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)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

BUSINESS HIGHLIGHTS[1]

1. Substantial increase in gold dore output and sales volume

The Southern Cross Operation Gold Project of China Hanking Holdings Limited (the "**Company**" and its subsidiaries, the "**Group**") located in Western Australia (the "**SXO Gold Project**"), which started commercial production in August 2015, achieved a substantial increase in gold output and sales volume through optimizations of production plans. As of 31 December 2016. The total gold production of SXO Gold Project[2] was 121,456 ounces (2015: 58,887 ounces), representing a year-on-year increase of 106%, while of the total gold sold was 121,032 ounces (2015: 56,044 ounces), representing a year-on-year increase of 116%.

2. Significant increase in the value of the gold business

By seizing favorable market conditions, the Company closed a deal quickly for acquisition of the SXO gold asset at the price of AUD$19.7 million in 2013. Through extensive exploration and development, the SXO Gold Project was successfully put into commercial production and achieved multifolded growth in its market values. Again the Company used a favorable market window to sell the SXO asset at the sale price based on the enterprise value of AUD330 million. The Company will realize multi-time returns to our shareholders within a merely 3-year investment cycle.

[1] In this announcement: 1) cost data is unaudited as they are not disclosure required to be made in accordance with the International Accounting Standard; 2) for conversion of AUD into RMB, data in the balance sheet was converted at an exchange rate of 5.0157 as recorded on 31 December 2016, while the other data was converted at an average exchange rate of 4.8717.

[2] According to the cooperation agreement entered into by the two parties thereto which established the partnership named "Hanking Gold Mining Alliance", the volume of production and sales were accounted to Hanking Gold, while profit was distributed between Hanking Gold and PNP on a profit-sharing basis.

3. Improvement in profitability of the iron ore business

In 2016, production costs were significantly reduced and production efficiency was also improved in our iron ore business through technology improvements and optimization of production systems. Of which, the output of iron ore concentrates from Maogong Mine, the key low-cost mine of the Group, recorded a significant increase of 30.35%, leading to dramatic decrease in average production cost of iron ore concentrates and significant increase in the profit margin of iron ore concentrates. In 2016, the average cash operation costs of iron ore concentrates decreased to RMB260/metric ton (2015: RMB317/metric ton), representing a year-on-year decrease of 18.00%.

4. Continuous improvement in management

In 2016, by simplifying operation process and fine-tuning production, coupled with strict capital and financing cost control, the finance costs of the Group for the year decreased by approximately 18.16% year-on-year, and the administration expenses recorded a year-on-year decrease of approximately 21.12%.

5. Continuous increase in resources

In 2016, with the implementation of systematic mineralizing condition assessment and drilling activities, the resources and reserves of gold were significantly increased. As of the end of 2016, the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 Edition) (the "**JORC Code**")-compliant resources of Hanking Gold Mining Pty Ltd ("**Hanking Gold**") amounted to 34,720 thousand metric tons with an average grade of 4.1 g/t, containing 4,570 thousand ounces of gold, representing a year-on-year increase of 50.63%. The JORC Code (2012)-compliant reserves increased to 8,740 thousand metric tons with an average grade of 3.4 g/t, containing 960 thousand ounces of gold, representing a year-on-year increase of 62.16%.

FINANCIAL HIGHLIGHTS

The Revenue of the Group in 2016 amounted to approximately RMB1,707,198,000, representing an increase of approximately RMB487,447,000 or 39.96% comparing with the corresponding period of last year.

The loss for the year of the Group in 2016 was approximately RMB213,877,000, representing a decrease of loss of approximately RMB187,801,000 or 46.75% comparing with the corresponding period of last year.

The board (the "**Board**") of directors (the "**Directors**") of the Company is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2016 (the "**Annual Results for 2016**") together with the comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	2016 RMB'000	2015 RMB'000
Revenue	3	**1,707,198**	1,219,751
Cost of sales		**(1,411,618)**	(929,221)
Gross profit		**295,580**	290,530
Investment and other income	4	**18,768**	33,389
Other gains and losses	5	**(163,044)**	(292,763)
Distribution and selling expenses		**(37,603)**	(38,386)
Administrative expenses		**(182,048)**	(230,786)
Finance costs	6	**(138,576)**	(169,319)
Loss before tax	7	**(206,923)**	(407,335)
Income tax (expense) credit	8	**(6,954)**	5,657
Loss for the year		**(213,877)**	(401,678)
Other comprehensive income (expense):			
Items that may be subsequently reclassified to profit or loss:			
Fair value gain on available-for-sale financial assets		**10,442**	5,066
Exchange differences on translation of financial statements of foreign operations		**38,642**	(33,258)
Remeasurement of defined benefit pension plans		**(30)**	326
Reclassification adjustment for cumulative gain included in profit or loss on disposal		**(4,300)**	-
Other comprehensive income (expense) for the year, net of income tax		**44,754**	(27,866)
Total comprehensive expense for the year		**(169,123)**	(429,544)
Loss for the year attributable to:			
Owners of the Company		**(207,408)**	(381,596)
Non-controlling interests		**(6,469)**	(20,082)
		(213,877)	(401,678)
Total comprehensive expense attributable to:			
Owners of the Company		**(164,409)**	(407,113)
Non-controlling interests		**(4,714)**	(22,431)
		(169,123)	(429,544)
LOSS PER SHARE			
– Basic and diluted (RMB cent per share)	10	**(11.3)**	(20.9)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	NOTES	**31/12/2016** *RMB'000*	31/12/2015 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,381,364**	1,510,095
Intangible assets		**995,487**	1,075,186
Prepaid lease payments		**245,263**	285,636
Available-for-sale financial assets		**19,628**	11,362
Deferred tax assets		**16,942**	22,694
Loan receivable		**11,300**	11,300
Deposit on acquisition of property, plant and equipment		**33,668**	17,486
Restricted deposits		**17,054**	23,112
		2,720,706	2,956,871
CURRENT ASSETS			
Inventories		**144,779**	147,606
Prepaid lease payments		**38,760**	42,873
Trade and other receivables	*11*	**456,058**	647,357
Tax recoverable		**4,198**	4,342
Available-for-sale financial assets		**402,007**	110,727
Pledged bank deposits		**43,692**	913,785
Bank balances and cash		**70,162**	99,223
		1,159,656	1,965,913
CURRENT LIABILITIES			
Trade and other payables	*12*	**468,033**	535,572
Borrowings	*13*	**1,341,599**	2,761,947
Consideration payable		**68,006**	69,608
Tax liabilities		**27,272**	32,131
		1,904,910	3,399,258
NET CURRENT LIABILITIES		**(745,254)**	(1,433,345)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,975,452**	1,523,526

CONSOLIDATED STATEMENT OF FINANCIAL POSITION ***(Continued)***
AS AT 31 DECEMBER 2016

	NOTES	**31/12/2016** **RMB'000**	31/12/2015 RMB'000
CAPITAL AND RESERVES			
Share capital	*14*	**149,137**	149,137
Reserves		**452,939**	615,026
Equity attributable to owners of the Company		**602,076**	764,163
Non-controlling interests		**203,093**	204,172
TOTAL EQUITY		**805,169**	968,335
NON-CURRENT LIABILITIES			
Borrowings		**831,400**	211,405
Consideration payable		**226,228**	223,007
Rehabilitation provision		**110,628**	115,017
Retirement benefit obligations		**1,525**	1,023
Deferred tax liabilities		**502**	4,739
		1,170,283	555,191
		1,975,452	1,523,526

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL

China Hanking Holdings Limited (the "**Company**") is a limited company incorporated in the Cayman Islands on 2 August 2010 with its shares listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 30 September 2011.

The address of registered office of the Company in Cayman Islands is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The address of principal place of business of the Company in Hong Kong is 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

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

The Company is an investing holding company. The Company and its subsidiaries ("the **Group**") is engaged in three principal activities:

(i) iron ore exploration, mining, processing and sale;

(ii) nickel ore exploration, mining, smelting and sale;

(iii) gold exploration, mining, processing, smelting and sale.

2. BASIS OF PREPARATION

The directors of the Company (the "**Director**") have given careful consideration to the going concern of the Group in light of the fact that the Group reported a net loss of RMB213,877,000 for the year ended 31 December 2016 and as of that date, the current liabilities exceeded its current assets by RMB745,254,000. In addition, as at 31 December 2016, the Group had capital commitments, contracted for but not provided in the consolidated financial statements, amounting to RMB172,163,000.

As at 31 December 2016, the Group had available conditional banking facilities amounted to RMB1,652,530,000 ("**Conditional Facilities**"). The utilisation of these Conditional Facilities are subject to approval on a case-by-case basis. The Directors are confident that the Group would be successful in obtaining approval in respect of these Conditional Facilities, considering that the Group has successfully renewed bank borrowings of totally RMB425,092,000 upon their maturities during the year. The Directors believe that those short term bank borrowings outstanding as of 31 December 2016 can be successfully renewed upon maturity. Accordingly, the Directors are of the opinion that, together with the internal financial resources of the Group, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months commencing from the end of the reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

3. REVENUE

Revenue analysed by major products of the Group during the year ended 31 December 2016 and 2015 are as follows:

	2016	2015
	RMB'000	*RMB'000*
Iron ore concentrates	**810,234**	925,311
Gold	**893,483**	291,947
Silver	**1,498**	585
Sales of raw and leftover materials	**1,983**	1,908
	1,707,198	1,219,751

4. INVESTMENT AND OTHER INCOME

	2016	2015
	RMB'000	*RMB'000*
Bank interest income	**9,427**	27,685
Fair value gain recognised on disposal of available-for-sale investments	**4,300**	–
Government grants *(note)*	**1,915**	962
Management fee	**1,621**	3,961
Others	**1,505**	781
	18,768	33,389

Note: Government grants represent unconditional incentive subsidies granted by the PRC local government authorities.

