
INDUSTRY OVERVIEW

The information presented in this section is derived from various official government publications, industry sources such as industry publications, and survey or studies conducted by AME, an Independent Third Party. We believe that the sources of such information are appropriate sources and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Our Directors confirm, after taking reasonable care, that there is no adverse change in the market information since the date of the AME Report which may qualify, contradict or have an impact on the information in this section. The information has not been independently verified by us or any of the Relevant Persons, and no representation is given as to its accuracy, completeness or fairness.

INFORMATION ON THE AME REPORT

Overview

We commissioned AME, an independent industry consultant specialized in market and strategic analysis for the global energy, steel, metals and mining industries, to provide the AME Report. AME is a global firm of engineering and resource economists. AME's head office is in Hong Kong with offices in Sydney, London and New York. AME specialises in detailed commodity market analysis and advisory for resource industries.

The AME Report is used in whole or in part in the Prospectus. In particular, unless otherwise specified, all of the industry data presented in the "Summary," "Industry Overview" and "Business" sections have been based on or derived from the AME Report. The main objectives of the AME Report include providing supply and demand analysis of the industry in which we operate in, cost and production analysis, and market trend analysis.

The information contained herein has been obtained from the official government and non-official sources AME believes to be reliable. As certain economic data is collected on a sample basis or estimated by AME, each table and figure should be assumed to include estimated information.

Basis upon Which Statistics are Considered Reliable

AME's research is undertaken through both primary and secondary research from various sources. AME prepared its report based on its in-house database, independent third-party reports and publicly available data from reputable industry organizations. However, since such information is unavoidably subject to certain assumptions and estimates made by third parties, there can be no assurance as to the accuracy or completeness of included information. AME did not carry out any independent verification on any facts or statistics that are directly or indirectly obtained from official and non-official sources. AME applied its own professional judgment and analysis in processing the data from third-party sources to generate the statistics and data used in the AME Report.

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The AME Report was researched for and drafted by AME professionals who have in-depth knowledge of the iron ore sector. AME believes that the sources of the information in the AME Report are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. To the best of AME's knowledge after making all due and reasonable inquiries, AME has no reason to believe that such information is false, inaccurate or misleading or that any part has been so omitted that would render such information false, inaccurate or misleading.

Key Assumptions and Parameters

Forecasts and assumptions included in the AME Report are inherently uncertain because of events or combinations of events that cannot reasonably be foreseen, including, without limitation, actions of governments, individuals, third parties and competitors. As such, there can be no assurance that forward-looking statements, forecasts and assumptions will prove to be accurate. Specific factors that could cause actual results to differ materially include, among others, iron ore prices, risks inherent in the mining industry, financing risks, labor risks, uncertainty of mineral reserve and resource estimates, equipment and supply risks, regulatory risks and environmental concerns. Most of the factors are outside the control of our Company. Investors are cautioned not to put undue reliance on forecast and forward-looking information.

The following assumptions were made in preparing the AME Report:

First, AME has assumed there will not be catastrophic events such as natural disasters in key iron ore producing and consuming regions.

Second, it is assumed that future global and country-level economic growth will be consistent with the forecasts of the International Monetary Fund.

The following parameters were considered in determining historical and forecast iron ore demand and supply:

- Global and country-level GDP growth rates from 2005 to 2015;
- The nature and outlook of individual economies as well as their stage of industrial development;
- Historical and forecast steel consumption per capita growth trends in developed and developing economies;
- Country-level growth in key consumer sectors, including construction, transport and consumer durables;
- Global and country-level crude steel, pig iron and DRI output from 2005 to 2015;
- The iron ore production guidance reported by companies;
- Current and scheduled greenfield and brownfield expansion plans; and
- The development stage and an assessed probability of each major project coming on line.

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Fees

A total fee of US\$84,000 has been incurred for the preparation and update of the AME Report.

