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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 [●], 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 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

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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 “— Products” in this section. 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 for sale to our customers. We have not sold any materials purchased from third party suppliers to these 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 our 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)	Total probable reserves of vanadium- bearing titanomagnetite reserves (Note 1)	Mine life (Note 2)	Current mining permit expiration date	Reserves to be mined under current mining right term	Commencement date of commercial production
	(Mt)	(Mt)				
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.

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

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

Type of permit	Holder	Issuance Date	Term	Content
Mining permit	Huili Caitong	September 8, 2009	18 years and 3 months	Type of Mine: iron ore Operation Scale: 4.6 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 June 23, 2008	3 years 3 years	For iron ore mining For operation of tailings storage facility
	Xiushuihe Mining	October 31, 2008 June 24, 2008	3 years 3 years	For iron ore mining 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
		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

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Type of permit	Holder	Issuance Date	Term	Content
	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:

1. 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 “— Properties — Owned properties” and “— Our Mineral Resources and Mining Rights — mining rights, exploration permit and safety production permits” in this section.

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 “— Expansion and Construction Plan” in this section and the “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 iron and steel industries and the growth of the PRC titanium and titanium-related industries” section in this document and “— Customers — Recent global trends and impact on our Group’s business” in this section.

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 “— Expansion and Construction Plan — Expansion of mineral reserves — PRC policies supporting growth in the mining and steel industries” in this section and the

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"Industry Overview — PRC Policies and Regulations Supporting Growth in the Mining and Steel Industries" section in this document. Due to our proximity to Sichuan steel producers and because 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 and 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. 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 and 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, respectively.

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 product 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

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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 “— Customers” in this section.

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	Month ended	Month ended	Month ended	Month ended	Month ended	Month ended	Month ended	Month ended	Month ended	Month ended	Month ended	Month ended
	June 30,	July 31,	August 31,	September 30,	October 31,	November 30,	December 31,	January 31,	February 28,	March 31,	April 30,	May 31,	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.

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.

While there are a number of [●] companies engaged primarily in steel production, as yet there are no [●] engaged primarily in the production of iron ore, the key raw material for steel production. Thus, as of [●], we will be the [●] PRC producer focused primarily on iron ore and iron ore-related products. We intend to continue our focus on iron ore and iron ore-related products because we believe that iron ore producers are and will continue to be the ultimate beneficiaries of growth in the PRC steel industry.

We believe that being the [●] PRC iron ore producer will attract the interest of investors building a portfolio of exposures across the steel supply chain (such as investments allocated among iron ore, coking coal, nickel, molybdenum, etc.) or those building a portfolio of upstream raw materials for a number of key commodities across several geographic regions (such as investments in iron ore allocated among the PRC, Australia, Brazil and Russia). In either case, potential investors’ analyses of global and regional trends in iron ore prices and in the steel industry will be crucial to their investment decision. Once potential investors decide that an investment in iron ore in the PRC suits their investment strategy, we believe we will benefit from being the only [●] for such investors. Thus, we believe that our status as the [●] PRC company that is strongly focused on the iron ore industry will draw the interest of external financing sources and provide us with increased access to funding for our

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expansion plans. We believe that such increased access to financing will give us a competitive advantage and strengthen our leading market position in the PRC.

Because of our [●] advantage in the market and access to financing, we believe that we are well-suited to take advantage of growth opportunities represented by the continuing supply shortfall of iron ore in the PRC. According to the Hatch Report, the demand for iron ore products in the PRC has historically been greater than the domestic supply and PRC steel producers have resorted to iron ore imports to satisfy their demand. See the "Industry Overview — PRC iron ore industry — Iron ore demand" section in this document. We believe that this supply shortfall will continue based on the information in the Hatch Report showing 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. We believe that our increased access to financing resulting from our [●] advantage will permit us to continue and expand our increase in production capacity aimed at capitalizing on the growth opportunities represented by this supply shortfall. See "— Products" and "— Our Production Operations and Facilities — Production facilities" in this section.

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.

Based on our actual output volume of iron ore in 2008 and for the six months ended June 30, 2009, we are the second largest operator and the largest non state-owned operator of iron ore mines in Sichuan, according to the records of the Sichuan Metallurgy Economic Association (四川省冶金經濟協會). As of June 30, 2009, the total proved and probable reserves of vanadium-bearing titanomagnetite in our Baicao Mine and Xiushuihe Mine were approximately 78.7 Mt. The ore output volumes of our Baicao Mine and Xiushuihe Mine increased from 497.2 Kt and 449.0 Kt, respectively, in 2006 to 2,917.2 Kt and 1,854.2 Kt, respectively, in 2008, representing a CAGR of 142.2% and 103.2%, respectively and from 1,882.3 Kt and 748.9 Kt, respectively, for the six months ended June 30, 2008 to 1,959.0 Kt and 1,036.5 Kt, respectively, for the six months ended June 30, 2009, representing an increase of 4.1% and 38.4%. We intend to continue to expand both our reserves and our production capacities. See "— Expansion and Construction Plan" in this section. Based on the confirmation from Huili Land Bureau and after verification by our PRC legal advisors, our PRC legal advisors confirm that the output volume of iron ore in each of our Baicao Mine and Xiushuihe Mine throughout the Track Record Period was within the respective production limit approved by the applicable PRC governmental authority pursuant to the relevant PRC rules and regulations.

Given the size of our operations, our Directors believe that we benefit from economies of scale in our mining and processing operations as well as in sales volume. For example, during the Track Record Period, our gross profit margin increased as our production capacity increased. Our Directors also believe that the production of titanium concentrates requires raw ore with a high titanium content and the capacity for large-scale production in order to be commercially viable. We believe that the high titanium content of our ore and the scale of our mining operations achieves efficient operations and ensures consistent and stable quantities of high quality iron ore and titanium products.

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.

The ore in our mines is vanadium-bearing titanomagnetite ore, containing an average of 0.23% vanadium pentoxide. Vanadium-bearing titanomagnetite ore is the major source of vanadium minerals.

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The addition of vanadium to steel is necessary to improve the strength, hardness and malleability of steel. The strength of steel containing 0.1% vanadium can be improved by 10% to 20% over the strength of steel not containing vanadium. Technological advances in the steel-making process have allowed an increasing number of PRC steel producers to use vanadium-bearing iron ore directly in the production of high-strength steel. PRC steel producers have also been able to extract vanadium from vanadium-bearing iron ore to produce vanadium byproducts that can be sold or used as additives to steel. According to Bloomberg's Metal Bulletin, the average price of vanadium pentoxide traded in Europe was approximately US\$5.94 per pound, or the equivalent of RMB89,416.7 per tonne for the month of July 2009.

Vanadium has recently increased in importance due to PRC policy developments specifically requiring the use of high-strength steel in construction. In response to the Sichuan earthquake in May 2008, the PRC government promulgated standards for the seismic protection of buildings, such as the "Standard for classification of seismic protection in building construction" (《建築抗震設計規範》) that raise standards for the strength of steel used in building construction. On March 30, 2009, the PRC government announced the "Adjustment and Revitalization Plan for the PRC Steel Industry" (《鋼鐵產業調整和振興規劃》) that promotes the use of reinforced steel of 400 MPa or above in construction and set the target of increasing the consumption of high-strength steel products of 400 MPa or above to over 60% of the hot rolled ribbed steel bars consumed in the PRC by 2011. Construction in the PRC itself is expected to increase as a result of the recently promulgated PRC economic stimulus plan and the Sichuan reconstruction policies. See the "Industry Overview — PRC Policies and Regulations Supporting Growth in the Mining and Steel Industries" section in this document.

We believe that the demand for high-strength steel products will stimulate the demand for vanadium and vanadium byproducts. Given the vanadium content of our iron ore products, we believe our products will attract steel producers seeking to increase their production of high-strength steel products to respond to the above PRC policies, and that demand for our vanadium-bearing iron ore products will increase as a result.

Our mines can be mined using low-cost mining methods and yield raw ore with a relatively high iron and titanium content.

We utilize the open-pit mining method at both of our mines because each mine has a relatively thick ore bearing bed located at a relatively shallow depth. Compared to underground mining methods, the open-pit mining method allows relatively easy access to extraction areas and reduces operational risks. Because the open-pit mining method does not require the specialized machinery, equipment or supporting structures necessary in underground mining, our Directors believe the open-pit mining method we employ is relatively low-cost. See the "Report of Independent Technical Adviser" attached as Appendix V to this document.

As of June 30, 2009, we had a total proved and probable reserves of vanadium-bearing titanomagnetite of approximately 60.0 Mt and 18.7 Mt in our Baicao Mine and Xiushuihe Mine, respectively. Our Baicao Mine had an average iron content of approximately 25.5% and an average titanium dioxide content of approximately 10.3% and our Xiushuihe Mine had an average iron content of approximately 27.1% and an average titanium dioxide content of approximately 11.1%. 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, where high-grade ore, after being crushed, screened, classified and ground, undergoes a low-intensity magnetic separation process to

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yield iron concentrates and titanium concentrates. See “— Our Production Operations and Facilities — Baicao Processing Plant” in this section. As a result, we are able to enjoy the benefit of significant cost efficiencies in the production process and sell both products (i.e., iron concentrates and titanium concentrates) produced from the same production process. For the year ended December 31, 2008, our production volumes of iron concentrates, iron pellets and medium-grade titanium concentrates were approximately 1,163.8 Kt, 325.3 Kt and 167.6 Kt, respectively, and for the six months ended June 30, 2009, approximately 743.5 Kt, 313.7 Kt and 62.7 Kt, respectively. See “— Products” and “— Our Production Operations and Facilities” in this section.

To capture the associated extra value, we also intend to leverage the cost benefits arising from the high titanium content of our ore by expanding downstream into the production of titanium-related products, such as titanium slag. Titanium-related products exhibit strength and erosion resistance and are widely used in many industries, such as the shipping and aircraft industries. According to the Hatch Report, demand for titanium and titanium-related products has been growing very rapidly in the PRC in recent years. To meet the increasing market demand for titanium-related products, we are in the process of upgrading our processing technology and equipment to prepare for the production of high-grade titanium concentrates. We currently expect our production capacity of high-grade titanium concentrates, together with the exclusive production capacity which our Independent Third Party Processing Contractors allocate to us, to reach an annual production capacity of 382.5 Kt by January 2011.

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 the second largest operator and the largest non state-owned operator of vanadium-bearing titanomagnetite 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). We have a proven track record of acquiring and operating mines in the Panxi Region. According to the Hatch Report, the vanadium-bearing titanomagnetite reserve in the Panxi Region ranks first in the PRC, with a reserve of approximately 8.87 billion tonnes in 2008, representing approximately 75.3% of total vanadium-bearing titanomagnetite reserves in the PRC. We believe that there are ample opportunities for us to acquire new vanadium-bearing titanomagnetite reserves in the Panxi Region and because we are a large mining operator with experience in acquiring and operating mines in the Panxi Region, we believe we are well-positioned to expand our operations through such acquisitions. See “— Expansion and Construction Plan — Expansion of Mineral Reserves” in this section.

In addition, our mineral reserve expansion plans will benefit from PRC government policies, particularly the PRC government’s encouragement of the acquisition and consolidation of mines by large mining companies, such as ourselves. Current local government policies are also favorable to our business. For example, on April 2, 2008, the Huili County People’s Government resolved to support our plan to consolidate with or acquire adjacent mines and our plan to extend the coverage area of our current mining rights at our Xiushuihe Mine to the adjacent areas to the west of our current Xiushuihe mining rights area. See “— Expansion and Construction Plan — Expansion of mineral reserves — PRC policies supporting growth in the mining and steel industries ” in this section.

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We are located close to our customers and to the railroad transportation network.

Due to their weight and bulk, our products can be difficult to transport in a cost-efficient manner. Our mines and processing plants, and almost all of our customers, are located in the southwest region of the PRC. Our Baicao Mine is approximately 25 km from the Yakou station and our Xiushuihe Mine is approximately 50 km from the Midi station. These two railroad stations are located along the Chengdu-Kunming Railroad, a major transportation corridor, which in turn connects to other major railroads in the region. Most of our customers have access to the same major railroads and, as a result, access to a relatively cost-effective mode of transport for large quantities of our products. In addition, we believe that we have provided an important service to our customers by entering into a strategic cooperative understanding with Tongyu, a subsidiary of Chuan Wei that engages in freight forwarding, pursuant to which Tongyu has agreed to give priority to our customers to use the railroad transport capacity it secures from the Chengdu Railway Bureau Industry Development Corporation. Pursuant to the agreement between the Chengdu Railway Bureau Industry Development Corporation and Tongyu, the Yakou and Midi stations have been designated as strategic loading points along the railroad. Tongyu secured 1.4 Mt of railroad transportation capacity from Chengdu Railway Bureau Industry Development Corporation in 2008. This railroad transportation capacity met the railroad transportation needs of our customers in 2008 because it satisfied almost the entire contracted sales volume of our products purchased by these customers in 2008. Furthermore, since our mines are located closer to a railroad (specifically the Chengdu-Kunming Railroad) compared to the mines of the top five iron ore producers in Sichuan (as listed in the records of Sichuan Metallurgy Economic Association (四川省冶金經濟協會) as of June 30, 2009) in terms of actual distance by road transportation, the transportation costs of our products are therefore competitive with the corresponding transportation costs of these top five iron ore producers in Sichuan.

Our locally produced iron ore products are also competitive in price compared to imported iron ore products. Imported iron ore products are typically transported by rail to Chengdu from the nearest ports, Zhanjiang port (湛江港) in Guangdong or Fangchenggang port (防城港港口) in Guangxi. The price of rail transport in the PRC is regulated by the Ministry of Railways and the NDRC as set forth in the price list issued by the Ministry of Railways and the NDRC, the latest having been in effect since July 1, 2008. Transportation contractors charge additional fees depending on services offered. A review of the rates charged for transportation of iron concentrates by an Independent Third Party transportation company in Zhanjiang since January 2009 shows that the cost of the rail transportation from Zhanjiang port (湛江港) to Zizhong (資中) County, located approximately 189 km southeast of Chengdu, is RMB242.0 per tonne. Such rail transportation costs represented 46.8% of our average selling price of iron concentrates for the six months ended June 30, 2009. A review of the rates charged for transportation of iron concentrates by an Independent Third Party transportation company in Fangchenggang since January 2009 shows that the cost of the rail transportation from Fangchenggang port (防城港港口) in Guangxi to Zizhong is RMB242.5 per tonne. Such rail transportation costs represented 46.9% of our average selling price of iron concentrates for the six months ended June 30, 2009. Because domestic transportation expenses are high, it is relatively more economical to purchase iron ore products from local producers rather than pay the even higher transportation costs associated with imported iron ore. Given the regulation of the PRC rail transportation industry, our Directors do not anticipate that railway transportation prices will be reduced to the extent that imported iron ore products will become price competitive compared to locally-produced iron ore products in the near to medium term.

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STRATEGIES

We intend to pursue the following strategies:

Increase our iron ore reserves.

Our core strategy is to expand our mineral reserves through the acquisition of other mines and the extension to the boundary limits of our current mining rights to adjacent areas. Our access to abundant vanadium-bearing titanomagnetite and other iron ore reserves in the Panxi Region presents opportunities for our expansion and long-term sustainable growth through increasing our control over these mineral resources. In addition, we believe our expansion plan will benefit from current PRC government policies encouraging the consolidation of mines in the Panxi Region. For details concerning such policies, see "— Expansion and Construction Plan — Expansion of mineral reserves" in this section.

In relation to our strategy to extend our current mining rights to adjacent mining areas, we obtained a two-year exploration permit on July 8, 2009 to conduct exploration activities in the adjacent areas to the west of our current Xiushuihe mining rights area. The exploration permit covers the entire 1.7 sq.km of the Xiushuihe deposit and includes an area of 1.2 sq. km previously unexplored by us. Upon completion of the exploration activities at these adjacent areas and if we consider it beneficial to do so, we will apply to the PRC governmental authorities for the relevant mining permits. We believe the mining permits will be obtained in July 2011 after the completion of exploration activities. Pursuant to the relevant PRC laws and regulations and as advised by our PRC legal advisors, we have a right of priority in the grant of the relevant mining permits for the Xiushuihe mining areas covered by the exploration permit. See "— Expansion and Construction Plan — Expansion of mineral reserves — Expansion of the mining boundaries of our Xiushuihe Mine" in this section.

In relation to our strategy to acquire other mines, we have entered into five option agreements since April 2009 with the respective owners of five mines that allow us, within a specified time period and at our sole discretion, to purchase the mining rights and related assets of these mines on terms to be negotiated. Together, these five mines are estimated to have total iron ore resources of approximately 126.2 Mt. We have not made any payments in respect of these option agreements and currently do not have plans to exercise our options with respect to any of the five mines. See "— Expansion and Construction Plan — Expansion of mineral reserves — Option agreements in respect of five iron ore mines in Sichuan and Yunnan" in this section and the "Relationship With Controlling Shareholders — Excluded Mines" section in this document.

Expand our production capacity.

According to the Hatch Report, demand for iron ore products in the PRC outstripped supply between 2001 to 2008, with the supply shortfall reaching 365.8 Mt in 2008. In addition, demand for titanium in the PRC is also increasing, according to the Hatch Report. See the "Industry Overview" section in this document. As a result, we believe there is ample room in the market to absorb the increased output resulting from our planned production capacity construction and expansion strategy.

According to the Hatch Report, demand for iron ore products in the PRC outstripped supply between 2001 to 2008, with the supply shortfall reaching 365.8 Mt in 2008. We believe that this supply shortfall will continue based on information in the Hatch Report which showed that total PRC iron ore

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supply shortfall during the six months ended June 30, 2009 was 235.5 Mt. In addition, demand for titanium in the PRC is also increasing, according to the Hatch Report. See the "Industry Overview" section in this document. As a result, we believe there is ample room in the market to absorb the increased output resulting from our planned production capacity construction and expansion strategy.

We intend to expand our iron concentrates, iron pellets, titanium concentrates and titanium-related products production capacity by (i) improving our existing production lines; (ii) constructing new production lines; (iii) acquiring the production lines of other enterprises; and (iv) increasing the quantity of iron ore products that we produce using independent third party processing and pelletizing contractors.

With respect to our iron ore products, as of June 30, 2009, we have already increased our iron concentrates production capacity to 1,700.0 Kt (including the 700.0 Kt production capacity allocated to us by our Independent Third Party Processing Contractors in 2009) and our iron pellets production capacity to 760.0 Kt (including the 400.0 Kt of iron pellets production capacity allocated to us by our Independent Third Party Pelletizing Contractors in 2009). In addition, in May 2009, we completed the construction of phase II of the new 500.0 Kt iron concentrates production line at our Baicao Processing Plant, providing us with a further 200.0 Kt of annual production capacity of iron concentrates. The phase II iron concentrates production line of 200.0 Kt commenced production in August 2009. See "— Production Facilities — Baicao Processing Plant" in this section. We intend to commence construction of a new 300.0 Kt production line at our Xiushuihe Processing Plant in October 2009 and expect to complete construction by July 2010.

For our titanium products, we are in the process of upgrading our medium-grade titanium concentrates production lines to produce high-grade titanium concentrates and of constructing new high-grade titanium concentrates production lines. By the end of 2010, we expect to discontinue production of medium-grade titanium concentrates and have a total planned annual production capacity of 140.0 Kt of high-grade titanium concentrates at our Baicao Processing Plant and a total planned annual production capacity of 160.0 Kt of high-grade titanium concentrates at our Xiushuihe Processing Plant.

Capitalize on the high titanium content of our iron ore.

According to the Hatch Report, demand for titanium concentrates and titanium-related products has grown rapidly in the PRC in recent years. 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, where high-grade ore, after being crushed, screened, classified and ground, undergoes a low-intensity magnetic separation process to yield iron concentrates and titanium concentrates. See "— Our Production Operations and Facilities — Baicao Processing Plant" in this section. As a result, we are able to enjoy the benefit of significant cost efficiencies in the production process and sell both products (i.e., iron concentrates and titanium concentrates) produced from the same production process. To increase sales and improve the gross margin of our titanium concentrates, we have started to upgrade our existing medium-grade titanium concentrates production lines and to construct new titanium concentrates production lines to produce high-grade titanium concentrates.

In addition to titanium concentrates, we also intend to leverage the cost benefits associated with the relatively high titanium content of our ore by adopting a vertical integration strategy to expand our

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business into the production of titanium downstream products, such as titanium slag. Titanium slag is used as a raw material in the production of titanium powder, sponge titanium, synthetic rutile, and titanium metals, among others. We intend to use HK\$[●] million of [●] to finance the construction of two new titanium slag production lines with a planned annual aggregate production capacity of 120.0 Kt at the Vanadium Titanomagnetite Industrial Park with a total estimated capital expenditure of HK\$[●] million. We intend to finance the remaining balance of approximately HK\$184.0 million required for the planned construction through credit facilities of HK\$184.0 million to be obtained pursuant to a letter of intent from the China Construction Bank (Sichuan branch), dated February 25, 2009. For details concerning our upgrades and new production lines, see “— Expansion and Construction Plan — Expansion and construction of production facilities” and “— Co-operation Agreement” in this section in this document.

EXPANSION AND CONSTRUCTION PLAN

Expansion of mineral reserves

Part of our business strategy is to expand and achieve long-term sustainable growth through the acquisition and consolidation of vanadium-bearing titanomagnetite and/or other iron ore mines. We intend to buy mining rights directly and do not intend to use the strategy of acquiring the equity interest of other companies. Potential consolidation or acquisition targets will only include vanadium-bearing titanomagnetite and/or other iron ore mines that satisfy our assessment criteria. Our assessment criteria with respect to potential targets include, but are not limited to, the following attributes:

- compliance with applicable PRC laws and regulations, including valid mining permits and safety production permits;
- implementation of safe operating conditions and systems;
- adoption of high environmental standards;
- location;
- mining life;
- total proved and probable reserves;
- average grade and content of the reserves;
- estimated return on investment; and
- our ability to finance such acquisition.

Expansion of the existing mining boundaries of our Xiushuihe Mine

On April 2, 2008, the Huili County People’s Government resolved to support our plan to extend the coverage area of our current mining rights at our Xiushuihe Mine. On July 8, 2009, we obtained a two-year exploration permit to conduct exploration activities in the adjacent areas to the west of our current Xiushuihe mining rights area. The exploration permit covers the entire 1.7 sq. km of the Xiushuihe deposit and includes an area of approximately 1.2 sq. km previously unexplored by us. According to the Report of Independent Technical Adviser, excluding the resources covered by our current Xiushuihe mining rights, the approximately 1.2 sq. km area previously unexplored by us is estimated to contain total iron ore resources of approximately 78.2 Mt, including 51.8 Mt of higher-grade resource and 26.4 Mt of lower-grade resource. See the “Report of Independent Technical Adviser” attached as Appendix V to this document.

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Upon the completion of exploration activities in these adjacent areas and if we consider it beneficial to do so, we will apply to the PRC governmental authorities for the relevant mining permits for these areas and believe we can obtain such mining permits by July 2011. Pursuant to relevant PRC laws and regulations and as advised by our PRC legal advisors, we have a right of priority in the grant of the relevant mining permits for the Xiushuihe mining areas covered by the exploration permit. The total estimated costs of obtaining the exploration permit and mining rights are expected to be approximately RMB[●] million. The opportunity to extend the coverage area of our current Xiushuihe mining rights is beneficial because the large potential mineral resources located in these adjacent areas will significantly extend the mine life of Xiushuihe Mine. The proximity to our present operations should also allow us to expand our mining operations easily to these adjacent areas.

Option agreements in respect of five iron ore mines in Sichuan and Yunnan

We have entered into option agreements with the respective owners of five iron ore mines that allow us, within a specified time period and at our sole discretion, to purchase the mining rights and related assets of the mines on terms to be negotiated. Together, these five mines are estimated to have total iron ore resources of approximately 126.2 Mt.

In each case, the option agreements provide that we have the option, at our sole discretion, to purchase the rights and assets with regard to the relevant mining permit within the time period stipulated in the agreement or within such extended period as both parties may mutually agree (in each case, an "Option Period") on terms to be negotiated. Within the respective Option Periods, each mine owner has agreed not to enter into an agreement to sell its mine to any third party or grant a third party an option to the mine similar to ours, unless we otherwise agree. As advised by our PRC legal advisors, the terms of each of these option agreements are legal and valid in accordance with the relevant PRC laws and regulations. Each of the mine owners has also made certain representations or warranties including but not limited to: (i) the mining permit in respect of the relevant mine is currently valid and effective; and (ii) unless it receives prior written approval from us, the relevant mine owner will not sell, transfer, mortgage, or dispose of any of the assets or the business of the relevant mine.

