
SUMMARY

Capitalized terms are defined in the "Definitions" section in this document. Please also refer to the "Glossary" section in this document for definition and explanation of various technical expressions.

OVERVIEW

We are the second largest operator and the largest non state-owned operator of iron ore mines in Sichuan based on our actual output volume of iron ore in 2008 and for the six months ended June 30, 2009, according to the records of the Sichuan Metallurgy Economic Association (四川省冶金經濟協會). The ore in our mines is vanadium-bearing titanomagnetite ore, which we use to produce iron ore products and titanium products. Sichuan has approximately 83.2% of the total vanadium-bearing titanomagnetite reserves in the PRC, according to the Hatch Report, and we believe that we are well-positioned to expand our operations due to the size of our operations and our experience in acquiring and operating mines of this type in Sichuan's Panxi Region.

We believe that there is room for our expansion and growth because the PRC has historically experienced a significant shortfall in domestically-produced iron ore. The PRC is the world's largest iron ore importer. In 2008, the total PRC iron ore demand of 753.1 Mt exceeded the domestic PRC iron ore output of 387.3 Mt by approximately 365.8 Mt, according to the Hatch Report. For each year beginning in and since 2005, the annual iron ore supply shortfall in the PRC has exceeded 300.0 Mt. Sichuan is also a net importer of iron ore from overseas and from other provinces in the PRC. We believe that this supply shortfall will continue based on information in the Hatch Report which showed that the total PRC and Sichuan iron ore supply shortfalls during the six months ended June 30, 2009 were 235.5 Mt and 3.6 Mt, respectively.

As of the date of this document, we will be the [●] PRC producer focused primarily on iron ore and iron ore-related products. We are primarily engaged in mining, ore processing and iron pelletizing and we sell our iron concentrates, iron pellets and titanium concentrates to steel producers and downstream users of titanium-related products.

We own and operate two vanadium-bearing titanomagnetite mines, our Baicao Mine and Xiushuihe Mine, both of which are located in Huili County of the Panxi Region, an area with the largest reserves of vanadium-bearing titanomagnetite in the PRC. As of June 30, 2009, the total proved and probable reserves of vanadium-bearing titanomagnetite in our Baicao Mine and Xiushuihe Mine were approximately 60.0 Mt and 18.7 Mt, respectively. As of June 30, 2009, the average iron contents of ore from our Baicao Mine and Xiushuihe Mine were approximately 25.5% and 27.1%, respectively. As of June 30, 2009, the ore from our Baicao Mine and Xiushuihe Mine each had a relatively high titanium content, with an average titanium content of approximately 10.3% and 11.1%, respectively. As of June 30, 2009, the ore from our Baicao Mine and Xiushuihe Mine each had a relatively high vanadium content, with an average vanadium pentoxide content of 0.23% in each mine.

In addition to our mining operations, we operate two processing plants, our Baicao Processing Plant and Xiushuihe Processing Plant, and a pelletizing facility, our Iron Pelletizing Plant. Due to the relatively high titanium content of our ore, we are able to separate iron concentrates and titanium concentrates simultaneously through a single production process in which high-grade ore undergoes low-intensity magnetic separation to yield iron concentrates and titanium concentrates. As a result, we sell two products (i.e., iron concentrates and titanium concentrates) produced from the same production process and thereby benefit from significant cost efficiencies. We produce iron pellets at our Iron

SUMMARY

Pelletizing Plant through the pelletizing and sintering of iron concentrates, with the majority of such iron concentrates supplied by our Xiushuihe Processing Plant.

We grew rapidly during the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, with revenue increasing from RMB211.1 million in 2006 to RMB791.2 million in 2008, representing a CAGR of 93.6%, and from RMB315.3 million for the six months ended June 30, 2008 to RMB486.0 million for the six months ended June 30, 2009, representing an increase of 54.1%.

During the Track Record Period, we derived the majority of our revenue from the sale of iron concentrates and iron pellets. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our revenue generated from the sale of our iron concentrates and iron pellets in aggregate accounted for approximately 89.6%, 96.9%, 94.5% and 98.7% of our total revenue, respectively. See the "Business — Products" section in this document. The following table sets forth our revenue contribution by product and percentage of total revenue by product for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2008 and 2009, respectively:

	Year ended December 31,							Six months ended June 30,				
	2006		2007		2008		CAGR from 2006 to 2008 (%)	2008		2009		Period increase/ (decrease) (%) (Note 3)
	Revenue (RMB'000)	Percentage of total revenue (%)	Revenue (RMB'000)	Percentage of total revenue (%)	Revenue (RMB'000)	Percentage of total revenue (%)		Revenue (RMB'000)	Percentage of total revenue (%)	Revenue (RMB'000)	Percentage of total revenue (%)	
Iron concentrates	75,194	35.6	190,171	51.9	495,568	62.6	156.7	168,661	53.5	239,411	49.3	41.9
Iron pellets	113,899	54.0	165,145	45.0	252,319	31.9	48.8	115,120	36.5	240,498	49.4	108.9
Medium-grade titanium concentrates	7,452	3.5	11,271	3.1	43,276	5.5	141.0	31,554	10.0	6,132	1.3	(80.6)
Others (Note 1)	14,558	6.9	83 (Note 2)	—	—	—	—	—	—	—	—	—
Total	211,103	100.0	366,670	100.0	791,163	100.0	93.6	315,335	100.0	486,041	100.0	54.1

Notes:

- Others include revenue generated from the sale of materials that we purchased from third party suppliers to our customers. We have not sold any materials purchased from third party suppliers to our customers since 2007.
- This amount represents an adjustment to the selling price of other products sold to our customers in 2006 which was due to a higher content of iron and was agreed to by these customers in 2007.
- This amount represents the percentage increase or decrease in the six month period ended June 30, 2009 over the corresponding amounts for the six month period ended June 30, 2008.