5. OTHER GAINS AND LOSSES

	2016	2015
	RMB'000	*RMB'000*
(Gain) loss on disposal of property, plant and equipment	**(1,000)**	12,777
Net foreign exchange losses	**31,452**	46,073
Loss on disposal of a subsidiary	**47,194**	2,266
Impairment loss on property, plant and equipment, intangible assets and prepaid lease payments recognised	**61,197**	227,533
Loss on termination of gold forward contract *(note)*	**18,269**	–
Impairment loss on financial assets – available-for-sale equity investments	**–**	441
Others	**5,932**	3,673
	163,044	292,763

Note: As part of its risk management policies, the Group enters into gold forward contracts to manage the gold price of a proportion of anticipated gold sales. The counterparty to the gold forward contract was the Commonwealth Bank of Australia (CBA) during the year. The facility was closed out on 11 July 2016 and a loss of AUD3,700,000 (equivalent to RMB18,269,000) was resulted from this early termination.

6. FINANCE COSTS

	2016	2015
	RMB'000	*RMB'000*
Interests on bank and other borrowings	**118,705**	131,189
Interests on bills discounted	**9,915**	21,135
Imputed interest of consideration payable	**7,679**	14,950
Unwinding of discounts on rehabilitation provisions	**2,277**	2,045
	138,576	169,319

7. LOSS BEFORE TAX

Loss before taxation has been arrived at after charging:

	2016	2015
	RMB'000	*RMB'000*
Cost of inventories recognised as an expense	**1,334,726**	859,159
Auditors' remuneration	**2,500**	2,400
Release of prepaid lease payments	**28,215**	32,573
Reversal of allowance for inventories (included in cost of sales)	**(4,708)**	(4,440)
Impairment loss on other receivables recognised	**1,189**	5,949
Depreciation and amortisation:		
– Property, plant and equipment	**389,195**	226,249
– Intangible assets (included in cost of sales and administrative expenses)	**108,360**	53,100
	497,555	279,349
Staff costs (including directors):		
– Salary and other benefits	**94,708**	127,098
– Retirement benefits scheme contributions	**17,795**	27,483
	112,503	154,581

8. INCOME TAX EXPENSE (CREDIT)

	2016	2015
	RMB'000	*RMB'000*
Current tax		
PRC enterprise income tax ("**EIT**") – current	**3,896**	823
Under provision in prior years	**668**	4,128
	4,564	4,951
Deferred tax		
Deferred tax – current year	**2,390**	(10,608)
Total income tax expense (credit) recognised in the current year	**6,954**	(5,657)

The subsidiaries established in the PRC are subject to PRC EIT at a statutory tax rate of 25%.

Certain subsidiaries located in Hong Kong, Australia and Indonesia are subject to tax rates of 16.5%, 30% and 25% respectively. Other than PRC EIT, no provision for corporate tax for other jurisdictions has been made as there were no assessable profits for both years.

9. DIVIDENDS

	2016	2015
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
2015 Final – RMB nil cent per share (2015: 2014 Final – RMB nil cent per share)	**–**	–

The Directors did not propose final dividend in respect of the year ended 31 December 2016 (2015: final dividend of nil per share in respect of the year ended 31 December 2015).

10. LOSS PER SHARE

The calculation of loss per share is based on the loss for the year attributable to owners of the Company and the 1,830,000,000 shares in issue during the current year (2015: 1,830,000,000 shares).

Diluted loss per share presented is the same as basic loss per share as the Company did not have dilutive potential ordinary shares in issue in both 2016 and 2015.

11. TRADE AND OTHER RECEIVABLES

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Trade receivables		
Related parties	**124,741**	98,097
Third parties	**132,873**	238,326
	257,614	336,423
Bills receivables	**30,500**	92,326
	288,114	428,749
Other receivables		
Advance to suppliers	**13,750**	12,992
Interest receivable on bank deposits	**–**	15,227
Deposits *(note)*	**22,871**	30,015
Deposit for resource tax	**81,997**	113,699
Value-added tax recoverable	**21,061**	16,014
Staff advances	**8,342**	8,958
Others	**19,923**	21,703
	167,944	218,608
Total trade and other receivables	**456,058**	647,357

Note: The amount represented various environment protection deposits required under the relevant PRC regulations for fulfilling the environment obligation during the mining process.

Included in the Group's bills receivables are amounts of RMB9,000,000 as at 31 December 2016, being transferred to certain banks by discounting the bills on a full course basis. If the bills receivables are not paid on maturity, the banks have the right to request the group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to the bills receivables, it continues to recognise the full carrying amount of the bills receivables and has recognised the cash received as bank borrowings from discounting of the bills receivables with full recourse. The financial asset is carried at amortised cost in the consolidated statements of financial position.

The Group allows an average credit period of 7 days to its customers of iron ore concentrates and gold. The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period.

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Within 7 days	**70,378**	49,809
8 days to 90 days	**113,053**	96,328
91 days to 1 year	**74,183**	190,286
	257,614	336,423

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

Movement of the allowance for trade receivable

	2016	2015
	RMB'000	*RMB'000*
Opening and closing balance	**182**	182

According to the credit period policy of the Group, the trade receivables for sales to related and third parties has an ageing over 7 days for sales of iron ore concentrates and gold, and trade receivables due from third parties on sales of nickel ore which has an ageing over 15 days were regarded as past due.

Ageing of trade receivables which are past due but not impaired is analysed as follows:

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Related parties		
8 days to 90 days	**38,448**	20,286
91 days to 1 year	**51,230**	77,811
	89,678	98,097
Third parties		
8 days to 90 days	**74,605**	76,042
91 days to 1 year	**22,953**	112,475
	97,558	188,517

The Group did not provide an allowance on the remaining past due receivables due from related parties and third parties as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience and settlements collected subsequent to the year end date. The Group does not hold any collateral over these balances. The related parties are those controlled by Mrs. Yang Min and Mr. Yang Jiye, who are the controlling shareholders (the "**Controlling Shareholders**") of the Group and have a very long history of business transactions with the Group. Settlements are collected on a regular basis. The management is closely monitoring the settlement position and those receivables are still considered collectible as Mr. Yang Jiye, a director of the Company, is able to exert control over these companies.

Movement of allowance for doubtful debts on other receivables

	2016	2015
	RMB'000	*RMB'000*
Opening balance	**8,742**	2,793
Impairment losses recognised	**1,189**	5,949
Closing balance	**9,931**	8,742

12. TRADE AND OTHER PAYABLES

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Trade payables		
Related parties	**354**	7,186
Third parties	**133,007**	98,265
	133,361	105,451
Bills payables	**5,760**	4,550
	139,121	110,001
Other payables		
Advance from a customer	**149**	563
Other tax payables	**44,515**	52,211
Payable for acquisition of property, plant and equipment	**144,518**	212,332
Payable for acquisition of prepaid lease payments	**18,758**	4,000
Outsourced service payable	**3,829**	3,792
Transportation fee payable	**11,703**	11,369
Accrued expenses	**57,498**	80,839
Salary and bonus payables	**24,871**	38,791
Interest payable	**2,192**	2,970
Others	**20,879**	18,704
	328,912	425,571
	468,033	535,572

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

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
0 to 90 days	**123,501**	95,787
91 days to 365 days	**6,987**	7,935
1 year to 2 years	**1,423**	346
2 years to 3 years	**270**	21
Over 3 years	**1,180**	1,362
	133,361	105,451

13. BORROWINGS

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Bank loans	**2,056,836**	2,894,509
Other loans *(note a)*	**116,163**	78,843
	2,172,999	2,973,352
Secured	**1,815,910**	2,603,352
Unsecured	**357,089**	370,000
	2,172,999	2,973,352
Fixed-rate	**1,735,089**	1,562,455
Floating-rate	**437,910**	1,410,897
	2,172,999	2,973,352
Carrying amount repayable *(note b):*		
Due within one year	**1,341,599**	2,761,947
More than one year, but not more than two years	**176,101**	146,504
More than two years, but not more than five years	**655,299**	64,901
	831,400	211,405
	2,172,999	2,973,352

Note:

(a) It represents loans advanced from a government authority for purchase of mining rights. The loan carries interest at the benchmark interest rate issued by the People's Bank of China ("**PBOC**") and is repayable within five years.

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

The ranges of effective interest rate of the Group's interest-bearing borrowings are as follows:

	2016	2015
	%	%
Fixed-rate borrowings	**4.83-6.09**	4.83-8.00
Variable-rate borrowings	**3.70-4.75**	1.32-5.00

At 31 December 2016 and 2015, the Group had variable rate borrowings which carried interest based on the benchmark interest rate issued by PBOC or London Interbank Offered Rate ("**LIBOR**"). Interest was reset monthly or quarterly.

The unsecured bank borrowings of approximately RMB357,089,000 (31 December 2015: RMB370,000,000) at 31 December 2016 were guaranteed by the Controlling Shareholders of the Group and the companies issuing guarantees to the Group are those controlled by them.

Save as the assets pledged as security for bank borrowings, the Controlling Shareholders, together with the companies controlled by them, provided guarantee to secured bank borrowings of the Group of approximately RMB1,129,277,000 (2015: RMB1,715,403,000).

14. SHARE CAPITAL

The amount as at 31 December 2016 and 2015 represented the issued share capital of the Company. Details of movement of share capital of the Company are as follows:

	Number of shares		**Share capital**	
	2016	2015	**2016**	2015
	'000	*'000*	***RMB'000***	*RMB'000*
Ordinary shares of HK$0.1 each				
Authorised				
At 1 January and 31 December	**10,000,000**	10,000,000	**1,000,000**	1,000,000
Issued				
At 1 January and 31 December	**1,830,000**	1,830,000	**149,137**	149,137

All shares in issue rank pari passu in all respects.

OPERATION REVIEW

Gold Business

In 2016, the performance of gold price was volatile with ups and downs, which can be roughly divided into three phases. The first phase saw a rally in gold price. The international gold price started to bottom out following a quarter of decline as the Federal Reserve Board (FRB) embarked on another tightening cycle at the end of 2015, which marked the first interest hike in nearly 10 years since 2006. The global stock market witnessed a universal slump in January and February 2016, with the S&P index dropping over 10% in just one month, while the VIX index soaring to 26%. The risk aversion drove surge in gold price in the international market. Subsequently, affected by the weakening US dollar index and expectation of interest hike by the FRB, the gold price went upward amidst fluctuations. The second phase witnessed a flight to safe haven assets driven by the black swan event of Brexit in June 2016 with significant increase in holdings of gold ETFs, which pushed the gold price to go upward and hover around at a high level. The third phase was characterized with a falling trend for two consecutive months after the US presidential election in November. Given that the fundamentals showed no significant change during the period, the decline in gold price was mainly attributable to the efforts made by the newly elected US President Donald Trump to improve infrastructure through fiscal stimulus with an aim to boost the US economy, which was expected to drive the domestic development and, in turn, the inflation level will cause the FRB to accelerate the pace of interest hike, resulting in higher costs for gold investment.