OVERVIEW OF THE IRON ORE INDUSTRY

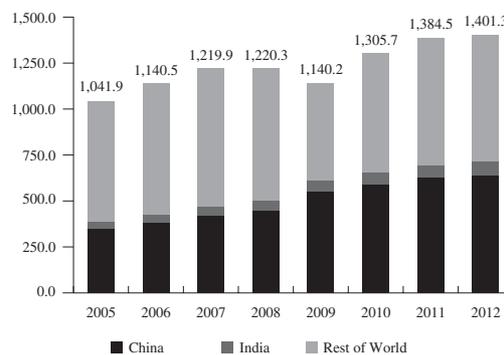
Global Iron Ore Industry

Iron Ore Demand

Demand for iron ore is driven by global steel demand and, in turn, steel production. Construction, transportation and consumer durables are the main drivers of steel demand, and growth in these sectors is generally correlated with growth in GDP and industrial production of a particular country or region.

According to the AME Report, global steel demand grew from approximately 1,041.9 Mt in 2005 to approximately 1,401.3 Mt in 2012, representing a CAGR of 4.3%, largely driven by strong economic growth in emerging countries, in particular China. In 2012, steel demand from China accounted for 45.6% of the total global steel demand, compared to 33.4% in 2005. In 2009, the global steel demand decreased by approximately 6.6% to 1,140.2 Mt amid the global economic crisis. Since then, the global steel market has made a strong recovery, led by growth in emerging markets such as China and India. China continues to be the key driver for global steel demand as the country continues its modernization initiatives with pro-growth policies and continuing investments in transportation and power infrastructure.

Global Apparent Steel Demand 2005–2012 (in Mt)



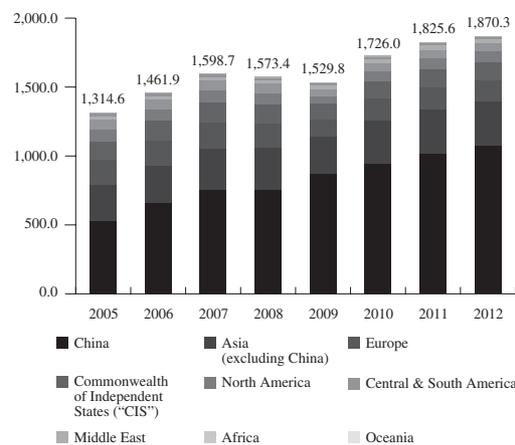
Source: World Steel Association

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Global crude steel production grew from 1,143.2 Mt in 2005 to approximately 1,547.2 Mt in 2012, representing a CAGR of 4.4%, driven by growing global steel demand. According to the AME Report, the incremental crude steel output is largely from rapid growth in production in emerging countries, including China, India, South Korea and Turkey, offset by reduced production in Japan, the CIS and North America and capacity closures in Europe. By 2007, China, as a result of the rapid growth in domestic production capacity, had become the largest net exporter of steel. China has also emerged as the world's leading producer of steel, consistently accounting for around 45% of global production since 2009. On top of the growing crude steel output, according to the AME Report, limited scrap supply means that much of the growth is likely to be via the basic oxygen furnace steel making route rather than the electric arc furnace and this is expected to support continued demand for iron ore as a blast furnace feedstock.

As a result of the growing global steel production, global iron ore demand experienced strong growth, from approximately 1,314.6 Mt in 2005 to approximately 1,870.3 Mt in 2012, representing a CAGR of 5.2% over the period. China and the rest of Asia accounted for the majority of global iron ore demand growth and this was driven by relatively strong growth in steel output.

World Iron Ore Demand by Region 2005–2012 (Dry, in Mt)



Source: the AME Report

Note: Iron ore demand has been calculated from country-level pig iron and DRI production. End composition of the iron products as well as the grade and quality of average feed materials are considered on a country-level basis.