The following table summarizes information about our mines as of June 30, 2009:

Mine name	Total proved reserves of vanadium-bearing titanomagnetite reserves (Note 1) (Mt)	Total probable reserves of vanadium-bearing titanomagnetite reserves (Note 1) (Mt)	Mine life (Note 2) (years)	Current mining permit expiration date (month/year)	Reserves to be mined under current mining right term (Mt)	Commencement date of commercial production (month/year)
Baicao Mine	25.5	34.5	14.0	12/2027	60.0	01/2005
Xiushuihe Mine	9.5	9.2	5.8	12/2027	18.7	01/2005

Notes:

- Total proved and probable vanadium-bearing titanomagnetite reserve figures are based on the portion of the measured and indicated mineral resources that are economical to mine and process. See the "Report of Independent Technical Adviser" attached as Appendix V to this document.
- Mine life is calculated by dividing the ore reserves of vanadium-bearing titanomagnetite as of June 30, 2009 by the long term production rate for the specific mine or project as set out in the "Report of Independent Technical Adviser" attached as Appendix V to this document.

SUMMARY

See the “Report of Independent Technical Adviser” attached as Appendix V to this document for the mining quantities covered by our current mining rights.

The following table summarizes information about our mining permits, exploration permit and safety production permits and state-owned land use rights certificates.

Type of permit	Holder	Issuance Date	Term	Content
Mining permit	Huili Caitong	June 27, 2008	19 years and 6 months	Type of Mine: iron ore Operation Scale: 3.1 Mt per annum for open pit mining operation Mining Area: 1.9 sq. km.
	Xiushuihe Mining	May 6, 2008	19 years and 7 months	Type of Mine: iron ore Operation Scale: 2.3 Mt per annum for open pit mining operation Mining Area: 0.5 sq. km.
Exploration permit	Xiushuihe Mining	July 8, 2009	2 years	Type of Mine: iron ore Exploration Area: 1.7 sq. km. <i>(Note 1)</i>
Safety production permit	Huili Caitong	March 27, 2008	3 years	For iron ore mining
		June 23, 2008	3 years	For operation of tailings storage facility
	Xiushuihe Mining	October 31, 2008	3 years	For iron ore mining
		June 24, 2008	3 years	For operation of tailings storage facility
State-owned land use rights certificate	Huili Caitong	June 2, 2008	50 years	Use Purpose: industrial Area: 45,372.0 sq.m. Location: Lima River Village, Guanhe Townlet, Huili County, Sichuan
		February 18, 2009	50 years	Use Purpose: industrial Area: 64,469.6 sq.m. Location: Sections No. 3 and No. 4, Kuangshan Village, Xiaoheiqing Townlet, Huili County, Sichuan
		February 18, 2009	50 years	Use Purpose: industrial Area: 3,279.2 sq.m. Location: Section No. 3, Kuangshan Village, Xiaoheiqing Townlet, Huili County, Sichuan
		February 18, 2009	50 years	Use Purpose: industrial Area: 4,977.2 sq.m. Location: Section No. 3, Kuangshan Village, Xiaoheiqing Townlet, Huili County, Sichuan

SUMMARY

Type of permit	Holder	Issuance Date	Term	Content
		February 18, 2009	50 years	Use Purpose: industrial Area: 70,930.5 sq.m. Location: Sections No. 1 and No. 3, Kuangshan Village and Section No. 1, Hongliang Village, Xiaoheiqing Townlet, Huili County, Sichuan
		February 18, 2009	50 years	Use Purpose: industrial Area: 105,601.1 sq.m. Location: Section No. 3, Kuangshan Village, Xiaoheiqing Townlet, Huili County, Sichuan
	Xiushuihe Mining	November 13, 2008	50 years	Use Purpose: industrial Area: 37,995.3 sq.m. Location: Section No. 1, Baisha Village, Xiaoheiqing Townlet, Huili County, Sichuan
		November 13, 2008	50 years	Use Purpose: industrial Area: 75,868.2 sq.m. Location: Section No. 1, Laoyingpan Village, Ailang Townlet, Huili County, Sichuan
		November 13, 2008	50 years	Use Purpose: industrial Area: 89,927.3 sq.m. Location: Section No. 3, Chelin Village, Ailang Townlet, Huili County, Sichuan

Note:

- The exploration permit was granted for the entire Xiushuihe deposit area of 1.7 sq. km. This area consists of approximately 0.5 sq. km. of land for which we presently hold mining rights and approximately 1.2 sq. km of land previously unexplored by us.

For details on each of the above, see the “Business — Properties — Owned properties” and “Business — Our Mineral Resources and Mining Rights — mining rights, exploration permit and safety production permits” sections in this document.

We currently plan to acquire additional mineral reserves and expand our production capacities as well as expand our line of business by developing titanium-related downstream products. See the “Business — Expansion and Construction Plan”, “Risk Factors — Risks Relating to our Business and Industry — Our major capital expenditure projects require significant capital investments and may not achieve the intended economic benefits” and “Risk Factors — Risks Relating to our Business and Industry — Our plan to acquire additional mineral reserves may not succeed” sections in this document. Our expansion plans may be affected if the global economic slowdown that began in mid-2008 continues to affect iron ore demand. See the “Risk Factors — Risks Relating to our Business and Industry — Our business depends on the economic growth of the PRC, the performance of the PRC iron and steel industries and the growth of the PRC titanium and titanium-related industries” and “Business — Customers — Recent global economic trends and impact on our business” sections in this document.