In 2013, the Company seized the favorable opportunity to acquire the 100% equity interests of the SXO Gold Project at the price of AUD$19.7 million. The SXO Gold Project is 360 km east of Perth, Western Australia with extensive infrastructures including highways, railways, airport, water and electricity supplies, and wholly owns the Marvel Loch Processing Plant (the "**Processing Plant**"). It owns mining licenses covering an area of 1,159 km^2, which included the gold ore belt with a length of 150 km and a total of 246 mine licences. Through exploration activities, the gold resources were increased from approximately 2.4 million ounces to approximately 4.57 million ounces, representing an increase of about 92%, while the reserves were increased from zero to approximately 0.96 million ounces. Through feasibility study, the mine that was under care and maintenance at the time was gradually put into construction and production. After over three years of operation, an annual production volume of over 0.12 million ounces was achieved. On 15 February 2017, the Company and the other vendors entered into a binding 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), pursuant to which the Company and the other vendors conditionally agreed to sell, and the purchaser conditionally agreed to purchase, 100% of the shares in Hanking Australia at a purchase price based on an agreed enterprise value of AUD330 million. An extraordinary general meeting will be held by the Company at a later date to seek the approval of the shareholders of the Company on, *inter alia*, the disposal.

1. Production Review

In 2016, the gold business of the Company achieved rapid growth:

1) In 2016, the sales revenue of the gold business amounted to RMB894,981,000 (2015: RMB292,532,000), representing a year-on-year increase of 205.94% of which sales revenue of gold amounting to RMB893,483,000 (2015: RMB291,947,000), and sales revenue of silver amounting to RMB1,498,000 (2015: RMB585,000). Net profit amounted to RMB3,853,000 (2015: RMB50,276,000), representing a net profit margin of 0.43% (2015: 17.19%). The Earnings Before Interest, Taxes, Depreciation and Amortization ("**EBITDA**")[3] of the gold business was RMB327,077,000 (2015: RMB136,955,000), and the profit margin of EBITDA was 36.55% (2015: 46.82%).

2) The gold business was put into commercial production in August 2015, and the output of gold was significantly increased in 2016. In 2016, the gold business had three operating mines, while the rest were under maintenance. Cornishman Gold Mine and Axehandle Gold Mine adopts open-pit mining and Nevoria Gold Mine adopts underground mining. All ore mined were transported to the Marvel Loch Processing Plant to be processed into gold dores which were then transported to Perth Mint to be refined for sale. After entered into the commercial production phase, the management of the gold business promptly solved the problems emerged from production process and operation such as the rainy weather and landslide, so as to ensure accomplishment of the expected production plan. As at 31 December 2016, a total of 121,456 ounces of gold was produced, representing a year-on-year increase of 106.25%.

3) The gold produced by the gold business was directly sold to Perth Mint in Australia. Meanwhile, in order to reduce the impacts on the production and operation of the gold business arising from fluctuations in gold price, Hanking Australia entered into the Gold Price Hedging Agreement, so as to secure a good selling price for part of the products using hedges. According to the market condition and the desire of long-term development of the project, Hanking Gold terminated the relevant price hedging agreement in August 2016. As of 31 December 2016, the sales volume of gold belong to Hanking Gold was 111,715 ounces (2015: 38,805 ounces), representing a year-on-year increase of 187.89%, and the average unit selling price was AUD1,643/ounce, representing a year-on-year increase of 6.21%.

---

[3] The calculation of the EBITDA was based on earnings before taxes, plus depreciation and amortisation and provision for impairment.

	Sales volume of gold *(ounces)*			Average unit selling price *(AUD/ounce)*		
	2016	2015	Change	**2016**	2015	Change
Future trade	**50,638**	9,444	436.19%	**1,629**	1,662	-1.99%
Spot trade	**61,077**	29,361	108.02%	**1,652**	1,510	9.40%
Total	**111,715**	38,805	187.89%	**1,643**	1,547	6.21%

4) In 2016, as the collapse at the Cornishman Gold Mine in the first half of the year led to the decrease in output of gold ore with higher grade, Hanking Gold had to lease mobile processing equipments from third parties to process gold ores with lower grade. Due to the rainy weather in the second half of the year, the mining progress at the Axehandle Gold Mine was behind schedule. Being affected by the aforesaid factors, the production costs of the gold business increased in 2016, with the direct cash costs (C1) amounting to AUD923/ounce, and the all-in sustaining costs (AISC) amounting to AUD1,131/ounce.

The breakdown of C1 direct cash costs is as follows:

	2016	2015	Change
Open-pit mining	**271**	523	-48.18%
Underground mining	**197**	174	13.22%
Processing and maintenance	**386**	330	16.97%
Mine management costs (including costs for production safety and environmental protection	**58**	105	-44.76%
Cash cost adjustments[4]	**12**	-370	-103.24%
Adjusted C1 Cash costs (AUD)	**923**	762	21.13%

[4] Mainly adjustments made in respect of stripping adjustment during capital construction period

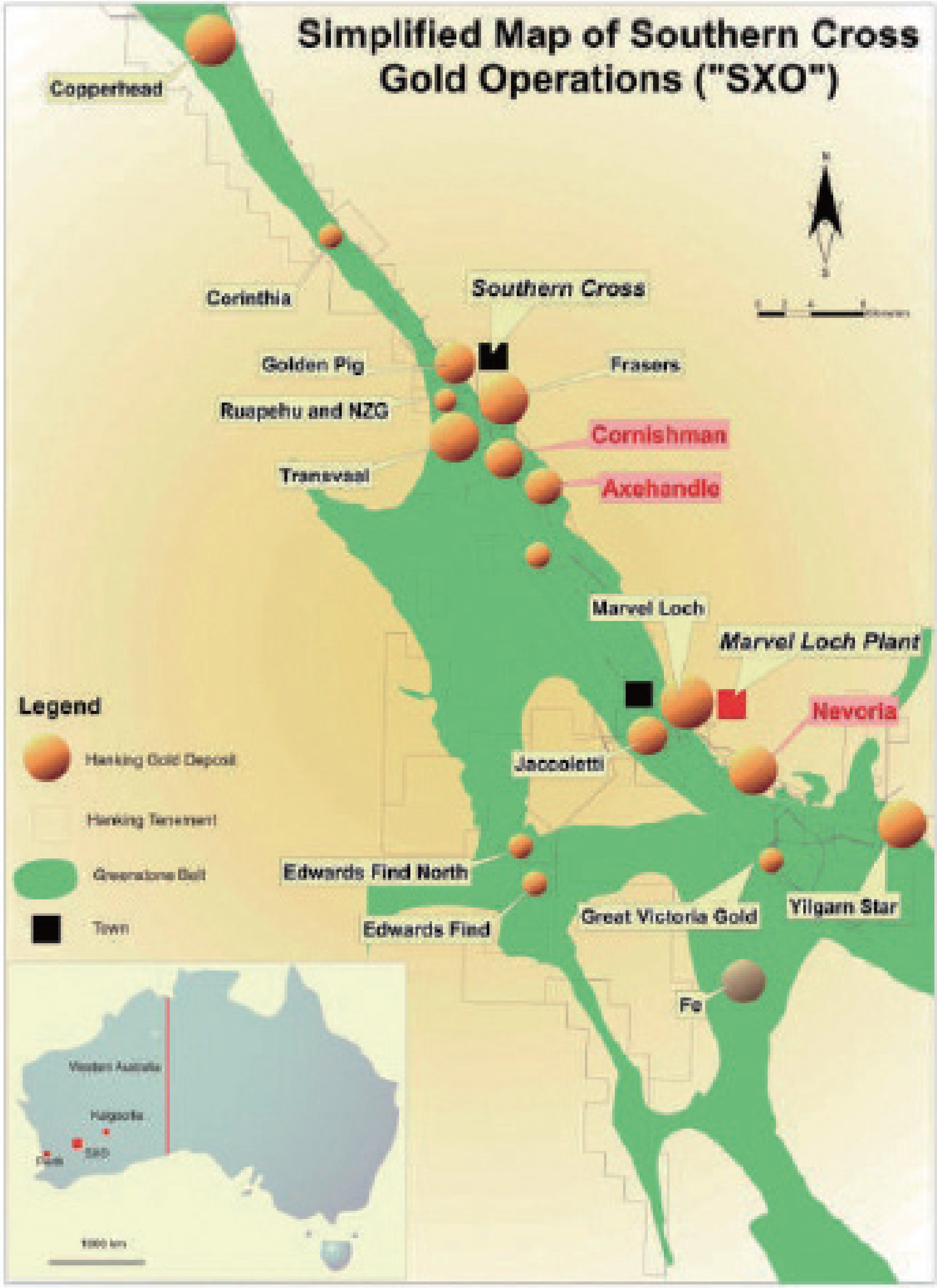

Figure 1: Mining Rights and Major Gold Mines of the SXO Gold Project of Hanking Gold

- *Cornishman Gold Mine*

  Cornishman Gold Mine is located in the middle of the SXO Gold Project[5] and is 26 km away from the Processing Plant, with extensive infrastructures such as highways, electricity and water supplies. In accordance with the feasibility study, production at Cornishman North and South mining areas was suspended in February and July 2016 respectively, while production at Cornishman Middle mining area was suspended in April 2016 due to the collapse incident, which was expected to shift to underground mining in early 2017. Hanking Gold engaged Watpac Limited ("**Watpac**"), an independent third party mining company, to provide open-pit mining services such as drilling, blasting, loading, unloading and hauling. The ores mined were transported by an independent third party transportation company to the Processing Plant for further processing. The services shall comply with the requirements of the Australian laws regarding production safety and environmental production. As of 31 December 2016, a total of 664,460 metric tons (2015: 638,901 metric tons) of ores were mined, and the mining cost per metric ton was AUD127 (2015: AUD76).

- *Axehandle Gold Mine*

  Axehandle Gold Mine is located in the middle of the SXO Gold Project[6] and is 22 km away from the Processing Plant, with extensive infrastructures such as highways, electricity and water supplies. Open-pit mining is adopted for Axehandle Gold Mine, and Watpac (an independent third party mining company) was engaged to provide open-pit mining services. The ores mined were transported by an independent third party transportation company to the Processing Plant for further processing.