We have not made any payments in respect of any of these option agreements and currently do not have plans to exercise our options with respect to any of the five mines. If we do decide to exercise any of these options, the terms of purchase would be subject to further negotiations with the relevant mine owner and any such purchase would comply with [●].

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The following table sets forth details of the five mines and the related option agreements.

Name of mine	Present owner	Mining Right area	Term of mining or exploration permit	Estimated resource	Estimated iron content	Option period	Acquisition price ^(Note 3)
1. Xiaohaiqing Jingzhi mine (小黑箐經質鐵礦)	Panzhihua Jingzhi ^(Note 1) (攀枝化市經質礦產有限責任公司)	1.02 sq. km	January 2004 - January 2014	100.0 Mt	20.0%	12 months from June 18, 2009	RMB7.0 to RMB20.0 per tonne of iron ore reserve of a minimum grade ^(Note 4)
2. Huili County Lüwan mine (會理縣綠灣鐵礦)	Sichuan Dayi Mining Co., Ltd (四川大益礦業有限公司)	1.26 sq. km	September 2008 - September 2018	7.9 Mt	14.0%	12 months from April 22, 2009	RMB5.0 to RMB25.0 per tonne of iron ore reserve of a minimum grade ^(Note 4)
3. Lagaluo mine ^(Note 2) (拉嘎洛鐵礦)	Weixi Guangfa Iron Ore Development Co., Ltd (維西廣發鐵礦開發有限公司)	12.0 sq. km	(Exploration permit) October 2008 - October 2009 ^(Note 7)	8.1 Mt	N/A	24 months from July 28, 2009	RMB15.0 per tonne plus or minus RMB7.5 per tonne of iron ore reserve of a minimum grade ^(Note 5, 6)
4. Maoling mine ^(Note 2) (毛嶺鐵礦)	Aba Mining Co., Ltd (阿壩礦業有限公司)	1.9 sq. km	October 2004 - October 2034	10.0 Mt	N/A	24 months from June 17, 2009	RMB15.0 per tonne plus or minus RMB7.5 per tonne of iron ore reserve of a minimum grade ^(Note 6)
5. Huangcaoping mine ^(Note 2) (黃草坪鐵礦)	Yanyuan County Xiwei Mining Co., Ltd (鹽源縣西威礦業有限公司)	0.4 sq. km	June 2008 - January 2015	269.3 Kt	N/A	24 months from June 17, 2009	RMB15.0 per tonne plus or minus RMB7.5 per tonne of iron ore reserve of a minimum grade ^(Note 6)

Notes:

- (1) Panzhihua Jingzhi is the fourth largest iron ore producer in Sichuan, with an iron ore output of 2.4 Mt for the six months ended June 30, 2009, based on the official records of the Sichuan Metallurgy Economic Association (四川省冶金經濟協會) dated July 27, 2009.
- (2) Lagaluo mine, Maoling mine and Huangcaoping mine are each Excluded Mines. See the “Relationship With Controlling Shareholders — Excluded Mines” and “Relationship With Controlling Shareholders — Options to Acquire Excluded Mines” sections in this document.
- (3) The acquisition price for each mine as stated in the relevant option agreement generally consists of the acquisition price for the mining rights (or in the case of Lagaluo Mine, the exploration or mining rights) and other relevant assets at each mine. The acquisition price for each mine stated in the table above consists of the acquisition price of the mining rights (or in the case of Lagaluo Mine, the exploration or mining rights) at each mine. In relation to the acquisition price for the relevant assets at each mine, the actual acquisition price for the relevant assets at the relevant mine will be determined at the time of signing of the relevant purchase agreement, taking into account their values as assessed by an independent valuer.
- (4) The acquisition price stated in the table above will be agreed upon by the parties at the time of signing the relevant purchase agreement, taking into account the iron ore reserve of the mine to be determined by an independent valuer.
- (5) This acquisition price applies if the present mine owner has (i) a current exploration permit and has begun exploration activities or (ii) obtained a mining permit.
- (6) The acquisition price stated in the table above will be agreed upon by the parties at the time of signing of the relevant purchase agreement, taking into account (i) the iron ore reserve of the mine as determined by an independent valuer and (ii) the market price of the iron ore at such time.
- (7) Weixi Guangfa Iron Ore Development Co., Ltd is in the process of applying for an extension of the exploration permit for Lagaluo mine for one year, and expects to obtain approval for the extension on or before the expiry date of the current exploration permit.

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PRC policies supporting growth in the mining and steel industries

Of particular importance to our future growth are various PRC government policies such as the recent economic stimulus plan; reconstruction plans for areas affected by the Sichuan earthquake in 2008; policies to encourage the consolidation of the PRC mining industry; and policies encouraging the development and use of mining resources in Sichuan. In November 2008, the PRC government announced a RMB4.0 trillion economic stimulus plan and further revised this plan in March 2009. This stimulus plan stipulates that, among other projects, approximately RMB1.5 trillion will be invested in the construction of railroads, highways, airports and urban and rural electricity grids; RMB1.0 trillion will be invested in the reconstruction of areas that have been affected by the Sichuan earthquake; RMB400.0 billion will be invested in affordable housing projects; and RMB370.0 billion will be invested in infrastructure for rural areas. Each of the above projects will involve the use of steel and thus create demand for iron ore products. Furthermore, following the Sichuan earthquake in May 2008, the PRC government announced reconstruction plans for areas affected by the Sichuan earthquake. See the "Industry Overview — PRC Policies and Regulations Supporting Growth in the Mining and Steel Industries — Sichuan reconstruction plans" section in this document.

We believe that these economic stimulus and Sichuan reconstruction plans will create an increase in the demand for steel in Sichuan. According to the Sichuan Development and Reform Commission, the demand for steel products in Sichuan in 2009 and 2010 is projected to be 36.7 Mt and 32.6 Mt, respectively. When compared to total annual steel demand in Sichuan in 2007 of approximately 20.0 Mt, these projections indicate that the PRC government expects the increase in demand for steel products by 16.7 Mt and 12.6 Mt in 2009 and 2010, respectively, to be primarily due to the reconstruction of Sichuan. Because of the geographical proximity of Sichuan steel producers to areas targeted by the Sichuan reconstruction plans, we believe that Sichuan steel producers will be the major suppliers of steel for these reconstruction projects. We thus believe that the reconstruction plans and projects announced by the PRC government will stimulate steel production in Sichuan. Because we are located close to Sichuan steel producers and because the price of local iron ore is generally lower than imported iron ore due to higher transportation costs, we believe that the increase in steel production in Sichuan will increase demand for our products.

Certain steel producers in Sichuan and neighboring Yunnan Province have already begun the construction of new steel production lines. Panzhihua Iron and Steel Group has begun the construction of production lines in October 2008 with a planned annual production capacity of 4.0 Mt of pig iron and 3.6 Mt of crude steel. Sichuan Desheng Iron and Steel Corporation has begun the construction of production lines in March 2009 with a planned annual production capacity of 1.0 Mt of pig iron, 1.0 Mt of steel and 58.0 Kt of vanadium slag. Yunnan Yuxi Yukun Steel Corporation (雲南玉溪玉昆鋼鐵集團有限公司) has completed the construction of a production line in March 2009 with an annual production capacity of 1.0 Mt of steel. Together, the construction of these production lines will increase annual iron and steel production capacity by up to approximately 5.6 Mt. Utilization of this increased production capacity will increase demand for iron ore products in general. Given the fact that steel producers in our region are already constructing new production lines, we believe that the construction will lead to an increase in the demand for our iron ore products.

In addition to the economic stimulus and Sichuan reconstruction plans, the PRC government has recently announced various policies to promote the production of high-strength steel and requiring the use of high-strength steel in construction, including, as a response to the events of the Sichuan earthquake in May 2008, new standards for the seismic protection of buildings that raise the strength requirements for steel used

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in construction. See the “Industry Overview — PRC Policies and Regulations Supporting Growth in the Mining and Steel Industries — Policies on the use of high-strength steel in construction” section in this document.

The PRC government has also issued policies with regard to the mining industry that we believe to be beneficial to our expansion plans. In the Comments Regarding the Consolidation of the Exploitation of Mineral Resources (the “Comments”), the PRC government reaffirmed its support for the consolidation of mines. The Comments encourage larger mining companies with better management, technology and equipment to consolidate with or acquire other mines. Pursuant to the Comments, provincial, city and district governments are required to formulate overall consolidation plans by the end of March 2007 and complete the final versions of such consolidation plans by the end of 2008. In addition, in 2003 the Sichuan People’s Government issued an Overall Plan with Respect to Mining Resources in Sichuan (四川省礦產資源總體規劃) (the “Plan”), outlining general policies encouraging the active development of vanadium-bearing titanomagnetite mines, particularly in Panzhihua and Liangshan. The Plan also sets forth a number of preferential policies for encouraged projects such as the reduction of mining rights fees, the simplification of the administrative approval process, beneficial accounting treatment for exploration costs and tax refunds. Furthermore, in 2008, the Liangshan Communist Party Commission and Liangshan People’s Government jointly issued the Opinion Regarding the Promotion of Integrated Development and Use of Vanadium and Titanium Resources in Liangshan (關於加快推進涼山州釩鈦資源綜合開發利用的意見) (the “Opinion”), which sets forth policies concerning the encouragement of mining activities in our region. Our Directors believe that we will benefit from these mining consolidation policies and are not aware of any adverse consequences that these policies will have on us.

Expansion and construction of production facilities

Iron concentrates, iron pellets and titanium concentrates

According to the Hatch Report, demand for iron ore products in the PRC outstripped supply between 2001 to 2008, with the supply shortfall reaching 365.8 Mt in 2008. We believe that this supply shortfall will continue based on information in the Hatch Report which showed that total PRC iron ore supply shortfall during the six months ended June 30, 2009 was 235.5 Mt. In addition, demand for titanium in the PRC is also increasing, according to the Hatch Report. See the “Industry Overview” section in this document. As a result, we believe there is ample room in the market to absorb increases in the supply of iron concentrates and iron pellets. In addition, according to the Hatch Report, demand for titanium and titanium-related products has grown rapidly in the PRC in recent years. 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. As a result, we are able to enjoy the benefit of significant cost efficiencies in the production process and sell both products (i.e., iron concentrates and titanium concentrates) produced from the same production process. Thus, despite the fact that titanium concentrates accounted for only 5.5% of our total revenue in 2008 and 1.3% of our total revenue for the six months ended June 30, 2009, we are expanding and upgrading our titanium concentrates production facilities in addition to our iron concentrates and iron pellets production facilities.

We intend to expand our iron ore products and titanium concentrates and titanium-related products production capacity by (i) improving our existing production lines; (ii) constructing new production lines; (iii) acquiring the production lines of other enterprises; and (iv) increasing the

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quantity of iron ore products that we obtain from our Independent Third Party Processing Contractors and Independent Third Party Pelletizing Contractors.

For our iron ore products, as of June 30, 2009, we have increased our iron concentrates production capacity to 1,700.0 Kt (including the 700.0 Kt production capacity allocated to us by our Independent Third Party Processing Contractors in 2009) and our iron pellets production capacity to 760.0 Kt at our Iron Pelletizing Plant (including the 400.0 Kt production capacity allocated to us by our Independent Third Party Pelletizing Contractors in 2009).

We are continuing to increase our iron concentrates production capacity. We intend to implement the following project at our Xiushuihe Processing Plant:

- Xiushuihe Processing Plant: We will commence construction, in October 2009, of a new iron concentrates production line with a planned annual production capacity of 300.0 Kt and expect to complete construction by July 2010.

For our titanium products, we are in the process of constructing new high-grade titanium concentrates production lines and upgrading our present medium-grade titanium concentrates production facilities to produce high-grade titanium concentrates. Medium-grade titanium concentrates have at least a 20.0%, but no more than a 46.0%, titanium dioxide content, whereas high-grade titanium concentrates have 46.0% titanium dioxide content or more. We have begun implementing or intend to implement the following projects to increase our high-grade titanium concentrates production capacity at our Baicao Processing Plant and Xiushuihe Processing Plant, respectively:

- Baicao Processing Plant:
 - In August 2008, we commenced construction of a new high-grade titanium concentrates production line with a planned annual production capacity of 60.0 Kt which is expected to be completed in September 2009. The total estimated capital expenditure for the construction is approximately HK\$29.5 million. As of June 30, 2009, we had spent HK\$19.0 million on the construction.
 - In June 2009, we commenced preparation work for the construction of a new high-grade titanium concentrates production line with a planned annual production capacity of 40.0 Kt which is expected to be completed by September 2009. The total estimated capital expenditure for the construction is approximately HK\$18.1 million. We intend to finance the construction through a combination of funds generated by our operations and bank borrowings. As of June 30, 2009, we had spent HK\$11.6 million on the construction.
 - In January 2010, we intend to commence upgrading an existing medium-grade titanium concentrates production line to a high-grade titanium concentrates production line with a planned annual production capacity of 40.0 Kt and expect to complete the upgrade by December 2010. The total estimated capital expenditure for the upgrade is HK\$[●] million. We intend to use HK\$[●] million of [●] to finance the upgrade. In the event that there is a shortfall between the actual expenditure relating to the upgrade and [●], we will finance such shortfall through bank borrowings.
- Xiushuihe Processing Plant:
 - In October 2009, we intend to commence construction of a new high-grade titanium concentrates production line with a planned annual production capacity of 60.0 Kt, which we expect to complete by July 2010. We intend to use a total of HK\$[●]

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million of [●] to finance the construction of this new high-grade titanium concentrates production line and our new 300.0 Kt iron concentrates production line described above.

- In October 2008, as part of the Nanjiang Project, we commenced the construction of a new high-grade titanium concentrates production line with a planned annual production capacity of 30.0 Kt and are in the process of expanding the capacity of this production line to an annual production capacity of 50.0 Kt. We expect to complete the upgrade by December 2009. The total estimated capital expenditure for the construction and the upgrade is approximately HK\$26.1 million. As of June 30, 2009, we had spent HK\$2.7 million.
- We intend to upgrade the existing medium-grade titanium concentrates production line to a high-grade titanium concentrates production line with a planned annual production capacity of 50.0 Kt by January 2010. We intend to use HK\$[●] million of [●] to finance the upgrade.

We expect to discontinue production of medium-grade titanium concentrates at our Baicao Processing Plant and Xiushuihe Processing Plant entirely by the end of December 2010.

In support of our capacity expansion plans, we entered into a co-operation agreement with Nanjiang for a term commencing on March 18, 2009 and terminating on November 10, 2023 (the “New Agreement”) that amended and restated the terms of an old agreement that had been entered into among Xiushuihe Mining, Nanjiang and Chuan Wei (the “Old Agreement”). The projects undertaken pursuant to the Old Agreement and the New Agreement are all constructed or to be constructed at our Xiushuihe Processing Plant and are referred to as the “Nanjiang Project”. See “— Co-operation Agreement” in this section. Projects already completed pursuant to the Nanjiang Project during the Track Record Period are (i) the upgrade of an existing 150.0 Kt iron concentrates production line to 200.0 Kt completed in June 2008; and (ii) the construction of a new 300.0 Kt iron concentrates production line completed in June 2008. As noted above, we commenced the construction of a new high-grade titanium concentrates production line with a planned annual production capacity of 30.0 Kt in October 2008 and we are currently in the process of expanding the capacity of this production line to an annual production capacity of 50.0 Kt.

From January 1, 2008 to June 30, 2009, we have spent a total of approximately RMB362.2 million on our expansion and construction plans at all our facilities combined in the following manner:

	Expenditure (in RMB million)
Buildings ^(Note)	126.6
Plant and machinery	88.1
Office equipment	0.6
Motor vehicles	0.8
Mining infrastructure	9.5
Construction in progress	136.6

Note: The breakdown of the capital expenditure of RMB126.6 relating to buildings is as follows:

1. Construction of 300.0 Kt iron concentrates production line at Baicao Processing Plant amounting to approximately RMB82.2 million;
2. Costs related to the Nanjiang Project amounting to approximately RMB37.7 million; and
3. Others amounting to approximately RMB6.7 million.

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The following table summarizes the improvements we are implementing or intend to implement to our iron concentrates and titanium concentrates production lines, respectively, using [●], our internal funds and/or bank borrowings:

No.	Location	Expansion Timetable ^(Note 1)	Status	Expected Results	Financial Arrangement	Estimated Total Capital Expenditure (in HK\$ million)
1	Baicao Processing Plant	August 2008 — September 2009	Under construction	a new high-grade titanium concentrates production line with annual production capacity of 60.0 Kt	operational cash flow and bank borrowings	29.5
2	Baicao Processing Plant	June 2009 — September 2009	Under construction	a new high-grade titanium concentrates production line with annual production capacity of 40.0 Kt	operational cash flow and bank borrowings	18.1
3	Baicao Processing Plant	January 2010 — December 2010	In preparation	upgrade of existing medium-grade titanium concentrates production line to high-grade titanium concentrates with annual production capacity of 40.0 Kt, with a titanium dioxide content $\geq 46.0\%$	[●]/bank borrowings	[●]
4	Xiushuihe Processing Plant	October 2008 — December 2009	Under construction ^(Note 2)	a new high-grade titanium concentrates production line with annual production capacity of 50.0 Kt as part of the Nanjiang Project	operational cash flow and bank borrowings	26.1
5	Xiushuihe Processing Plant	January 2010 — December 2010	In preparation	upgrade of existing medium-grade titanium concentrates production line to a high-grade titanium concentrates production line with a planned annual production capacity of 50.0 Kt, with a titanium dioxide content of $\geq 46.0\%$	[●]	[●]
6	Xiushuihe Processing Plant	October 2009 — July 2010	In preparation	a new iron concentrates production line with a planned annual production capacity of 300.0 Kt, with an iron grade content of $\geq 54.0\%$ and a new high-grade titanium concentrates production line with a planned annual production capacity of 60.0 Kt, with a titanium dioxide content $\geq 46.0\%$	[●]	[●]

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Notes:

1. As advised by our PRC legal advisors, we have obtained the necessary government approvals for Program Nos. 1, 2 and 4.
2. Construction of the outer building of the new titanium concentrates production line has been completed. We are in the process of purchasing the relevant equipment for the production line.

If we are unable to use [●] for these programs, we intend to finance them through a combination of funds generated by our operations and bank borrowings.

Titanium slag

We also intend to capitalize on the cost benefits associated with the high titanium content of our ore by expanding our business into the production of downstream products such as titanium slag. Titanium slag is used as raw material in the production of titanium powder, sponge titanium, synthetic rutile, and titanium metals. We expect to sell titanium slag to sponge titanium producers in the PRC. We currently plan to use HK\$[●] million of [●] to finance the construction of two new titanium slag production lines with a planned annual aggregate production capacity of 120.0 Kt. These projects are only tentative.

Our Directors believe that the market for titanium slag has potential because of the high demand for it in the PRC. Expansion into this market segment is thus beneficial, notwithstanding the fact that sales of titanium concentrates currently account for only a small portion of our revenue.

The following table provides details on the two proposed production lines for titanium slag:

Location	Expansion Timetable	Status	Expected Results	Financial Arrangement	Estimated Total Capital Expenditure (in HK\$ million)
Luchang Vanadium Titano- Magnetite Industrial Park	January 2010 — March 2012	In preparation	Two new titanium slag production lines to produce titanium slag at an annual aggregate production capacity of 120.0 Kt and pig iron with an annual production capacity of 53.8 Kt ^(Note 1)	[●] and bank borrowings ^(Note 2)	317.6

Notes:

1. Pig iron is a byproduct of titanium slag production.
2. We have obtained a letter of intent from the China Construction Bank (Sichuan branch) dated February 25, 2009 to provide credit facilities of up to RMB162.2 million (equivalent to approximately HK\$184.0 million), which will be used to finance the project. We expect to enter into an agreement with China Construction Bank (Sichuan branch) in respect of the credit facilities in December 2009.

No capital commitment has yet been made for the titanium slag project. We can fund this project with a combination of funds generated by our operations and bank borrowings. If we cannot use [●] for this project or [●], we will not construct the titanium slag production lines.

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We intend to construct the titanium slag production lines in Luchang Vanadium Titanomagnetite Industrial Park (the "Park") because the local government has designated the Park to be a venue for industrial activities. Local planning requirements allow the production of the titanium slag in the Park. As we only intend to carry out the plan to construct the two new titanium slag production lines in the Park in January 2010, we have not yet entered into any agreements with any parties in relation to the construction or operation of the production lines in the Park or to the purchase of any land in the Park and have not entered into any fee arrangements in relation to the production lines. We have entered into discussions with the relevant government authorities to obtain the respective approvals for the construction of the production lines in the Park.

PRODUCTS

Our principal products are iron concentrates, iron pellets and medium-grade titanium concentrates. Titanium concentrates currently comprise only a small portion of our total revenue, accounting for 5.5% of total revenue in 2008 and 1.3% of total revenue for the six months ended June 30, 2009.

The total production volume of each of our iron concentrates, iron pellets and medium-grade titanium concentrates increased substantially during the Track Record Period. Our total production volume of iron concentrates (which includes the production volume produced for us by our first Independent Third Party Processing Contractor) increased from approximately 287.0 Kt in 2006 to 1,163.8 Kt in 2008, representing a CAGR of 101.4%, and from approximately 447.3 Kt for the six months ended June 30, 2008 to 743.5 Kt for the six months ended June 30, 2009, representing an increase of 66.2%. Our total production volume of iron pellets (which includes the production volume produced by our Independent Third Party Pelletizing Contractors) increased from approximately 181.2 Kt in 2006 to 325.3 Kt in 2008, representing a CAGR of 34.0%, and from approximately 148.4 Kt for the six months ended June 30, 2008 to 313.7 Kt for the six months ended June 30, 2009, representing an increase of 111.4%. Our total production volume of medium-grade titanium concentrates (which includes the production volume produced by our Independent Third Party Processing Contractors) increased from approximately 24.6 Kt in 2006 to 167.6 Kt in 2008, representing a CAGR of 160.9%, but decreased from approximately 96.6 Kt for the six months ended June 30, 2008 to 62.7 Kt for the six months ended June 30, 2009, representing a decrease of 35.1%.

The total sales volume of each of our products also increased substantially during the Track Record Period. Our sales volume of iron concentrates increased from approximately 166.8 Kt in 2006 to 796.9 Kt in 2008, representing a CAGR of 118.6%, and from 261.7 Kt for the six months ended June 30, 2008 to 463.3 Kt for the six months ended June 30, 2009, representing an increase of 77.0%. Our sales volume of iron pellets increased from 169.9 Kt in 2006 to 305.4 Kt in 2008, representing a CAGR of 34.1% and from approximately 135.8 Kt for the six months ended June 30, 2008 to 332.5 Kt for the six months ended June 30, 2009, representing an increase 144.9%. Our sales volume of medium-grade titanium concentrates increased from 25.2 Kt in 2006 to 216.7 Kt in 2008, representing a CAGR of 193.3%, but decreased from 137.6 Kt for the six months ended June 30, 2008 to 64.9 Kt for the six months ended June 30, 2009, representing a decrease of 52.8%.

The decrease in both the production volume and sales volume of our medium-grade titanium concentrates is in line with our plan to decrease our production and sale of medium-grade titanium concentrates and increase our production of high-grade titanium concentrates. We intend to discontinue the production and sale of medium-grade titanium concentrates entirely by the end of December 2010. See "— Expansion and Construction Plan — Expansion and construction of production facilities" in this section.