Global Iron Ore Supply

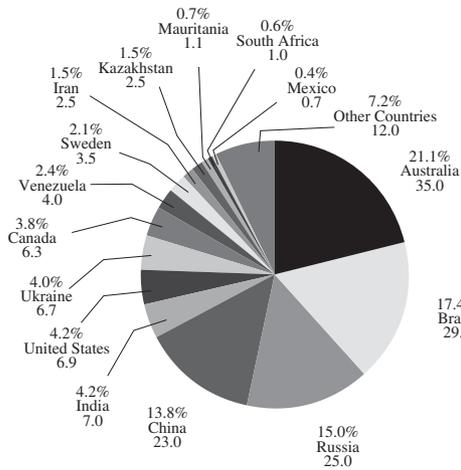
Global Iron Ore Reserves

According to the USGS (2013) and the AME Report, world crude iron ore reserves were estimated to be approximately 166.2 Bt. The world's iron ore reserves are highly concentrated, and the top four countries with the most iron ore reserves, namely Australia, Brazil, Russia and China, collectively hold approximately 67.4% of the world's crude iron ore reserves. The following chart sets forth the distribution of world's crude iron ore reserves as estimated by USGS in 2013.

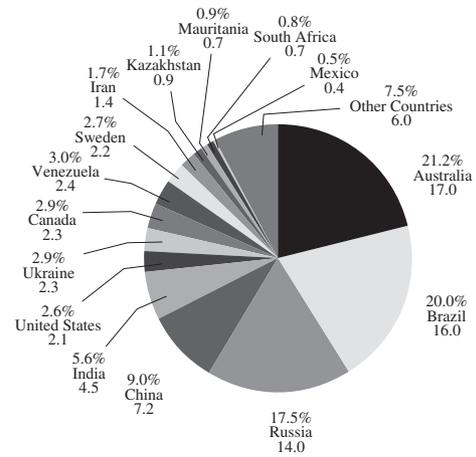
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World Iron Ore Reserves by Country (in Bt)

Crude Ores



Iron Content



Source: the AME Report, USGS (2013)

China's share of world reserves of crude ore was approximately 13.8% on a crude ore basis, but only approximately 9.0% on an iron content basis, due to the lower grades of the iron ore deposits in China. In contrast, the share of reserves on an iron content basis for countries such as Australia and Brazil were higher, due to the higher grades of the iron ore deposits in those countries.

Iron Ore Production

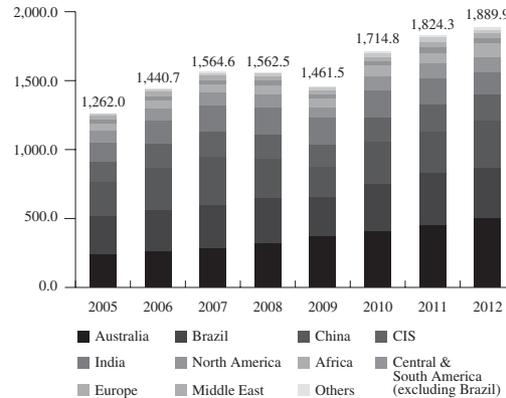
According to the AME Report, world iron ore supply volume (on a dry metric tonne basis) grew from an estimated 1,262.0 Mt in 2005 to 1,889.9 Mt in 2012 (compared to a global iron ore demand of 1,870.3 Mt in 2012), representing a CAGR of 5.9%.

The world's iron ore production is highly concentrated in four countries or regions, namely Australia, Brazil, China and the CIS, due to the concentrated location of global iron ore reserves. Meanwhile, the world's iron ore production is primarily dominated by Vale, Rio Tinto, BHP and Fortescue Metals Group, which together accounted for approximately 60% of global iron ore exports. In recent years, relatively positive global iron ore market conditions and higher iron ore prices prompted iron ore companies worldwide to increase supply through the development of greenfield and brownfield projects.

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The following chart sets forth the world iron ore supply of major iron ore producing regions from 2005 to 2012.

World Estimated Iron Ore Supply by Region 2005–2012 (Dry, in Mt)



Source: the AME Report

International Iron Ore Trade

Since most iron ore deposits are not located in close proximity to major steel production regions, a large proportion of the world's iron ores is traded internationally by sea. China, while being the country with the fourth largest iron ore deposits, continues to be a major importing country of iron ore because of its sustained economic growth and relatively robust steel production industry. These factors, combined with a lack of high quality domestic deposits, have led China to experience an iron ore supply shortage of 745.5 Mt in 2012.