SUMMARY

The PRC governmental authorities have implemented a number of policies in response to the global economic slowdown, including a RMB4.0 trillion economic stimulus plan. We believe implementation of the economic stimulus plan will involve the use of steel and stimulate the PRC's demand for iron ore products, particularly the stimulus plan's proposed investments of RMB1.5 trillion into the construction of railroads, airports, and the urban and rural electricity grids; RMB1.0 trillion into the reconstruction of areas in Sichuan affected by the Sichuan earthquake of May 2008; RMB400.0 billion into affordable housing; and RMB370.0 billion into rural infrastructure. Additional reconstruction plans for areas affected by the Sichuan earthquake and related standards for the seismic protection of buildings and policies governing the production of high-strength steel will also promote the use of high-strength steel. See the "Business — Expansion and Construction Plan — Expansion of mineral reserves — PRC policies supporting growth in the mining and steel industries" and "Industry Overview — PRC Policies and Regulations Supporting Growth in the Mining and Steel Industries" sections in this document. Due to our proximity to Sichuan steel producers and the price of locally produced iron ore products being generally lower than imported iron ore because of the transportation costs involved, we believe that the increase in steel production in Sichuan as a result of these and other policies will increase the demand for our products.

Both of our mines and almost all of our customers are located in the southwest region of the PRC and have access to the Chengdu-Kunming Railroad. Pursuant to a strategic cooperative understanding we have reached with Tongyu, a subsidiary of Chuan Wei that engages in freight forwarding, Tongyu gives our customers priority to use the railroad transport capacity it secures from the Chengdu Railway Bureau Industry Development Corporation. We believe that the competitiveness of our products is enhanced by this assured transportation capacity and the lower transportation costs that result from our customers' proximity to our facilities.

We have two types of customers: direct customers and distributors. The term "direct customers" refers to customers who use our products directly in their manufacturing operations. During the six months ended June 30, 2009, Weiyuan Steel, our connected party, was one of two direct customers of our iron concentrates while our other direct customers purchased medium-grade titanium concentrates from us. For the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, the total revenue derived from sales to our direct customers was approximately RMB205.5 million, RMB359.6 million, RMB205.2 million and RMB89.7 million, respectively, accounting for approximately 97.4%, 98.1%, 25.9% and 18.5% of our total revenue for these periods, respectively. The remainder of our revenue in each period was derived from sales to distributors.

The term "distributors" refers to customers who purchase our products from us and resell them to end users. We did not sell our iron concentrates or iron pellets to any distributors in 2006 or 2007. In 2008 and the six months ended June 30, 2009, we sold our iron concentrates and iron pellets to five distributors. For the year ended December 31, 2008 and the six months ended June 30, 2009, the total revenue derived from sales of iron concentrates and iron pellets to these distributors was approximately RMB580.8 million and RMB395.7 million, respectively, accounting for approximately 73.4% and 81.4% of our total revenue for these periods, respectively. In 2008, we sold our medium-grade titanium concentrates to seven distributors and in the six months ended June 30, 2009, we sold our medium-grade titanium concentrates to three distributors. Each of these distributors are Independent Third Parties. For the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, the total revenue derived from sales of medium-grade titanium concentrates to these customers was approximately RMB5.6 million, RMB7.0 million, RMB5.2 million and RMB0.6 million, respectively, representing approximately 2.6%, 1.9%, 0.7% and 0.1% of our total revenue for these periods.

SUMMARY

The sale of our products to both our direct customers and distributors are made pursuant to sales contracts that specify the quantity, price, payment date and manner of delivery. These contracts stipulate a quantity that our customers are obliged to purchase, though we are not obliged to supply such quantities. These contracts also specify a sales price, subject to adjustment based on market prices. In June 2009, we began entering into supplemental agreements with all our customers of iron ore products that set out the pricing arrangements for iron ore products contracted for 2009 and 2010. According to these supplemental agreements, if the market price of the iron ore products falls below the contracted sales price, the contracted sales price remains unchanged. If the market price of the iron ore product rises above the contracted sales price, the contracted sales price will be adjusted to a higher amount equal to the sum of the contracted selling price and an amount to be agreed that is not more than 50.0% of the increase in the market price above the contracted sales price. The quantity and price arrangements set forth in these contracts and supplemental agreements provide us a basis upon which we believe we can forecast our production needs and minimum revenues for 2009 and 2010. See the "Business — Customers" section in this document.

The table below shows the monthly average selling prices per tonne of our iron concentrates and iron pellets, respectively, from June 2008 to June 2009.

Average selling price per tonne (RMB)													
	Month ended June 30,	Month ended July 31,	Month ended August 31,	Month ended September 30,	Month ended October 31,	Month ended November 30,	Month ended December 31,	Month ended January 31,	Month ended February 28,	Month ended March 31,	Month ended April 30,	Month ended May 31,	Month ended June 30,
	2008							2009					
Iron concentrates	764.5	733.1	758.2	696.7	603.4	457.3	465.2	519.4	468.6	475.2	510.0	514.4	582.3
Iron pellets	935.6	954.5	936.7	904.6	805.1	651.0	679.7	682.8	676.1	675.7	684.7	717.5	826.5

In 2008, the highest monthly average selling price of our iron concentrates was RMB764.5 per tonne in June 2008 and the lowest monthly average selling price of our iron concentrates was RMB457.3 per tonne in November 2008. In 2008, the highest monthly average selling price of our iron pellets was RMB954.5 per tonne in July 2008 and the lowest monthly average selling price of our iron pellets was RMB651.0 per tonne in November 2008. For the six months ended June 30, 2009, the highest monthly average selling price of our iron concentrates was RMB582.3 per tonne in June 2009 and the lowest monthly average selling price of our iron concentrates was RMB468.6 per tonne in February 2009. For the six months ended June 30, 2009, the highest monthly average selling price of our iron pellets was RMB826.5 per tonne in June 2009 and the lowest monthly average selling price of our iron pellets was RMB675.7 per tonne in March 2009. The average selling prices of our iron concentrates and iron pellets have shown signs of stabilization beginning in February 2009.