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The following table summarizes for the periods indicated the production volume of our products by plant, the total production volume of our products and the total sales volume of our products:

Products	Year ended December 31,			Six months ended June 30,
	2006	2007	2008	2009
	(Kt)			
Iron concentrates				
Baicao Processing Plant	149.0	185.8	342.7	218.7
Xiushuihe Processing Plant	138.0	126.6	360.3	254.3
First Independent Third Party Processing Contractor’s plant	—	206.6	460.8	266.8
Second Independent Third Party Processing Contractor’s plant	—	—	—	3.7
Total production volume ^(Note 1)	287.0	519.0	1,163.8	743.5
Total sales volume	166.8	398.0	796.9	463.3
Iron pellets				
Iron Pelletizing Plant	181.2	249.0	312.5	152.1
First Independent Third Party Pelletizing Contractor’s plant	—	—	12.8	93.9
Second Independent Third Party Pelletizing Contractor’s plant	—	—	—	67.8
Total production volume	181.2	249.0	325.3	313.7
Total sales volume	169.9	255.6	305.4	332.5
Medium-grade titanium concentrates				
Baicao Processing Plant	7.2	66.0	70.0	23.5
Xiushuihe Processing Plant	17.4	21.6	16.8	1.5
First Independent Third Party Processing Contractor’s plant	—	46.5	80.8	37.7
Total production volume	24.6	134.1	167.6	62.7
Total sales volume	25.2	63.9	216.7	64.9

Note:

- Our Xiushuihe Processing Plant supplies the majority of the iron concentrates used as raw material in the production of iron pellets at our Iron Pelletizing Plant while the remainder is supplied by our Independent Third Party Processing Contractors. Our Xiushuihe Processing Plant supplied approximately 137.0 Kt, 122.6 Kt, 285.9 Kt and 143.4 Kt of iron concentrates to our Iron Pelletizing Plant in 2006, 2007, 2008 and the six months ended June 30, 2009, respectively, representing 47.7%, 23.6%, 24.6% and 19.3% of the total production volume of iron concentrates in 2006, 2007, and 2008 and the six months ended June 30, 2009, respectively. Our first Independent Third Party Processing Contractor supplied approximately 23.1 Kt and 36.6 Kt of iron concentrates to our Iron Pelletizing Plant in 2007 and 2008, respectively. Our first Independent Third Party Processing Contractor did not supply any iron concentrates to our Iron Pelletizing Plant for the six months ended June 30, 2009. Our first Independent Third Party Processing Contractor supplied approximately 13.2 Kt and 96.3 Kt of iron concentrates to our first Independent Third Party Pelletizing Contractor in 2008 and the six months ended June 30, 2009, respectively. Our first Independent Third Party Processing Contractor supplied approximately 65.2 Kt of iron concentrates to our second Independent Third Party Pelletizing Contractor for the six months ended June 30, 2009.

See the “Financial Information” section in this document for our analysis of the costs involved in production.

Iron concentrates

As of December 31, 2008, we had a total annual production capacity of 1,550.0 Kt (including the 550.0 Kt of iron concentrates produced for us by our Independent Third Party Processing Contractor in 2008). As of June 30, 2009, we had a production capacity of 1,700.0 Kt (including the 700.0 Kt allocated to us by our Independent Third Party Processing Contractor). See “— Our Production Operations and Facilities” in this section. We supply a portion of our iron concentrates produced at our Xiushuihe Processing Plant to our Iron Pelletizing Plant as raw materials for the production of iron pellets. See

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“— Products — Iron pellets” and “— Our Production Operations and Facilities — Iron Pelletizing Plant” in this section.

The following table summarizes the volume of iron concentrates sold to our customers, used as raw materials at our Iron Pelletizing Plant and supplied to our first Independent Third Party Pelletizing Contractor and our second Independent Third Party Pelletizing Contractor, respectively, during the Track Record Period:

<u>Iron concentrates</u>	<u>Year ended December 31,</u>			<u>Six month period ended June 30,</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
		(Kt)		
Customers	166.8	398.0	796.9	463.3
Iron Pelletizing Plant	137.0	145.7	322.5	143.4
First Independent Third Party Pelletizing Contractor ^(Note 1)	—	—	13.2	98.2
Second Independent Third Party Pelletizing Contractor ^(Note 2)	—	—	—	75.8

Notes:

1. Our first Independent Third Party Pelletizing Contractor entered into a pelletizing contract with us on December 12, 2008 and commenced production of iron pellets from our iron concentrates after that date. Thus, it did not produce iron pellets for us in 2006 and 2007.
2. Our second Independent Party Pelletizing Contractor entered into a pelletizing contract with us on February 6, 2009 and commenced production of iron pellets from our iron concentrates after that date. Thus, it did not produce iron pellets for us in 2006, 2007 and 2008.

Iron concentrates are generally produced directly from processing the ore extracted from our mines. For the six months ended June 30, 2009, the iron concentrates produced by our Baicao Processing Plant and Xiushuihe Processing Plant had an average iron content of 55.0% and 54.4% and an average vanadium pentoxide content of 0.6% and 0.7%, respectively. During the Track Record Period, the production volume, sales volume and price of our iron concentrates have all increased. Together with our Independent Third Party Processing Contractors, we produced approximately 287.0 Kt, 519.0 Kt, 1,163.8 Kt and 743.5 Kt of iron concentrates for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. We sold approximately 166.8 Kt, 398.0 Kt, 796.9 Kt and 463.3 Kt of iron concentrates for the year ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively, representing approximately 35.6%, 51.9%, 62.6% and 49.3% of our total revenue for these periods, respectively.

Iron pellets

Iron pellets are generally made from iron concentrates mixed with bentonite clay and are used in the production of steel. The average strength of our iron pellets is between approximately 1,200N to 1,400N, which is within the market range of 800N to 1,800N. As of December 31, 2008, we had a total annual production capacity of 380.0 Kt (including the 20.0 Kt production capacity allocated to us by our first Independent Third Party Pelletizing Contractor). As of June 30, 2009, we had a production capacity of 760.0 Kt (including the 400.0 Kt production capacity allocated to us by our Independent Third Party Pelletizing Contractors in 2009). For the six months ended June 30, 2009, the iron pellets we produced had an average iron content of 53.1%. Including the iron pellets produced by our Independent Third Party Pelletizing Contractors, we produced approximately 181.2 Kt, 249.0 Kt, 325.3 Kt and 313.7 Kt of iron pellets for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. We sold approximately 169.9 Kt, 255.6 Kt, 305.4 Kt and

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332.5 Kt of iron pellets for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively, representing approximately 54.0%, 45.0%, 31.9% and 49.4% of our revenue for these periods, respectively.

The total sales volume for our iron pellets for 2006 was lower than the total production volume for our iron pellets of the same year. In contrast, the total sales volume for our iron pellets was higher than our total production volume in 2007 due to a significant increase in demand in that year. We were able to meet the demand in 2007 despite such demand being higher than our total production for the year by using the surplus of iron pellets that had been held as inventory at our Iron Pelletizing Plant since the commencement of operations in June 2005.

In 2008, our total production volume for iron pellets was slightly higher than our total sales volume by 6.5%. One of the factors contributing to the increase in the production volume of iron pellets was the production of 12.8 Kt of iron pellets by our first Independent Third Party Pelletizing Contractor whom we engaged in December 2008. For the six months ended June 30, 2009, our production volume for iron pellets was slightly lower than our total sales volume. See "— Our Production Operations and Facilities — Pelletizing contracting" in this section.

Due to the proximity of our Xiushuihe Processing Plant to our Iron Pelletizing Plant, our Xiushuihe Processing Plant supplies most of the iron concentrates required for the production of iron pellets at our Iron Pelletizing Plant. During the years ended December 31, 2006 and 2007, a portion of our iron pellets was made using iron concentrates purchased from third party suppliers due to the insufficient supply of iron concentrates from our Xiushuihe Processing Plant. As of December 31, 2008, the iron concentrates production capacity of our Xiushuihe Processing Plant increased to 500.0 Kt. With this increase in the production capacity of our iron concentrates at our Xiushuihe Processing Plant and the volume of iron concentrates which our two Independent Third Party Processing Contractors will produce for us in 2009, we do not expect to purchase iron concentrates from third parties in the future. We spent RMB11.1 million, RMB40.9 million and RMB3.9 million to purchase iron concentrates from third party suppliers in 2006, 2007 and 2008, respectively, while for the six months ended June 30, 2009, we did not purchase such iron concentrates from any third party supplier.

Titanium concentrates

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, where high-grade ore, after being crushed, screened, classified and ground, undergoes a low-intensity magnetic separation process to yield iron concentrates and titanium concentrates. See "— Our Production Operations and Facilities — Baicao Processing Plant" in this section. High-grade titanium concentrates can be processed to produce titanium-related downstream products such as titanium slag. Titanium slag can be further processed into titanium. Titanium exhibits strength and erosion resistance, is nonmagnetic in nature and is widely used in industries such as the shipping and aircraft industries. We sell our medium-grade titanium concentrates to downstream producers such as titanium powder processing plants and high-grade titanium concentrates production plants. Medium-grade titanium concentrates comprise a relatively small portion of our total revenue, accounting for 5.5% of total revenue in 2008 and 1.3% of total revenue for the six months ended June 30, 2009.

The production volume of our medium-grade titanium concentrates has increased from 2006 to 2008 but decreased substantially in the six months ended June 30, 2009. Our first Independent Third

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Party Processing Contractor has also produced titanium concentrates from our ore since 2007. We produced a total of approximately 24.6 Kt, 134.1 Kt, 167.6 Kt and 62.7 Kt of medium-grade titanium concentrates for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively, together with our first Independent Third Party Processing Contractor. We sold approximately 25.2 Kt, 63.9 Kt, 216.7 Kt and 64.9 Kt of medium-grade titanium concentrates for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively, representing approximately 3.5%, 3.1%, 5.5% and 1.3% of our total revenue, for these periods, respectively. The increase in the sales volume of our medium-grade titanium concentrates from 2006 to 2008 was due to an increase in our production volume as well as the sale of approximately 46.5 Kt out of our inventory to a single customer in completion of a contract, which was negotiated in 2007 and concluded in 2008. The substantial decrease in the sales volume of medium-grade titanium concentrates in the six months ended June 30, 2009 was due to our discontinuing production of medium-grade titanium concentrates at Xiushuihe Processing Plant during the greater part of the six months ended June 30, 2009 due to our planned upgrade of the titanium concentrates production line.

Although we currently produce only medium-grade titanium concentrates, part of our expansion and construction plan is to produce high-grade titanium concentrates and to produce downstream titanium concentrates-related products such as titanium slag. We intend to discontinue our production of medium-grade titanium concentrates entirely by the end of December 2010. The high-grade titanium concentrates we intend to produce will have an expected average titanium dioxide content of at least 46.0%. See "— Expansion and Construction Plan" in this section in this document.

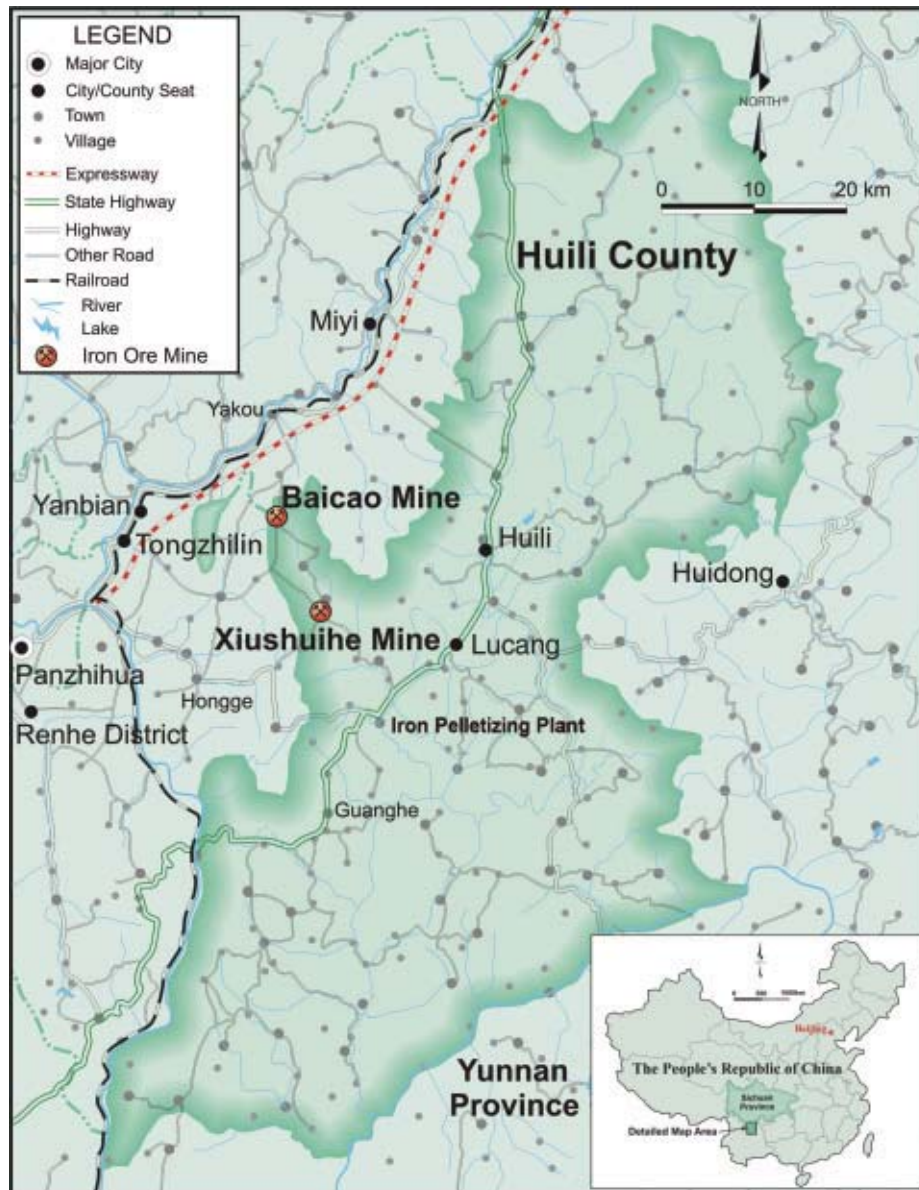
OUR MINERAL RESOURCES AND MINING RIGHTS

Overview

We currently own and operate two vanadium-bearing titanomagnetite open-pit mines, the Baicao Mine and Xiushuihe Mine, located in Huili County of the Panxi Region of Sichuan Province. According to the Hatch Report, the estimated vanadium-bearing titanomagnetite reserves in the Panxi Region rank first in the PRC, with a reserve of approximately 8.87 billion tonnes, representing approximately 75.3% of total vanadium-bearing titanomagnetite reserves in the PRC. The total proved and probable reserves of vanadium-bearing titanomagnetite in our Baicao Mine and Xiushuihe Mine were approximately 78.7 Mt as of June 30, 2009.

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The map below shows the approximate geographical locations of our mines, our processing facilities and major nearby railroad stations:



Source: Company

For technical details of the geology of our mines, see the “Report of Independent Technical Adviser” attached as Appendix V to this document.

Sichuan Earthquake of 2008

Sichuan Province suffered a major earthquake on May 12, 2008. This earthquake did not have an adverse effect on our mines, the infrastructure in our locale or transportation access to our mines because our mines are located in Huili County, at least 500 km away from the epicenter of the earthquake. We engaged the Northwest Sichuan Team of the Sichuan Geological Mining Exploration and Development Bureau (四川省地質礦產勘查開發局川西北地質隊) (the “Northwest Sichuan Team”) to

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assess the effect of the Sichuan earthquake on our mines. On May 15, 2008, the Northwest Sichuan Team visited our Baicao Mine and Xiushuihe Mine and issued a report to our subsidiary Huili Caitong on the same date confirming that the Sichuan earthquake had no adverse impact on our Baicao Mine and Xiushuihe Mine.

The Northwest Sichuan Team is a public institution (事業單位) supervised by the Sichuan Geological Mining Exploration and Development Bureau (四川省地質礦產勘查開發局). As advised by our PRC legal advisors, a public institution in the PRC is a social service organization established by PRC governmental authorities or other organizations using state-owned assets for the purpose of the public welfare. Sichuan Geological Mining Exploration and Development Bureau is a governmental entity primarily responsible for, among other things, the administration and supervision of geological exploration teams registered in Sichuan and implementing the regulations and policies of national and provincial geological exploration. The Northwest Sichuan Team has a valid geological exploration certificate. Pursuant to the certificate, the Northwest Sichuan Team is specialized in conducting solid mineral geological surveys and regional geological surveys at the Grade A level, geophysical surveys at the Grade B level and hydrogeology, engineering geology and environmental geology surveys at the Grade C level.

The earthquake also had no negative impact on our assets, operations or businesses. After the earthquake, our production volume of iron concentrates and iron pellets increased from 78.8 Kt in April 2008 to 160.2 Kt in December 2008.

Our Directors confirm that the earthquake in Sichuan also had no negative impact on our major customers. Sales increased from RMB52.2 million in April 2008 to RMB72.8 million in December 2008. The earthquake in Sichuan also had no impact on our major suppliers, which are located in Liangshan, where our Baicao Mine and Xiushuihe Mine are also located. See “— Customers — Recent global economic trends and impact on our Group’s business — Sichuan reconstruction plans” in this section.

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Our existing mineral reserves

The following table summarizes certain information for our Baicao Mine and Xiushuihe Mine:

	Baicao Mine	Xiushuihe Mine
Background data:		
Year mining commenced	1998	1999
Year of acquisition	2005	2005
Mining rights area (sq. km)	1.9	0.5
Exploration rights area (sq. km)	—	1.7 ^(Note 1)
Reserve data:		
Current reserves (<i>Mt as of June 30, 2009</i>)	60.0	18.7
Mine estimated life as of June 30, 2009 (<i>years</i>)	14.0	5.8
Output data:		
Mining method	Open pit	Open pit
Ore output (<i>Kt</i>)		
2006	497.2	449.0
2007	1,146.6	604.8
2008	2,917.2	1,854.2
Six months ended June 30, 2009	1,959.0	1,036.5

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.

The following table shows the estimated ore reserves summary of our Baicao Mine and Xiushuihe Mine as of June 30, 2009.

	Baicao Mine		Xiushuihe Mine	
	Contained metals (Kt)	Average grade (%)	Contained metals (Kt)	Average grade (%)
Iron	15,290.0	25.5	5,070	27.1
Titanium dioxide	6,190.0	10.3	2,070	11.1
Vanadium pentoxide	134.1	0.23	43.8	0.23

Baicao Mine

Our Baicao Mine is located in Xiaoheiqing Townlet, Huili County and is approximately 57 km southwest of Panzhihua. Baicao Mine is linked by road to the newly constructed Panzhihua-Miyi Highway and the Chengdu-Kunming Railroad in the west. Our Baicao Mine has a mining rights area of approximately 1.9 sq. km and an elevation range of 2,100 to 2,525 meters.

Mining at our Baicao Mine commenced in 1998. Chuan Wei acquired the mine in November 2004. Our Founders became the majority shareholders of Chuan Wei on January 1, 2005 and the Baicao Mine became our mine on the same date. Our mining permit was renewed in December 2007 for a term of 20 years beginning December 2007 and expiring December 2027. The scale of our mining operations increased from 1.6 Mt in December 2007 to 3.1 Mt in May 2008. To further expand the scale of operation of our Baicao Mine, we made an application to the relevant government authority in June 2009 to increase the scale of the mining operation of our Baicao Mine from 3.1 Mt to 4.6 Mt. We obtained a renewed mining permit on September 8, 2009 to increase the scale of the mining operation of our Baicao Mine to 4.6 Mt. The estimated mine life of our Baicao Mine is 14.0 years. We have engaged our Independent Third Party Mining Contractor to carry out 100% of the mining and stripping operations at our Baicao Mine since the acquisition. As of June 30, 2009, there were approximately

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232 workers working for the Independent Third Party Mining Contractor at our Baicao Mine. Ore from our Baicao Mine is processed at our Baicao Processing Plant located near the mine, or by our first Independent Third Party Processing Contractor at its processing plant located approximately 12 km from our Baicao Mine.

Xiushuihe Mine

Our Xiushuihe Mine is located in Ailang Townlet, Huili County and is approximately 58 km west of Panzhihua. Xiushuihe Mine is linked by road to the provincial 310 Highway in the south. Xiushuihe Mine has a mining rights area of approximately 0.5 sq. km and an elevation range of 2,230 to 2,580 meters.

Mining at Xiushuihe Mine commenced in 1999. Huili Caitong acquired the mine in November 2004. Our Founders became the majority shareholders of Chuan Wei, the holding company of Huili Caitong, on January 1, 2005, and the Xiushuihe Mine became our mine on the same date. Our mining permit was renewed in December 2007 for a term of 20 years, expiring in December 2027. The estimated mine life of Xiushuihe Mine is 5.8 years. Since May 2008, the scale of the mining operations of our Xiushuihe Mine has substantially increased from 800.0 Kt to 2.3 Mt. We have engaged our Independent Third Party Mining Contractor to carry out 100% of the mining and stripping operations at our Xiushuihe Mine since the acquisition. As of June 30, 2009, there were approximately 98 workers working for the Independent Third Party Mining Contractor at our Xiushuihe Mine. Ore from our Xiushuihe Mine is processed at our Xiushuihe Processing Plant located near the mine or by our second Independent Third Party Processing Contractor at its processing plant located approximately 8.0 km from our Xiushuihe Mine.

Our current mining rights at Xiushuihe Mine only cover the eastern portion of the reserves in the area. On April 2, 2008, the Huili County Government resolved to support our plan to extend the coverage area of our current mining rights at our Xiushuihe Mine. We obtained a two-year exploration permit on July 8, 2009 to conduct exploration activities in the adjacent areas to the west of our current Xiushuihe mining rights area. The exploration permit covers the entire 1.7 sq.km of the Xiushuihe deposit and includes an area of 1.2 sq. km previously unexplored by us. Upon completion of exploration activities in these adjacent areas and if we consider it beneficial to do so, we intend to apply to the PRC governmental authorities for the relevant mining permits and believe we can obtain such mining permits by July 2011. See “— Our Mineral Resources and Mining Rights — Mining rights, exploration permit and safety production permits — Exploration permit” in this section.

Mining contracting

Because the ore at our Baicao Mine and Xiushuihe Mine is located at relatively shallow depths, both mines use the open-pit mining method. Surface drilling, sampling and analysis are used to determine the location and characteristics of the underlying ore. Widely used methods such as wet chemical analysis, colorimeter analysis and atomic absorption spectrometer are used to determine ore grade. After these preliminary assessments, we then outline a mining plan. The ore is uncovered by stripping, blasting and excavation. The blasted ore is separated from waste and the sorted ore is transported to our processing facilities by a combination of conventional truck and shovel mining techniques.

At both of our mines, we are responsible for planning and overseeing the technical aspects of the mining operations, such as the planning and design of the pits, designing mining plans and operational safety, and directing and supervising the mining and stripping operations. We also

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undertake quality control and assurance programs to determine the grade of our ore and to guide the operations of our Independent Third Party Mining Contractor. However, for other operational components that are more labor intensive and require certain technical skills, such as stripping, blasting, extraction, maintenance of mining equipments and facilities, and transportation, we engage an Independent Third Party Mining Contractor. See “— Independent Third Party Contractors — Mining contractor” in this section.

Mining rights, exploration permit and safety production permits

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 the mining enterprises to obtain, among other things, a mining permit and a safety production permit for each mine. The safety production permit can only be obtained after the mining permit is granted. See the “PRC Laws and Regulations” section in this document.

Mining rights and renewal of mining rights

We must pay mining right fees, mining right utilization fees and relevant taxes. At the time we acquired Huili Caitong and Xiushuihe Iron (Xiushuihe Mining’s predecessor) these companies already held the mining permits required for the Baicao Mine and Xiushuihe Mine. Through the acquisitions of Huili Caitong and Xiushuihe Iron (Xiushuihe Mining’s predecessor) the legal titles of these mining permits have been legally and effectively vested in us. In addition, our mining permits are subject to verification by the relevant authorities on an annual basis, a process which requires the submission of our production report and annual financial report.

Under PRC law, if residual reserves remain after a mining permit expires, the mining permit holder may apply for renewal for an additional term. If any of our mines have a residual proved and probable reserve upon expiration of our mining permits, we will submit a renewal application. In 2006, we successfully renewed the permits for both of our mines for a one-year term. In December 2007, we successfully renewed the permits for both of our mines for a 20-year term. Based on our past experience in successfully renewing our mining permits, our Directors believe it is unlikely that we will encounter any obstacles in renewing our mining permits in the future.

Exploration permit

On July 8, 2009, we obtained a two-year exploration permit to conduct exploration activities in the adjacent areas to the west of our current Xiushuihe mining rights area. The exploration permit covers the entire 1.7 sq.km of the Xiushuihe deposit and includes an area of 1.2 sq.km previously unexplored by us. According to the Report of Independent Technical Adviser, excluding the resources covered by our current Xiushuihe mining rights, the approximately 1.2 sq.km area previously unexplored by us is estimated to contain total estimated iron ore resources of approximately 78.2 Mt, including 51.8 Mt of higher-grade resource and 26.4 Mt of lower-grade resource. See the “Report of Independent Technical Adviser” attached as Appendix V to this document.

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Upon completion of exploration activities in these adjacent areas and if we consider it beneficial to do so, we will apply to the PRC governmental authorities for the relevant mining permits and believe we can obtain such mining permits by July 2011. Pursuant to relevant PRC laws and regulations and as advised by our PRC legal advisors, we have a right of priority in the grant of the relevant mining permits for the areas covered by the exploration permit. The total estimated costs of obtaining the exploration permit and associated mining rights are expected to be approximately RMB120.0 million. The opportunity to extend the coverage area of our current Xiushuihe mining rights is beneficial because the large potential mineral resources located in these areas will significantly extend the mine life of Xiushuihe Mine. The close proximity to our current operations will allow us to expand our mining operations easily from our current Xiushuihe mining area to the adjacent expansion areas.