Australia and Brazil are the two largest exporters of iron ore products. Collectively, the two countries are estimated to have accounted for approximately 69% of the global iron ore export market in 2011.

PRC Iron Ore Industry

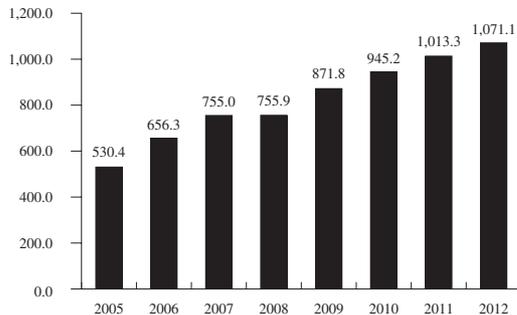
Iron Ore Demand in China

The demand for iron ore in China has been growing continuously over the past decade, driven by growing demand for steel in China on the back of the country's strong economic development. Construction, transportation and consumer durables are the three major drivers of steel demand. Therefore, relatively strong growth in these end-use sectors in previous years has supported higher steel output and increasing iron ore demand in China.

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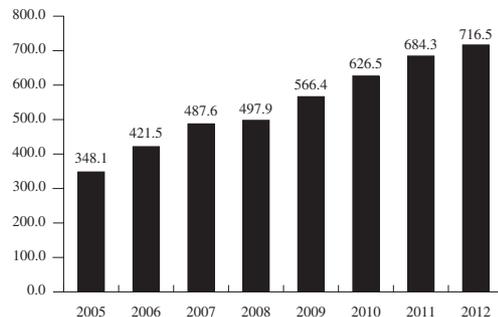
According to the AME Report, China is the largest steel producing country in the world, consistently accounting for around 45.0% of global steel production since 2009. The crude steel production in China increased from approximately 348.1 Mt in 2005 to approximately 716.5 Mt in 2012, representing a CAGR of 10.9%. As a result of the large-scale crude steel production in China, China has become the world's largest source of demand for iron ore, accounting for approximately 57.3% of the global iron ore demand in 2012. Iron ore demand in China increased from approximately 530.4 Mt in 2005 to approximately 1,071.1 Mt in 2012, representing a CAGR of 10.6%.

PRC Iron Ore Demand 2005–2012 (Dry, in Mt)



Source: the AME Report

PRC Crude Steel Output 2005–2012 (in Mt)



Source: the AME Report

On the back of strong demand for steel products driven by its strong economic growth, China has invested heavily to increase its steel production capacity over the past decade. In 2012, the total steel production capacity in China was estimated at approximately 970 Mtpa. As a result of the global economic downturn, China's economy has also shown signs of slower economic growth, resulting in a decrease in steel demand which, combined with excess capacity in the domestic steel market, led to steel prices being relatively weak in the first half of 2013.

The PRC Government has taken initiatives to reduce steel production capacity in China. According to the Ministry of Industry and Information Technology of the PRC, 6.98 Mt of crude steel capacity will be phased out in 2013, which have been nominated for closure as they typically have less pollution control, lower energy efficiency and outdated technologies. Currently, the utilization rate of steel capacity is estimated to be approximately 70%–75% in China and Hebei Province. According to AME, the impact of capacity closure on steel production and iron ore consumption is likely to be minimal as current utilization rates in China are relatively low. With the removal of steel capacity, the utilization rate of the remaining capacity is expected to improve. Therefore, closing excess steel capacity is not expected to result in lower steel production or in turn, lower demand for iron ore products, as it is the crude steel production and the required pig iron feed, rather than capacity, that drives iron ore consumption.

Despite the widely reported overcapacity in China and announcements by the Government of mandated capacity closures, there has been no decrease in steel output in China or Hebei Province in 2013. According to NBSC, from January to July 2013, China's crude steel production increased by approximately 8.7% to approximately 455.8 Mt compared to the same period of 2012, while the crude steel output in Hebei Province increased by approximately 10.0% to approximately 120.0 Mt during the same period.