  Stripping at Axehandle Gold Mine commenced in November 2015, and gold ore mining activities commenced in May 2016. As of 31 December 2016, a total of 1,424,736 metric tons of ores were mined, and the mining cost per metric ton was AUD20.9.

- *Nevoria Gold Mine*

  Nevoria Gold Mine is located in the middle of the SXO Gold Project[7] and is 11 km away from the Processing Plant, with extensive infrastructures such as highways, electricity and water supplies. Hanking Gold collaborated with Pit n Portal Mining Service Pty Ltd. ("**PNP**", an independent third party) and set up a partnership named "Hanking Gold Mining Alliance". PNP provided underground mining services for Nevoria Gold Mine, while Hanking Gold provided aboveground management including logistics and gold ore processing. As of the end of December 2016, the ores mined from the underground mines of Nevoria were from the underground mines in Nevoria East. Development of the slope ramp for the underground mines in Nevoria West commenced in July 2016. Profit was distributed between Hanking Gold and PNP on a profit-sharing basis. For the underground mines in Nevoria East, 80% of the profit was for Hanking Gold and 20% was for PNP, while for the underground mines in

[5] Please refer to Figure 1
[6] Please refer to Figure 1
[7] Please refer to Figure 1

Nevoria West, 87.5% of the profit was for Hanking Gold and 12.5% was for PNP. The ores mined were transported to the Processing Plant by an independent third party transportation company for further processing. As of 31 December 2016, a total of 423,182 metric tons (2015: 216,885 metric tons) of ores were mined, and the mining cost per metric ton was AUD56.4 (2015: AUD56).

- *Processing Plant*

  The Processing plant is located in the middle of the SXO Gold Project[8] and is wholly-owned by Hanking Gold, which has extensive infrastructures such as highways, railways, electricity and water supplies, with an annual ore processing capacity of 2.4 million metric tons. The Processing Plant adopted the industry-proven Carbon in Pulp (CIP) production technique, and the gold will be moulded into gold dores at the smelting room of the Processing Plant before being delivered to Perth Mint to be refined for sale.

  In 2016, the oxide ores from the Axehandle Gold Mine resulted in increased pulp concentration in the leaching tank. The thickening of ore pulp reduced the liquidity of the activated carbon in the gold absorption and recovery process, thus lowered the processing capacity and recovery rate of the ores. Through numerous experiments, the Marvel Loch Processing Plant found the best blending ratio between the primary ores from Nevoria Gold Mine and the oxide ores from the Axehandle Gold Mine, and removed the viscous minerals from the oxide ores using portable sieving equipment, so as to effectively solve production problems and accomplish the expected production plan. As of 31 December 2016, the Processing Plant processed a total of 1,757,935 metric tons (2015: 993,360 metric tons) of ores with a recovery rate of 91% (2015: 90%), producing a total of 121,456 ounces (2015: 58,887 ounces) of gold, which represented a year-on-year increase of 106%, at the mining cost of AUD26.54/metric ton of ores (2015: AUD24.18/metric ton of ores).

2. *Continuous Increase in Gold Resources and Reserves*

In 2016, the major increases in resource and reserve were achieved by Hanking Gold, together with its contractors and independent consultants, through successful exploration programs, interpretation of the new and existing geological data, and implementation of drilling activities at Yilgarn Star, Copperhead, Cornishman and Edwards Find North gold mines. As of the end of 2016, the total JORC Code-compliant resources of Hanking Gold (see Table 2) were increased to 34,720 thousand metric tons with an average grade of 4.1 g/t for a total of 4,570 thousand ounces of gold resources, representing a year-on-year increase of 50.63%, while the JORC Code-compliant(2012) reserves (see Table 2) were increased to 8,740 thousand metric tons with an average grade of 3.4 g/t for a total of 960 thousand ounces of gold resources, representing a year-on-year increase of 62.16%.

---

8 Please refer to Figure 1

Table 1 JORC Code-compliant resources of Hanking Gold as of the end of 2016
(The gold produced as of 31 December 2016 has deducted)

		Measured			Indicated			Inferred			Total		
		Ore	Grade	AU	Ore	Grade	AU	Ore	Grade	AU	Ore	Grade	AU
Project	**Deposit**	*(KT)*	*(g/t)*	*(Koz)*	*(KT)*	*(g/t)*	*(Koz)*	*(KT)*	*(g/t)*	*(Koz)*	*(KT)*	*(g/t)*	*(Koz)*
Axehand1e- Cornishman	Axehand1e	1,793	2.7	153	948	2.5	76	409	2.1	28	3,150	2.5	257
	Cornishman	620	5.1	101	535	5.1	88	434	5.5	77	1,589	5.2	266
	Sub-Total	2,413	3.3	254	1,483	3.4	164	843	3.9	105	4,739	3.4	523
Nevoria		–	-	–	3,320	3.3	355	240	4.5	35	3,560	3.4	390
Yilgarn Star		2,582	5.9	490	1,849	6.3	377	707	6.1	139	5,139	6.1	1,006
Copperhead		–	–	–	3,116	5.3	529	417	4.6	62	3,533	5.2	590
Frasers-Transvaal	Transvaal	–	–	–	1,630	4.7	249	1,800	4.9	286	3,430	4.8	535
	Frasers	–	–	–	1,117	4.6	165	1,474	6.1	289	2,591	5.5	454
	New Zealand Gully	–	–	–	64	7.5	16	46	5.9	9	110	6.8	24
	Ruapehu	–	–	–	52	8.5	14	358	4.0	46	410	4.6	60
	Sub-Total	–	–	–	2,863	4.8	444	3,678	5.3	630	6,541	5.1	1,073
Marvel Loch- Jaccoletti	Marvel Loch	287	3.1	29	2,930	3.2	299	1,400	2.5	112	4,617	3.0	440
	Joccoletti	–	–	–	852	4.5	124	298	3.1	30	1,150	4.2	154
	Sub-Total	287	3.1	29	3,782	3.5	423	1,698	2.6	142	5,767	3.2	594
Edwards Find	Edwards Find	–	–	–	364	3.1	37	261	2.3	19	625	2.8	56
	Edwards Find North	–	–	–	641	2.4	49	227	1.6	12	868	2.2	61
	Tamarin	–	–	–	117	1.8	7	361	1.3	15	478	1.4	22
	Sub-Total	–	–	–	1,122	2.6	93	849	1.7	46	1,971	2.2	139
GVG	GVG	–	–	–	1,494	2.3	111	8	2.1	1	1,502	2.3	111
	Zeus	–	–	–	–	–	–	469	2.0	30	469	2.0	30
	Sub-Total	–	–	–	1,494	2.3	111	477	2.0	30	1,971	2.2	141
Redwing		–	–	–	–	–	–	1,400	2.4	108	1,400	2.4	108
Stockpile		98	1.1	4	–	–	–	–	–	–	98	1.1	4
Total		5,380	4.4	777	19,029	4.1	2,495	10,309	4	1,297	34,719	4.1	4,568

Note: Data shown in the table above covered the data of various deposits of the SXO Gold Project, among which, the data of the Redwing Gold Deposit are extracted from the resource estimate report signed by Mr. J F Brigden, the resource geologist of Sons of Gwalia Ltd., who is the competent person for the JORC Code-compliant resource estimate. The data of Axehandle, Frasers, Cornishman and Yilgarn Star are extracted from the resource estimate report signed by Dr. Shi Bielin, a senior resource geologist, in accordance with the JORC Code (2012). Dr. Shi Bielin is a member of both AusIMM and AIG, and has extensive experience in such type of gold mines at the SXO Gold Project. The data of Jaccoletti Gold Deposit are extracted from the resource estimate report signed by Mr. David Slater, a senior resource geologist of SRK Consulting, in accordance with the JORC Code (2012). Mr. David Slater is a member of both AusIMM and AIG. The data of Copperhead are extracted from the resource estimate report signed by Mr. Brian Fitzpatrick, a senior resource geologist of CUBE Consulting, in accordance with the JORC Code (2012). Mr. Brian Fitzpatric is a member of AusIMM. The data of other mines are extracted from the resource estimate report issued by St Barbara Mining Ltd. ("**SBM**") in 2012. The report was signed by Mr. Phillip Uttley, the chief geologist of SBM, in accordance with the JORC Code. Mr. Phillip Uttley is a member of AusIMM and has extensive experience in such type of gold mines at the SXO Gold Project.

Table 2 JORC Code-compliant reserves of Hanking Gold as of the end of 2016

Deposit	Resource Category	Tonnes *(KT)*	Grade AU *(g/t)*	Contained Gold *(Koz)*
Frasers	Proved	–	–	–
	Probable	340	3.4	37
	Total	340	3.4	37
Aquarius	Proved	–	–	–
	Probable	616	3.3	65
	Total	616	3.3	65
Axehandle	Proved	1,627	2.4	128
	Probable	479	2.5	39
	Total	2,106	2.5	167
Edwards Find North	Proved	–	–	–
	Probable	327	2.7	28
	Total	327	2.7	28
Yilgarn Star Pit	Proved	1,547	2.9	144
	Probable	–	–	–
	Total	1,547	2.9	144
Sub Total Open Pit	Proved	3,174	2.6	272
	Probable	1,762	3.0	170
	Total	4,936	2.8	442
Nevoria Underground	Proved	–	–	–
	Probable	762	4.2	102
	Total	762	4.2	102
CNC Underground	Proved	–	–	–
	Probable	473	4.3	65
	Total	473	4.3	65
Frasers South Underground	Proved	–	–	–
	Probable	550	4.5	80
	Total	550	4.5	80
Jaccoletti Underground	Proved	–	–	–
	Probable	988	3.5	111
	Total	988	3.5	111
Yilgarn Star Underground	Proved	–	–	–
	Probable	937	5.1	155
	Total	937	5.1	155
Sub Total Underground	Proved	–	–	–
	Probable	3,710	4.2	513
	Total	3,710	4.2	513
Stockpile		98	1.1	4
Total	Proved	3,272	2.6	276
	Probable	5,472	3.8	683
	Total	8,744	3.4	959

Note: The reserve data of Cornishman Frasers Aquarius as shown in the table above are extracted from the reserve report signed by Mr. Shane McLeay, a senior mining engineer of Entech Pty Limited, in accordance with the JORC Code (2012). The reserve data of Axehandle open-pit, Yilgarn Star open-pit and Edwards Find North are extracted from the reserve report signed by Mr. Charles Hastie, the chief mining engineer of Hanking Gold, in accordance with the JORC Code (2012). The reserve data of Nevoria are extracted from the reserve report jointly signed by Mr. Matthew Bellamy of PNP and Mr. Charles Hastie of Hanking Gold in accordance with the JORC Code (2012). The reserve data of Frasers underground, Jaccoletti underground, Cornishman underground and Yilgarn Star underground are extracted from the resources report signed by Mr. Troy Flannery of Hanking Gold in accordance with JORC Code (2012). All the signatories of the reserve reports prepared in accordance with JORC Code (2012) are members of AusIMM and have extensive experience in such type of gold mines.