INDEPENDENT THIRD PARTY CONTRACTORS

We engage Independent Third Party contractors for waste stripping, mining, processing, pelletizing and transportation to avoid incurring substantial capital expenditures while still increasing both our raw ore output volume and product production volume.

SUMMARY

The following table summarizes the role of each of our Independent Third Party contractors:

Type of Independent Third Party Contractor	Role of Independent Third Party Contractor
Independent Third Party Mining Contractor	To extract ore at our Baicao Mine and Xiushuihe Mine
Independent Third Party Processing Contractor(s)	To produce iron concentrates and medium-grade titanium concentrates from the ore extracted from our Baicao Mine and Xiushuihe Mine
Independent Third Party Pelletizing Contractor(s)	To produce iron pellets using the iron concentrates supplied by our Xiushuihe Processing Plant and our Independent Third Party Processing Contractors
Independent Third Party Transportation Contractor(s)	To transport our iron ore products from our processing plants to our Iron Pelletizing Plant and from our production facilities to the designated railroad stations

The following table sets out the production volumes provided to us by our Independent Third Party Mining Contractor, Independent Third Party Processing Contractors and Independent Third Party Pelletizing Contractors in absolute terms and as a percentage of our total production volume of our raw ore, iron concentrates and iron pellets, respectively, and the volume of our sales transported by our Independent Third Party Transportation Contractors in absolute terms and as a percentage of our total sales volume of our iron ore products, during the Track Record Period.

	2006		2007		2008		Six months ended June 30, 2009	
	Production volume (Kt)	% of total production volume	Production volume (Kt)	% of total production volume	Production volume (Kt)	% of total production volume	Production volume (Kt)	% of total production volume
Independent Third Party Mining Contractor ^(Note 1)	946.2	100.0	1,751.4	100.0	4,771.4	100.0	2,995.5	100.0
Independent Third Party Processing Contractor(s) ^(Note 2)	N/A	N/A	206.6	39.8	460.8	39.6	270.5	36.4
Independent Third Party Pelletizing Contractor(s) ^(Note 3)	N/A	N/A	N/A	N/A	12.8	3.9	161.7	51.5

	2006		2007		2008		Six months ended June 30, 2009	
	Transportation volume (Kt)	% of total sales volume	Transportation volume (Kt)	% of total sales volume	Transportation volume (Kt)	% of total sales volume	Transportation volume (Kt)	% of total sales volume
Independent Third Party Transportation Contractor(s) ^(Note 4)	336.8	93.0	653.7	91.1	411.7	31.2	283.9	33.0

Notes:

1. The production volume for 2006, 2007, 2008 and six months ended June 30, 2009 refers to the production volume of raw ore.
2. The production volume for 2006, 2007, 2008 and six months ended June 30, 2009 refers to the production volume of iron concentrates. We engaged our first Independent Third Party Processing Contractor in August 2006 for a five-year term with an option to renew for another two five-year terms. This contractor commenced production of the iron concentrates and medium-grade titanium concentrates for us in January 2007. We engaged our second Independent Third Party Processing Contractor in April, 2009 for a eight-month term.
3. The production volume for 2006, 2007, 2008 and six months ended June 30, 2009 refers to the production volume of iron pellets. We engaged our first Independent Third Party Pelletizing Contractor in December 2008 for a one-year term. We engaged our second Independent Third Party Pelletizing Contractor on February 6, 2009 for a one-year term.
4. The transportation volume for 2006, 2007, 2008 and six months ended June 30, 2009 and the percentage of total sales volume refer to the transportation volume and sales volume of iron ore products that we have delivered to Weiyuan Steel and some of our other customers pursuant to the separate transportation arrangements we have entered into with them. See the "Business — Sales — Settlement and delivery of products" and "Financial Information — Factors Affecting Results of Operations and Financial Condition — Transportation Expenses" sections in this document.

SUMMARY

We obtain quotes from third parties and make a selection of our Independent Third Party contractors based on price, skill and experience. Our Independent Third Party Mining Contractor, Independent Third Party Processing Contractors and Independent Third Party Pelletizing Contractors are supervised by our production department, while our Independent Third Party Transportation Contractors are supervised by our logistics department. We pay our Independent Third Party contractors monthly based on work progress, with adjustments, if any, made at the end of the year. Pursuant to the contracts with our Independent Third Party contractors, our contractors are contractually responsible for accidents caused by their negligence. See the “Business — Occupational Health and Safety” section in this document.

Because most of our operations rely on the services of our Independent Third Party contractors, a stable relationship with them and their satisfactory performance are crucial to our business. We believe the performance of our contractors has been satisfactory and we did not have any disputes with them during the Track Record Period that would have resulted in a material adverse effect on our business, financial condition or results of operations. In addition, our Directors confirm that historically our operations have not been suspended or delayed by any improper act of our contractors during the Track Record Period. Nonetheless, we cannot assure you that our contractors will comply with our quality, safety, environmental and other operating standards and those standards required by the relevant PRC laws and regulations, and we may be liable to third parties for losses or damages caused by our contractors. See the “Risk Factors — Risks Relating to Our Business and Industry — We rely on Independent Third Party contractors for the majority of our operations” and the “Business — Independent Third Party Contractors” sections in this document.