Safety production permits

As advised by our PRC legal advisors, Huili Caitong and Xiushuihe Mining have obtained the safety production permits under the relevant laws and regulations required to carry out their mining operations. Huili Caitong obtained its safety production permits for iron ore mining and the operation of a tailings storage facility on March 27, 2008 and June 23, 2008, respectively, each for a term of three years. Xiushuihe Mining renewed its safety production permit for iron ore mining, for a term of three years from October 31, 2008. Xiushuihe Mining obtained a safety production permit for the operation of a tailings storage facility on June 24, 2008 for a term of three years. Based on our past experience of successfully renewing our safety production permits, our Directors believe it is unlikely that we will encounter any obstacles in the renewal of our safety production permit in the future.

According to a confirmation dated July 31, 2009 issued by the Huili County Administration of Work Safety (會理縣安全生產監督管理局) and duly verified by our PRC legal advisors, our Independent Third Party Mining Contractor and its safety and special operations personnel have also obtained the safety production and operation qualification certificates required for its current mining operations in accordance with the relevant laws and regulations.

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The following table summarizes information about our mining permits, exploration permit and safety production permits:

Type of permit	Holder	Issuance Date	Term	Content
Mining permit	Huili Caitong	September 8, 2009	18 years and 3 months	Type of Mine: iron ore Operation Scale: 4.6 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. ^(Note 1)
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

Note:

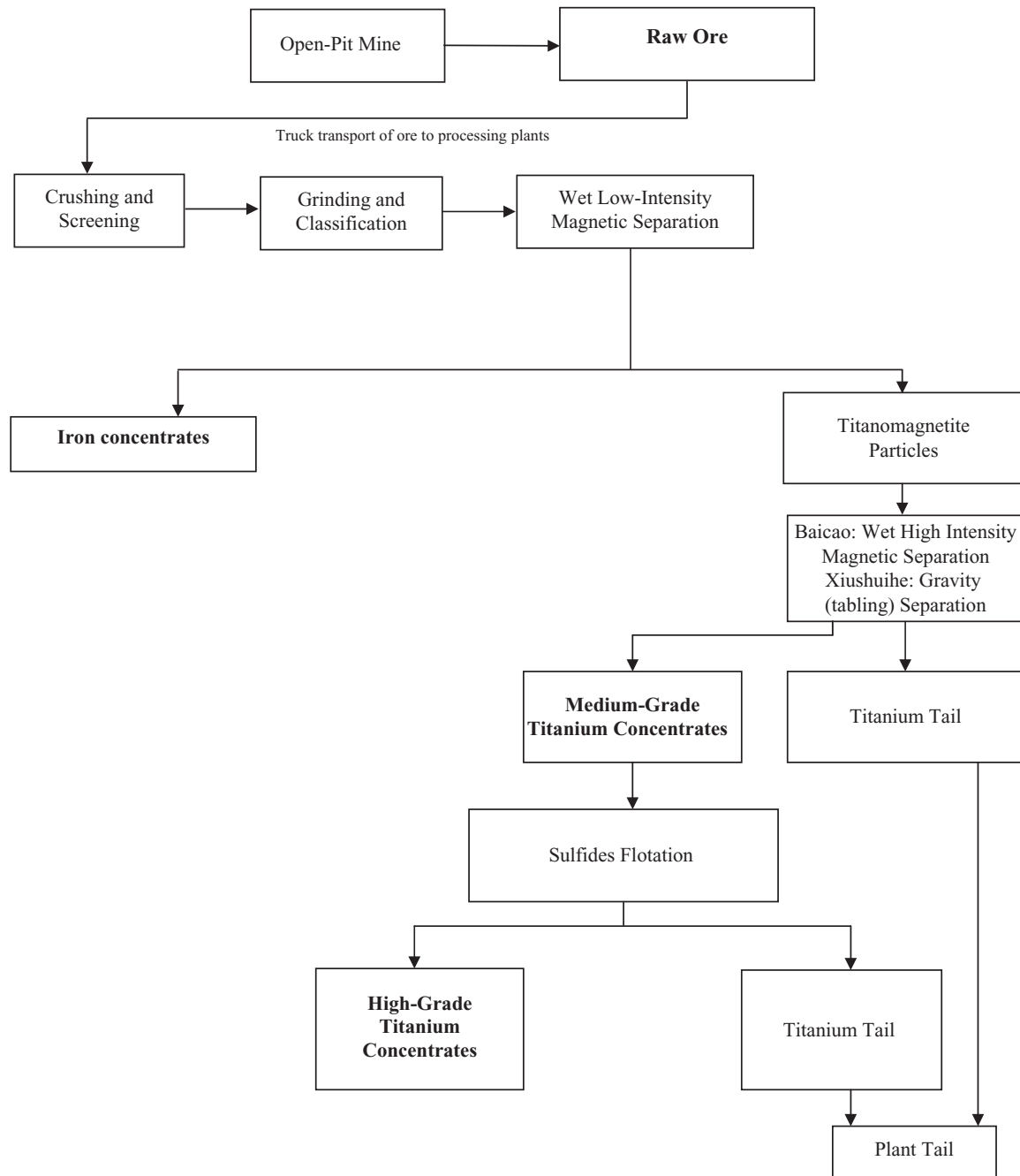
- The exploration permit was granted for the entire Xiushuihe deposit area of 1.7 sq. km. This area consists of approximately 0.5 sq. km. of land for which we presently hold mining rights and approximately 1.2 sq. km of land previously unexplored by us.

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OUR PRODUCTION OPERATIONS AND FACILITIES

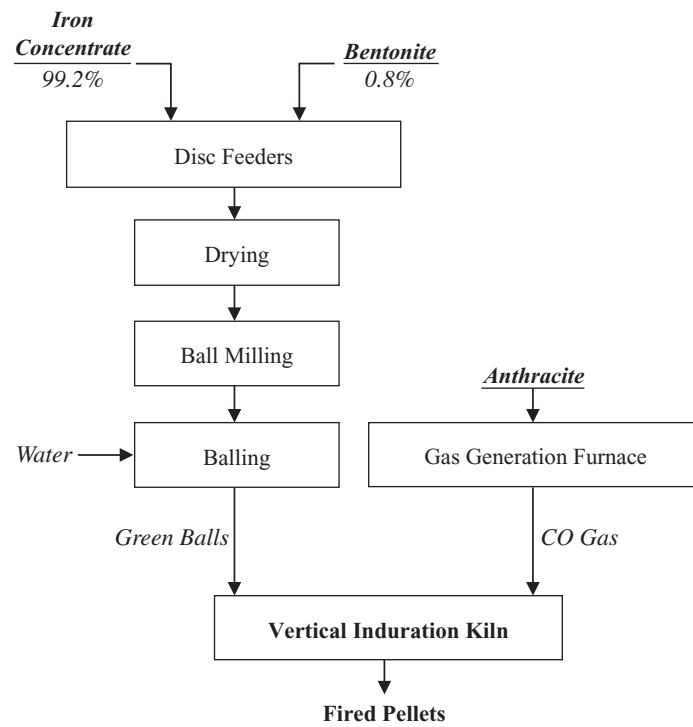
Overview

The chart below summarizes the production processes of our iron concentrates and medium-grade titanium concentrates. Because we intend to produce high-grade titanium concentrates in 2009, we have also included the production process of high-grade titanium concentrates in the following chart. For details concerning our expansion and construction plan, see “— Expansion and Construction Plan” in this section. For a map showing the location of our processing facilities, see “— Our Mineral Resources and Mining Rights” in this section.



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The chart below summarizes the pelletizing process at our pelletizing plant.



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Production facilities

The following table summarizes the production capacity and utilization rates of our Baicao Processing Plant, Xiushuihe Processing Plant and Iron Pelletizing Plant for the periods indicated.

	Year of commencement	Year ended December 31,					
		2006		2007		2008	
		Production Capacity (Kt) ^(Note 1)	Utilization Rate (%) ^(Note 1)	Production Capacity (Kt) ^(Note 1)	Utilization Rate (%) ^(Note 1)	Production Capacity (Kt) ^(Note 1)	Utilization Rate (%) ^(Note 1)
Baicao Processing Plant							
Iron concentrates	1998	160.0	93.1	200.0	92.9	500.0 ^(Note 2)	97.9
Medium-grade titanium concentrates . . .		10.0	72.0	80.0	82.6	80.0	87.5
Xiushuihe Processing Plant							
Iron concentrates	1999	150.0	92.0	200.0	63.3	500.0	72.1
Medium-grade titanium concentrates . . .		18.0	96.8	24.0	90.0	50.0	33.6 ^(Note 3)
Iron Pelletizing Plant	2005	333.0	54.4	333.0	74.8	360.0	86.8
First Independent Third Party Processing Contractor's processing plant ^(Note 4)							
Iron concentrates		—	—	250.0 ^(Note 5)	82.6	550.0 ^(Note 5)	83.8
Medium-grade titanium concentrates . . .		—	—	67.1 ^(Note 4, 5 and 6)	69.3 ^(Note 6)	88.0 ^(Note 4, 5 and 6)	91.8 ^(Note 6)
First Independent Third Party Pelletizing Contractor's pelletizing plant ^(Note 7)							
Iron pellets		—	—	—	—	20.0 ^(Note 8)	63.9

Notes:

1. The utilization rate is calculated based on the total actual production for a given year over the total annual production capacity of the relevant iron ore product for such year. Production capacity figures are estimates based on a number of factors including working hours, the number of workers and the grade of the ore used.
2. The production capacity of 500.0 Kt represents the production capacity of our iron concentrates as of December 31, 2008. As a result of the commencement of the operation of the 300.0 Kt iron concentrates production line in the second half of 2008, the utilization rate of 97.9% is calculated based on the actual average production capacity of 350.0 Kt in 2008.
3. The utilization rate of 33.6% was due to the fact that we discontinued production of medium-grade titanium concentrates at our Xiushuihe Processing Plant for part of the year due to a planned upgrade of the titanium concentrates production line.
4. Our first Independent Third Party Processing Contractor entered into a processing contract with us in August 2006 and commenced production of iron concentrates and medium-grade titanium concentrates from our ore in January 2007.
5. These figures represent the production capacity of iron concentrates or medium-grade titanium concentrates which our first Independent Third Party Processing Contractor allocated to us in 2007 and 2008.
6. The utilization rate is derived on the basis that the production line would be operated for 330 days in 2007 and 2008.
7. Our first Independent Third Party Pelletizing Contractor entered into a pelletizing contract with us on December 12, 2008 and commenced production of iron pellets since that date.
8. This figure represents the production capacity of iron pellets which our first Independent Third Party Pelletizing Contractor allocated to us in 2008.

As can be seen from the table above, the annual production capacity of each of our iron concentrates and iron pellets and medium-grade titanium concentrates has increased during the Track Record Period. As of June 30, 2009, we have increased our iron concentrates production capacity to 1,700 Kt (including the 700.0 Kt production capacity allocated to us by our Independent Third Party Processing Contractors in 2009) and our iron pellets production capacity to 760.0 Kt (including the 400.0 Kt production capacity allocated to us by our Independent Third Party Pelletizing Contractors in 2009). As of June 30, 2009, we have increased our medium-grade titanium concentrates production capacity to 240.0 Kt (including the 110.0 Kt production capacity allocated to us by our Independent Third Party Processing Contractors in 2009).

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Baicao Processing Plant

Our Baicao Processing Plant produces both iron concentrates and medium-grade titanium concentrates and is located near our Baicao Mine. In 2007, the production capacity of our Baicao Processing Plant was not fully utilized. In 2008, we completed the construction of phase I of the new 500.0 Kt iron concentrates production line at our Baicao Processing Plant, providing us with a further 300.0 Kt of iron concentrates annual production capacity. As of December 31, 2008, our Baicao Processing Plant had a total annual production capacity of 500.0 Kt of iron concentrates and 80.0 Kt of medium-grade titanium concentrates. In addition, we completed the construction of phase II of the new 500.0 Kt iron concentrates production line at our Baicao Processing Plant in May 2009, providing us with a further 200.0 Kt of annual production capacity of iron concentrates. The phase II iron concentrates production line of 200.0 Kt commenced production in August 2009. As of June 30, 2009, the total production capacity of iron concentrates and medium-grade titanium concentrates was 500.0 Kt and 80.0 Kt, respectively. For details of our expansion and construction plan to upgrade our equipment and expand our production capacity as well as our product lines, see "— Expansion and Construction Plan" in this section. The iron concentrates produced by our Baicao Processing Plant are sold to direct customers or distributors.

We use low-cost and environmentally-friendly magnetic separation methods to process raw ore in the production of both iron concentrates and titanium concentrates. Our methods are more environmentally-friendly because they do not require chemical additives and result in limited quantities of waste water that can be recycled. High-grade ore is first crushed, screened, ground and classified. The processed ore then undergoes a wet low-intensity magnetic separation process to separate iron concentrates and titanium concentrates. To maximize the extraction of iron concentrates, the iron concentrates undergo the wet low-intensity separation process several times.

To produce medium-grade titanium concentrates, the titanium concentrates mixture undergoes a wet high-intensity magnetic separation process. This process produces titanium concentrates with a lower titanium content but yields higher production volumes and reduces the titanium content in our waste materials when compared to the gravitation purification process method used at our Xiushuihe Processing Plant. We plan to use a flotation circuit to remove more impurities to reach a titanium dioxide content of at least 46.0% in our high-grade titanium concentrates production line, which will begin operation in October 2009. Waste materials are disposed in a tailings pond.

Our Baicao Processing Plant uses simple and durable equipment such as jaw crushers, cone crushers, grinding ball mills, classification spirals, magnetic separators and, once our high-grade titanium concentrates production begins, sulfide flotation cells. All equipment is made in the PRC and can be easily fixed or replaced because it does not employ advanced technology. As of June 30, 2009, our Baicao Processing Plant production facilities required approximately 336 workers working three shifts per day. Our high-grade titanium concentrates process will not materially increase the numbers of workers required. Our Baicao Processing Plant had a quality control team of 23 persons as of June 30, 2009. See "— Quality control" in this section.

Xiushuihe Processing Plant

Our Xiushuihe Processing Plant produces both iron concentrates and medium-grade titanium concentrates and is located near our Xiushuihe Mine. At our Xiushuihe Processing Plant, we entered into a new co-operation agreement with Nanjiang from March 18, 2009 to November 10, 2023 (the "New Agreement"), which amended and restated the terms of an old agreement entered into among Xiushuihe Mining, Nanjiang and Chuan Wei on August 8, 2007 (the "Old Agreement"). Prior to

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entering into the Old Agreement, there had only been a 150.0 Kt iron concentrates production line constructed at our Xiushuihe Processing Plant. The purpose of the co-operation agreements is to construct new iron and titanium concentrates production lines and to upgrade the existing 150.0 Kt iron concentrates production line. Under the Old Agreement, Nanjiang agreed to construct new iron and titanium concentrates production lines with annual production capacities of 300.0 Kt and 30.0 Kt, respectively, and to upgrade the existing 150.0 Kt iron concentrates production line to 200.0 Kt at our Xiushuihe Processing Plant. Under the New Agreement, the production lines to be constructed and/or upgraded are the same as the Old Agreement, save that the construction of the 30.0 Kt titanium concentrates production is now upgraded to 50.0 Kt titanium concentrates. The projects undertaken pursuant to the Old Agreement and the New Agreement are all constructed or to be constructed at our Xiushuihe Processing Plant and are referred to as the "Nanjiang Project". The upgrading of the iron concentrates production line from 150.0 Kt to 200.0 Kt and the construction of the 300.0 Kt iron concentrates production line were both completed in June 2008. Nanjiang commenced the construction of the 30.0 Kt titanium concentrates production line in October 2008 and will proceed to upgrade this production line to 50.0 Kt pursuant to the New Agreement. The upgrading of the titanium concentrates production line is expected to be completed in December 2009 and production to commence in January 2010. See "— Co-operation Agreement" in this section. As of December 31, 2008, our Xiushuihe Processing Plant had a total annual production capacity of 500.0 Kt of iron concentrates and 50.0 Kt of medium-grade titanium concentrates. For details of our expansion and construction plan to upgrade our equipment and expand our production capacity as well as our product line, see "— Expansion and Construction Plan" in this section. Most of the iron concentrates produced by our Xiushuihe Processing Plant are used by our Iron Pelletizing Plant. The majority of our titanium concentrates is sold to distributors for resale to end-users.

The production of iron concentrates and medium-grade titanium concentrates at our Xiushuihe Processing Plant largely uses the same processes and equipment as those of our Baicao Processing Plant, except our medium-grade titanium concentrates production line uses a gravitation purification method instead of a high-intensity magnetic separation process. This method produces titanium concentrates with a higher average titanium dioxide content but yields lower production volumes when compared to the high-intensity magnetic separation process used at our Baicao Processing Plant. As of June 30, 2009, our Xiushuihe Processing Plant production facilities required approximately 254 workers working three shifts per day and our quality control team consisted of ten persons who inspect the production lines and products. See "— Quality Control" in this section.

Iron Pelletizing Plant

Our Iron Pelletizing Plant is located 36 km from our Xiushuihe Mine near the 108 State Highway. As of June 30, 2009, our Iron Pelletizing Plant had a total annual production capacity of 360.0 Kt of iron pellets.

Iron concentrates are the major raw material for iron pellets. During the Track Record Period, we supplied the iron concentrates required by our Iron Pelletizing Plant from our Xiushuihe Processing Plant or from our first Independent Third Party Processing Contractor. Because the demand for our iron pellets was greater than the iron concentrates production capacity of our Xiushuihe Processing Plant, we bought iron concentrates from third parties in order to produce sufficient quantity of iron pellets to meet customer demand in 2006, 2007 and 2008. We did not purchase iron concentrates from third party suppliers for the six months ended June 30, 2009. With the increase in the production capacity of our iron concentrates at our Xiushuihe Processing Plant and the volume of iron

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concentrates which we expect our two Independent Third Party Processing Contractors to produce for us, we do not expect to purchase iron concentrates from third parties in the future.

To produce iron pellets, iron concentrates are first mixed with bentonite clay for its adhesive properties, then dried to reduce moisture levels. The combined materials are then pelletized into a ball shape through a ball milling process. The pelletized materials are then sintered using a shaft furnace to harden them into iron pellets. The strength of our iron pellets is approximately between 1,200N to 1,400N which is within the market range of 800N to 1,800N.

Our Iron Pelletizing Plant uses simple and durable equipment such as mixers, pelletizers and shaft furnaces. This equipment is available in the PRC. We have upgraded our furnace in order to improve the hardness of our iron pellets and our production efficiency. As of June 30, 2009, our pelletizing production process required 281 workers working three shifts per day and our quality control team consisted of approximately 21 persons who inspect our pelletizing production lines.

The following table illustrates the volumes and sources of the iron concentrates supplied to our Iron Pelletizing Plant for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2006	2007	2008	2009
	(Kt)			
Iron concentrates Feed				
Xiushuihe Mining	137.0	122.6	285.9	143.4
First Independent Third Party Processing Contractor	—	23.1	36.6	—
External suppliers	32.9	119.5	8.2	—
Total	<u>169.9</u>	<u>265.2</u>	<u>330.7</u>	<u>143.4</u>

Note: The volume of the concentrates feed in the above table is in dry basis numbers.

Processing contracting

We currently engage two Independent Third Party Processing Contractors. We entered into a contract with our first Independent Third Party Processing Contractor located close to our Baicao Mine in August 2006 to increase our iron concentrates and medium-grade titanium concentrates production capacity. This contract has a term of five years with an option to renew for another two five-year terms. 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. It 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, our first 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 the total production volume of iron concentrates and medium-grade titanium concentrates for the six months ended June 30, 2009.

We entered into a contract with our second Independent Third Party Processing Contractor in April 2009 for a eight-month term, pursuant to which our second Independent Third Party Processing

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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 the 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. We undertake random inspections of our Independent Third Party Processing Contractors' facilities several times a month to monitor their processing progress. See "— Independent Third Party Contractors — Processing contractors" in this section.

Pelletizing contracting

We currently engage two Independent Third Party Pelletizing Contractors to increase our iron pellets production capacity. We entered into contracts with our two Independent Third Party Pelletizing Contractors for a term of one year from December 12, 2008 and February 6, 2009, respectively. Our Independent Third Party Pelletizing Contractors produce iron pellets using the iron concentrates processed 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 the 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 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 the 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 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 the 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, during the contract term, we are responsible for overseeing and supervising the pelletizing operations and control the quality and quantity of the iron pellets and other raw materials provided to our Independent Third Party Pelletizing Contractors and the final products. We also 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 efficiency of our Independent Third Party Pelletizing Contractors' pelletizing process. See "— Independent Third Party Contractors — Pelletizing contractors" in this section.

INDEPENDENT THIRD PARTY CONTRACTORS

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

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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, 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

Notes:

1. The production volume for 2006, 2007, 2008 and the six months ended June 30, 2009 refers to the production volume of raw ore.
2. The production volume for 2006, 2007, 2008 and the 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.
3. The production volume for 2006, 2007, 2008 and the 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 in February 2009 for a one-year term.

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The following table sets out the transportation volume of our Independent Third Party Transportation Contractor as compared to the total sales volume of our iron ore products, during the Track Record Period.

	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 Contractors ^(Note 1) . . .	336.8	93.0	653.7	91.1	411.7	31.2	283.9	33.0

Note:

1. The transportation volume for 2006, 2007 and 2008 and the 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 "Financial Information — Factors Affecting Results of Operations and Financial Condition — Transportation Expenses" section in this document.

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 "— Operational Health and Safety" in this section.

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The following table sets out information about our Independent Third Party contractors:

No.	Independent Third Party Contractor	Date of Establishment	Type of Corporation	Date of commencement of contracting relationship with our Group
1.	Huili County Yangquejing Iron Mine (會理縣陽雀箐鐵礦) (Mining contractor)	June 4, 2001	Sole proprietorship (Unlimited liability) (Non state-owned)	January 2005 ^(Note 1)
2.	Yanbian County Hongyuan Mining Co., Ltd. (鹽邊縣宏緣礦業有限責任公司) (Processing contractor)	April 25, 2001	Limited liability company (Non state-owned)	August 2006 ^(Note 2)
3.	Panzhihua City Aolei Gongmao Co., Ltd. (攀枝花市奧磊工貿有限責任公司) (Processing contractor)	March 12, 2004	Limited liability company (Non state-owned)	April 2009 ^(Note 3)
4.	Sichuan Zizhong County Tiema Motor Transport Co., Ltd. (四川省資中縣鐵馬運輸有限公司) (Transportation contractor)	March 3, 2003	Limited liability company (Non state-owned)	October 2006
5.	Huili County Xinxingda Motor Transport Co., Ltd. (會理縣鑫興達汽車運輸有限公司) (Transportation contractor)	July 15, 2005	Limited liability company (Non state-owned)	January 2007
6.	Huili County Liyuan Industry Co., Ltd. (會理縣力源實業有限責任公司) (Transportation contractor)	July 10, 2008	Limited liability company (Non state-owned)	July 2008
7.	Panzhihua Henghong Iron Pellets Co., Ltd. (攀枝花恒弘球團有限公司) (Pelletizing contractor)	July 20, 2005	Limited liability company (Non state-owned)	December 2008 ^(Note 4)
8.	Panzhihua City Guangchuan Metallurgy Co., Ltd. (攀枝花市廣川冶金有限公司) (Pelletizing contractor)	October 27, 2004	Limited liability company (Non state-owned)	February 2009 ^(Note 5)

Notes:

- Huili County Yangquejing Iron Mine is the main mining contractor for both our Xiushuihe and Baicao Mines.
- Yanbian County Hongyuan Mining Co., Ltd commenced production of our iron concentrates and medium-grade titanium concentrates from the ore extracted from our Baicao Mine in January 2007. With respect to the production of iron concentrates, Yanbian County Hongyuan Mining Co., Ltd produced 206.6 Kt and 460.8 Kt of iron concentrates for us in 2007 and 2008, respectively, and it has agreed to allocate production capacity of 550.0 Kt of iron concentrates to us in 2009. For the six months ended June 30, 2009, it produced 266.8 Kt of iron concentrates. It produced 46.5 Kt and 80.8 Kt of medium-grade titanium concentrates for us in 2007 and 2008, respectively, and it has agreed to allocate production capacity of 110.0 Kt medium-grade titanium concentrates to us in 2009. For the six months ended June 30, 2009, it produced 37.7 Kt of medium-grade titanium concentrates for us.
- With respect to the production of iron concentrates, Panzhihua City Aolei Gongmao Co., Ltd. has 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, it produced 3.6 Kt of iron concentrates for us.
- With respect to the production of iron pellets, Panzhihua Henghong Iron Pellets Co., Ltd. has produced 12.8 Kt of iron pellets for us in 2008 and has agreed to allocate production capacity of 250.0 Kt of iron pellets to us in 2009. For the six months ended June 30, 2009, it produced 93.9 Kt of iron pellets for us.
- With respect to the production of iron pellets, Panzhihua City Guangchuan Metallurgy Co., Ltd. has agreed to allocate production capacity of 150.0 Kt of iron pellets to us in 2009. For the six months ended June 30, 2009, it produced 67.8 Kt of iron pellets for us.