Table 3 Summary of exploration works conducted in 2016

Project	Type	Number	downhole meters
Jaccoletti	RCD	4	1,398.9
	RC	48	10,445
Nevoria	RCD	9	2,653.4
	RC	7	1,658
	DD	12	1,272.9
Copperhead	RCD	4	1,658.2
	RC	2	422
Redwing	RC	92	8,446
Yilgarn Star	RC	34	3,834
Edwards Find	RC	4	374

- *JORC Code-compliant resources and reserves of Yilgarn Star Gold Mine*

Yilgarn Star Gold Mine is located 22 km southeast of Marvel Loch Processing Plant, and is of nearly north-south trending. The main deposit extends over 2 km in strike length, with the main gold mineralisation occurring along the metasediments and ultrabasic lava contact. Mining activities at Yilgarn Star Gold Mine commenced in 1991, and the production has been suspended since 2003, with the total amount of gold produced amounted to 1,091,707 ounces. Hanking Gold carried out a reverse circulation drilling program for 3,834 m in the northern area of Yilgarn Star Gold Mine. Based on the diamond hole drilling program for 10,129.54 m carried out by St Barbara Mining Ltd. from 2015 to 2016, Hanking Gold engaged DW Resources Technology for a resource estimate. The resource of Yilgarn Star Gold Mine was estimated at 5.14 million metric tons at an average grade of 6.1 g/t for a total of 1,006,000 ounces of gold. On the basis of the above resource estimate, Hanking Gold conducted feasibility study for open-pit mining and underground mining at Yilgarn Star Gold Mine. As of the end of December 2016, the JORC Code (2012) compliant open-pit reserves of Yilgarn Star Gold Mine amounted to 144,000 ounces at a diluted grade of 2.9 g/t, while the JORC Code (2012) compliant underground reserves of Yilgarn Star Gold Mine amounted to 155,000 ounces at a diluted grade of 5.1 g/t.

- *JORC Code-compliant resources of COPPERHEAD (BULLFINCH)*

  Copperhead (Bullfinch) is located 35 km north of the South Cross region[9]. Gold mineralisation at Copperhead is associated with multiple, 340° oriented ductile shear zones, varying in width up to 10 m wide, including the Northern Series and Southern Series lodes. A total of 1.5 million ounces of gold was produced, making it second only to the Marvel Loch gold mine in the Southern Cross Greenstone Belt. Following a geological program completed in June 2016, Hanking Gold engaged Mr. Brian Fitzpatrick of Cube Consulting for a resource estimate on Copperhead in accordance with JORC Code (2012). The resource was estimated at 3.53 million metric tons at an average grade of 5.2 g/t for a total of 590,439 ounces of gold. The resource was reported at a cut-off grade of 3 g/t and on a remaining and in-situ basis, previous production has been deducted from the estimate. It should be noted that appropriately 90% of the resource are in the indicated category. Feasibility study is undertaken by Hanking Gold. Also the deepest holes indicated gold mineralization extending up to 1 km down below the ground and there must be more ore bodies deep down since the it did not show an end.

- *JORC Code-compliant resources and reserves of Jaccoletti Gold Mine*

  Jaccoletti Gold Mine is located 1.5 km west of Marvel Loch Processing Plant, with extensive infrastructures such as highways, electricity and water supplies[10]. Mining activities at Jaccoletti Gold Mine commenced in 1990 and ceased in 1998, with a total of 87,000 ounces of gold produced. Following an exploration program including reverse circulation holes and diamond holes for 11,843.9 m at Jaccoletti completed in early 2016, Hanking Gold engaged Mr. David Slatter of SRK Consulting for a resource estimate in accordance with JORC Code (2012). As of the end of December 2016, the resources of Jaccoletti Gold Mine amounted to 1.15 million metric tons at a grade of 4.2 g/t for a total of 154,000 ounces of gold. The resource was reported at a cut-off grade of 2.0 g/t. On the basis of the above resource estimate, Hanking Gold conducted a feasibility study for underground mining. The JORC Code (2012) compliant underground reserves of Jaccoletti amounted to 111,000 ounces at a diluted grade of 3.5 g/t

- *JORC Code-compliant resources and reserves of Edward's Find North Gold Deposit*

  Edward's Find North gold deposit is located 2 km north of Edward's Find Gold Mine[11]. It was discovered in the early 1990s and subsequently drilled by various owners and have never been mined. The JORC Code-compliant resources of Edward's Find North gold deposit was estimated based on data from 15,558 metres reverse circulation hole and diamond drilling in 229 holes. Hanking Gold had completed a feasibility study for open-pit mining recently, and an open-pit reserve of 28,000 ounces of gold from 327,000 metric tons at a diluted grade of 2.7 g/t was estimated in accordance with JORC Code (2012).

---

9 Please refer to Figure 1
10 Please refer to Figure 1
11 Please refer to Figure 1

- *Underground reserves of Cornishman*

  Cornishman Gold Mine is part of the Axehandle-Cornishman mineralized structure system. Through exploration programs, Hanking Gold increased the JORC Code-compliant resource at Cornishman from 17,000 ounces at acquisition in 2013 to 343,000 ounces in 2015 and Axehandle resources from 120,000 ounces at acquisition in 2013 to 301,000 ounces in 2015. Following the successful open-pit mining at Cornishman, while ramping up open pit mining at Axehandle, Hanking Gold conducted a feasibility study for underground mining at Cornishman. Cornishman underground mine is designed to enter from the north wall of Cornishman Middle mining area. A total of 65,000 ounces of underground reserve in 473,000 metric tons of ore at an average diluted grade of 4.3 g/t was estimated in the first stage of the plan. This made the current reserve for the Axehandle-Cornishman increased to 282,000 ounces of gold.

3. Developments of gold mines

Hanking Gold completed the feasibility study for underground mining at Nevoria West in April 2016. The JORC Code-compliant reserves of the project amounted to 843,000 metric tons at a diluted grade of 3.7 g/t for a total of 100.2 thousand ounces of gold. According to the production plan of the Company, excavation of the slope ramp for the underground mines at Nevoria West has commenced in July 2016. As of the end of December 2016, a length of 410m of the slope ramp has been excavated. The designed mine life for the underground mines at Nevoria West is three years.

The capital expenditure of the gold business for 2016 amounted to RMB53,884,000 (as of 31 December 2015: RMB366,994,000), and the capital commitment was RMB172,163,000 (as of 31 December 2015: RMB21,274,000).

IRON ORE BUSINESS

In 2016, like steel, coking coal, coke and other black metals, the price of iron ore in China went up and down appeared a three-phase trend of "up-down-up". From mid-December 2015 to late April 2016, the de-capacity measures implemented by the Chinese government and the revised forecast for capacity utilization of the downstream sectors supported the rebar price to go up, which in turn drove the iron ore price to surge. The increase in prices at this stage was mainly attributable to the supply-demand rebalance as a result of the implementation of de-capacity measures for the steel industry since 2015.

From mid-April to early-June 2016, prices of black metals including iron ores experienced a sharp fall, which was mainly attributable to the market's concern about the re-emergence of excess supply as supply was restored to a relatively high level due to the large-scale resumption of production at steel plants.

Steel price returned to the upward track from early-June to the end of 2016, while the iron ore price increased faster since October in line with the rising coking coal and coke prices and due to a shortage in high-grade iron ores. Such increase in price was attributable to the better-than-expected demand and rising costs of raw materials.

1. Operation review

The iron ore business continued to implement the strategy of adjusting production layout according to the market condition as proposed by the Board, and achieved significant increase in the iron ore concentrate output of its key mine – Maogong Mine. In 2016, the output of Maogong Mine was 846 thousand metric tons, representing a year-on-year increase of 30.35%, effectively improving the production output structure. Meanwhile, given that the 100% equity interest of Benxi Mining was transferred to an independent third party, the output of iron ore concentrates for 2016 decreased to 1,749 thousand metric tons (2015: 2,035 thousand metric tons), representing a year-on-year decrease of 14.07%.

In 2016, given the "up-down-up" trend in iron ore price, the Group made efforts to expand sources of market price information, shorten market forecast period and strengthen the regular market dynamics reporting mechanism in light of the market conditions, and took proactive initiatives to explore new markets. Efforts were also made to enhance communication with the customers to ensure rapid response in production and marketing of products. In 2016, the sales amount of iron ore concentrates amounted to 1,790 thousand metric tons (2015: 2,022 thousand metric tons), representing a year-on-year decrease of 11.48%. The average selling price of iron ore concentrates was RMB453 per metric ton (2015: RMB458 per metric ton), representing a year-on-year decrease of 1.09%.

	For the year ended 31 December *(thousand metric tons)*		
	2016	2015	Change
Stripping amount	**6,458**	9,083	-28.90%
Output of iron ore	**5,573**	5,925	-5.93%
Output of iron ore concentrates	**1,749**	2,035	-14.07%
Sales amount of iron ore concentrates	**1,790**	2,022	-11.48%

Despite of the decrease in output and sales volume of iron ore concentrates, and as the Group improved the grade and recovery rate of the products through optimization of production structure and continuous technology upgrading and adopted various measures to control costs such as cutting costs and expenses, the production efficiency was improved and the production costs decreased significantly in 2016, with the average cash operation costs of per metric ton of iron ore concentrates decreasing to RMB260 (2015: RMB317), which represented a year-on-year decrease of 18.00%, enabling the Group to maintain its core competitiveness with lower costs in the industry.