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Going forward, construction, transportation and consumer durables will remain the main drivers for the steel demand. Growth in China's real estate sector showed signs of slowdown as a result of the government's austerity measures to control surging property prices in 2012. However, according to AME, growth in the area of buildings under construction (on a square meter basis) picked up towards the end of 2012 and early 2013 following a period of slower growth. AME expects continued growth in China's property market in 2013, although construction growth currently remains below the growth rates between 2010 and 2011. In addition to property construction, fixed asset investment in China will receive a boost over the short to medium term from the infrastructure spending package of approximately RMB1 trillion that was approved by the NDRC in September 2012, which involves the construction of highway, railway, subway, port and channel projects. According to NBSC, in the first seven months of 2013, China's fixed asset investments in transportation and infrastructure construction expanded by 10% and 21%, respectively, as compared with the same period of 2012. In August, China Railway Corporation announced it was increasing fixed asset investments in railway projects from RMB650 billion in 2012 to RMB660 billion in 2013, of which a total of RMB262 billion has been invested in the first seven months of 2013.

China has overtaken the US as the world's largest car market, with car sales reaching 15.5 million units in 2012. However, on a per capita basis, car sales in China are still low compared to developed countries. Rising incomes in China and the large population means Chinese drivers may become an important part of the future automotive demand.

According to the AME Report, although the growth in Chinese household appliance (consumer durables) sales slowed down over the past few years, future demand should be supported by the state directive to shift growth towards domestic consumption. In addition, the rural households, which constitute half of China's total households, remain low in terms of ownership of consumer durables and are expected to continue to support growth in demand for consumer durables when demand in urban areas slows down.

Iron Ore Supply in China

Iron Ore Reserves in China

According to MMAC, China had approximately 19.3 Bt of iron ore reserves in 2011, and ranked fourth globally in terms of crude iron ore reserves based on USGS estimates. According to MMAC and the AME Report, Liaoning Province, Sichuan Province and Hebei Province have the largest iron ore reserves, which collectively represented approximately 56.0% of the total crude iron ore reserves in China in 2011. The following map sets forth the Chinese national iron ore reserves distribution by province.

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Distribution of China's Domestic Iron Ore Reserves in 2011

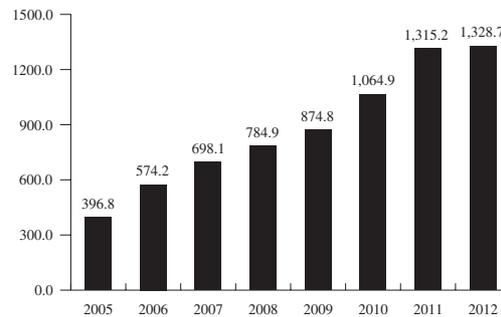


Source: MMAC, the AME Report

Iron Ore Production in China

According to NBSC, crude iron ore production in China increased from approximately 396.8 Mt in 2005 to approximately 1,328.5 Mt in 2012, representing a CAGR of 18.8%. The majority of crude iron ore production in China is in the provinces of Hebei, Sichuan, Liaoning and Shanxi, which are in close proximity to the key steel production hubs in China, namely Hebei Province and Liaoning Province.

China's Crude Iron Ore Production 2005–2012 (in Mt)



Source: NBSC, the AME Report

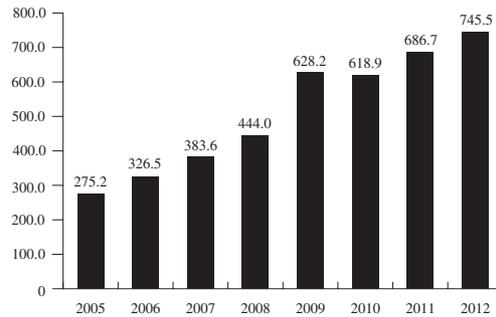
Iron Ore Import to China

China remains a major importing country in the seaborne iron ore market as a result of relatively strong demand for iron ore, which has been driven by robust steel production growth. Although China ranks fourth globally in terms of iron ore reserves and iron ore production has experienced strong growth, China's ore grades have declined rapidly and hence this has resulted in

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a greater reliance on the seaborne market for imported iron ores. According to China Customs, except for a mild pull back in 2010, iron ore imports of China have grown steadily in the past decade, from approximately 275.2 Mt in 2005 to approximately 745.5 Mt in 2012, representing a CAGR of 15.3%. The following chart sets forth the volumes of iron ores imported by China from 2005 to 2012.