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

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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" section in this document, and "— Independent Third Party contractors" in this section.

There are other mining, processing and transportation contractors readily available in the region that can provide similar services. According to a confirmation issued by the Huili County Economy Administration (會理縣經濟局), as of January 15, 2009, there were eight mining contractors, 26 processing contractors and nine transportation contractors in Huili County (the county where Baicao Mine and Xiushuihe Mine are located). We nevertheless may not be able to retain these contractors or obtain replacements for our current contractors on terms that are equal or favorable. See the "Risk Factors — Risks Relating to Our Business and Industry — We rely on Independent Third Party contractors for the majority of our operations" section in this document.

Mining contractor

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 Xiushuihe Mine, each for a term of five years. In August 2006, we entered into a new contract with the 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. 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. Our Independent Third Party Mining Contractor is one of the largest mining contractors in our area and is capable of increasing ore extraction capacity at our mines to meet our needs. For example, raw ore output at our Baicao Mine increased from 497.2 Kt in 2006 to 2,917.2 Kt in 2008, representing a CAGR of 142.2%, and from 1,882.3 Kt for the six months ended June 30, 2008 to 1,959.0 Kt for the six months ended June 30, 2009, representing an increase of 4.1%. Our raw ore output at our Xiushuihe Mine increased from 449.0 Kt in 2006 to 1,854.2 Kt in 2008, representing a CAGR of 103.2% and from 748.9 Kt for the six months ended June 30, 2008 to 1,036.5 Kt for the six months ended June 30, 2009, representing an increase of 38.4%. The increase in raw ore output during the Track Record Period was in response to our need for more

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iron concentrates as base material for our Iron Pelletizing Plant due to increased iron pellet demand. The table below summarizes the raw ore output of our mines for the periods indicated:

	Year ended December 31,			CAGR 2006-2008 %	Six months ended June 30,		Period growth %
	2006 (Kt)	2007 (Kt)	2008 (Kt)		2008	2009	
Baicao Mine	497.2	1,146.6	2,917.2	142.2	1,882.3	1,959.0	4.1
Xiushuihe Mine	449.0	604.8	1,854.2	103.2	748.9	1,036.5	38.4
Subtotal	946.2	1,751.4	4,771.4	124.6	2,631.2	2,995.5	13.8

Our Independent Third Party Mining Contractor 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 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.

Our Independent Third Party Mining Contractor must follow our monthly production plan, which outlines the specific grade and tonnage of the ore to be delivered. The separation process during which blasted ore is separated from waste material is supervised by our quality control technicians. The resulting separated ore is sorted by grade and then transported to our processing plants for processing. Meanwhile, waste material is stored at a waste disposal facility located at each mine. Our Independent Third Party Mining Contractor is responsible for the maintenance of the mining equipment and facilities at both our mines and we therefore do not need our own mine maintenance facilities. An office for our mining staff, which is composed of supervisors and geological ore control technicians, is provided at each mine and our staff is present at the mine during mining operations. For further details of the mining operations of our two mines, please refer to the "Report of Independent Technical Adviser" attached as Appendix V to this document. All mining equipment at our mines is owned by our Independent Third Party Mining Contractor. Since our mines are open-pit, no permanent mining structures are in place at either mine.

At the time of the appointment of the Independent Third Party Mining Contractor, we reviewed its business license and other permits. As advised by our PRC legal advisors, our Independent Third Party Mining Contractor is required to have a business license and blasting operation entity permit to carry out mining contracting work and each of the employees of our Independent Third Party Mining Contractor who handles explosives is required to have a safety qualification certificate. We have received copies of the current business license of our Independent Third Party Mining Contractor and of the safety qualification certificates of three of its employees. On September 2, 2008, we obtained a confirmation from the Administration Team of Huili County Public Security Bureau

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(會理縣公安局治安管理大隊) confirming that our Independent Third Party Mining Contractor has a blasting operations entity permit and its employees who handle explosives have the required safety qualification certificates. Based on these documents, we are satisfied that our Independent Third Party Mining Contractor has all the licenses, permits and certificates required to carry out mining contracting work under the mining contract.

Processing contractors

In addition to the iron concentrates and medium grade titanium concentrates we process ourselves at our own processing plants, we currently engage two Independent Third Party Processing Contractors 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 has agreed to allocate production capacity of at least 150.0 Kt of iron concentrates to us for the year ending December 31, 2009. For the six months ended June 30, 2009, our second Independent Third Party Processing Contractor produced 3.6 Kt of our iron concentrates, representing 0.5% of our total production volume of iron concentrates for the six months ended June 30, 2009.

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. 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.

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. In addition to the production of iron concentrates, our first Independent Third Party Processing Contractor plans to upgrade its titanium

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concentrates production equipment and will allocate to us a total annual high-grade titanium concentrates production capacity of 82.5 Kt in 2010.

Each of our Independent Third Party Processing Contractors is principally engaged in the business of beneficiation processing and sales of mining products. As advised by our PRC legal advisors, our Independent Third Party Processing Contractors are required to have a business license to carry out processing contracting work pursuant to their processing contractor contracts with us. As of the Latest Practicable Date, each of our Independent Third Party Processing Contractors has a business license with beneficiation processing as part of its scope of business. Other than holding a valid business license with beneficiation processing as part of its scope of business, our PRC legal advisors have advised us that no separate beneficiation license is required for a processing contractor in Sichuan to carry out such business. Our Independent Third Party Processing Contractors have more than three years of experience in conducting beneficiation processing operations.

Pelletizing contractors

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 iron pellets production capacity. 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. In 2008, our first Independent Third Party Pelletizing Contractor produced 12.8 Kt of iron pellets for us, 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 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% 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 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 Contractor and in comparison with our own pelletizing operating costs incurred by us at our own Iron Pelletizing Plant.

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Our first Independent Third Party Pelletizing Contractor is principally engaged in the business of pelletizing operations, the production and sales of mining products and sales of steel products. Our second Independent Third Party Pelletizing Contractor is principally engaged in the business of pelletizing operations, the production and sales of iron concentrates and titanium slag and sales of metal and construction materials. As advised by our PRC legal advisors, our Independent Third Party Pelletizing Contractors are required to have business licenses to carry out pelletizing contracting work pursuant to their contract with us. As of the Latest Practicable Date, both our Independent Third Party Pelletizing Contractors have business licenses with pelletizing operations as part of their scope of business. Other than holding a valid business license with pelletizing operations as part of its scope of business, our PRC legal advisors have advised us that no separate pelletizing license is required for a pelletizing contractor in Sichuan to carry out such business. Both of our Independent Third Party Pelletizing Contractors have more than three years of experience in conducting pelletizing operations.

Transportation contractors

Prior to January 1, 2008, during the years ended December 31, 2006 and 2007, we engaged Tongyu, a connected person to our Group, to deliver our products to Weiyuan Steel. We sold over 90% of our products to Weiyuan Steel during the years ended December 31, 2006 and 2007 and fees payable to Tongyu were a major component of our selling and distribution expenses.

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 with in respect of the delivery of our iron ore products. See "— Sales — Settlement and Delivery of Products" in this section and "Financial Information — Factors Affecting the Results of Operations and Financial Condition — Transportation Expenses" section in this document.

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 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 July 21, 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. 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 "— Sales — Settlement and delivery of products" in this section and the "Financial Information — Factors Affecting Results of Operations and Financial Condition — Transportation expenses" section in this document.

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CO-OPERATION AGREEMENT

We entered into a new co-operation agreement with Nanjiang for a term commencing on March 18, 2009 until November 10, 2023 (the “New Agreement”), which amended and restated the terms of an old co-operation agreement that had been entered into among Xiushuihe Mining, Nanjiang and Chuan Wei on August 8, 2007 (the “Old Agreement”). Prior to entering into the Old Agreement, there had only been a 150.0 Kt iron concentrates production line constructed at our Xiushuihe Processing Plant. The purpose of these co-operation agreements is to construct new iron and titanium concentrates production lines and to upgrade the existing 150.0 Kt iron concentrates production line at our Xiushuihe Processing Plant. Because Nanjiang has the relevant experience and expertise in the construction, operation, and management of mines, our Directors believe it to be commercially beneficial to enter into these agreements with Nanjiang. Under the New Agreement, Nanjiang will be involved in overseeing the operation of the production lines after they are constructed and upgraded, ensuring the safety of the production processes used at Xiushuihe Processing Plant, assessing quality control of the final products and providing technical guidance to the employees. Chuan Wei was a party to the Old Agreement as it acted as a guarantor of Xiushuihe Mining’s performance of its obligations therein. Pursuant to a termination agreement between Chuan Wei, Nanjiang and Xiushuihe Mining dated March 18, 2009, the Old Agreement has been terminated, and the obligations of all parties contained therein have been released. Accordingly, Chuan Wei no longer has any obligations as a guarantor under the Old Agreement. There is no guarantor for the New Agreement.

Under the Old Agreement, Nanjiang agreed to construct new iron and titanium concentrates production lines with annual production capacities of 300.0 Kt and 30.0 Kt, respectively, and to upgrade the existing 150.0 Kt iron concentrates production line to 200.0 Kt at our Xiushuihe Processing Plant. Under the New Agreement, the production lines to be constructed and/or upgraded are the same as in the Old Agreement, except that the construction of the 30.0 Kt titanium concentrates production line has now been upgraded to a 50.0 Kt titanium concentrates production line. The projects undertaken pursuant to the Old Agreement and the New Agreement are all constructed or to be constructed at our Xiushuihe Processing Plant and are referred to as the “Nanjiang Project”. The upgrading of the iron concentrates production line from 150.0 Kt to 200.0 Kt and the construction of the 300.0 Kt iron concentrates production line were both completed in June 2008. Nanjiang commenced the construction of the 30.0 Kt titanium concentrates production line in October 2008 and will proceed to upgrade this production line to 50.0 Kt pursuant to the New Agreement. The upgrading of the titanium concentrates production line is expected to be completed in December 2009 and production to commence in January 2010.

Under the New Agreement, the consideration for the Nanjiang Project (the “Nanjiang Project Consideration”) is based on the construction cost amount to be incurred by Nanjiang according to the final completion report we will prepare in accordance with the Infrastructure Financial Management Rules (基本建設財務管理規定) promulgated by the PRC Ministry of Finance. Nanjiang will review the final completion report and come to an agreement with us on the contents of the report. As of June 30, 2009, the confirmed amount of construction cost for the 300.0 Kt and 200.0 Kt iron concentrates production lines is approximately RMB67.3 million.

The Nanjiang Project Consideration is repayable starting from the completion date of the Nanjiang Project until November 2023. The amount of principal repayment pursuant to the Nanjiang Project Consideration is derived from 85% of the total amount Nanjiang is expected to receive under the New Agreement for each financial year (such total amount is defined as the “Sum of Profits”). The

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remaining 15% of the Sum of Profits for each financial year will be paid to Nanjiang as a technical service fee for its provision of technical support services to us. Upon full settlement of the Nanjiang Project Consideration, the entire Sum of Profits for each financial year will be paid to Nanjiang as a technical service fee until the expiry of the New Agreement in November 2023. The amount of the Sum of Profits will first be determined by us and reviewed by Nanjiang, and then mutually agreed upon by Nanjiang and us. See Note 34 of Section II of the Accountants' Report attached as Appendix I to this document for the specific formula used to calculate the Sum of Profits.

There is no term in the New Agreement specifying the timing of each principal repayment. But because the amount of principal repayment is to be based on the Sum of Profits, the principal repayment will not be paid until the Sum of Profits is determined, which is expected to occur by the end of the first quarter of each financial year. As a result, we expect that each principal repayment will be paid in the second quarter of each financial year for the duration of the New Agreement, except for the first principal payment of RMB67.3 million which is expected to be paid to Nanjiang in November 2009. Further, the number of times the principal repayment will be made depends on (a) the amount of the Nanjiang Project Consideration (which in turn depends on the actual construction cost to be incurred by Nanjiang); and (b) the amount of the Sum of Profits (which in turn depends on the profits generated by the 300.0 Kt iron concentrates production line, the 200.0 Kt iron concentrates production line and the 50.0 Kt titanium concentrates production line at the Xinchuihe Processing Plant). We estimate that we will pay four principal repayments in each of the four years 2009, 2010, 2011 and 2012.

The technical service fee is paid on or around the same time as the principal repayment. We expect that the technical service fee to be paid to Nanjiang in each of the three years 2009, 2010 and 2011 will be determined based on 15% of the Sum of Profits, and the technical service fee to be paid thereafter will be determined based on the entire Sum of Profits until the expiry of the New Agreement.

The production volume, revenue and profit contributions of the relevant production lines under the New Agreement during the Track Record Period are as follows:

	Year ended December 31, 2008 ^(Note)	Six months ended June 30, 2009
Revenue (RMB'000)	130,287.6	112,964.6
Production volume of iron concentrates (Kt)	239.5	254.3
Net profit (RMB'000)	53,003.0	36,434.9

Note: The relevant production lines under the co-operation arrangement between Nanjiang and us began to operate in July 2008.

UTILITIES AND RAW MATERIALS

Bentonite clay

The most important raw material used in our iron pellet production process is bentonite clay. We currently purchase bentonite clay from one Independent Third Party supplier located in Meishan city. We enter into supply agreements with our bentonite clay supplier on an annual basis. Our annual consumption of bentonite clay for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 was approximately 2.6 Kt, 3.7 Kt, 3.0 Kt and 1.0 Kt, respectively. Bentonite clay is primarily delivered to our production facilities via road or railroad and we maintain a one month supply of bentonite clay at our Iron Pelletizing Plant. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, costs related to bentonite clay amounted

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to approximately RMB1.4 million, RMB2.0 million, RMB1.8 million and RMB0.8 million, respectively, representing approximately 1.4%, 1.1%, 0.5% and 0.3% of our total cost of sales for the these periods. During the Track Record Period, we did not experience any shortages or interruptions in our bentonite clay supply.

Coal

We use coal during the iron pellet production process. We currently purchase coal from three Independent Third Party suppliers located in the Panzhihua region and Weiyuan. We have supply agreements with these coal suppliers on an annual basis. Our consumption of coal in for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 was approximately 33.5 Kt, 39.7 Kt 47.5 Kt and 21.2 Kt, respectively. Coal is primarily delivered to our production facilities via road and on average we maintain a one month supply at each of our production facilities. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our coal costs amounted to approximately RMB8.5 million, RMB11.5 million, RMB18.0 million and RMB9.3 million, respectively, representing approximately 8.5%, 6.1%, 4.9% and 3.4% respectively, of our total cost of sales for these periods. During the Track Record Period, we did not experience shortages or delays in our supply of coal.

Electricity and water

We utilize electricity and water in all of our operations. We have entered into electricity supply contracts with Huili County Power Supply Co, Ltd. (四川會理供電有限公司) at market rates for our Xiushuihe Processing Plant and our Iron Pelletizing Plant, and with Miyi County Power Supply Co., Ltd. (四川米易供電有限公司) at market rates for our Baicao Processing Plant. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our average electricity consumption was approximately 43.6 kwh, 37.2 kwh, 36.1 kwh and 42.7 kwh per tonne, respectively, for the production of our iron concentrates and medium-grade titanium concentrates and approximately 18.3 kwh, 18.7 kwh, 25.8 kwh and 30.2 kwh per tonne, respectively, for the production of our iron pellets. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our electricity expenditure was approximately RMB9.3 million, RMB11.1 million, RMB26.6 million and RMB20.6 million, representing approximately 9.3%, 5.9%, 7.3% and 7.5% of our total cost of sales, respectively, for these periods. During the Track Record Period, we did not experience any interruptions arising from sudden shortages or suspensions of electricity supplies that had a material adverse effect on our business, financial condition or results of operations.

We utilize a substantial amount of water at our processing plants. Water supply to our Baicao Processing Plant is from local ground water. Water supply to our Xiushuihe Processing Plant is from the nearby Ailang river. We also recycle water from the tailings ponds in our mines. During the last one or two months of the dry season in April and early May, our Baicao Processing Plant and Xiushuihe Processing Plant may experience shortages in the water supply, leading to production delays. This water shortage does not occur on an annual basis. To overcome the risk of a water shortage at the end of dry seasons, we have entered into an investment co-operation agreement with the local government on September 18, 2008 where the local government will construct a reservoir with a capacity of approximately 1.0 million cubic meters at Xiaoheiqing mining village (小黑箐鄉礦山村) near our Baicao Processing Plant. The construction cost for the reservoir is RMB36.0 million. The construction of the reservoir was completed in July 2009 and the reservoir will begin operations by

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October 2009. The major terms and conditions of the investment co-operation agreement are as follows:

- (a) We are responsible for the full construction cost of the reservoir, which amounts to RMB36.0 million. There was no construction cost incurred in 2008. As of June 30, 2009, we have incurred a construction cost of approximately RMB29.7 million. We are also responsible for the ongoing maintenance of the reservoir. In return, we are entitled to free use of the water in the reservoir.
- (b) We will be entitled to free usage of the water in the reservoir until January 1, 2028 and are expected to maintain the reservoir until such date. The term of use may be extended by the local government upon the successful renewal of the mining permit for the Baicao Mine, which will expire approximately on or about December 27, 2027.
- (c) The local government or its designated assignee will hold the ownership rights to the reservoir.
- (d) The local government is responsible for arranging the relevant approvals and permits to be obtained in relation to the construction of the reservoir.
- (e) The local villagers will be entitled to use the water in the reservoir for their living and agricultural activities.

See the "Risk Factors — Risks Relating to Our Business and Industry — We use water in our operations and we may face shortages in our water supplies" section in this document.

MAJOR SUPPLIERS

Our suppliers include suppliers of services such as our Independent Third Party Mining Contractor, Independent Third Party Processing Contractors, Independent Third Party Pelletizing Contractors and Independent Third Party Transportation Contractors, as well as suppliers of materials such as coal and bentonite clay, and other production-related materials. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our five largest suppliers together accounted for approximately 60.6%, 67.2%, 88.2% and 75.8% of our total purchases, respectively. Our purchases from the single largest supplier accounted for approximately 28.5%, 23.6%, 48.9% and 54.1% of our total purchases for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. Our suppliers are mainly based in Sichuan. Our supply contracts are denominated in Renminbi and we generally pay via telegraphic transfer. We have maintained business relationships with our largest suppliers for approximately three years.

None of our Directors, their respective associates or any Shareholders owning more than 5.0% of the issued Shares had any interest in any of our five major suppliers during the Track Record Period.

QUALITY CONTROL

We believe maintaining high product quality is key to our success. Most of our products are required to meet stringent product specifications and environmental protection standards. We have compiled a detailed quality control manual and implemented a comprehensive quality control system. As of June 30, 2009, we also had a quality control department with a total staff of 54 persons who are responsible for ensuring all raw materials, semi-finished products and finished products meet our quality control standards. Our quality control department performs on-site inspections of our mines and

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processing plants and spot checks on our products at our Independent Third Party Processing Contractors' plants.

We monitor our various production processes closely by taking samples at different stages in the production process for examination at our laboratories. We maintain production records to facilitate the improvement of our quality control system and have regular meetings with our Independent Third Party Mining Contractor, Independent Third Party Processing Contractors and Independent Third Party Pelletizing Contractors to resolve technical problems.

We have implemented stringent quality controls in accordance with PRC standards (GB/T 10322.1~7-2000) and international standards, as evidenced by the accreditations and certifications we have received, including the following:

- On June 28, 2007, we obtained an ISO 9001: 2000 certificate from CCIC Conformity Assessment Services Co., Ltd. This international standard applies to an enterprise's quality management system and encompasses various aspects of a company's operations, including product design and development, production, testing, inspection and customer service. The certificate is valid for three years.
- On July 31, 2009, we received a confirmation from Huili County Environmental Protection Bureau (會理縣環境保護局) certifying that the production process adopted by Huili Caitong and Xiushuihe Mining, respectively, has been in compliance with the relevant environmental laws and regulations.

Since our inception, we have not received any complaints regarding the quality of our products that had a material adverse effect on our business, financial condition or results of operations.

INVENTORY

Our inventory is comprised primarily of ore extracted from our mines, iron concentrates, coal, bentonite clay and spare parts. We believe we maintain strict control over our inventory. All of our ore products are measured and inspected by our quality control department. We keep daily inventory records and carry out an annual and monthly full inventory assessment. We also manage the level of inventory according to the inflow and outflow of various materials. We generally conduct monthly inspections of the condition of our inventory and make provisions for inventory that appears to be obsolete or damaged. In addition, we operate a monthly materials sourcing system. Our Directors confirm that we have not made any provisions for obsolete or damaged inventories during the Track Record Period. See the "Financial Information — Analysis of Various Statement of Financial Position Items — Inventory" section in this document.

SALES

Currently, our products are sold in the PRC domestic market and primarily to customers located in the southwest region of the PRC. As of June 30, 2009, we had four employees in our marketing team responsible for processing our customers' orders for our products collecting marketing information and developing and maintaining client relationships.

Sales to Weiyuan Steel

During the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our iron concentrates and iron pellets sales to Weiyuan Steel, our connected person, accounted

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for approximately 96.5%, 94.1%, 21.1% and 17.3% of our total revenue, respectively. We do not sell titanium products to Weiyuan Steel.

Weiyuan Steel is a company established in the PRC in which our Controlling Shareholders hold 68.0% equity interest. Accordingly, Weiyuan Steel is a connected person for the purposes of the Listing Rules. Weiyuan Steel’s principal business is steel production. As of June 30, 2009, Weiyuan Steel has an annual production capacity of 3.0 Mt of crude steel and is the second largest steel production company in Sichuan by annual production volume. Weiyuan Steel purchases iron ore from suppliers in Sichuan and other provinces in the PRC and from overseas suppliers. During the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, Weiyuan Steel purchased a total of approximately 3.0 Mt, 3.4 Mt, 3.3 Mt and 1.7 Mt, respectively, of iron ore products from all of its suppliers, of which approximately 336.8 Kt, 626.7 Kt, 274.3 Kt and 159.7 Kt, respectively, were purchased from us. In terms of percentage of purchases, the purchase of iron ore from us represents approximately 11.2%, 18.4%, 8.3% and 9.5% of Weiyuan Steel’s total purchases of iron ore. Our sales volume to Weiyuan Steel increased in 2006 and 2007 in line with the increase in our production volumes of iron ore products.

We sold the majority of our iron concentrates and iron pellets to Weiyuan Steel during the years ended December 31, 2006 and 2007 because (i) it was willing to purchase in large quantities; (ii) it offered market prices for our products; and (iii) the resulting revenue stream was stable and predictable. Weiyuan Steel was willing to purchase large quantities from us because purchasing iron ore products from suppliers abroad or from other regions of the PRC is more costly than purchasing from suppliers in Sichuan due to significant transportation costs, as well as the higher prices of imported iron ore products. In addition, iron ore lots from different areas have different mineral contents and steel producers must spend time and cost to formulate the appropriate mix to produce steel of the same quality and specifications from such different ore lots. As a result, Weiyuan Steel has commercial incentives to purchase all the iron ore we can supply to reduce its costs and secure a stable source of supply close to its production facilities. Because Weiyuan Steel is our related party and was willing to offer market prices for our products, we decided to give priority to Weiyuan Steel in the sale of our iron ore products since we began our first sales to Weiyuan Steel in 2005. Since January 1, 2008, we have begun to reduce our sales to Weiyuan Steel and increase our sales to Independent Third Party customers. See “—Expansion of customer base” in this section.

Our Directors confirm that, as determined by reference to the market prices of the same products of the same grade in the Panxi Region and by reviewing Weiyuan Steel’s purchase prices of the same products from other Independent Third Party suppliers, the prices of products sold to Weiyuan Steel during the years ended December 31, 2006 and 2007 were based on market prices. Our Directors confirm that there are no PRC governmental authority that publish official market prices for our products.