	Cash operation costs of iron ore mines *(RMB/metric ton of iron ore concentrate)*		
	2016	2015	Change
Mining	**111**	140	-20.57%
Processing	**76**	94	-19.44%
Transportation	**21**	19	11.16%
Tax	**32**	34	-5.41%
Mine management	**20**	30	-34.23%
Total	**260**	317	-18.00%

In 2016, the revenue of iron ore business of the Company was RMB812,217,000 (2015: RMB927,219,000), representing a year-on-year increase of 12.40%, the gross profit was RMB238,842,000 (2015: RMB206,003,000), the gross profit rate was 29.41% (2015: 22.22%), the net profit was RMB-167,396,000 (2015: RMB-365,793,000), net profit rate was -20.61% (2015: -39.45%), with an EBITDA[12] of RMB205,541,000 (2015: RMB212,352,000), representing a year-on-year decrease of RMB6,811,000. The profit margin of EBITDA was 25.31% (2015: 22.9%), representing an increase of 2.41 percentage points as compared with the previous year.

2. Operating mines

1) Maogong Mine

Maogong Mine is located in the township of Shiwen, Fushun County, Fushun City, and is operated by the Company through its subsidiary Maogong Mining. Maogong Mine owns mining licenses covering areas totaling 2.37 km^2, and has extensive infrastructures including paved roads, water and electricity supplies.

In 2016, Maogong Mine was engaged in both open-pit mining and underground mining. For open-pit mining, efforts were made to ensure accomplishment of the open-pit output plan by accelerating stripping progress and optimizing pit shell. For underground mining, the mine made it possible for large-scale production by speeding up the safety production inspection and acceptance procedures for the phase one project of the underground work and making rational arrangement for multi-section and multi-procedure operation, so as to maximizing the efficiency of each mining section and achieve stable increase in underground mining ore output.

12 The calculation of the EBITDA of iron ore business was based on earnings before taxes, plus depreciation and amortization, interest and provision for impairment.

After completion of the phase one technology improvement in 2015, the annual output of iron ore concentrates by the processing plant of Maogong Mine was increased from 0.3-0.4 million metric tons to 0.85 million metric tons, with the grade of iron ore concentrates improved to 68% and the silicon content reduced to about 4%. In response to the problems emerged from the production, the mine implemented phase two technology improvement, with the main work completed as at the end of 2016. Through technology improvement, both the output and quality of iron ore concentrates were significantly improved in the second half of 2016. In 2016, the output of iron ore concentrates amounted to 846,500 metric tons, representing a year-on-year increase of 30.35%, at an average grade of 68.33%.

Maogong Mine	**For the year ended 31 December**		Change
	2016	2015	
Output of iron ore concentrates (thousand metric tons)	**846**	649	30.35%
Sales amount of iron ore concentrates (thousand metric tons)	**852**	652	30.76%
Mining costs (RMB per metric ton of iron ore concentrate)	**191**	208	-10.78%
Of which, underground mining by contractor *Note 1*	**98**	88	11.10%
Processing costs (RMB per metric ton of iron ore concentrate) *Note 2*	**125**	135	-7.33%
Government tax (RMB per metric ton of iron ore concentrate)	**31**	30	3.53%
Freight on sales (RMB per metric ton of iron ore concentrate) *Note 3*	**11**	11	-3.55%

Note 1 The increase of underground mining cost by contractor was mainly due to the increase of drivage quantity.

Note 2 The decrease was mainly attributable to the technology improvement.

Note 3 The transportation service was provided by independent third parties.

In 2016, Maogong Mine focused on the shaft and drift development of the underground mining works, the construction of the main shaft headframe and ore bin and the auxiliary facilities as well as the installation of equipments for the main shaft and headframe. As of 31 December 2016, the capital expenditure of Maogong Mine was RMB95,978,000, of which the expenditure for investment of fixed assets amounted to RMB80,403,000, and expenditure for projects under construction amounted to RMB7,842,000. The capital commitment amounted to RMB114,551,000.

2) *Aoniu Mine*

Aoniu Mine is located in the township of Hou'an, Fushun County, Fushun City, and is operated by the Company through its subsidiary Aoniu Mining. Aoniu Mine owns mining licenses covering areas totaling 1.8911 km^2 and has extensive infrastructures including paved roads, water and electricity supplies. Even faced the increasing difficulty for mining in the open-pit mining area and the increasing rate of dilution. Through enhancement of management and adequate production arrangement, The output of Aoniu Mine in 2016, still achieved the budget target and produced 903 thousand metric tons, representing a year-on-year decrease of 17.31%.

In 2016, Aoniu Mine was engaged in both open-pit mining and underground mining. In 2016, open-pit mining focused on optimization of pit shell. In light of the existing condition of the open pit, unnecessary stripping work was skipped. An independent third party was engaged to undertake the underground mining establishment/development works and underground mining. In 2016, efforts were focused on production management of underground mining. Geological technicians inspected the mining sites to promptly mark the ore body boundaries and rock condition and gave instructions for shaft and drift development. The development of exploration drift with a length of 32 metres and the logging of shaft-drift with a length of 2,688 metres were completed.

Aoniu Mine has two processing plants. In 2016, the processing workshop launched the equipment maintenance plan and equipment inspection system, so as to ensure smooth operation of all equipment. The average grade of iron ore concentrates produced in 2016 was 69.49%. Efforts were made to improve product quality and strengthen cost control, so as to better meet the market needs.

Aoniu Mine	**For the year ended 31 December**		
	2016	2015	Change
Output of iron ore concentrates (thousand metric tons)	**903**	1,092	-17.31%
Sales amount of iron ore concentrates (thousand metric tons)	**906**	1,081	-16.22%
Mining costs (RMB per metric ton of iron ore concentrate)	**130**	129	0.87%
Of which, underground mining by contractor*Note 1*	**47**	35	35.70%
Processing costs (RMB per metric ton of iron ore concentrate)	**100**	96	3.74%
Government tax (RMB per metric ton of iron ore concentrate)	**33**	33	0
Freight on sales (RMB per metric ton of iron ore concentrate)*Note 2*	**31**	27	14.69%

Note 1 The increase of cost per metric ton of underground mining attributed to the decrease of the production volume of iron ore concentrates and the increase of the volume of underground mining.

Note 2 The transportation service was provided by third parties. In 2016, some of the iron ore concentrates were sold from Aoniu Mine to the new customers which located in further area and required more cost of transportation.

In 2016, the capital expenditure of Aoniu Mine was RMB47,874,000, of which investments for infrastructure projects amounted to RMB6,208,000, expenditure for acquisition of lands amounted to RMB39,564,000, and expenditure for property, plant and equipment amounted to RMB2,103,000. The capital commitment amounted to RMB160,000.

3) *Benxi Mine*

Benxi Mine is located in Pingshan District, Benxi City, and is operated by the Company through its subsidiary Benxi Mining. Benxi Mine owns mining licenses covering areas of 0.25 km^2, and has extensive infrastructures including paved roads, water and electricity supplies. In light of the market price of iron ore concentrates, it is not economically viable to carry on production at Benxi Mine, thus the production of the mine was suspended.

On 7 July 2016, Aoniu Mining, a wholly-owned subsidiary of the Company, entered into the Equity Interest Transfer Agreement with the purchaser, with an aim to focusing on developing and operating the Group's quality resources. Pursuant to the Equity Interest Transfer Agreement, Aoniu Mining agreed to transfer 100% equity interest in Benxi Mining to the purchaser at a cash consideration of RMB1. Loss on disposal of the equity interest amounted to RMB47,194,000, including loss from equity investment and loss of debts. Benxi Mining ceased to be a subsidiary of the Company from July 2016.

4) *Xingzhou Mine*

Xingzhou Mine is located in Dongzhou District, Fushun City, and is operated by the Company through its subsidiary Xingzhou Mining. Xingzhou Mine owns mining licenses covering areas of 0.94 km^2, and has extensive infrastructures including paved roads, water and electricity supplies. Xingzhou Mine has two processing plants with an annual iron ore processing capacity of 1.5 million metric tons. Against the backdrop of continuously decreasing price of iron ore concentrates and in order to improve productivity and facilitate sustainable development, production at Xingzhou Mine was suspended in 2016 in light of the market condition.

5) *Shangma Mine*

Shangma Mine is located at the center of the iron ore belt in Fushun City, which is situated between Aoniu Mine and Xingzhou Mine, serving as a link connecting the two major mines. Shangma Mine owns mining licenses covering areas of 4.98 km^2. Given the large areas of land taken by open-pit mining and the higher mining costs of Shangma Mine, production at Shangma Mine was suspended in 2016.

3. Iron ore resources and reserves

1) *Iron ore resources and reserves*

In 2016, Aoniu Mine completed 4 drilling holes, drilled 1152.18 meters. Exploration expenditure was RMB382,851, Maogong Mine completed 1 drilling holes, and drilled 275 meters. Exploration expenditure was RMB85,250.

As of the end of 2016, the Group owned 231 million metric tons of iron ore resources. The decrease in such resources as compared with that as at the end of 2015 was mainly attributable to the resources owned by Benxi Mine which has been sold and the decrease in the resources of Aoniu Mine.

The increased amount of iron ore resources through exploration activities for each mine and the amount of iron ore resources of each mine as at the end of 2016 were as follows:

Mines	**Resources category**	**Increased amount for 2016** *(metric ton)*	**Resources amount at the end of 2016** *(metric ton)*	**TFe** *(%)*
Aoniu Mine	Indicated[Noet 1]	0	16,867,299	31.6
	Inferred[Noet 2]	0	20,610,590	31.89
Subtotal of Aoniu Mine		0	37,477,889	31.75
Maogong Mine	Indicated	800,429	30,610,352	32.29
	Inferred	206,786	6,134,851	30.15
	Inferred*	0	217,700	22.47
Subtotal of Maogong Mine		1,007,215	36,962,903	31.72
Xingzhou Mine	Indicated	0	32,956,373	30.88
	Inferred	0	27,779,010	30.65
	Indicated*	0	63,722,270	22.76
Subtotal of Xingzhou Mine		0	124,457,653	26.67
Shangma Mine	Indicated	0	8,122,403	31.07
	Inferred	0	23,727,200	30.56
Subtotal of Shangma Mine		0	31,849,603	30.73
Total[Note 3]	Indicated	800,429	88,556,427	31.21
	Inferred	206,786	78,251,651	30.78
	Indicated*	0	63,722,270	22.76
	Inferred*	0	217,700	22.47
Total resources		1,007,215	230,748,048	28.7

* *Represents low-grade ore body*

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

Note 1 The resources amount at the end of 2016 includes 11,364 thousand metric tons of the resources amount which does not shown on the mining licenses.