Our Independent Third Party Mining Contractor became our contractor at both our Baicao Mine and Xiushuihe Mine when Huili Caitong became a member of our Group in January 2005. In July 2005, we entered into two contracts with our Independent Third Party Mining Contractor to conduct mining and stripping operations, respectively, at our Baicao Mine and Xiushuihe Mine, each for a term of five years. In August 2006, we entered into a new contract with our Independent Third Party Mining Contractor to conduct mining and stripping operations at our Baicao Mine for a term of five years, with an option to renew for two five-year terms, to replace the contract we had entered into in July 2005 with the same party and for the same purposes. In these contracts, the mining fee is calculated based on the volume of the ore extracted multiplied by a fixed rate per tonne and the stripping fee is calculated based on the volume of waste material extracted multiplied by a fixed rate per cubic meter. Such fees are determined through an arm’s length negotiation taking into account the following factors:

- (i) the operating costs of our Independent Third Party Mining Contractor;
- (ii) the grade of the ore;
- (iii) the geological structure of the ore; and
- (iv) the distance separating the mining site and the designated processing plant.

Our Independent Third Party Mining Contractor is responsible for 100% of the ore extraction operations at our Baicao Mine and Xiushuihe Mine. It carries out labor intensive work and work requiring certain technical skills such as waste blasting, stripping, ore drawing work and the transportation of the ore from our mines to the designated processing plant. In addition, under its contracts with us, it is liable to us for any accidents arising from its lack of safety management in the mining operations. At both our mines, we are responsible for planning and overseeing the technical

SUMMARY

aspects of the mining operations, such as the planning and designing of the pits, designing mining plans and operational safety. We also retain operational control over the work carried out by our Independent Third Party Mining Contractor and undertake quality control and assurance programs to determine the grade of our ore. Our employees supervise and direct the mining and stripping operations undertaken by our Independent Third Party Mining Contractor. Our Independent Third Party Mining Contractor is also required to operate and produce iron ore in accordance with our mining plans and we review the iron ore production volume on a monthly basis. In the event that the iron ore production volume of our Independent Third Party Mining Contractor does not meet our stipulated targets, we direct our Independent Third Party Mining Contractor to allocate more resources for its operations. We also conduct annual assessment of the performance of our Independent Third Party Mining Contractor. See the "Business — Independent Third Party Contractors — Mining contractor" section in this document.

In addition to the iron concentrates and medium grade titanium concentrates we process ourselves at our own processing plants, we also engage two Independent Third Party Processing Contractors in order to increase our production capacity of iron concentrates and medium-grade titanium concentrates. We entered into a contract with our first Independent Third Party Processing Contractor in August 2006 for a term of five years with an option to renew for another two five-year terms and our first Independent Third Party Processing Contractor commenced production of iron concentrates and medium-grade titanium concentrates from the ore extracted from our Baicao Mine in January 2007. Our first Independent Third Party Processing Contractor produced 460.8 Kt of iron concentrates and 80.8 Kt of medium-grade titanium concentrates in 2008, representing 39.6% and 48.2% of the total production volume of iron concentrates and medium-grade titanium concentrates in 2008, respectively. Our first Independent Third Party Processing Contractor has agreed to allocate production capacity of at least 550.0 Kt of iron concentrates and 110.0 Kt of medium-grade titanium concentrates to us in 2009. For the six months ended June 30, 2009, this Independent Third Party Processing Contractor produced 266.8 Kt of iron concentrates and 37.7 Kt of medium-grade titanium concentrates, representing 35.9% and 60.1% of our total production volume of iron concentrates and medium-grade titanium concentrates, respectively, in that period.

We entered into a contract with our second Independent Third Party Processing Contractor for a term commencing April 1, 2009 and terminating on December 31, 2009. Our second Independent Third Party Processing Contractor agreed to allocate production capacity of at least 150.0 Kt of iron concentrates to us in 2009. For the six months ended June 30, 2009, our second Independent Third Party Processing Contractor produced 3.6 Kt of iron concentrates, representing 0.5% of our total production volume of iron concentrates in that period.

Because our Independent Third Party Processing Contractors are Independent Third Parties, we do not control their management. However, during the term of each of their contracts, we are responsible for overseeing and supervising processing operations and we control the quality and quantity of both the raw materials provided to our Independent Third Party Processing Contractors and the final products from our Independent Third Party Processing Contractors. We undertake random inspections of our Independent Third Party Processing Contractors' facilities several times a month to monitor their operations. In these inspections, we send two persons to test the products for their iron and titanium content. We also test the iron content of the waste materials to ensure that the iron content of the waste materials does not exceed 18.0% as a method to monitor operational efficiency. Under our contracts with them, our Independent Third Party Processing Contractors are liable to us for any accidents arising from their lack of safety management in their processing operations.

SUMMARY

The processing fee for each of the products in each contract is calculated based on a fixed rate for each product on a dry basis, subject to adjustment as a result of the quantity and quality of the products produced. The fee is determined based on an arm's length negotiation taking into account the operating costs of each Independent Third Party Processing Contractor. See the "Business — Independent Third Party Contractors — Processing contractors" section in this document.