As of December 31, 2008 and June 30, 2009, we had reduced our sales to Weiyuan Steel to approximately 21.1% and 17.3% of our total revenue, respectively. See “— Customers” in this section for details of the sales volume for each of our customers in 2008 and the contracted sales volume for each of our customers in 2009 and 2010.

Excluding titanium products because we do not sell them to Weiyuan Steel, for the year ended December 31, 2008 and the six months ended June 30, 2009, actual sales to Weiyuan Steel accounted for 24.9% and 20.1% of our sales volume, or approximately 255.5 Kt and 159.7 Kt of our iron

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concentrates and approximately 18.8 Kt of our iron pellets, representing 22.3% and 17.5% of our revenue (excluding titanium products). For the same period, the actual sales to our Independent Third Party customers accounted for 75.1% and 79.9% of our total sales volume (excluding titanium products), or approximately 541.4 Kt and 303.6 Kt of our iron concentrates and approximately 286.6 Kt and 332.5 Kt of our iron pellets, representing 77.7% and 82.5% of our total revenue (excluding titanium products). Our largest Independent Third Party customer for the year ended December 31, 2008 was Chengdu Yingchi, which accounted for 16.8% of our total sales volume (excluding titanium products), or approximately 24.3 Kt of our iron concentrates and approximately 161.1 Kt of our iron pellets, representing 21.1% of our total revenue (excluding titanium products) for the year ended December 31, 2008. Our largest Independent Third Party customer for the six months ended June 30, 2009 was also Chengdu Yingchi, which accounted for 19.1%, of our total sales volume (excluding titanium products), or approximately 43.6 Kt of our iron concentrates and approximately 108.4 Kt of our iron pellets, representing 20.3% of our total revenue (excluding titanium products) for the six months ended June 30, 2009. See “— Customers” in this section.

The table below sets forth the average selling price per tonne of our iron concentrates and iron pellets to Weiyuan Steel and Independent Third Party customers during the Track Record Period:

	Year ended December 31,						For the six months ended	
	2006		2007		2008		2009	
	Average selling price (RMB/tonne)	Market Price (RMB/tonne)	Average selling price (RMB/tonne)	Market Price (RMB/tonne)	Average selling price (RMB/tonne)	Market Price (RMB/tonne)	Average selling price (RMB/tonne)	Market Price (RMB/tonne)
Weiyuan Steel								
Iron concentrates	450.8	420 – 438	477.8	420 – 566	597.8	400 – 750	527.2	400 – 610
Iron pellets	670.2	646 – 664	646.0	619 – 763	765.5	640 – 980	—	—
Independent Third Party customers^(Note 1)								
Iron concentrates	—	—	—	—	633.3	400 – 750	511.2	400 – 610
Iron pellets	—	—	—	—	830.1	640 – 980	723.3	620 – 830

Note:

1. We did not sell our iron concentrates or iron pellets to Independent Third Party customers in 2006 and 2007.

The average selling prices per tonne of our iron concentrates and iron pellets to Weiyuan Steel in 2006 were RMB450.8 and RMB670.2, respectively. The average selling prices were slightly higher than the market price primarily due to the difference in the grade of iron concentrates and iron pellets sold to Weiyuan Steel compared to the grade of iron concentrates and iron pellets used in the calculation of the market prices. The iron content of iron concentrates and iron pellets used in the calculation of the market price range was approximately 54.0%, whereas the iron content of iron concentrates and iron pellets sold to Weiyuan Steel was approximately 54.3% and 54.5%, respectively.

The average selling price per tonne of our iron concentrates to Weiyuan Steel in 2007 was RMB477.8 and was within the market price range of iron concentrates for 2007. The average selling price per tonne of our iron pellets to Weiyuan Steel in 2007 was RMB646.0 and was within the market price range of iron pellets for 2007.

The average selling price per tonne of our iron concentrates to Weiyuan Steel in 2008 was RMB597.8 and was within the market price range of iron concentrates for 2008. The average selling price per tonne of our iron pellets to Weiyuan Steel in 2008 was RMB765.5 and was within the market price range of iron pellets for 2008.

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The average selling price of our iron ore products to Weiyuan Steel was lower than the average selling price of iron ore products to Independent Third Party customers for 2008 because the selling price of our products is typically based on the market price on or about the time of delivery and at the time of delivery of our products to Weiyuan Steel, the market price of these products was lower. In 2008, the delivery of our iron concentrates and iron pellets to Weiyuan Steel was made in January and from August to December 2008. The market prices of iron ore products in the majority of these months were lower than the average selling price of iron ore products in 2008 as a whole. However, the average selling prices of iron ore products to Weiyuan Steel and Independent Third Party customers from August to December 2008 were comparable.

The average selling price per tonne of our iron concentrates to Weiyuan Steel for the six months ended June 30, 2009 was RMB527.2 and was within the market price range of iron concentrates for the same period. We did not sell iron pellets to Weiyuan Steel for the six months ended June 30, 2009. Beginning June 1, 2009, we have entered into a supplemental agreement with Weiyuan Steel that specifies the pricing arrangement with Weiyuan Steel for iron concentrates contracted for 2009 and 2010. According to the supplemental agreement, the selling price of iron concentrates for 2009 and 2010 is RMB605.1 and RMB632.5 per tonne, respectively, subject to adjustment based on the market price of iron concentrates. If the market price of iron concentrates falls below the contracted selling price, the contracted selling price will remain the same. If the market price of iron concentrates increases relative to the contracted selling price, the contracted selling 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 selling price. See "— Customers" in this section.

We believe that we will be able to maintain the reduction of sales to Weiyuan Steel at or below 30% of our total revenue (excluding titanium products) in 2009 because of the iron ore supply shortage in Sichuan and in the PRC generally. See the "Industry Overview — PRC Iron Ore Industry — Iron ore demand", "Industry Overview — Sichuan Iron Ore Industry — Iron ore demand" and "Industry Overview — PRC Policies and Regulations Supporting Growth in the Mining and Steel Industries" sections in this document. However, we cannot assure you that our strategy of reducing our sales to Weiyuan Steel will continue to be successful or that our sales volume and revenue will be comparable to our sales volume and revenue during the years ended December 2006 and 2007. If the majority of our sales and revenue are derived from a single customer, any disruption in that customer's business or in our relationship with that customer may have a material adverse effect on our business, financial condition and results of operations. See the "Risk Factors — Risks Relating to Our Business and Industry — We sold the majority of our products to a connected person during the years ended December 31, 2006 and 2007" section in this document.

Notwithstanding the fact that we sold the majority of our iron concentrates and iron pellets to Weiyuan Steel for the years ended December 31, 2006 and 2007, we believe that we no longer rely on one particular customer because we have been able to find new customers within a short period of time. In 2008 and the six months ended June 30, 2009, approximately 77.7% and 82.5% of our revenue from iron ore products was derived from Independent Third Party customers, respectively. We believe that there will continue to be sufficient potential customers in Sichuan for our iron ore products because of the shortage of supply of iron ore in Sichuan and the PRC. See "— Customers — Expansion of customer base" in this section and the "Industry Overview — PRC Iron Ore Industry" and "Industry Overview — Sichuan Iron Ore Industry" sections in this document.

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Contracts and pricing

The sales of our products to our customers, whether they are distributors or direct customers, 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 specified a sales price, subject to adjustment based on market prices. Beginning June 1, 2009, we have entered into supplemental agreements with all our customers of iron ore products which set out the pricing arrangements for iron concentrates contracted for 2009 and 2010, respectively. These 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 “— Customers” in this section.

During the years ended December 31, 2006 and 2007, Weiyuan Steel and other connected persons were not required to pay within a fixed period of time. Independent Third Party customers were generally required to make full payment prior to delivery, although a credit period was granted to a few Independent Third Party customers with good credit history. During the same period, we sold our titanium concentrates to Independent Third Party customers only. Our Directors confirm that the terms of the sales contracts for titanium concentrates were substantially the same, except for the credit terms. Such terms are discussed in “— Sales — Settlement and delivery of products” in this section.

The grant of different credit terms to Weiyuan Steel and other Independent Third Party customers during the years ended December 31, 2006 and 2007 was in line with our policy on credit terms at the time. During those years, we did not stipulate credit terms in our sales contracts but decided whether to grant credit to customers based on factors such as purchase volume, the financial condition of the customers and their credit history.

We did not specify a credit term for Weiyuan Steel during the years ended December 31, 2006 and 2007 because (i) Weiyuan Steel was our largest customer during that period and purchased 100% and 95.9% of our iron concentrates and iron pellets in the years ended December 31, 2006 and 2007; (ii) we were aware of Weiyuan Steel’s sound financial condition; and (iii) Weiyuan Steel had a good credit history. Notwithstanding the absence of a credit term, we were able to collect the outstanding balance owed by the related parties (including, without limitation, Weiyuan Steel) to our Group in relation to their purchase of iron ore products for each year ended December 31, 2006 and 2007 by February 26, 2007 and March 31, 2008, respectively. See the “Financial Information — Analysis of various financial ratios — Trade receivables turnover days (related customers)” section in this document for the trade receivables turnover days for related customers (including, without limitation, Weiyuan Steel).

Our Independent Third Party customers during such period mainly purchased small volume of titanium products. As a result, we generally required full payment from these Independent Third Party customers prior to delivery unless we were aware that they had a good credit history.

Based on the above, our Directors (and Reporting Accountants) are of the view that sales made to Weiyuan Steel during the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, were made with reference to market prices and are on normal commercial terms consistent with our credit policy. The views of the Reporting Accountants are based on the comparison of prices of similar products sold by other producers of similar products in the region.

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Settlement and delivery of products

Most of our sales were historically made to connected persons in 2006 and 2007. Independent Third Party customers were generally required to make full payment prior to delivery, although a credit period was granted to a few Independent Third Party customers with good credit histories. Connected persons were not required to pay within a fixed period of time. Since January 1, 2008, we have standardized the credit terms granted to all customers of our iron ore products, including our connected persons, to a maximum of 30 days. In relation to sales of medium-grade titanium concentrates products, we generally require full payment from these customers prior to delivery because the volume of sales of our medium-grade titanium concentrates products to these Independent Third Party customers is relatively small and unless we are aware that they have a good credit history.

Although we did not have a standardized credit period for our related party customers, we did not experience any difficulties in collecting payments from our related party customers during the years ended December 31, 2006 and 2007.

The transportation of our products is reliant on the railroad network. Our Iron Pelletizing Plant is about 36.0 km away from our Xiushuihe Mine and about 62.0 km away from the Midi station in Panzhihua. Our Baicao Mine is about 25.0 km from the Yakou station and our Xiushuihe Mine is about 50.0 km and 70.0 km from the Midi and Tongzilin stations, respectively. The Yakou, Midi and Tongzhilui stations are along the Chengdu-Kunming Railroad. The Chengdu-Kunming Railroad is a major railroad line and is currently in the process of further expanding its carrying capacity. We believe we serve our customers' needs by entering into a strategic cooperative understanding with Tongyu, a subsidiary of Chuan Wei that engages in freight forwarding, which gives our customers priority in the use of the railroad transport capacity that it secures from the Chengdu Railway Bureau Industry Development Corporation. The Chengdu Railway Bureau Industry Development Corporation has agreed with Tongyu to designate the Yakou and Midi stations as strategic loading points for Tongyu's use.

In 2008, most of our customers collected our products directly from our processing plants or the plant of our first Independent Third Party Processing Contractor, with the exception of Weiyuan Steel, Chengdu Yingchi and Independent Third Party Customer G. We delivered products to Weiyuan Steel and these two Independent Third Party customers to train stations near our processing plants. We recouped the costs associated with the transport of products for Weiyuan Steel and the two Independent Third Party customers by adding these costs to the contracted sales price. As of June 30, 2009, we have entered into a separate transportation arrangement with two other Independent Third Party customers on similar terms to the arrangement we had with Weiyuan Steel in 2008. See the "Financial Information — Factors Affecting Results of Operations and Financial Condition — Transportation expenses" section in this document. Our customers, including Weiyuan Steel, bear all costs and risks of transport after collection of our products.

During the Track Record Period, all sales of our products to direct customers and distributors were made on a non-recourse basis. There were no returns of our products by our customers during the Track Record Period.

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CUSTOMERS

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. The term “distributors” refers to customers who purchase our products from us and resell them to end users. There is no variation in the revenue recognition policy for the sale of products to direct customers and distributors. See the “Financial Information” section in this document and the Accountants’ Report attached as Appendix I to this document.

Revenue from the sales of goods to our customers is recognized when all the following conditions have been satisfied:

- (i) we have transferred to the buyer the significant risks and rewards of ownership of the goods, i.e., when goods are delivered and title has passed;
- (ii) we maintain neither managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (iii) the amount of revenue can be measured reliably; and
- (iv) it is probable that the economic benefits associated with the transaction will flow to us.

The sales 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. The quantity and price arrangements set forth in these contracts and supplemental agreement provide us a basis upon which we believe we can forecast our production needs and minimum revenues for 2009 and 2010. See “— Expansion of customer base” in this section.

We sell a large percentage of our products to customers in the southwest region of the PRC to take advantage of the associated lower transportation costs and the stable demand for our products. The table below summarizes the annual amount and the percentage of sales attributable to distributors and direct customers during the Track Record Period:

	Year ended December 31,						Six months ended June 30,	
	2006		2007		2008		2009	
	Sales (RMB million)	%	Sales (RMB million)	%	Sales (RMB million)	%	Sales (RMB million)	%
Distributors	5.6	2.6	7.0	1.9	586.0	74.1	396.3	81.5
Direct customers ^(Note)	205.5	97.4	359.7	98.1	205.2	25.9	89.7	18.5
Total	211.1	100.0	366.7	100.0	791.2	100.0	486.0	100.0

Note: Our direct customers include Weiyuan Steel.

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The table below shows a list of our top five customers, and the revenue derived from these customers, all of which are currently non-state owned companies, for the year ended December 31, 2008 and the six months ended June 30, 2009.

	Type of Customer	Year ended December 31, 2008		Six months ended June 30, 2009	
		Revenue (RMB'000)	Percentage of the Group's total revenue (%)	Revenue (RMB'000)	Percentage of the Group's total revenue (%)
Weiyuan Steel	Direct customer	167.1	21.1	84.2	17.3
Chengdu Yingchi ^(Note 1)	Distributor	158.1	20.0	97.6	20.1
Neijiang Jiarui ^(Note 2)	Distributor	145.1	18.3	91.0	18.7
Deyang Henggu ^(Note 3)	Distributor	131.3	16.6	74.2	15.3
Chengdu Yushengtian ^(Note 4)	Distributor	109.5	13.8	68.0	14.0

Notes:

1. Chengdu Yingchi, located in Chengdu, Sichuan, is principally engaged in the business of sales of metals (excluding precious metals) and ore products with a registered capital of RMB30.0 million.
2. Neijiang Jiarui, located in Zizhong County, Sichuan, is principally engaged in the business of sales of steel and ore products with a registered capital of RMB30.0 million.
3. Deyang Henggu, located in Shifang City, Sichuan, is principally engaged in the business of sales of metals (excluding precious metals) and ore products with a registered capital of RMB5.0 million.
4. Chengdu Yushengtian, located in Chengdu, Sichuan, is principally engaged in the business of sales of steel and ore products with a registered capital of RMB30.0 million.

The table below summarizes the average selling price per tonne of each of our products attributable to distributors and direct customers during the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2006 Average selling price (RMB/tonne)	2007 Average selling price (RMB/tonne)	2008 Average selling price (RMB/tonne)	2009 Average selling price (RMB/tonne)
Iron concentrates	450.8	477.8	621.9	516.7
Distributors	—	—	633.3	511.2
Direct customers ^(Note 1)	450.8	477.8	597.8 ^(Note 2)	527.2
Iron pellets	670.2	646.0	826.1	723.3
Distributors	—	—	830.1	723.3
Direct customers ^(Note 1)	670.2	646.0	765.5 ^(Note 2)	—
Medium-grade titanium concentrates	295.9	176.3	199.7	94.4
Distributors	298.7	174.6	178.5	46.1
Direct customers	287.8	179.2	203.0	106.3

Notes:

1. Our direct customers include Weiyuan Steel.
2. Our selling prices are based on the market price at the time of delivery. The only direct customer to which we supplied our iron ore products in 2008 was Weiyuan Steel. Our sales to Weiyuan Steel were made in January and from August to December 2008 when market prices in the majority of these months were lower than the average selling price of iron ore products in 2008 as a whole. As a result, the average selling prices for sales to direct customers in 2008 were lower than that for sales to distributors.

Direct customers

In 2006 and 2007, Weiyuan Steel was the single largest direct customer of our iron concentrates and iron pellets. See "— Sales — Sales to Weiyuan Steel" in this section.

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In 2008, we had eight direct customers, including Weiyuan Steel, which continued to be a direct customer of our iron concentrates and iron pellets, and seven others that were direct customers of our medium-grade titanium concentrates. 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, RMB359.7 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. Most of our direct customers are located in Sichuan.

Distributors

We did not sell our iron concentrates or iron pellets to any distributors in 2006 or 2007. In 2008, we sold our iron concentrates and iron pellets to five distributors. For the six months ended June 30, 2009, we also 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. For the six months ended June 30, 2009, we sold our medium-grade titanium concentrates to three distributors. These distributors are Independent Third Parties. For the years ended December 31, 2006, 2007 and 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, respectively.

Expansion of customer base

During the years ended December 31, 2006 and 2007, most of our iron concentrates and iron pellets were sold primarily to Weiyuan Steel, a company in which one of our Controlling Shareholders owns a 68.0% equity interest and which is our connected person. In 2007, we also sold iron concentrates to Xichang Vanadium, which is also our connected person. Since January 1, 2008, we have begun to reduce our sales to Weiyuan Steel and increase our sales to Independent Third Party customers. See "— Sales" in this section. The table below summarizes the amount and the percentage of sales revenue attributable to Weiyuan Steel, Xichang Vanadium and Independent Third Party customers during the Track Record Period:

	Year ended December 31,						Six months ended June 30,	
	2006		2007		2008		2009	
	Sales (RMB million)	%	Sales (RMB million)	%	Sales (RMB million)	%	Sales (RMB million)	%
Weiyuan Steel	203.7	96.5	344.9	94.1	167.1	21.1	84.2	17.3
Xichang Vanadium	—	—	10.5	2.9	—	—	—	—
Subtotal	203.7	96.5	355.4	97.0	167.1	21.1	84.2	17.3
Independent Third Party Customers	7.4	3.5	11.3	3.0	624.1	78.9	401.8	82.7
Total	<u>211.1</u>	<u>100.0</u>	<u>366.7</u>	<u>100.0</u>	<u>791.2</u>	<u>100.0</u>	<u>486.0</u>	<u>100</u>

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In late 2007, we began to solicit orders for iron ore products from a number of potential customers that had approached us previously for the purchase of our products. Steel production companies have commercial incentives to purchase large quantities of iron ore from the same ore lot to reduce costs and secure a stable supply close to their respective production facilities. See "— Sales — Sales to Weiyuan Steel" in this section. Our production volumes of iron ore products prior to 2008 were relatively low compared to that in 2008. Given these relatively low production volumes, we were unable to supply large quantities of iron ore products to many customers prior to 2008. Because we planned a significant increase in our production volume of iron concentrates from approximately 500.0 Kt in 2007 to approximately 1.1 Mt in 2008 and planned to reduce our reliance on Weiyuan Steel by selling more iron ore products to other customers, we were in a position to sell more of our iron ore products to other customers in 2008. For these reasons, we began in late 2007 to solicit orders for iron ore products from other Independent Third Party customers.

To facilitate our growth and development, our Directors believe it is important to secure a stable and continuing relationship with Independent Third Party customers. If the terms and conditions for the supply of iron ore products are the same among potential customers, we will give priority to Independent Third Party customers over related party customers. In the event that we are unable to produce sufficient iron ore products to satisfy all of the contracted sales volumes, we will give priority to Independent Third Party customers in the supply of iron ore products. We will consider factors such as scale of operations, financial condition and credit history when determining the allocation of our iron ore products among our Independent Third Party customers. As a general rule, we will give priority to large Independent Third Party customers with a good financial condition and credit history over other Independent Third Party customers.

Since December 2007, we have entered into sales contracts for 2008, 2009 and 2010 with nine Independent Third Party customers sufficient to account for 100% of our estimated production of iron ore products (excluding titanium products) for 2008, 2009 and 2010. Most of these Independent Third Party customers are located in Sichuan and their registered offices are within 500 km from our processing plants and the plants of our Independent Third Party Processing Contractors. Beginning in June 2009, we have entered into supplemental agreements with these customers that set out the pricing arrangements for iron ore products contracted for 2009 and 2010. These agreements specify a minimum sales price per tonne for 2009 and 2010. The contracted sales price is subject to adjustment based on the market price of the given iron ore product at the time of delivery. If the market price of the iron ore product 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 sales 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.

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As of the Latest Practicable Date, the table below shows the contracted sales volume and contracted sales prices of iron concentrates and iron pellets for the year ended December 31, 2008, and the years ending December 31, 2009 and 2010 for each of our customers, most of which are currently non-state owned companies.

Name	2008				2009			2010		
	Contracted sales volume	Percentage of contracted sales volume	Actual sales volume	Percentage of actual sales volume	Contracted sales volume	Percentage of contracted sales volume	Contracted Sales Price per tonne (RMB) ^(Note 7)	Contracted sales volume	Percentage of contracted sales volume	Contracted Sales Price per tonne (RMB) ^(Note 7)
	tonnes	%	tonnes	%	tonnes	%		tonnes	%	
Iron concentrates										
Chengdu Yingchi	40,000	2.8	24,342	2.2	100,000	4.9	562.4	100,000	4.5	589.7
Deyang Henggu	230,000	15.9	209,250	19.0	100,000	4.9	562.4	100,000	4.5	589.7
Neijiang Jiarui	210,000	14.5	208,616	18.9	100,000	4.9	562.4	100,000	4.5	589.7
Weiyuan Steel	360,000	24.9	255,456	23.2	450,000	22.1	605.1 ^(Note 8)	520,000	23.2	632.5 ^(Note 8)
Chengdu Yushengtian	100,000	6.9	25,439	2.3	—	—	—	—	—	—
Independent Third Party customer D ^(Note 1)	40,000	2.8	—	—	60,000	2.9	562.4	—	—	—
Independent Third Party customer E ^(Note 2)	50,000	3.5	—	—	100,000	4.9	562.4	150,000	6.7	589.7
Independent Third Party customer F ^(Note 4)	10,000	0.7	—	—	60,000	2.9	562.4	130,000	5.8	589.7
Independent Third Party customer G ^(Note 5)	80,000	5.5	73,774	6.7	—	—	—	—	—	—
Independent Third Party customer H ^(Note 6)	—	—	—	—	360,000	17.6	605.1 ^(Note 8)	360,000	16.0	632.5 ^(Note 8)
Subtotal	1,120,000	77.5	796,877	72.3	1,330,000	65.1		1,460,000	65.2	
Iron pellets										
Chengdu Yingchi	140,000	9.6	161,085	14.6	150,000	7.4	826.5	200,000	8.9	867.5
Weiyuan Steel	18,000	1.2	18,820	1.7	—	—	—	—	—	—
Deyang Henggu	—	—	—	—	150,000	7.4	826.5	150,000	6.7	867.5
Neijiang Jiarui	—	—	—	—	180,000	8.8	826.5	150,000	6.7	867.5
Independent Third Party customer E ^(Note 2)	—	—	—	—	30,000	1.5	826.5	80,000	3.6	867.5
Chengdu Yushengtian	170,000	11.7	125,528	11.4	200,000	9.8	826.5	200,000	8.9	867.5
Subtotal	328,000	22.5	305,433	27.7	710,000	34.9		780,000	34.8	
Total	1,448,000	100.0	1,102,310	100.0	2,040,000	100.0		2,240,000	100.0	

Notes:

1. Independent Third Party customer D (non-state owned), located in Chuxiong, Yunnan, is principally engaged in the business of iron ore mining, raw materials import for its own production and imported materials processing.
2. Independent Third Party customer E (non-state owned), located in the centralized industrial zone in Wusheng, is principally engaged in the business of ore processing and sales.
4. Independent Third Party customer F (non-state owned), located in Guanghan City, Sichuan, is principally engaged in the business of sales of metal materials and ore products.
5. Independent Third Party customer G (state-owned), located in Chengdu, Sichuan, is engaged in the business of wholesale and retail of mining products.
6. Independent Third Party customer H (state owned), located in Xichang, Sichuan, is principally engaged in the business of transportation, logistics, sales and purchase of iron ore products and metal materials.
7. The Contracted Sales Prices are exclusive of VAT.
8. The Contracted Sales Prices include transportation expenses from our processing plants or our processing contractors' plants to the nearest train stations.