Note 2 The resources amount at the end of 2016 includes 16,164 thousand metric tons of the resources amount which does not shown on the mining licenses.

Note 3 The resources amount at the end of 2016 includes portion of the resources amount which does not shown on the mining licenses.

As of the end of 2016, the Group owned 1.55 million metric tons of JORC Code-compliant iron ore reserves. The decrease in such reserves as compared with that as at the end of 2015 was mainly attributable to the disposal of Benxi Mine and the decrease in the reserves of Aoniu Mine. The increased amount of iron ore reserves for each mine and the quantity of iron ore reserves of each mine as at the end of 2016 were as follows:

Mines	**Reserves category**	**Increased amount for 2016** *(metric ton)*	**Reserves at the end of 2016** *(metric ton)*	**TFe** *(%)*
Aoniu Mine	Probable Ore Reserve	0	5,503,260	25.27
Maogong Mine	Probable Ore Reserve	1,007,215	30,610,352	26.93
	Probable Ore Reserve*	0	72,567	22.47
Xingzhou Mine	Probable Ore Reserve	0	42,216,043	26.49
	Probable Ore Reserve*	0	63,722,270	19
Shangma Mine	Probable Ore Reserve	0	12,440,303	25.90
Subtotal	Probable Ore Reserve	1,007,215	90,769,958	26.05
	Probable Ore Reserve*	0	63,794,837	19.45
Total	Probable Ore Reserve+			
	Probable Ore Reserve*	1,007,215	154,564,795	23.72

* *Represents low-grade ore body*

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

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 Company acquired the 52.5% equity interests of laterite nickel project located in North Konawe Regency, Southeast Sulawesi, Indonesia (the "Nickel Project") in the first half of 2013. As of the end of 2016, the nickel business of the Company has a JORC Code-compliant resources of 350,925 thousand metric tons of laterite nickel ore resources at the cut-off nickel grade of 1%, with an average nickel grade of 1.37%. Resource with nickel grade lower than 1% and iron grade higher than 45% (i.e. resources with high TFe and low Ni) amounted to 90,540 thousand metric tons, with an average TFe grade of 50.27%. Since the acquisition, the Company has made strenuous efforts to enhance its mining capacity and infrastructure construction, currently with an annual mining capacity of 5 million metric tons of ore.

On 12 January 2014, the Ministry of Energy and Mineral Resources (the "ESDM") issued a Minister of ESDM Regulation (No. 1 of 2015) (the "Regulation") to increase domestic minerals' additional value through domestic processing and refining, which imposed restrictions on export of extracted mineral products including from nickel mines in Indonesia. Since then, production from the nickel project has been suspended. Since the implementation of the Regulation, a number of companies in Indonesia began to operate nickel smelting plants to process nickel products in Indonesia. The rapid expansion of production capacity of nickel smelting has stimulated the demand for local nickel ore in Indonesia. In view of the above, the Board had decided to initiate the preparatory works to resume mining production from the nickel project since the first half of 2016.The nickel business has carried out the following tasks during 2016:

1. Cooperating with partners to develop and sell nickel ores

In 2016, the nickel business team had negotiated with a number of potential partners with the view of possible cooperation to develop nickel resources, and has achieved positive results. Subsequent to the year end, KS entered into a cooperation agreement with PT. Maha Bhakti Abadi, a company incorporated in Indonesia with limited liability and an independent third party.

2. Analyzing market trend to promote sales of ore stockpiles

Based on the market analysis conducted in 2016, KS entered into a nickel ore sale and purchase agreement with an independent third party subsequent to the year end, pursuant to which KS will sell 100,000 metric tons of nickel ores to the buyer at a total consideration of approximately US$1 million.

The Board believed that the entering into of the cooperation agreement and the nickel ore sale and purchase agreement marked the coming resumption of production and sales of the nickel project.

3. Reducing headcounts for improving efficiency and safeguarding the Company's assets

In order to reduce expenses incurred by the nickel business, the segment take measures to streamline post setting, resulting in a year-on-year decrease of 38% in labor costs. The business adopted the approach of giving employees multi-posts to ensure smooth operation, especially the validity of mining rights, forest and land use right and other government permits, so as to safeguard the Company's assets.

In 2016, being affected by the Regulation, production for the Group's nickel business was suspended. The expenses incurred for the Group's nickel business amounted to RMB24,956,000, representing a year-on-year decrease of 67.67%. The capital expenditure amounted to RMB16,741,000 (2015: RMB22,334,000), and the capital commitment was RMB0 (2015: RMB0).

FINANCIAL REVIEW

1. Income, Cost of Sales and Gross Profit

For the year of 2016, the Group's revenue was RMB1,707,198,000, representing an increase of RMB487,447,000 or 39.96% over the corresponding period of last year, mainly due to: 1) an increase of RMB602,449,000 in revenue from the gold business over the corresponding period of last year as the gold business was in overall production for the whole year of 2016; 2) a decrease of RMB96,179,000 in revenue as compared to last year due to the disposal of Benxi Mine.

For the year of 2016, the Group's cost of sales was RMB1,411,618,000, representing an increase of RMB482,397,000 or 51.91% over the corresponding period of last year, mainly attributable to: 1) an increase of RMB630,138,000 in cost of sales of gold business after commencement of overall production in 2016; 2) a decrease of RMB140,693,000 in cost of sales as compared to last year due to the disposal of Benxi Mine.

For the year of 2016, the Group's gross profit was RMB295,580,000, representing an increase of RMB5,050,000 or 1.74% over the corresponding period of last year. Gross profit margin of the Group declined from 23.82% to 17.31%, which was mainly attributable to: 1) an increase in the overall cost of the gold business over the corresponding period of last year due to the landslide and the bad weather; 2) an increase in the overall gross profit margin of the iron ore business after the disposal of Benxi Mine.

2. Other Income and Expenses

For the year of 2016, the Group's other income was RMB18,768,000, representing a decrease of RMB14,621,000 or 43.79% over the corresponding period of last year. Other income mainly included interest income. Such decrease was mainly due to a decrease of RMB13,958,000 in interest income from bank loan deposit of the Group in 2016.

For the year of 2016, the Group's other expenses were RMB163,044,000, representing a decrease of RMB129,719,000 or 44.31% over the corresponding period of last year. Please refer to 5. Provision for Asset Impairment under the Financial Review for the main reason of the decrease. Other expenses consisted of provision for asset impairment, foreign exchange losses, loss from disposal of properties, plants and equipment, charity donation and other overheads.

3. Selling and Distribution Expenses and Administrative Expenses

For the year of 2016, selling and distribution expenses of the Group were RMB37,603,000, representing a decrease of RMB783,000 or 2.04% over the corresponding period of last year. Selling and distribution expenses consisted of transportation expenses, labour expenses and others.

For the year of 2016, administrative expenses of the Group were RMB182,048,000, representing a decrease of RMB48,738,000 or 21.12% over the corresponding period of last year, which was mainly due to a decrease of RMB46,317,000 or 27.15% in administrative expenses of the iron ore business over the corresponding period of last year. The main decreased expenses were labour costs of RMB21,575,000, relocation compensation of RMB13,000,000, bank charges of RMB5,500,000 and inventory depreciation reserves of RMB4,700,000. Administrative expenses included remuneration paid to the Group's management and administrative staff, depreciation and amortization, leasing and office expenses, business development expenses, professional consultation and service expenses, taxation expenses, bank charges, inventory depreciation reserves, accrued doubtful debt reserves and others.

4. Financing Costs and Income Tax Expense

For the year of 2016, financing costs of the Group were RMB138,576,000, representing a decrease of RMB30,743,000 or 18.16% over the corresponding period of last year. The decrease was mainly due to a decrease of RMB12,484,000 in interest expenses as a result of a decrease in bank borrowings, a decrease of RMB11,220,000 in discount interest expenses as a result of a decrease in discounting of bank acceptance bills, and a decrease of RMB7,271,000 in amortization of long-term payable discount charges as compared to last year. Financing costs included bank borrowing interest expenses, discount expenses and other financing expenses and the amortization of long-term payable discount charges.

For the year of 2016, the income tax expenses of the Group was RMB6,954,000, representing an increase of RMB12,611,000 over the corresponding period of last year. Income tax expenses included the total amount of current tax payable and deferred tax.

5. Provision for Asset Impairment

For the year of 2016, the provision for asset impairment of the Group was RMB57,678,000, representing a decrease of RMB180,953,000 over the corresponding period of last year, mainly because no impairment was identified on any other assets of the Group after testing during the year except the asset impairment provision of RMB61,197,000 of Xingzhou Mine, impairment provision on other receivables of RMB1,189,000 and reversal of the inventory impairment provision for last year of RMB4,708,000.

6. Gains and Losses on Changes in Fair Values of Available-for-Sale Financial Assets

For the year of 2016, aggregate gains on changes in fair values of available-for-sale financial assets and reclassification adjustment for cumulative gain included in profit or loss on disposal of the Group amounted to RMB6,142,000 and were recognised in other expenses under the comprehensive income. Such gains were mainly attributable to gains on changes in value of the shares of the Australian listed companies held by the Group of RMB7,432,000.

7. Profit and Total Comprehensive Income for the Period

Based on the reasons mentioned above, the loss of the Group for the period was RMB213,877,000, representing a decrease of RMB187,801,000 or 46.75% in loss over the corresponding period of last year.

Based on the loss for the period, and affected by the losses on changes in fair values of available-for-sale financial assets and foreign currency translation, the total comprehensive losses for the year of 2016 was approximately RMB169,123,000, representing a decrease of RMB260,421,000 or 60.63% in loss over the corresponding period of last year.

8. Properties, Plants and Equipment and Inventories

As of 31 December 2016, properties, plants and equipment of the Group were RMB1,381,364,000, representing a decrease of RMB128,731,000 or 8.52% over the end of last year. The decrease was mainly due to the disposal of Benxi Mine during the year.