PRC Iron Ore Imports 2009–2012 (in Mt)



Source: China Customs, the AME Report

Iron ore imports from Australia, Brazil and South Africa represented approximately 74.8% of the total iron imports of China in 2012. Other countries from which China imports iron ores include India, Iran, Ukraine, Canada and CIS.

According to the AME Report, China is expected to continue to rely on seaborne iron ore imports, particularly as the grades of its domestically mined iron ores continue to fall. China's growing demand for imported iron ores is expected to be the strongest over the short term as an accelerated decline in domestic concentrate production makes it necessary to source for a greater portion of feed from the international market.

Iron Ore Industry in Hebei Province and Shanxi Province

Our mines and processing plants are located in the mid-west of Hebei Province, and we are primarily supplying our customers located in Hebei Province, with an aim to expand into Shanxi Province, a neighboring province to our operation.

Iron Ore Demand in Hebei Province and Shanxi Province

According to NBSC, Hebei Province is the largest steel producing province in China, accounting for approximately 25.2% of China's total steel output in 2012. The crude steel production in Hebei Province grew from approximately 74.2 Mt in 2005 to approximately 180.5 Mt in 2012, representing a CAGR of around 13.5% over the period. Concurrently, in 2012, Hebei Province had the largest demand for iron ores in China, accounting for approximately 24.8% of China's total iron ore demand. According to the AME Report, although there will be steel capacity closures in Hebei Province to eliminate smaller steel mills and outdated capacities, Hebei Province is likely to remain the largest steel production base in China, and may remain the largest market for China's iron ore demand in the future.

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According to NBSC, Shanxi Province ranked 5th in terms of total steel output in China in 2012, accounting for 5.5% of the national output. The crude steel production in Shanxi Province grew from approximately 16.5 Mt in 2005 to approximately 39.5 Mt in 2012, representing a CAGR of 13.2% over the period.

Iron Ore Supply in Hebei Province and Shanxi Province

Iron Ore Reserve in Hebei Province and Shanxi Province

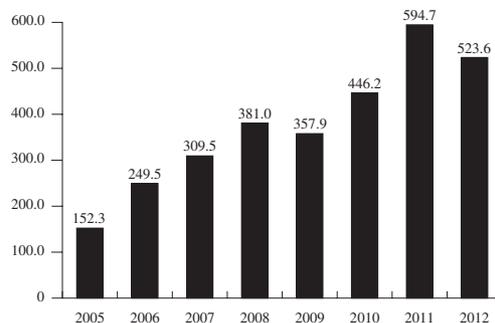
According to MMAC, Hebei Province had approximately 2.7 Bt of iron ore reserves as of December 31, 2011, representing approximately 14.0% of the national reserves and ranking third behind Liaoning Province and Sichuan Province.

Shanxi Province had approximately 1.3 Bt of iron ore reserves as of December 31, 2011, representing approximately 6.7% of the national reserves.

Iron Ore Supply in Hebei Province and Shanxi Province: Production and Import

According to NBSC, for the year ended December 31, 2012, Hebei Province was the largest producer of iron ore in terms of crude iron ore production in China, with a crude iron ore production of approximately 523.6 Mt, representing approximately 40.0% of the total iron ore supply in China, and a concentrate production of an estimated 157.6 Mt, accounting for approximately 47% of China total concentrate production of the year. It is largely driven by the relatively abundant iron ores resource in Hebei Province compared to other provinces in China. The output of crude iron ores in Hebei Province increased from approximately 152.3 Mt in 2005 to approximately 523.6 Mt in 2012, representing a CAGR of 19.3%. Domestic concentrate prices fell significantly during the third quarter of 2012 as Chinese steel mills undertook a massive destock of iron ore inventories amid weaker steel demand. As a result of lower prices, some of China's high cost marginal producers, most of which are small in capacity, were forced into closure as prices fell below the cost of production. The concentration of steel mills in Hebei Province encouraged the startup of many low-grade higher-cost mines in the region to meet strong demand in previous years. AME believes that a number of these producers closed in the third quarter amid the price drop and as a result Hebei Province's crude iron ore output decreased in 2012 compared to 2011. AME believes relatively higher concentrate prices in 2013 may have prompted some of these small capacity mines to restart.

