The following discussion should be read in conjunction with our audited consolidated financial statements together with the accompanying notes. See the Accountants' Report in Appendix I to this document. The following discussion contains forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such differences include, without limitation, those discussed in the "Risk Factors" section and elsewhere in this document.

OVERVIEW

We are primarily engaged in the business of mining, ore processing and sale of iron concentrates, iron pellets and titanium concentrates through our PRC operating subsidiaries, Huili Caitong and Xiushuihe Mining. 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. Our principal customers are steel producers and titanium-related downstream product producers.

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

Our revenue derived from our iron concentrates increased from RMB75.2 million in 2006 to RMB495.6 million in 2008, representing a CAGR of 156.7%. Our revenue derived from our iron concentrates increased from RMB168.7 million for the six months ended June 30, 2008 to RMB239.4 million for the six months ended June 30, 2009, representing an increase of 41.9%. Our revenue derived from our iron pellets increased from RMB113.9 million in 2006 to RMB252.3 million in 2008, representing a CAGR of 48.8 %. Our revenue derived from our iron pellets increased from RMB115.1 million for the six months ended June 30, 2008 to RMB240.5 million for the six months ended June 30, 2009, representing an increase of 108.9%.

Our revenue derived from our medium-grade titanium concentrates increased from RMB7.5 million in 2006 to RMB43.3 million in 2008, representing a CAGR of 141.0%. Our revenue derived from our medium-grade titanium concentrates decreased from RMB31.6 million for the six months ended June 30, 2008 to RMB6.1 million for the six months ended June 30, 2009, representing a decrease of 80.6%. This decrease was mainly due to the substantial reduction of more than 50.0% in the price of medium-grade titanium concentrates that occurred around the end of 2008 and the decrease in our production volume of medium-grade titanium concentrates due to the discontinuation of the greater part of such production at our Xiushuihe Processing Plant during the six months ended June 30, 2009 as a result of a planned upgrade of the medium-grade titanium concentrates production line to a high-grade titanium concentrates production line.

Our total comprehensive income increased from RMB32.3 million in 2006 to RMB318.8 million in 2008, representing a CAGR of 214.1%, and from RMB137.6 million for the six months ended June 30, 2008 to RMB149.9 million for the six months ended June 30, 2009, representing an increase of 8.9%. We accomplished our growth by expanding our production volume to meet the rapid increase in market demand for our products. During the years ended December 31, 2006 and 2007, we sold over 90.0% of our products to Weiyuan Steel, a connected person. In January 2008, we began the process of increasing our sales to Independent Third Party customers in order to reduce our sales to

Weiyuan Steel to approximately 30.0% or less of our total contracted sales revenue. For the year ended December 31, 2008 and the six months ended June 30, 2009, our sales to Weiyuan Steel accounted for only 21.1% and 17.3% of our total revenue, respectively.

BASIS OF PREPARATION

Our financial information has been prepared in accordance with IFRS. Our financial information has been prepared on a continuing basis as if the Reorganization had been completed at the beginning of the Track Record Period. The acquisition of Powerside, Simply Rise, Huili Caitong and Xiushuihe Mining pursuant to the Reorganization was treated as a business combination under common control because each of our Company, Powerside, Simply Rise, Huili Caitong and Xiushuihe Mining was ultimately controlled by the Founders before and after the Reorganization. See the "History, Reorganization and Group Structure — Reorganization" section in this document.

As the Reorganization involved companies under common control, our Group is regarded and accounted for as a continuity group. Accordingly, our financial information has been prepared based on the principles of merger accounting.

Accordingly, the consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity of our Group for the Track Record Period and the consolidated statements of financial position of our Group as of December 31, 2006, 2007 and 2008 and June 30, 2009, have been prepared as if the current Group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation/registration, whichever is shorter, to the extent that the interest in the relevant company was held by our Shareholders.