As of 31 December 2016, inventories of the Group were RMB144,779,000, representing a decrease of RMB2,827,000 or 1.92% over the end of last year.

9. Trade and Other Receivables and Trade and Other Payables

As of 31 December 2016, trade receivables of the Group were RMB288,114,000, representing a decrease of RMB140,635,000 over the end of last year, mainly attributable to the decrease in balance of accounts receivable of the iron ore concentrates.

For the year of 2016, other receivables of the Group were RMB167,944,000, representing a decrease of RMB50,664,000 over the end of last year which was mainly due to a decrease of RMB31,702,000 in deposit for resource tax.

As of 31 December 2016, trade payables of the Group were RMB139,121,000, representing an increase of RMB29,120,000 over the end of last year. As of 31 December 2016, other payables of the Group were RMB328,912,000, representing a decrease of RMB96,659,000 over the end of last year, mainly due to a decrease in the balances as compared with the corresponding period last year as a result of the disposal of Benxi Mining.

10. Cash Use Analysis

The summary of the Group's consolidated statement of cash flows for the year of 2016 is set out below.

	For the twelve months ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net cash flows from operating activities	**594,335**	159,626
Net cash flows from investing activities	**(721,163)**	(566,152)
Net cash flows from financing activities	**94,112**	201,213
Net decrease in cash and cash equivalents	**(32,716)**	(205,313)
Cash and cash equivalents at the beginning of the period	**99,223**	299,587
Effect of changes in foreign exchange rate on cash and cash equivalents	**3,655**	4,949
Cash and cash equivalents at the end of the period	**70,162**	99,223

The net cash inflow from operating activities during the year of 2016 was RMB594,335,000. The amount was mainly attributed to the loss before tax of RMB206,923,000, together with depreciation and amortization of RMB525,770,000, the provision for asset impairment of RMB61,197,000, an increase of RMB36,146,000 in accounts payable, non-cash financial cost of RMB-15,513,000, foreign exchange losses of RMB31,452,000, losses from disposal of a subsidiary of RMB47,194,000, an increase of RMB129,308,000 in accounts receivable and was offset by interest income of RMB9,427,000.

For the year of 2016, the net cash outflow from investing activities amounted to RMB721,163,000. The amount mainly included the amount of RMB385,613,000 used in the acquisition of new plants and machine equipments, etc. and acquisition of properties in order to expand production capacity and improve technology, the amount of RMB64,945,000 used as consideration for the acquisition of intangible assets, the amount of RMB7,534,000 used in the acquisition of land and the amount of RMB400,000,000 used in the payment for available-for-sale financial assets.

For the year of 2016, the net cash inflow from financing activities was RMB94,112,000. The amount was mainly from the newly added bank loans of RMB2,370,784,000 and net inflow from the release of deposit upon expiry of bank loans of RMB870,093,000 and was offset by the repayment of bank loans of RMB3,149,786,000.

11. Cash and Borrowings

As of 31 December 2016, cash balance of the Group was RMB113,854,000, representing a decrease of RMB899,154,000 or 88.76% over the end of last year, which was mainly due to a decrease of RMB870,093,000 in balance of domestic bank loan deposit over the corresponding period of last year as a result of repayment of the overseas bank loan.

As of 31 December 2016, the balance of bank borrowings of the Group was RMB2,172,999,000, representing a decrease of RMB800,353,000 or 26.92% over the end of last year. Apart from the information disclosed above or otherwise in this announcement, the Group has no any outstanding mortgage, pledge, debentures or other loan capital issued or agreed to be issued, bank overdrafts, borrowings, liabilities under acceptance or other similar liabilities, hire purchase and finance lease commitments, or any guarantees or other material contingent liabilities. The Directors have confirmed that, save for the information disclosed above, there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 December 2016.

12. Gearing Ratio, Interest Rate Risk and Foreign Exchange Risk

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.

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. Up to now, 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.

13. Assets Securities and Contingent Liabilities

Some of bank loans of the Group were secured by mining rights certificates. As of 31 December 2016, the aggregate net carrying value of the mining rights used as securities amounted to RMB248,915,000.

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

14. Capital Commitments

In 2016, capital commitments of the Group were RMB172,163,000, representing an increase of RMB12,262,000 or 7.67% over last year. The capital commitments mainly consisted of the amount of RMB105,272,000 for underground mining works of Maogong Mine, the amount of RMB9,279,000 for construction of Maogong Processing Plant, the amount of RMB32,364,000 for underground mining works of Shangma Mine, the amount of RMB160,000 for Aoniu Mine and the government charges of RMB25,088,000 for gold exploration.

15. Capital Expenditure

The Group's capital expenditure decreased from approximately RMB559,217,000 in 2015 to approximately RMB217,070,000 in 2016. Expenditure incurred in 2016 mainly included (i) expenditure for acquisition of plants, machine equipment and properties and underground mining works amounting to RMB144,391,000; (ii) expenditure for acquisition of intangible assets amounting to RMB64,945,000; (iii) expenditure for land compensation and others amounting to RMB7,734,000.

16. Significant Foreign Investments 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 investments as of 31 December 2016.

17. Material Acquisitions and Disposals of Subsidiaries and Associated Companies

In July 2016, the Group sold its subsidiary Benxi Hanking Mining Co., Ltd. (本溪罕王礦業有限公司) to an independent third party at a consideration of RMB1, resulting in loss on disposal in an amount of RMB47,194,000. Save as aforesaid, the Group had no other material acquisitions or disposals of subsidiaries and associated companies during the year of 2016.

18. Significant Subsequent Events

On 15 February 2017 (after trading hours), following a global competitive sale process, the Company and the other vendors entered into a binding 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), pursuant to which the Company and the other vendors conditionally agreed to sell, and the purchaser conditionally agreed to purchase, 100% of the shares in Hanking Australia Pty Ltd ("**Hanking Australia**") at a purchase price based on an agreed enterprise value of AUD330 million. Hanking Australia holds the Company's SXO Gold Project assets located in Australia.

Upon completion, the Company will cease to have any interest in Hanking Australia which will cease to be a subsidiary of the Company, and the financial results of Hanking Australia will no longer be consolidated into the consolidated financial statements of the Company. As a result of the sale of shares, the Group is expected to record an unaudited gain of approximately RMB701,256,000, subject to relevant working capital adjustment set out in the share sale agreement. The unaudited gain represents the difference between the purchase price, adjusted for any remaining debts due from Hanking Australia and its subsidiaries upon completion or any debts repaid by the purchaser on completion, and the share of the unaudited net liabilities and other reserves of Hanking Australia as at 30 June 2016.

An extraordinary general meeting will be held by the Company on a later date to seek the approval of the shareholders of the Company on *inter alia* the disposal.

A circular containing, amongst other matters, further details of the sale of shares and the notice of the extraordinary general meeting will be despatched to the shareholders of the Company on or before 31 March 2017.

EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT ON AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

The following is an extract of the independent auditor's report on the Group's audited financial statements for the Year which has included a material uncertainty related to going concern, but without modification of our opinion:

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw your attention to Note 2 to the consolidated financial statements which indicates that the Group incurred a net loss of RMB213,877,000 during the year ended 31 December 2016, and, as of that date, the Group's current liabilities exceeded its current assets by RMB745,254,000. As stated in Note 2, the Group's utilisation of its available conditional banking facilities are subject to approval on a case-by-case basis, indicating that a material uncertainty on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

OTHERS

1. Dividend

The Board did not recommend the payment of the final dividend for the year ended 31 December 2016 to the shareholders of the Company.

2. Closure of Register of Members

The annual general meeting of the Company is scheduled to be held on Monday, 22 May 2017. The register of members of the Company will be closed from Monday, 15 May 2017 to Monday, 22 May 2017 (both days inclusive) to determine the entitlement to attend and vote at the annual general meeting during which period no transfer of shares will be registered. In order to attend and vote at the 2017 annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Friday, 12 May 2017.

3. Management Contracts

For the year ended 31 December 2016, there is no contract entered into by the Company relating to its management and administration or subsisting during the year which is substantial to the entire or any part of the business of the Group.

4. Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2016.

5. Non-competition Agreement Compliance

The Company signed a non-competition agreement (the "**Non-Competition Agreement**") with the controlling shareholders on 16 June 2011. In accordance with the Non-Competition Agreement, the independent non-executive Directors of the Company is responsible for reviewing and considering whether to exercise such option and pre-emptive right, as well as entitled to conduct annual review of implementation of the agreement on behalf of the Company. During the year of 2016, each controlling shareholder of the Company has made annual confirmation of compliance of the Non-Competition Agreement, and the independent non-executive Directors of the Company have also reviewed the implementation of the Non-Competition Agreement, and confirmed that the controlling shareholders of the Company have fully abided by the agreement without any breach of the agreement.

6. Compliance with Corporate Governance Code

Save as disclosed herein, during the period from 1 January 2016 to 31 December 2016, the Company has fully complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), meanwhile, the Company has complied with most of the best practices as recommended therein.

7. Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the Directors of the Company and all Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2016.

8. Significant Legal Proceedings

For the year ended 31 December 2016, the Group has not been involved in any significant legal proceedings or arbitration. To the knowledge of the Directors of the Company, there are no significant legal proceedings or claims pending or threatened.

9. Audit Committee

The audit committee under the Board of the Company has reviewed the announcement for Annual Results for 2016 and the financial statements for the year ended 31 December 2016.

10. Auditor

The consolidated financial statements for the year ended 31 December 2016 have been audited by Deloitte Touche Tohmatsu with unqualified opinion.

11. Publication of Annual Report

The 2016 annual report of the Company containing all applicable information required by the Listing Rules, together with the Environmental, Social and Governance Report, will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hankingmining.com) in due course.

APPRECIATION

The Board would like to express sincere gratitude to all the employees of the Group, for their persistent effort in working, which contributed to the competitive advantage of the Group among the challenging market. We also would like to express our thanks to the government, shareholders of the Company and other related parties for their consistent support and trust to the Group.

By order of the Board
China Hanking Holdings Limited
Yang Jiye
Chairman and executive director

Shenyang, the PRC, 22 March 2017

As at the date of this announcement, the executive directors of the Company are Mr. Yang Jiye, Dr. Pan Guocheng, 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, Mr. Wang Anjian and Mr. Ma Qingshan.