Hebei Province Crude Iron Ore Output



Source: NBSC

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Given the relatively abundant iron resources and large-scale production of iron ores, Hebei Province has traditionally been a net exporter of iron ore to neighbouring provinces.

However, China has relied greatly on iron ore imports due to relatively strong growth in steel production, which contributed to an increase in total iron ore consumption, and the decline in the average grade of China's mined iron ore. Hebei Province has also relied heavily on iron ore imports. As China relies extensively on the sintering process, the importation of coarser grained fines has been necessary from countries such as Australia, in order to improve sintering and blast furnace operations. According to the AME Report, Hebei Province consumed approximately 163.7 Mt of imported iron ore, accounting for approximately 65.3% of its iron ore consumption requirements in 2012. For the same year, Shanxi Province consumed approximately 37.8 Mt of imported iron ores, accounting for approximately 61.7% of its iron ore consumption requirements.

Competition

The Chinese iron ore industry is fragmented and includes numerous small-scale producers operating at high costs. According to MMAC, in 2011, total crude iron ore production in China was approximately 1.3 Bt, of which approximately 55% was supplied by small-scale producers with crude iron ore capacities of less than 3 Mtpa. In addition, Hebei Province has the largest number of iron ore mines in China. According to the AME Report, state-owned steel mills often have captive integrated sources of iron ore supply. However, captive sources of supply are often insufficient to meet the total iron ore demand of such state-owned steel mills. This captive integrated business model means that the supply of captive mines generally does not compete with those of other commercial producers in the local market.

The PRC Government encourages state-owned and large private producers to consolidate the industry through mergers and acquisitions of small-scale production. According to the AME Report, as many small-scale mines lack beneficiation capacity, industry consolidation is feasible.

Iron Ore Prices

Steel mills pay more for higher grade iron ore, but penalise producers for concentrations of impurities (such as phosphorus, aluminium and silica) exceeding a certain specified range. In addition to quality standards and penalties, consistencies in quality and delivery volumes are other key factors considered when negotiating iron ore product prices. Balancing the blend of charge used in a blast furnace can be delicate and time-consuming; therefore, steel mills generally prefer stable and reliable sources of supply.

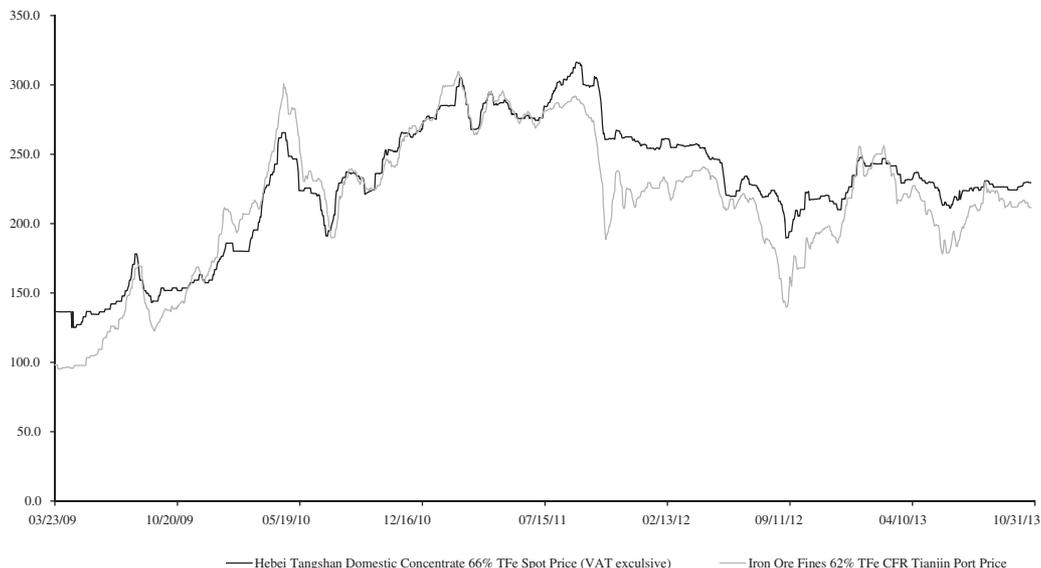
Chinese Domestic Iron Ore Concentrate Prices in Hebei Province