These sales contracts (including those signed with Weiyuan Steel) require customers to purchase specified quantities for each contracted year but do not require us to supply such amounts. In addition, these sales contracts stipulate that the sale prices of our products are subject to adjustments based on the market prices of these products at the time of delivery. It is a general industry practice for

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producers to sell iron ore products at the market prices at time of delivery. As such, our Directors confirm that these sales contracts with Independent Third Party customers were concluded on an arm's length basis. We also do not engage in any hedging measures as hedging is not a common industry practice in the PRC.

Our customers voluntarily entered into these contracts because suppliers of iron ore products are in a stronger bargaining position as demand for iron ore products outstrips supply in Sichuan and in the PRC generally, and because our customers wish to maintain a long term business relationship with us. In addition, because our iron ore products are mainly used as raw material for steel production and steel producers must secure a stable supply of large quantities of iron ore, our customers tend to purchase large quantities of iron ore products from us. From our customers' perspective, their demand for iron ore is protected by executing sales contracts with us. Notwithstanding that we are not required to supply the contracted sales volume, we have agreed to use reasonable commercial efforts to supply the contracted sales volume to our customers.

These contracts, which are legal and valid under the laws of the PRC, are binding on ourselves and our customers. If any of our customers fails to purchase the contracted sales volume, these contracts entitle us to claim against such customer for breach of contract. In such an event, we would locate a substitute customer to purchase the relevant contracted sales volume. Because iron ore is a commodity, iron ore prices fluctuate based on global market forces of supply and demand. Based on our location and the other factors such as demand listed above, we thus expect that as long as we are prepared to sell our products at the market price, we will have sufficient customers to purchase the increased volume of our products. Further, as long as there is a supply shortage of and increasing demand for iron ore products in Sichuan and the PRC, our Directors believe that there will be no material adverse effect on our business, financial conditions and results of operations in the event that (i) we do not supply all of the contracted sales volumes to our customers in 2008, 2009 and 2010; and (ii) any of our customers fails to purchase its contracted purchase volume.

We entered into contracts and relevant supplemental agreements with these new Independent Third Party customers because these contracts are commercially beneficial to us for the following reasons:

- (i) the sales contracts oblige our customers to purchase the contracted sales volume, and these terms are binding on our customers;
- (ii) the sales contracts do not oblige us to supply the contracted sales volume and we therefore have the option, if we consider it commercially beneficial to do so, to decide not to supply or sell the contracted amounts to a given customer; and
- (iii) the supplemental agreements that set forth minimum sales prices entered into with our Independent Third Party customers (a) set a floor for our sales revenue in 2009 and 2010 because our customers are obliged to pay the minimum sales price per tonne of the iron ore product even if the market price falls below the minimum sales price and (b) in the event that the market price rises above the minimum sales price, these supplemental agreements will contribute positively to our sales revenue because they oblige the customers to pay a higher price in an amount equal to the sum of the minimum sales price and an amount to be agreed that is not more than 50.0% of the increase in the market price above the minimum sales price.

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In 2008, our Independent Third Party customers did not purchase the total contracted sales volume of iron ore products from us. As of the Latest Practicable Date, we have not exercised our rights under our sales contracts to require our customers to purchase all of the contracted sales volume under the sales contracts if they fail to purchase all of the contracted sales volume from us.

Our Independent Third Party customers did not purchase their respective total contracted sales volumes of iron ore products from us because when it was time to place their orders with us, they did not require the same amount of iron ore products as had been anticipated. We were willing to waive the outstanding volume not purchased by these customers for the following reasons:

- (1) more than half of our major Independent Third Party customers purchased more than 80.0% of their respective contracted sales volume of iron ore products from us in 2008. We regard customers that contract for more than 50.0 Kt of iron ore products to be our major customers. In 2008, four out of six major customers acquired more than 80% of their respective contracted sales volume in 2008;
- (2) we entered into a contract with a new Independent Third Party customer (Independent Third Party customer G) in September 2008 and the actual sales volume of iron concentrates sold to this customer partially offset the outstanding volume of iron concentrates not purchased by the other Independent Third Party customers;
- (3) we commenced negotiations with a new Independent Third Party customer (Independent Third Party customer H) in late 2008 and entered into a contract with it on January 1, 2009 for a contracted sales volume of 360.0 Kt of iron concentrates for 2009, representing 27.1% of the total contracted sales volume of iron concentrates for 2009. Independent Third Party customer H has also paid us a prepayment of RMB10.0 million. Given the size of this order, we have to maintain a certain level of inventory of iron concentrates to meet Independent Third Party customer H's demand, and were therefore willing to waive the outstanding volume of iron concentrates not purchased by the other customers; and
- (4) these customers had agreed in their respective contracts not to sue us if we failed to supply the full contracted sales volume of iron ore products and given also that the amounts not purchased were relatively small, we considered it appropriate to waive the contract purchase requirements in order to maintain a good working relationship with our customers.

In 2008, we did not receive any deposits from these Independent Third Party customers pursuant to our contracts with them. In 2009, except for the prepayment made by Independent Third Party customer H, we have not received any deposits from these Independent Third Party customers pursuant to such contracts.

We did not deliver iron pellets to Chengdu Yushengtian for the six months ended June 30, 2008 because it did not request delivery of our iron pellets during that period. We began delivering our iron pellets to Chengdu Yushengtian in August 2008. As of December 31, 2008, we had delivered to Chengdu Yushengtian approximately 73.8% of the contracted sales volume of iron pellets for 2008.

In summary, our Directors believe that the increase in the supply of our iron ore products to our Independent Third Party customers has been successful. As can be seen from the table below, approximately 67.9% and 65.5% of sales volume of our iron concentrates and 93.8% and 100% of total sales volume of our iron pellets in 2008 and for the six months ended June 30, 2009, respectively, are

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supplied to Independent Third Party customers. Correspondingly, more than 78.9% and 82.7% of our total revenue is derived from our sales to our Independent Third Party customers in 2008 and for the six months ended June 30, 2009, respectively.

	For the year ended December 31, 2008				Six months ended June 30, 2009			
	Sales volume (Kt)	%	Revenue (RMB million)	%	Sales volume (Kt)	%	Revenue (RMB million)	%
Iron Concentrates								
Weiyuan Steel	255.5	32.1	152.7	30.8	159.7	34.5	84.2	35.2
Independent Third Party customers . . .	<u>541.4</u>	<u>67.9</u>	<u>342.9</u>	<u>69.2</u>	<u>303.6</u>	<u>65.5</u>	<u>155.2</u>	<u>64.8</u>
	<u>796.9</u>	<u>100.0</u>	<u>495.6</u>	<u>100.0</u>	<u>463.3</u>	<u>100.0</u>	<u>239.4</u>	<u>100.0</u>
Iron Pellets								
Weiyuan Steel	18.8	6.2	14.4	5.7	—	—	—	—
Independent Third Party customers . . .	<u>286.6</u>	<u>93.8</u>	<u>237.9</u>	<u>94.3</u>	<u>332.5</u>	<u>100.0</u>	<u>240.5</u>	<u>100.0</u>
	<u>305.4</u>	<u>100.0</u>	<u>252.3</u>	<u>100.0</u>	<u>332.5</u>	<u>100.0</u>	<u>240.5</u>	<u>100.0</u>

Our Directors confirm that (i) our distributors' customers consist mainly of iron pelletizing plants and steel mills; and (ii) Weiyuan Steel did not purchase any iron ore products from our distributors in 2008 and for the six months ended June 30, 2009.

Collection of trade receivables from new customers

Although we have a short history of dealing with our new Independent Third Party customers, we have not encountered difficulties in collecting trade receivables from them. As of June 30, 2009, none of the balance of our trade receivables was overdue.

Except as disclosed herein, to the knowledge of our Directors, none of our Directors, their respective associates or any Shareholders owning more than 5% of the issued Shares had any interest in any of our five largest customers during the Track Record Period.

Recent global economic trends and impact on our business

Due to the recent global economic slowdown and its effect on demand for our products, the average selling price of our iron concentrates and iron pellets decreased by approximately 23.8% and 11.7%, respectively, between June 2008 and June 2009. 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	Month ended	Month ended	Month ended	Month ended	Month ended	Month ended	Month ended	Month ended	Month ended	Month ended	Month ended	
	June 30,	July 31,	August 31,	September 30,	October 31,	November 30,	December 31,	January 31,	February 28,	March 31,	April 30,	May 31,	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

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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.

Despite a decrease in the monthly average selling prices of our products, our sales volume and revenue of our iron concentrates and iron pellets in 2008 increased when compared to the sales volume and revenue of our iron concentrates and iron pellets in 2007 because the production volume and the average selling price of our iron ore products increased in 2008. Our production volume of iron concentrates and iron pellets increased from 519.0 Kt to 1,163.8 Kt, and from 249.0 Kt to 325.3 Kt, respectively, from 2007 to 2008 due to an increase in the production capacity of our iron ore products from 2007 to 2008. The production capacity of our iron concentrates (including the iron concentrates allocated to us by our first Independent Third Party Processing Contractor in 2007 and 2008, respectively) in 2007 and 2008 was 600.0 Kt. and 1,550.0 Kt, respectively. In 2007, the production capacity of our iron pellets was 333.0 Kt. In 2008, the production capacity of our iron pellets was 380.0 Kt (including the 20.0 Kt of iron pellets allocated to us by our first Independent Third Party Pelletizing Contractor in 2008). See "— Our Production Operations and Facilities — Production facilities" in this section. As a result of the increase in the production volume of our iron ore products and the increase in their average selling prices in 2008 described above, our revenue increased in 2008.

As of June 30, 2009, the total contracted sales volume of iron concentrates and iron pellets for 2009 was currently 1.3 Mt and 710.0 Kt, respectively. For the six months ended June 30, 2009, the actual sales volume of iron concentrates and iron pellets was 463.3 Kt and 332.5 Kt, respectively, representing 34.8% and 46.8% of the contracted iron concentrates and iron pellets for 2009, respectively.

Based on the monthly figures from January to June 2009 (which do not reflect a major difference in the average selling prices of each iron ore product from month to month), our Directors believe that the average selling prices of iron concentrates and iron pellets have stabilized and we expect that the price will gradually increase for the remainder of 2009. Beginning June 1, 2009, we have also entered into supplemental agreements with our customers of iron ore products to specify the pricing arrangements for 2009 and 2010 and these agreements set a floor for our sales revenue because our customers are obliged to pay a minimum sales price per tonne of the iron ore product even if the market price falls below the minimum sales price and, in the event that the market price rises above the minimum sales price, will contribute positively to our sales revenue because they oblige the customers to pay a higher price in an amount equal to the sum of the minimum sales price and an amount to be agreed that is not more than 50.0% of the increase in the market price above the minimum sales price.

Given the current uncertainty in recent global economic trends, it is difficult to forecast trends in iron ore prices in the near to medium future. Our directors believe that the following factors will contribute positively to our sales volume:

- we have entered into sales contracts with Weiyuan Steel and nine Independent Third Party customers and seven Independent Third Party Customers, respectively, for 2009 and 2010, for amounts sufficient to account for 100.0% of our estimated production of iron ore products for 2009 and 2010;

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- we are located close to the large majority of our current customers and to the rail networks that serve our customers;
- the possibility of a reduction in demand for iron ore products arising from the global economic slowdown may be partially offset by the increase in demand for steel required for Sichuan reconstruction plans. See “— Customers — Recent global economic trends and impact on our business — Sichuan reconstruction plans” in this section and the “Industry Overview — PRC Policies and Regulations Supporting Growth in the Mining and Steel Industries” section in this document; and
- as iron ore is a commodity, iron ore prices fluctuate based on global market forces of supply and demand. Based on our location and the other factors listed above, we thus expect that as long as we are prepared to sell our products at the market price, we will have sufficient customers to purchase the increased volume of our products.

Sichuan reconstruction plans

Following the Sichuan earthquake in May 2008, the PRC government announced reconstruction plans for the areas affected by the earthquake. See the “Industry Overview — PRC Policies and Regulations Supporting Growth in the Mining and Steel Industries — Sichuan reconstruction plans” section in this document. We believe these reconstruction plans will create an increase in the demand for steel in Sichuan. Because of the geographical proximity of Sichuan steel producers to areas targeted by the Sichuan reconstruction plans, we expect that Sichuan steel producers will be the major suppliers of steel for these reconstruction projects. According to the Sichuan Development and Reform Commission, the demand for steel products in Sichuan in 2009 and 2010, is projected to be 36.7 Mt and 32.6 Mt, respectively. When compared to total annual steel demand in Sichuan in 2007 of approximately 20.0 Mt, these projections indicate that the PRC government expects the increase in demand for steel products by 16.7 Mt and 12.6 Mt in 2009 and 2010, respectively, to be primarily due to the reconstruction of Sichuan.

In addition to these economic stimulus and Sichuan reconstruction plans, the PRC government has recently announced various policies to promote the production of high-strength steel and requiring the use of high-strength steel in construction, including, as a response to the events of the Sichuan earthquake in May 2008, standards for the seismic protection of buildings that raise the strength requirements for steel used in construction. See the “Industry Overview — PRC Policies and Regulations Supporting Growth in the Mining and Steel Industries — Policies on the use of high-strength steel in construction” section in this document.

Steel production companies in Sichuan have commercial incentives to purchase large quantities of iron ore from iron ore producers located in Sichuan due to significant transportation costs and the higher prices of imported iron ore products. As such, our Directors believe that an increase in the demand for iron ore products in the PRC and in Sichuan will alleviate the fall in market prices of iron ore products in Sichuan. Therefore, even though we have not currently entered into nor plans to enter into any specific agreements with any relevant government authority or steel production companies for the supply of iron ore products for Sichuan reconstruction plans, our Directors believe that we will nevertheless benefit from these Sichuan reconstruction plans.

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COMPETITION

According to the records of Sichuan Metallurgy Economic Association (四川省冶金經濟協會), we are the second largest 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, ranking after a state-owned enterprise. As of June 30, 2009, our market share of iron ore output in Sichuan was 9.2%.

We regard an iron ore producer in Sichuan as our competitor if (i) its operations are large in scale with an annual production capacity of iron concentrates of not less than 600.0 Kt and (ii) it supplies iron ore products mainly to unrelated third party customers. Based on these criteria, of the 53 iron ore producers (excluding ourselves) on the records of the Sichuan Metallurgy Economic Association (四川省冶金經濟協會) as of June 30, 2009, we would only consider one to be our competitor. According to the records of the Sichuan Metallurgy Economic Association (四川省冶金經濟協會), in terms of the actual output volume of iron ore in 2008 and the six months ended June 30, 2009, our competitor’s output volume of iron ore was slightly less than ours. We consider competition to be limited among large iron ore producers in Sichuan because there are few businesses of a scale large enough to compete with us and because there is a shortage in the supply of iron ore products in Sichuan.

Our Directors further believe that although there may be competition among iron ore producers in Sichuan, we have a competitive advantage over our competitors mainly because of (i) our scale of operations and (ii) our close proximity to the railroad transportation network. Our Directors believe that we benefit from economies of scale in our mining and processing operations as well as in our sales operations due to our size. Also, because our mines and processing plants are located close to the railroad transportation network, the transportation costs borne by our customers when transporting our products to their locations are reduced. See “— Competitive Strengths” in this section.

The price of rail transport in the PRC is regulated by the Ministry of Railways and the NDRC as set forth in the price list issued by the Ministry of Railways and the NDRC, the latest having been in effect since July 1, 2008. Transportation contractors charge additional fees depending on services offered. A review of the rates charged for iron concentrates by an Independent Third Party transportation company in Zhanjiang city since January 2009 shows that the cost of the rail transportation from Zhanjiang port (湛江港) in Guangdong to Zizhong (資中), a county located approximately 189 km southeast of Chengdu, is RMB242.0 per tonne. Such rail transportation costs represented 46.8% of our average selling price of iron concentrates for the six months ended June 30, 2009. A review of the rates charged for transportation of iron concentrates by an Independent Third Party transportation company in Fangchenggang city since January 2009 shows that the cost of the rail transportation from Fangchenggang port (防城港港口) in Guangxi to Zizhong is RMB242.5 per tonne. Rail transportation costs represented 46.9% of our average selling price of iron concentrates for the six months ended June 30, 2009. Because domestic transportation expenses are high, it is relatively more economical to purchase iron ore products from local producers rather than pay the even higher transportation costs associated with imported iron ore. Given the regulation of the PRC rail transportation industry, our Directors do not anticipate that railway transportation prices would be reduced to the extent that imported iron ore products will become price competitive with locally-produced iron ore products in the near to medium term.

RESEARCH AND DEVELOPMENT




We emphasize technological research and development and strive to develop and apply new technology and techniques in both our mining and production operations. We have been collaborating

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with the Institute of Multipurpose Utilization of Mineral Resources at the Chinese Academy of Geological Sciences (中國地質科學院礦產綜合利用研究所) (“IMUMR”), a subsidiary of the China Geological Survey (中國地質調查局), which is a non-profit entity directly under the authority of the MLR. Pursuant to a technological development contract signed by Baicao Mine with IMUMR in August 2007 and pursuant to a similar contract signed by Xiushuihe Mine with IMUMR in January 2008, we have agreed to cooperate in the research of, among other topics, the beneficiation process of iron from our mines. We have also collaborated on a test report titled “An Experimental Test Report on Iron and Titanium Separation for Baicao Vanadium-Bearing Titanomagnetite Ore” which was published in February 2008. The objective of the report was to guide our upgrade and construction plans for our processing equipment. Our Independent Technical Advisor confirms that the results outlined in our report are achievable and that the results will be a dependable guide for our production process upgrade and construction plans.

Our Directors believe that through implementation of the research and development results by adopting the suggested beneficiation procedures and tail subsidence techniques, we can improve our operational efficiency. In addition, our research and development activities are intended to provide guidance on how to carry out our planned expansion and upgrade in the most cost efficient and productive manner to improve the product quality and our market competitiveness.

INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we are the registered owner of the trademark ,  in series of color and black and white and the trademark “中國鐵鈦”, “中国铁鈦”,  using both traditional and simplified Chinese characters in Hong Kong. In addition, we are in the process of applying for the registration of two trademarks in the PRC. Details of such trademarks and trademark applications and other intellectual property rights are set out in the “Statutory and General Information — Further Information about Our Business — Intellectual property rights” attached as Appendix VII to this document.

We have not been involved in any claims with respect to the infringement of intellectual property rights belonging to third parties and, to the knowledge of our Directors, there are no such claims pending or threatened.

MANAGEMENT STRUCTURE AND EMPLOYEES

For information about our employees, see the “Directors, Senior Managements and Employees” section in this document.

REGULATORY COMPLIANCE ISSUES

Mining activities

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

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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 "— Properties" in this section for information relating to our land use rights.

Breach of PRC regulations

We were in breach of PRC regulations on the following occasions:

1. On April 16, 2005, the People's Government of Huili County (會理縣人民政府) found that the discharge of waste water by Huili Caitong failed to meet the relevant standards as a result of inadequate maintenance of the waste water treatment system and ordered Huili Caitong to take remedial actions to improve its waste water treatment system to meet these standards on or before June 30, 2005. The Huili County Construction Environmental Protection Bureau did not impose any penalties or fines on us for this breach. On June 27, 2005, we obtained a confirmation from Huili County Construction Environmental Protection Bureau (會理縣人民政府對縣建設環境保護局) confirming that we had rectified this problem. As confirmed by our Directors, the waste water discharge issue existed at the time we acquired the Baicao Mine and we had dedicated time and efforts to rectify the problem prior to the order from the People's Government of Huili County. Since the receipt of the order in 2005, we have not received any other orders with regard to the waste water discharge. Our Directors confirm that there was no revenue and/or profit derived by Huili Caitong from the above breach from April 16, 2005 to June 27, 2005.
2. On April 19, 2006, the Huili Land and Resources Bureau (會理縣國土資源局) ordered Xiushuihe Mining to cease its mining operations in an area of 29,100 sq.m. that was not covered by its mining permit (the "29,100 sq.m. Area"). We had been utilizing the 29,100 sq.m. Area for our mining operations since late January 2006. On April 19, 2006, Xiushuihe Mining ceased to occupy the 29,100 sq.m. Area in accordance with the order from the Huili Land and Resources Bureau. On March 31, 2008, Huili Land and Resources Bureau confiscated Xiushuihe Mining's income in the amount of RMB100,000 from the mining operations it carried out in the 29,100 sq.m. Area from late January 2006 to April 19, 2006 and imposed a fine of RMB100,000. We paid these penalties to Huili Land and Resources Bureau. On March 31, 2008, Huili Land Bureau confirmed that we no longer occupy the 29,100 sq.m. Area. Our Directors confirm that the revenue derived by Xiushuihe Mining in respect of the above breach from late January 2006 to April 19, 2006 was RMB98,000. The profit derived by Xiushuihe Mining during the same period was RMB19,000.
3. On March 7, 2007, the Huili County Forestry Administrative Bureau (會理縣林業局) ordered Huili Caitong to cease its mining operations in a forestry area of 24,713 sq.m. (the "Forestry Area") that had been undertaken without obtaining the bureau's prior approval. On April 19, 2007, the Huili County Forestry Administrative Bureau imposed a fine of RMB291,750 on Huili Caitong and ordered Huili Caitong to plant 9,620 trees in the area. On July 20, 2008, the Huili County Forestry Administrative Bureau confirmed that we have paid the fine, planted the requisite number of trees and no longer occupy the Forestry Area. Our Directors confirm that the revenue derived by Huili Caitong in respect of the above breach from March 7, 2007 to April 19, 2007 was RMB20,000. The profit derived by Huili Caitong during the same period was RMB9,000.

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4. On January 20, 2007, the Huili Land and Resources Bureau imposed a fine of RMB474,000 on Xiushuihe Mining for undertaking mining operations on an area of 79,000 sq.m. that was not covered under the applicable short-term land use rights certificate (the "79,000 sq.m. Area") from early April 2006 to late August 2006. The Huili Land and Resources Bureau also ordered Xiushuihe Mining to pay a short-term land use management fee of RMB112,000 for its occupation of the 79,000 sq.m. Area from early April 2006 to December 2006. On January 20, 2007, we were permitted to apply for a short-term land use rights certificate for the 79,000 sq.m. Area and obtained the short-term land use rights certificate in September 2007. Under the short-term land use rights certificate obtained in September 2007, we were permitted to use the land at Xiushuihe mine for 2007 for our mining purposes. Our Directors confirm that the revenue derived by Xiushuihe Mining in respect of the above breach from early April 2006 to December 2006 was RMB28,000. The profit derived by Xiushuihe Mining during the same period was RMB55,000.

Incidents two and four described above occurred because the mining contractor failed to operate within the permitted mining boundary after we had provided the mining contractor with the plan showing the permitted mining boundary obtained from the Huili Land Bureau. In two routine inspections of Xiushuihe Mine by the officials of Huili Land Bureau, they discovered that we may have been operating beyond the permitted mining boundary. Huili Land Bureau engaged a third party surveyor who used GPS and other relevant technology after each routine inspection to confirm that we had not been operating within our permitted mining boundary. Our Directors confirm that such violations were unintentional.

To help avoid the recurrence of these or any other regulatory non-compliance incidents, we have adopted the following measures:

- Our on-site monitoring staff conducts regular inspections to identify any potential problems and/or violations;
- We require our mining contractor to (i) conduct a thorough inspection of the land areas prior to starting a new mining operation and (ii) to place coordination points along the permitted mining boundary;
- We have prepared an internal handbook on environmental safety management; and
- As of June 30, 2009, we had seven employees conducting regular inspections on our environmental protection facilities to determine whether our environmental protection measures comply with our internal rules. Most of these employees have completed their high school education in the PRC and their experience in environmental protection related work ranges from one year to 15 years.

When we applied for new short-term land use rights from the Huili Land Bureau in late 2007, the Huili Land Bureau engaged an external surveying institution which used GPS and other relevant technology to ascertain the boundary of the land permitted to start a new mining operation pursuant to our application. When the boundary was confirmed by the external surveying institution, we placed markers on coordination points along the permitted mining boundary.

Following the implementation of the measures above, we have not received any non-compliance orders or notifications from government authorities. Except for the non-compliant acts

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disclosed above, and those described in the “Directors, Senior Management and Employees — Social Insurance and Housing Fund” section in this document, based on the confirmations made by Huili Caitong, Xiushuihe Mining and each of their respective directors, our PRC legal advisors have advised us that (i) our current operating activities comply with the requirements of our current business licenses, safety production permits, mining permits and other relevant permits and licenses, the articles of association of the relevant member of our Group and the relevant requirements of the laws and regulations in all material respects and (ii) we are not in breach of the relevant tax, environmental protection, foreign exchange and labor laws and regulations in any material respect and there is no illegal occupation of any property by us.

