible into shares, or options, warrants or similar rights to subscribe for shares or such convertible securities of the Company and to make or grant offers, agreements and/or options (including bonds, warrants and debentures convertible into shares of the Company) which may require the exercise of such powers be and is hereby generally and unconditionally approved;

(ii) the approval in paragraph (i) above shall be in addition to any other authorisation given to the Directors and shall authorise the Directors during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and/or options which may require the exercise of such power after the end of the Relevant Period;

(iii) the aggregate nominal amount of the share capital of the Company allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors during the Relevant Period (as hereinafter defined) pursuant to paragraph (i) above, otherwise than pursuant to (a) a Rights Issue (as hereinafter defined); or (b) the grant or exercise of any option under the share option scheme of the Company or any other option, scheme or similar arrangement for the time being adopted for the grant or issue to the directors, officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (c) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company in force from time to time; or (d) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any existing convertible notes issued by the Company or any existing securities of the Company which carry rights to subscribe for or are convertible into shares of the Company, shall not exceed the aggregate of 20% of the number of shares of the Company in issue as at the date of passing this resolution and the said approval shall be limited accordingly;

(iv) for the purpose of this resolution:

(a) "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(1) the conclusion of the next annual general meeting of the Company;

(2) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the articles of association of the Company to be held; or

(3) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in a general meeting of the Company; and

(b) "Rights Issue" means an offer of shares in the share capital of the Company, or an offer or issue of warrants, options or other securities giving rights to subscribe for shares of the Company, open for a period fixed by the directors of the Company to holders of shares in the share capital of the Company or any class thereof whose names appear on the register of members on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or, having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the exercise or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, any recognised regulatory body or any stock exchange applicable to the Company)."

(B) "**That**:

(i) subject to paragraph (ii) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of the Company on the Stock Exchange or on any other stock exchange on which the shares of the Company may be listed and recognised for this purpose by the Securities and Futures Commission and the Stock Exchange under the Code on Share Repurchases and, subject to and in accordance with all applicable laws and the Listing Rules, be and is hereby generally and unconditionally approved;

(ii) the aggregate nominal amount of the shares of the Company, which may be repurchased by the Company during the Relevant Period (as hereinafter defined) pursuant to the approval in paragraph (i) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the said approval shall be limited accordingly;

(iii) subject to the passing of each of the paragraphs (i) and (ii) of this resolution, any prior approvals of the kind referred to in paragraphs (i) and (ii) of this resolution which had been granted to the Directors and which are still in effect be and are hereby revoked; and

(iv) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the articles of association of the Company to be held; or

(c) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in a general meeting of the Company."

(C) "**That** conditional upon the resolutions numbered 5(A) and 5(B) set out in the notice convening this meeting being passed, the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and otherwise deal with new shares of the Company and to make or grant offers, agreements and options which might require the exercise of such powers pursuant to the ordinary resolution numbered 5(A) set out in the notice convening this meeting be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by the Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to ordinary resolution numbered 5(B) set out in the notice convening this meeting, provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution."

6. To consider and approve the very substantial acquisition and connected transaction in relation to the purchase of equity interests of Tuochuan (Hong Kong) Limited.

By order of the Board
China Hanking Holdings Limited
Yang Jiye
Chairman and executive Director

29 April 2019

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
31/F, Tower Two, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

Notes:

(i) Ordinary resolution numbered 5(C) will be proposed to the Shareholders for approval provided that ordinary resolutions numbered 5(A) and 5(B) are passed by the Shareholders.

(ii) A Shareholder entitled to attend and vote at the above meeting is entitled to appoint another person as his/her proxy to attend and vote instead of him/her; a proxy need not be a Shareholder.

(iii) In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined as that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Share shall alone be entitled to vote in respect thereof.

(iv) In order to be valid, a form of proxy must be deposited at the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) not less than 48 hours before the time appointed for the holding of the above meeting or any adjournment thereof. The completion and return of the form of proxy shall not preclude shareholders of the Company from attending and voting in person at the above meeting (or any adjourned meeting thereof) if they so wish.

(v) The transfer books and register of members of the Company will be closed from Thursday, 23 May 2019 to Thursday, 30 May 2019, both days inclusive, in order to determine the entitlement of Shareholders to attend the above meeting, during which period no share transfers can be registered. All transfers accompanied by the relevant share certificates must be lodged with the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 22 May 2019.

(vi) The transfer books and register of members of the Company will be closed from Tuesday, 16 July 2019 to Friday, 19 July 2019, both days inclusive, in order to determine the entitlement of Shareholders to receive the proposed final dividend, during which period no share transfers can be registered. All transfers accompanied by the relevant share certificates must be lodged with the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 15 July 2019.

(vii) In respect of ordinary resolutions numbered 3 above, Mr. Yang Jiye, Mr. Xia Zhuo and Mr. Wang Ping shall retire by rotation at the annual general meeting of the Company and being eligible, have offered themselves for re-election at the annual general meeting of the Company. Details of the above retiring directors are set out in Appendix I to the accompanied circular of the Company dated 29 April 2019.

(viii) In respect of the ordinary resolution numbered 5(A) above, the Directors wish to state that they have no immediate plans to issue any new Shares. Approval is being sought from the Shareholders as a general mandate for the purposes of the Listing Rules.

(ix) In respect of ordinary resolution numbered 5(B) above, the Directors wish to state that they will exercise the powers conferred by the general mandate to repurchase Shares in circumstances which they deem appropriate for the benefits of the Company and Shareholders as a whole. The explanatory statement containing the information necessary to enable Shareholders to make an informed decision on whether to vote for or against the resolution to approve the repurchase by the Company of its own Shares, as required by the Listing Rules, is set out in Appendix II to the accompanied circular of the Company dated 29 April 2019.

As at the date of this notice, the executive Directors are Mr. Yang Jiye, Mr. Zheng Xuezhi, Dr. Qiu Yumin and Mr. Xia Zhuo; the non-executive Director is Mr. Kenneth Jue Lee; and the independent non-executive Directors are Mr. Wang Ping, Dr. Wang Anjian and Mr. Ma Qingshan.