In addition to the iron pellets we produce at our own Iron Pelletizing Plant, we currently engage two Independent Third Party Pelletizing Contractors to increase our production capacity of iron pellets. We entered into contracts with our two Independent Third Party Pelletizing Contractors for a term of one year commencing December 12, 2008 and February 6, 2009, respectively. Our Independent Third Party Pelletizing Contractors produce iron pellets using the iron concentrates supplied by our Xiushuihe Processing Plant and our Independent Third Party Processing Contractors. Our first Independent Third Party Pelletizing Contractor produced 12.8 Kt of iron pellets for us in 2008, representing 3.9% of our total production volume of iron pellets in 2008. Pursuant to a written confirmation from our first Independent Third Party Pelletizing Contractor dated February 14, 2009, our contractor has agreed to allocate production capacity of a total of 250.0 Kt of iron pellets to us in 2009. For the six months ended June 30, 2009, our first Independent Third Party Pelletizing Contractor produced 93.9 Kt of iron pellets for us, representing 29.9% of our total production volume of iron pellets for the six months ended June 30, 2009. Pursuant to a written confirmation from our second Independent Third Party Pelletizing Contractor dated February 26, 2009, our contractor has agreed to allocate production capacity of a total of 150.0 Kt of iron pellets to us in 2009. For the six months ended June 30, 2009, our second Independent Third Party Pelletizing Contractor produced 67.8 Kt of iron pellets for us, representing 21.6% of our total production volume of iron pellets for the six months ended June 30, 2009. Because our Independent Third Party Pelletizing Contractors are Independent Third Parties, we do not control their management. However, for the duration of the contract, we will oversee and supervise the pelletizing operations and control the quality and quantity of the iron concentrates and other raw materials provided to our Independent Third Party Pelletizing Contractors as well as test the quality of the final products. We undertake random inspections of our Independent Third Party Pelletizing Contractors' facilities several times a month to monitor the hardness of iron pellets produced and the contractors' operational efficiency. Under our contracts with them, our Independent Third Party Pelletizing Contractors are liable to us for any accidents arising from their lack of safety management in their operations.

The pelletizing fee in each contract is calculated based on a fixed rate of RMB137.0 per tonne on a dry basis, subject to adjustment depending on the quality of the iron pellets produced. The fee is determined based on an arm's length negotiation taking into account both the operating costs of our Independent Third Party Pelletizing Contractors and in comparison with our own pelletizing operating costs incurred by us at our own Iron Pelletizing Plant. See the "Business — Independent Third Party Contractors — Pelletizing contractors" section in this document.

We currently engage three Independent Third Party Transportation Contractors and rely on them to transport our iron ore products from our processing plants to our Iron Pelletizing Plant and from our production facilities to the designated railroad stations for those customers that we have entered into separate transportation arrangements in respect of the delivery of our iron ore products.

We entered into contracts with two of the Independent Third Party Transportation Contractors, each for a term of one year commencing January 1, 2008. On November 26, 2008, we renewed the contract with the first Independent Third Party Transportation Contractor for a term of approximately

SUMMARY

three years commencing November 1, 2008 and terminating on December 31, 2011 and also entered into a new transportation contract with the first Independent Third Party Transportation Contractor on December 15, 2008 to deliver products to a new location for a term of approximately one year commencing December 1, 2008 and terminating on December 31, 2009. On November 1, 2008, we renewed the contract with the second Independent Third Party Transportation Contractor for a term of approximately three years commencing November 1, 2008 and terminating on December 31, 2011. On July 21, 2008, we entered into a contract with the third Independent Third Party Transportation Contractor commencing July 21, 2008 and terminating on October 30, 2011. We usually settle the fees of our Independent Third Party Transportation Contractors within three months. We recoup the costs associated with the transport of products for Weiyuan Steel and other customers by adding these costs to our contracted sales price. See the “Business — Sales — Settlement and delivery of products” and the “Financial Information — Factors Affecting Results of Operations and Financial Condition — Transportation expenses” sections in this document.

COMPETITIVE STRENGTHS

Our Directors believe our primary competitive strengths include the following:

- As of [●], we will be the [●] PRC producer focused primarily on iron ore and iron ore-related products.
- We are the second largest operator and the largest non state-owned operator of iron ore mines in Sichuan and a leading processor of iron ore in Sichuan.
- Our iron ore contains vanadium and is capable of being used in the production of high-strength steel and for the production of vanadium byproducts.
- Our mines can be mined using low-cost mining methods and yield raw ore with a relatively high iron and titanium content.
- We are well-positioned to expand our operations because we are located in a region with the largest vanadium-bearing titanomagnetite reserves in the PRC and expansion plans such as ours are supported by PRC government policies.
- We are located close to our customers and to the railroad transportation network.

OUR STRATEGIES

We intend to pursue the following strategies:

- Increase our iron ore reserves.
- Expand our production capacity.
- Capitalize on the high titanium content of our iron ore.

SUMMARY

SUMMARY OF FINANCIAL INFORMATION

The following information summarizes our financial information and is extracted from, and is to be read in conjunction with, our audited consolidated financial statements, prepared in accordance with IFRS, included in Appendix I to this document. The basis of preparation is set forth in Note 2 of section II of the “Accountants’ Report” attached as Appendix I to this document.

Consolidated Statements of Comprehensive Income

	Year ended December 31,			Six months ended June 30,
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
Revenue	211,103	366,670	791,163	486,041
Cost of sales	(100,130)	(187,769)	(364,122)	(276,538)
Gross profit	110,973	178,901	427,041	209,503
Other income	147	1,496	17,277	2,230
Selling and distribution costs	(51,261)	(86,572)	(22,444)	(12,749)
Administrative expenses	(7,300)	(13,108)	(33,002)	(11,762)
Other operating expenses	(1,334)	(3,107)	(37,000)	(5,478)
Finance costs	(1,792)	(1,920)	(3,048)	(2,293)
Profit before tax	49,433	75,690	348,824	179,451
Income tax expense	(17,119)	(1,378)	(30,067)	(29,573)
Total comprehensive income for the year/period	<u>32,314</u>	<u>74,312</u>	<u>318,757</u>	<u>149,878</u>
Attributable to:				
Owners of our Company	23,042	53,686	248,675	133,445
Minority interests	9,272	20,626	70,082	16,433
	<u>32,314</u>	<u>74,312</u>	<u>318,757</u>	<u>149,878</u>
Earnings per share (RMB) — Basic	<u>0.02</u>	<u>0.04</u>	<u>0.17</u>	<u>0.09</u>