The domestic iron ore product prices and concentrated iron ore product spot prices are generally correlated with each other. In both instances, the decrease in the Chinese domestic prices was smaller than the decrease in the prices of imported iron ore. In 2011 and 2012, there were periods when domestic concentrate in Hebei Province was traded at a significant premium to seaborne imports, as economic conditions in Europe deteriorated and concerns of its possible impact on the Asian market led to weaker demand for imported iron ore. Domestic concentrate prices weakened in the third quarter of 2012 as a result of weak underlying demand, due to a significant destock of raw materials by Chinese steel mills. Steel market fundamentals continued to weaken in the third quarter of 2012, particularly as downstream demand for both long and flat products failed to show signs of improvement.

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According to the AME Report, from January to July 2013, the monthly average of Hebei Tangshan Domestic Concentrate 66% TFe Spot Price (dry metric tonne, exclusive of VAT) was approximately RMB997.4 per tonne, RMB1,004.3 per tonne, RMB969.9 per tonne, RMB953.0 per tonne, RMB916.8 per tonne, RMB870.9 per tonne and 906.7 per tonne, respectively. From the fourth quarter of 2012 to February 2013, domestic concentrate prices experienced a relatively strong uplift on the back of increased purchasing activities, as Chinese steel mills restocked and traders looked to take positions ahead of the Chinese Lunar New Year. This restocking activity has generally provided price support to iron ore in previous years. Domestic concentrate prices began to weaken in late February, following signals from the Chinese government that the stringent curbs on the real estate market to prevent speculation would remain. The average monthly iron ore product spot price further decreased in March and April 2013. Domestic concentrate prices lifted slightly in mid-April as relatively high steel production rates and iron ore destocking at Chinese steel mills resulted in the Chinese steel mills purchasing from the iron ore product spot market. However, this was short-lived and prices dropped over the remainder of the month. Iron ore product spot prices fell in May as demand for iron ore purchases decreased. Steel mills broadly undertook destocking activities of imported iron ore in May as steel prices continued to weaken and steel inventories remained burdened by overcapacity. Instead, steel mills placed a greater emphasis on domestic concentrate iron ore restocking to sustain levels of production due to shorter lead-time and flexibility in low volume trading. Domestic concentrate prices fell in June 2013 before rising in July 2013 on the back of increased iron ore restocking and trading activities of iron ore as the steel demand outlook improved with the Chinese government announcing initiatives such as the opening of more financing channels, an acceleration in railway construction and a reduction in export administrative fees. The following chart sets forth the spot prices of iron ore concentrates in Hebei Province and the CFR Tianjin port prices of imported iron ore from late March 2009 to late October 2013.

Hebei Province Concentrate Spot Price and Imported Iron Ore Price 2009–2013
(in US cents/dmtu)



Source: AME, Steelhome, Bloomberg

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According to the AME Report, import and Chinese domestic prices are forecast to weaken over the short term. This is expected to be supply side driven with the commissioning of new export supply capacities, mainly in Australia and Brazil. However, Chinese domestic concentrate prices may be more resilient than import prices as a result of a recovery in steel markets, which may be prompted by the forced closures of excess capacity. With stronger steel prices, preference may shift towards higher productivity which often comes from the use of high-value products, such as pellets which are typically agglomerated from domestic concentrate ores, giving domestic concentrate a slight advantage.