Our Directors confirm that the penalties imposed by these PRC authorities in connection with the incident described above have been fully settled. As advised by our PRC legal advisors, these PRC authorities will not impose additional penalties regarding the incidents described above. Our Directors therefore consider it unnecessary to make provisions for potential penalties in connection with the incidents described above. In addition, our Controlling Shareholders have agreed to indemnify us for any losses, costs and expenses in respect of legal non-compliance occurring prior to [●] for which no provisions have been made in the audited accounts set forth in the Accountants’ Report attached as Appendix I to this document.

INSURANCE

Our PRC Legal Advisors have confirmed that, according to the confirmations issued by the governmental authorities of Huili County dated July 31, 2009 and August 5, 2009, we are in compliance with applicable PRC laws and regulations with respect to required insurance for our employees, such as pension insurance, medical insurance, labor injury insurance, maternity and unemployment insurance as of the issuance dates of the aforesaid confirmations. As of the Latest Practicable Date, we maintain the required PRC employee social benefits insurance and insurance for our transport vehicles. During the Track Record Period, we did not make any claims under our insurance policies that had a material adverse effect on our business, financial condition or results of operations.

We face comparatively lower levels of operational risk. Our open-pit mining method has a relatively lower level of risk than underground mining. We engage our Independent Third Party Mining Contractor to carry out all of the mining operations at our mines. We also engage our first Independent Third Party Processing Contractor to process the ore extracted at our Baicao Mine and our second Independent Third Party Processing Contractor to process the ore extracted at our Xiushuihe Mine, respectively. Under our mining and processing contractor contracts, our contractors are liable to us for any and all incidents concerning operational and production safety for their respective operations. During the Track Record Period, we did not experience any business interruptions or losses or damages to our facilities that had a material adverse effect on our business, financial condition or results of operations.

In addition, the majority of our buildings, ancillary structures and production facilities are of low commercial value. During the Track Record Period, we did not experience any losses or damages to our buildings, ancillary structures and production facilities as a result of any accidents. After taking into account the costs of insurance and the risks involved, our Directors believe that our insurance

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coverage was sufficient to protect our interests during the Track Record Period. Therefore, we do not maintain any fire, earthquake, liability or other property insurance with respect to our properties, equipment or inventories, with the exception of insurance coverage for our vehicles. We also do not maintain any business interruption insurance or third party liability insurance against claims for property damage, personal injury and environmental liabilities other than third party liability insurance for our vehicles.

Subject to the relevant disclosure in the “Risk Factors — Risks Relating to Our Business and Industry — Our insurance coverage may be insufficient to cover our business risk” section in this document, our Directors consider the insurance coverage on our assets to be adequate as of the Latest Practicable Date. We will continue to review and assess our risks and make necessary adjustments to our insurance practice to meet our needs and comply with industry practices in the PRC.

OCCUPATIONAL HEALTH AND SAFETY

With respect to matters relating to occupational health and safety, we are subject to, among other PRC laws and regulations, the PRC Production Safety Law (《中華人民共和國安全生產法》), the PRC Labor Law, the PRC Labor Contract Law and the PRC Law on the Prevention and Treatment of Occupational Diseases (《職業病防治法》).

The PRC Production Safety Law requires us to maintain safe working conditions as provided in the PRC Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. We are also required to provide production safety training to our employees. The design, manufacture, installation, use, inspection and maintenance of our equipment are required to conform with the applicable national or industrial standards.

The PRC Labor Law and the PRC Labor Contract Law require us to establish a system for labor safety and sanitation, to abide by applicable rules and standards and to educate our employees on such rules and standards. We are also required to provide our employees with labor safety and sanitation conditions that meet the standards set forth in relevant regulations and to provide regular health examinations for our employees engaged in hazardous activities.

Pursuant to the PRC Law on the Prevention and Treatment of Occupational Disease (職業病防治法), we are required to (1) establish and perfect the responsibility system of occupational disease prevention and treatment, strengthen the administration and improve the level of occupational disease prevention and treatment, and bear responsibility for the harm of occupational diseases engendered therefrom, (2) purchase social insurance for industrial injury, (3) adopt effective protective facilities against occupational diseases, and provide protective articles to the laborers for personal use against occupational diseases, (4) set up alarm equipment, allocate on-spot emergency treatment articles, washing equipment, emergency safety exits and safety zones for poisonous and harmful work places where acute occupational injuries are likely to take place and (5) inform the employees, according to the facts, of the potential harm of occupational disease as well as the consequences thereof and the protective measures and treatment against occupational diseases when signing a labor contract with employees.

We have an internal handbook on environmental safety management which sets forth, among other things, measures to prevent industrial accidents. As of the Latest Practicable Date, there has been

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only one reported minor injury to one employee, who suffered a fracture to his left wrist as a result of an accidental fall from the truck he was operating. Our Directors confirm that there is no potential liability to us arising from this injury because that employee has not made any claims against us for the injury and any such potential claim would in any case now be time-barred under PRC law. In view of the fact that this was purely an accident, the minor nature of the accident, and that there has only been one reported accident during the Track Record Period, our Directors are of the view that it is not necessary to take any remedial or rectification action. As of the Latest Practicable Date, we have not been subject to any claims arising from personal injury or environmental liability that have had a material adverse effect on our business, financial condition or results of operations. Our Directors believe that it is not necessary for us to maintain any business interruption insurance or third party liability insurance against personal injury and environmental liabilities.

We regard occupational health and safety as one of our prime responsibilities and have implemented a number of measures to ensure compliance with the stringent regulatory requirements. We have dedicated personnel and facilities to deal with these matters. We actively implement and enforce safety measures, best practice guidelines and reporting systems to prevent and reduce various dangers and risks. We provide occupational training to our new employees and special safety technical training to our technical staff. In addition, we also arrange health checks for our employees and provide social insurance to all of our employees as required under the applicable laws and regulations. As of the Latest Practicable Date, we have adequate insurance coverage for our employees in accordance with the PRC laws and regulations. Apart from the above, we also adopt a comprehensive emergency policy to provide guidance to our employees how to react in case of emergency.

In order to ensure employee safety and to avoid accidents, each of our mines and production plants maintains its own safety reporting system. We conduct regular internal inspections on safety compliance of each of our production sites on a monthly basis. Our Directors confirm that other than one employee injury in March 2006 (see "— Insurance" in this section for details), no accidents involving any personal injury or property damage have been reported to our management during the Track Record Period and that we have not been subject to any claims arising from any accidents involving personal injury or property damage during the Track Record Period that have a material adverse effect on our business, financial condition or results of operation.

ENVIRONMENTAL PROTECTION

We are subject to various PRC environmental laws and regulations, as well as local environmental regulations promulgated by local authorities. These laws and regulations cover a broad range of environmental matters, such as mining control, land reclamation, air emissions, noise control, discharge of wastewater and pollutants, waste disposal and radioactive element disposal control.

The PRC government is moving toward more rigorous enforcement of environmental laws and regulations and the adoption of more stringent environmental standards, which could have a material adverse effect on our financial condition and results of operations. See the "Risk Factors — Risks Relating to Our Business — Our business operations may be affected by current or future safety and environmental regulations" section in this document.

Our PRC legal advisors have confirmed that according to the confirmation issued by the Huili County dated July 31, 2009, we have complied with all relevant environmental laws and regulations as

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of July 31, 2009. As of the Latest Practicable Date, we are not subject to any environmental claims, lawsuits, penalties or administrative sanctions.

Our operations have the following effects on the environment, such as: (1) our mining operations may cause soil erosion and deforestation and (2) our processing plants and Iron Pelletizing Plant may generate waste water, solid waste and cause noise pollution. In order to minimize our effect on the environment and manage the potential risks relating to environmental protection matters, we have in place an internal handbook on environmental safety management. It sets forth our environmental protection controls and measures. In particular, the handbook explains the methods of handling different types of pollutants and the standards we should achieve in ash emissions, dangerous chemicals and our noise control. As of June 30, 2009, we had seven employees who conduct regular inspections on our mines and production plants.

In addition, we have adopted a number of environmentally responsible practices in our operations to minimize the damage caused by our operations to the environment and manage the potential risks relating to environmental protection matters. We plant trees to compensate for the deforestation caused by our mining operations and near the mining areas after the completion of our mining operations. We have installed waste water collection and recycling systems at our processing plants and gangue warehouses. We have adopted different ash treatment and collection measures at each stage of our production process. We have installed recycling facilities in our processing plants to improve the ash emission of our facilities. We monitor our noise level by adopting various noise control methods such as the use of silencers. We also have internal rules on the management of our tailing storage facilities. We will continue to explore other means to further improve resource optimization and efficiency. Both of our mines have had their Environmental Impact Statements approved by the Huili County Environment Protection Bureau and processing activities at the current production levels. In addition, we have obtained the ISO 9001: 2000 quality management system certificate from CCIC Conformity Assessment Services Co., Ltd. We have also obtained a confirmation from the Huili County Environmental Protection Bureau on July 31, 2009 certifying the production process adopted by Huili Caitong and Xiushuihe Mining is in compliance with the relevant environmental standards. We also have an emergency plan for environmental disasters that may arise at our mines and processing facilities.

We intend to adopt new technology to further reduce the environmental effects of our operations. For example, we have adopted a high-intensity magnetic separation processing method which allows waste water produced from the production process to be recycled and reused. This processing method also reduces the amount of solid waste produced. Each of our processing plants have installed a waste water pool using the closed circuit method to minimize the discharge of waste water.

Our environmental protection expenditures have been mainly devoted to the installation of environmental protection facilities in our processing plants to comply with environmental protection laws and regulations and to upgrade our environmental protection systems. From January 1, 2009 through to June 30, 2009, we have spent a total of approximately RMB6.3 million on environmental protection. We estimate we will spend approximately RMB42.5 million on installing environmental protection facilities in our new processing facilities in 2009.

Prior to the launching of new production or expansion activities, we engage experts to conduct environmental feasibility studies. We assess the environmental impact of our new production,

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expansion or other projects with a view to minimizing the negative impact on the environment. We also submit any such expert reports or studies to the relevant local environmental protection bureau. The relevant local environmental protection bureau also conducts regular inspection of our production sites.

PROPERTIES

Owned properties

Long-term state-owned land use rights and building ownership

We hold long-term state-owned land use rights for the parcels of land used by our processing and pelletizing facilities.

(i) *Land with state-owned land use rights certificates*

As of the Latest Practicable Date, Huili Caitong and Xiushuihe Mining hold the long-term state-owned land use rights to hold and occupy nine parcels of land with an aggregate area of approximately 498,420.3 sq.m. in Huili County. The table below summarizes the use, date of issue, location, type of land use rights, size area and expiration date of the parcels of land for which Huili Caitong and Xiushuihe Mining occupy respectively:

Use	Date of Issue	Location	Type of land use rights	Current primary use	Area(m ²)	Expiration Date
Industrial	June 2, 2008	Lima River Village, Guanhe Townlet, Huili County, Liangshan Prefecture, Sichuan	Assignment	Iron Pelletizing Plant	45,372.0	May 28, 2058
Industrial	February 18, 2009	Sections No. 3 and No. 4, Kuangshan Village, Xiaoheiqing Townlet, Huili County, Sichuan	Assignment	Baicao Processing Plant	64,469.6	February 17, 2059
Industrial	February 18, 2009	Section No. 3, Kuangshan Village, Xiaoheiqing Townlet, Huili County, Sichuan	Assignment	Baicao Processing Plant	3,279.2	February 17, 2059
Industrial	February 18, 2009	Section No. 3, Kuangshan Village, Xiaoheiqing Townlet, Huili County, Sichuan	Assignment	Baicao Processing Plant	4,977.2	February 17, 2059

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<u>Use</u>	<u>Date of Issue</u>	<u>Location</u>	<u>Type of land use rights</u>	<u>Current primary use</u>	<u>Area(m²)</u>	<u>Expiration Date</u>
Industrial	February 18, 2009	Sections No. 1 and No. 3, Kuangshan Village and Section No. 1, Hongliang Village, Xiaoheiqing Townlet, Huili County, Sichuan	Assignment	Baicao Processing Plant	70,930.5	February 17, 2059
Industrial	February 18, 2009	Section No. 3, Kuangshan Village, Xiaoheiqing Townlet, Huili County, Sichuan	Assignment	Baicao Processing Plant	105,601.1	February 17, 2059
Industrial	November 13, 2008	Section No. 1, Baisha Village, Xiaoheiqing Townlet, Huili County, Sichuan	Assignment	Xiushuihe Processing Plant	37,995.3	November 12, 2058
Industrial	November 13, 2008	Section No. 1, Laoyingpan Village, Ailang Townlet, Huili County, Sichuan	Assignment	Xiushuihe Processing Plant	75,868.2	November 12, 2058
Industrial	November 13, 2008	Section No. 3, Chelin Village, Ailang Townlet, Huili County, Sichuan	Assignment	Xiushuihe Processing Plant	89,927.3	November 12, 2058

(ii) *Building ownership certificates*

We have obtained the building ownership certificates for the buildings located on the parcels of land occupied by Huili Caitong and Xiushuihe Mining. As of the Latest Practicable Date, such buildings cover an aggregate floor area of approximately 26,845.4 sq.m.

In addition, our Directors confirm that our properties were not affected by the Sichuan earthquake in May 2008 and have received a confirmation issued by the People’s Government of Huili County confirming the quality and safety of the Affected Buildings. See “— Our Mineral Resources and Mining Rights — Overview” in this section.

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The following table sets forth the relevant information on the revenue and profits derived by our processing and pelletizing facilities that were operated without the required state-owned land use rights certificates during the Track Record Period:

	Year ended December 31,						Six months ended June 30,					
	Revenue (RMB'000)	2006 Gross profit (RMB'000)	Net profit (RMB'000)	Revenue (RMB'000)	2007 Gross profit (RMB'000)	Net profit (RMB'000)	Revenue (RMB'000)	2008 Gross profit (RMB'000)	Net profit (RMB'000)	Revenue (RMB'000)	2009 Gross profit (RMB'000)	Net profit (RMB'000)
Huili Caitong	82,970	50,560	14,620	102,030	60,360	25,320	206,112	113,386	97,734	19,228	8,716	5,684
Xiushuihe Mining . .	29,340	5,770	1,290	36,450	11,790	3,030	158,903	103,067	71,953	—	—	—

Short-term land use rights

As is common industry practice, we do not carry out mining operations at our mines over the entire area covered by the applicable mining permit, but rather design our long-term mining plans to include multiple mining operations on smaller parcels of land within the larger area. Because these smaller parcels of land are designated collectively-owned land, we have secured short-term land use rights for our mining operations based on Article 57 of the Land Administration Law. Such short-term land use rights have a maximum two-year term. Despite the fact that these short-term land use rights may be renewed, we believe it to be more time and cost efficient to design our mining operations on these smaller parcels of land to deplete the mineral reserves within two years. By limiting the scope of our mining operations in this way, we can apply for short-term land use rights with a term of less than two-years and avoid the need to renew existing short-term land use rights. We are, nevertheless, prepared to renew our existing short-term land use rights if our long-term planning schedule changes or if we encounter deviations between projected and actual mineral reserves. During the Track Record Period, all of our revenue and profits from our mining operations were derived from open-pit mines operated pursuant to applicable short-term land use rights.

Pursuant to Article 30 of the Implementation Rules for the Mineral Resources Law of the PRC, we, as holders of valid mining permits, have the legal right to obtain, in accordance with the relevant laws and regulations, the land use rights with respect to the parcel(s) of land required to meet our production and construction needs. Pursuant to Article 57 of the Land Administration Law, we may use collectively-owned land on a short-term basis of not more than two years if we (i) have been granted short-term land use rights by the competent government authority and (ii) have entered into land use agreements with the relevant rural collective economic entity or village committee.

(i) Grant of short-term land use rights from a competent government authority

As of the Latest Practicable date, Huili Caitong holds the short-term land use rights to hold and occupy five parcels of land with an aggregate area of approximately 443,748.6 sq.m. in Huili County, Sichuan. Xiushuihe Mining holds the short-term land use rights to hold and occupy two parcels of land with an aggregate area of approximately 131,694.0 sq.m. in Huili County, Sichuan.

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The table below summarizes our current short-term land use rights:

No.	Holder of short-term land use rights	Date of issue	Term	Location	Area(m ²)	Type of Land
1.	Huili Caitong	March 6, 2009	From January 1, 2009 to December 31, 2009	Kuangshan Village, Xiaoheiqing Townlet, Luchang District, Huili County (1st and 2nd mining areas)	77,018.1	Collectively-owned land
2.	Huili Caitong	March 6, 2009	From January 1, 2009 to December 31, 2009	Kuangshan Village, Xiaoheiqing Townlet, Luchang District, Huili County (3rd mining area)	98,148.7	Collectively-owned land
3.	Huili Caitong	March 6, 2009	From January 1, 2009 to December 31, 2009	Kuangshan Village, Xiaoheiqing Townlet, Luchang District, Huili County (4th mining area)	92,127.6	Collectively-owned land
4.	Huili Caitong	March 6, 2009	From January 1, 2009 to December 31, 2009	Kuangshan Village, Xiaoheiqing Townlet, Luchang District, Huili County (1st and 2nd waste rock dumps)	99,220.5	Collectively-owned land
5.	Huili Caitong	March 6, 2009	From January 1, 2009 to December 31, 2009	Kuangshan Village, Xiaoheiqing Townlet, Luchang District, Huili County (2nd and 3rd waste rock dumps)	77,233.7	Collectively-owned land
6.	Xiushuihe Mining	March 6, 2009	From January 1, 2009 to December 31, 2009	Laoyingpan Village, Ailang Townlet, Luchang District, Huili County (1st mining area)	55,160.5	Collectively-owned land
7.	Xiushuihe Mining	March 6, 2009	From January 1, 2009 to December 31, 2009	Baisha Village, Xiaoheiqing Townlet, Luchang District, Huili County (2nd mining area)	76,533.5	Collectively-owned land

During the Track Record Period, we did not encounter difficulties in obtaining or renewing the short-term land use rights for our mining operations. In 2005, we obtained two two-year short-term land use rights certificates. In 2007, we obtained two one-year short-term land use rights certificates that cover part of the land under the 2005 short-term land use rights certificates that was required for our mining operation in 2007. In 2008, we obtained five one-year short-term land use rights certificates required for our 2008 mining operations that cover part of the land under the 2007 short-term land use rights certificates we obtained in 2007. We plan to renew the short-term land use rights of Huili Caitong and Xiushuihe Mining when they expire on December 31, 2009. We will prepare for the renewal process by ascertaining the area of land required for our operations in 2010 in accordance with our mining plan, liaising with the Huili Land Bureau and setting up appointments with the Huili Land Bureau to confirm the delineation of the area to be covered by the new short-term land use rights certificates. We obtained an undertaking from the Huili Land Bureau dated April 9, 2008 in relation to the grant of new short-term land use rights or renewals of existing short-term land use rights during the

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effective 20-year term of the mining permits for each of our Baicao Mine and Xiushuihe Mine (which is further elaborated upon below), thus we do not foresee that there will be any material obstacles in the renewal of the short-term land use rights of Huili Caitong and Xiushuihe Mining.

In the event we discover further mineral reserves in a land parcel subject to short-term land use rights coming up for renewal and we are unable to renew such short-term land use rights, we may be unable to utilize the full mineral resources in that land parcel. In the event that we are not granted short-term land use rights for a new land parcel, we may be unable to undertake our mining operations in accordance with our long-term plans or encounter inefficiencies due to the revision of such plans. Should any or all of these situations occur, our business, financial condition and results of operations may be materially and adversely affected.

In response to such risks, we have obtained an undertaking from the Huili Land Bureau dated April 9, 2008 to the effect that it will grant short-term land use rights or renewals of existing short-term land use rights during the effective 20-year term of the mining permits for each of our Baicao Mine and Xiushuihe Mine. The Huili Land Bureau further stipulated in the same undertaking that, if so requested by us, it would grant such new short-term land use rights or renewals for any term up to the legal maximum of two years. This undertaking is valid during the 20-year term of the mining permits for our Baicao Mine and Xiushuihe Mine. Our PRC legal advisors have advised us that, because Huili Land Bureau is the competent authority both to grant short-term land use rights and to issue this undertaking pursuant to Article 57 of the Land Administration Law, this undertaking from Huili Land Bureau is legal and valid under PRC law and that this undertaking is legally binding on Huili Land Bureau.

(ii) *Land use agreements with a collective economic entity or village committee*

We have also entered into two kinds of land use agreements with the owners of the collectively-owned land, as represented by the village committees. The framework land-use agreements authorize us to use and occupy for mining purposes the entire area of land covered by the relevant mining permit for the full duration of that mining permit. With regard to each smaller parcel of land governed by short-term land use rights, we additionally enter into detailed land-use agreements that set forth details of the duration, area, method of use and relevant compensation for each such smaller area. These detailed land use agreements additionally stipulate that if we encounter changes to our mining plans and are required to renew the relevant short-term mining permit, then the land owners are obligated to grant us a renewal of the corresponding detailed land use agreement. With respect to all the framework agreements and detailed land use agreements that we have entered into to date, the relevant village committees have agreed not to accept any payments for the use of land, primarily because our mining operations have provided employment opportunities for the local residents.

After review of the resolutions passed by the relevant villages during the village residents' meeting, our PRC legal advisors have advised us that such resolutions comply with Articles 17 and 19 of the Law of Village Committee Organizations of the PRC (中華人民共和國村民委員會組織法) and that based on such resolutions, the relevant village committees have the authority to enter into the respective framework land use agreements and detailed land use agreements with us. Our PRC legal advisors are therefore of the opinion that the framework land use agreements and detailed land use agreements are legal and valid for the purposes of allowing us to conduct our mining activities on these parcels of land.

Because the framework land use agreements and the detailed land use agreements are legally valid, our Directors expect that the owners of the collectively-owned land will honor their commitments to allow us to use the relevant parcels of land at our Baicao Mine and Xiushuihe Mine pursuant to these agreements. However, if problems were to arise and these agreements were breached

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by the owners of the relevant collectively-owned land, we might be denied access to our mining operations and require substantial time, cost and effort to regain access, any or all of which may have a material adverse effect on our business, financial condition and results of operations. See the “Risk Factors — Risks Relating to Our Business and Industry — Our operations may be interrupted if we are denied access to our mines” section in this document.

In the event of a breach of these agreements, we would request the Huili Land Bureau to intervene on our behalf pursuant to its undertaking to grant or renew the applicable short-term land use rights as discussed in (i) above. Pursuant to Article 30 of the Implementation Rules for the Mineral Resources Law of the PRC, the Huili Land Bureau is the entity responsible for ensuring, in accordance with the relevant laws and regulations, the protection of our legal rights as mine owners including but not limited to obtaining land use rights with respect to the parcel(s) of land required to meet our production and construction needs. As advised by our PRC legal advisor, based on the undertaking from the Huili Land Bureau dated April 9, 2008 and the land use agreements, there is no material legal impediment to us using and occupying for mining purposes the entire area of land covered by the relevant mining permit.

Leased properties

As of the Latest Practicable Date, Huili Caitong leased four storeys for office use in a building in Huili County with an aggregate gross floor area of approximately 531.1 sq.m., and an office in Longwei Mansion with an aggregate gross floor area of approximately 131.0 sq.m. We also leased an office in Hong Kong with an aggregate gross floor area of approximately 1,471.0 square feet.

The table below summarizes the lease term, location, size area and whether there is an option to renew:

	Location	Lease term	Size area	Option to renew
1.	Jianshe Road, Huili County (會理縣建設路)	February 1, 2009 to February 1, 2010	531.1m ²	Yes
2.	7/F, Longwei Mansion 198 Longdu South Road Longquanyi District Chengdu 610100 Sichuan	April 16, 2009 to August 14, 2011	131.0m ²	No
3.	Room 2201, 22/F, Wheelock House, 20 Pedder Street, Central, Hong Kong	September 10, 2009 to September 9, 2012	1,471.0 square feet	No

PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuation firm, has valued our property interests as of June 30, 2009. The text of Jones Lang LaSalle Sallmanns Limited’s letter, the summary of valuation and the valuation certificates are set forth in Appendix IV to this document.

LITIGATION

From time to time, we are involved in legal proceedings in the ordinary course of our business. As of the Latest Practicable Date, we were not involved in any legal or arbitration proceedings that we believe would have a material adverse effect on our business, financial condition or results of operations.