SUMMARY

Consolidated Statements of Financial Position

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	100,596	122,896	357,264	451,141
Intangible assets	8,684	144,155	140,829	135,729
Prepaid land lease payments	—	—	23,177	49,375
Prepayment	—	—	—	16,604
Payment in advance	—	—	3,217	—
Goodwill	15,318	15,318	15,318	15,318
Long-term deposits	—	—	—	1,277
Deferred tax assets	3,567	4,186	5,848	6,241
	<u>128,165</u>	<u>286,555</u>	<u>545,653</u>	<u>675,685</u>
Current assets				
Pledged bank balances	14,310	4,316	40	—
Cash and cash equivalents	3,289	7,586	133,098	149,110
Trade and notes receivables	330	3	87,632	192,768
Prepayments, deposits and other receivables	13,247	32,884	88,854	111,792
Due from related parties	31,183	229,695	30,433	36,406
Inventories	20,474	31,841	65,595	60,964
	<u>82,833</u>	<u>306,325</u>	<u>405,652</u>	<u>551,040</u>
Current liabilities				
Interest-bearing bank loans	30,000	30,000	—	100,000
Trade and notes payables	46,892	78,723	108,030	102,792
Other payables and accruals	32,591	168,546	139,756	161,608
Due to related parties	—	—	12,466	13,446
Dividend payable	—	—	—	26,003
Tax payable	27,434	24,637	29,724	44,441
	<u>136,917</u>	<u>301,906</u>	<u>289,976</u>	<u>448,290</u>
Net current assets/(liabilities)	<u>(54,084)</u>	<u>4,419</u>	<u>115,676</u>	<u>102,750</u>
Total assets less current liabilities	<u>74,081</u>	<u>290,974</u>	<u>661,329</u>	<u>778,435</u>
Non-current liabilities				
Other payables	459	—	51,870	44,918
Provision for rehabilitation	—	4,999	5,341	5,524
	<u>459</u>	<u>4,999</u>	<u>57,211</u>	<u>50,442</u>
Net assets	<u>73,622</u>	<u>285,975</u>	<u>604,118</u>	<u>727,993</u>
Equity				
Issued share capital	—	—	1	1
Reserves	49,907	202,983	539,349	652,794
Minority interests	23,715	82,992	64,768	75,198
Total equity	<u>73,622</u>	<u>285,975</u>	<u>604,118</u>	<u>727,993</u>

SUMMARY

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2009

This unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and, because of its nature, may not provide a true picture of the financial results of our Group following the [●].

Forecast consolidated total comprehensive income not less than RMB[●] million (approximately attributable to owners of our Company for the HK\$[●] million)
year ending December 31, 2009^(Note 1)

Unaudited pro forma forecast earnings per share not less than RMB[●] (approximately HK\$[●])
for the year ending December 31, 2009^(Note 2)

Notes:

1. The forecast consolidated total comprehensive income attributable to owners of our Company for the year ending December 31, 2009 is extracted from the "Financial Information — Profit Forecast" section in this document. The bases and assumptions on which the above profit forecast for the year ending December 31, 2009 has been prepared are summarized in Part A of Appendix III to this document.
2. The calculation of unaudited pro forma forecast earnings per Share is based on the forecast consolidated total comprehensive income attributable to owners of our Company for the year ending December 31, 2009 and on the assumption that [●] and a total number of [●] Shares were in issue during the year ending December 31, 2009.
3. The unaudited pro forma forecast earning per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.00 to RMB0.8817.

The following table sets forth a sensitivity analysis of the forecast consolidated total comprehensive income attributable to owners of our Company for the year ending December 31, 2009 with respect to the variation in the forecast average selling prices of our major products, namely iron concentrates and iron pellets, for the five months ending December 31, 2009 and on the assumption that there is no change in other input variables, including fixed and variable costs:

Iron ore products price (RMB per tonne)		Variation from iron ore products price	Corresponding 2009 forecast consolidated total comprehensive income attributable to owners of the Company	Variation from 2009 forecast consolidated total comprehensive income attributable to owners of the Company
Iron concentrates	Iron pellets		RMB'000	(%)
473.9	661.2	(20)	321,776	—
503.5	702.5	(15)	321,776	—
533.1	743.8	(10)	321,776	—
562.8	785.2	(5)	321,776	—
592.4	826.5	—	321,776	—
622.0	867.8	5	339,737	6
651.6	909.1	10	357,697	11
681.2	950.5	15	375,658	17
710.9	991.8	20	393,619	22

The above sensitivity analysis is based on the principal assumptions set out in Part A of Appendix III to this document.

DIVIDEND POLICY

The payment and amount of any dividends will be determined at the discretion of the Board by taking into account relevant factors, including but not limited to, our future operations and earnings, our capital requirements and surplus and our financial condition. In addition, our constitutional documents and the Cayman Companies Law set forth requirements related to the declaration, payment and amount of dividends. Under our constitutional documents and the Cayman Companies Law, payment of dividends out of our share premium account is possible on the condition that we are able to pay our debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

SUMMARY

Our ability to declare future dividends will also depend on the availability of dividends, if any, received from our PRC operating subsidiaries. Pursuant to the PRC laws, dividends may only be paid out of distributable profits, defined as the retained earnings after tax payments as determined under the PRC GAAP less any recovery of accumulated losses and the required allocations to statutory reserves made by our PRC operating subsidiaries. In general, we will not declare dividends in a year where we do not have any distributable earnings.

We declared one-off and non-recurring special dividends of RMB20.0 million to our Shareholders on February 24, 2009 and distributed such dividends on September 16, 2009. Because such special dividends are derived from the undistributed profits of Huili Caitong prior to January 1, 2008, our PRC legal advisors have advised us that such dividends are not subject to PRC withholding tax. Other than the declaration of such special dividends, we did not declare or pay any dividends during the Track Record Period. Taking into account our present financial position, we currently intend to distribute to our Shareholders not less than 20% of our annual distributable profit attributable to owners of our Company in respect of the financial year ending December 31, 2010 and each financial year thereafter. However, such intention does not amount to any guarantee or representation or indication that the Company must or will declare and pay dividends in such manner or declare or pay dividends at all. We cannot assure you that dividends will be paid in the future or as to the timing of any dividends that may be paid in the future. See the “Risk Factors — Risks Relating to our Shares — We cannot assure you that we will declare dividends in the future” section in this document. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars.

REGULATORY COMPLIANCE ISSUES

The PRC laws and regulations governing vanadium-bearing titanomagnetite mining activities, including the Mineral Resources Law of the PRC (《中華人民共和國礦產資源法》), Implementing Rules on the Mineral Resources Law of the PRC (《中華人民共和國礦產資源法實施細則》), Regulations on Work Safety License (《安全生產許可證條例》) and Implementing Rules on the Work Safety License of Non-coal Mines (《非煤礦山企業安全生產許可證實施辦法》), require mining operators such as ourselves to obtain business licenses, mining permits and safety production permits before commencing mining operations. See the “PRC Laws and Regulations” section in this document. As advised by our PRC legal advisors, we have obtained the necessary business licenses, mining permits and safety production permits. See the “Business — Properties” section in this document for information relating to our land use rights.

In the past, we have been notified that we were in breach of certain PRC regulations relating to waste water discharge and carrying out mining operations outside our mining permit areas. In each case, we have taken the required rectifying actions and/or paid the fines imposed by the relevant government authority. As advised by our PRC legal advisors, these PRC authorities will not impose additional penalties in conjunction with these past non-compliance incidents. To help avoid the recurrence of these or other regulatory non-compliance incidents, we have adopted various controls and monitoring measures. See the “Business — Regulatory Compliance Issues” section in this document.

SUMMARY

RISK FACTORS

There are certain risks related to investing in our Shares. These risks fall into the following categories: (i) risks relating to our business and industry; (ii) risks relating to conducting our operations in the PRC; (iii) risks relating to our Shares; and (iv) risks relating to statements in this document. These risk factors are further described in the "Risk Factors" section in this document and are summarized below.

Risks relating to our business and industry

- Our business depends on the economic growth of the PRC, the performance of the PRC iron and steel industries and the growth of the PRC titanium and titanium-related industries.
- We face risks and uncertainties associated with our mining and processing operations.
- Our major capital expenditure projects require significant capital investments and may not achieve the intended economic benefits.
- We sold the majority of our products to a connected person during the years ended December 31, 2006 and 2007.
- We have only recently begun selling our iron ore products to Independent Third Party customers.
- Our short operating history and rapid growth may make it difficult for investors to evaluate our business and growth.
- We rely on Independent Third Party contractors for the majority of our operations.
- Our plan to acquire additional mineral reserves may not succeed.
- We may be unable to increase the ore production quotas of our Baicao Mine and Xiushuihe Mine.
- Our business depends on reliable and adequate transportation capacity for our products.
- We may incur transportation costs if our customers do not pay the contract sales price.
- Our mines are both located in Huili County of the Panxi Region and are exposed to the same risks.
- Our operations may be interrupted if we are denied access to our mines.
- Amortization expenses related to our mining rights may adversely affect our results of operations.
- We had net cash outflow from operating activities in 2007 and we had net current liabilities as of December 31, 2006.
- Our insurance coverage may be insufficient to cover our business risks.
- Our future performance is dependent on our ability to attract and retain key qualified personnel.
- Our business is subject to extensive regulations and affected by government policies in the PRC.
- Our business operations may be affected by current or future safety and environmental regulations.

SUMMARY

- We will continue to be controlled by our Controlling Shareholders, whose interests may differ from those of our other Shareholders.
- We may face shortages in our water supply or in the supply of our other utilities or raw materials.
- The resource and reserve data cited in this document are estimates and may be inaccurate.

Risks relating to conducting our operations in the PRC

- The political, social and economic conditions in the PRC may adversely affect our business.
- Changes in PRC laws, regulations and policies may adversely affect our business operations.
- All of our revenue is denominated in Renminbi, which is not freely convertible for capital account transactions and may be subject to exchange rate volatility.
- There are uncertainties associated with the implementation, interpretation and enforcement of the PRC legal system.
- Compliance with the PRC Labor Contract Law may increase our labor costs.
- There may be difficulties in effecting service of process upon us or our management who reside in the PRC and in seeking recognition and enforcement of foreign judgments or arbitral awards in the PRC.
- A recurrence of SARS or an outbreak of other epidemics, such as avian flu or the H1N1 influenza, may adversely affect the national and regional economies in the PRC and our business prospects.
- The New Tax Law may affect tax exemptions on dividends received by us and by our Shareholders and may increase our enterprise income tax rate.

Risks relating to our Shares

- We cannot assure you that we will declare dividends in the future.

Risks relating to statements in this document

- We cannot guarantee the accuracy of facts and other statistics with respect to certain information obtained from official government and non-official publications contained in this document.