For subsidiaries historically acquired by our Group during the Track Record Period, their financial statements are consolidated from or to their respective dates of acquisition. All income, expenses and unrealized gains and losses resulting from intercompany transactions and intercompany balances within our Group are eliminated in full upon consolidation.

FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including those set forth in the "Risk Factors" section in this document and the following factors, some of which may not be within our control and/or may not be indicative of future results of operations.

Price of products

The unit prices of our products are primarily based on the iron content of our iron concentrates and iron pellets and the titanium content of our titanium concentrates. In addition, we are exposed to the risk of fluctuations in the prices of our products. Fluctuations in iron ore product prices are due to a number of factors, including but not limited to the global and PRC supply of and demand for iron ore products and the performance of the PRC steel industry.

Most of our existing and potential customers are located in the southwest region of the PRC and the prices of our iron ore products are generally influenced by market prices in the Panxi Region. Throughout the greater part of the Track Record Period, local demand for iron ore products in Sichuan exceeded local production volume. An increasing number of steel producers are expanding their production facilities to accommodate the use of vanadium-bearing titanomagnetite products in their production processes. These factors contributed to an increase in demand for our iron ore products as well as the substantial price increases for iron ore products during the greater part of the Track Record Period. See the "Industry Overview — Overview of the Iron Ore and Titanium Industries — Iron ore and titanium prices" section in this document.

We have been producing iron concentrates, iron pellets and titanium concentrates throughout the Track Record Period. As we use some of our own iron concentrates to produce our iron pellets, we are able to control the volume of our iron concentrates consumed for the production of iron pellets. As a result, we are able to adjust the sales volume of our iron concentrates and our iron pellets in response to the profitability of our iron concentrates and iron pellets. If one product has a higher profit margin than the other, we will increase production of the more profitable product to capitalize on favorable market conditions. However, if the profitability of both our iron concentrates and iron pellets decrease, our business, financial condition and results of operations may be materially and adversely affected. The following table sets forth the average selling prices of our products for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
			(RMB/Tonne)		
Iron concentrates	450.8	477.8	621.9	644.5	516.7
Iron pellets	670.2	646.0	826.1	848.0	723.3
Medium-grade titanium concentrates	295.9	176.3	199.7	229.3	94.4

Iron concentrates and iron pellets

Due to the recent global economic slowdown, 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 June 30,	Month ended July 31,	Month ended August 31,	Month ended September 30,	Month ended October 31,	Month ended November 30,	Month ended December 31,	Month ended January 31,	Month ended February 28,	Month ended March 31,	Month ended April 30,	Month ended May 31,	Month ended June 30,
	2008							2009					
Iron concentrates	764.5	733.1	758.2	696.7	603.4	457.3	465.2	519.4	468.6	475.2	510.0	514.4	582.3
Iron pellets	935.6	954.5	936.7	904.6	805.1	651.0	679.7	682.8	676.1	675.7	684.7	717.5	826.5

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

Despite decreases in the monthly average selling prices of our products in 2008, our sales volume and revenue from our iron concentrates and iron pellets in 2008 increased when compared to the sales volume and revenue from our iron concentrates and iron pellets in 2007 because the production volume 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 in 2007 and 2008 (including the iron concentrates allocated to us by our first Independent Third Party Processing Contractor 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, as described above, our revenue increased in 2008.

As of June 30, 2009, the total contracted sales volume of iron concentrates and iron pellets for the year 2009 was 1.3 Mt and 710.0 Kt, respectively. The actual total sales volume of iron concentrates and iron pellets for the six months from January 1, 2009 to June 30, 2009 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.

In January, February, March, April, May, and June 2009 the average selling prices of iron concentrates per tonne were RMB519.4, RMB468.6, RMB475.2, RMB510.0, RMB514.4 and RMB582.3, respectively, and the average selling prices of iron pellets per tonne were RMB682.8, RMB676.1, RMB675.7, RMB684.7, RMB717.5 and RMB826.5, respectively. Based on the monthly figures from January 2009 to June 2009 (which do not reflect major differences 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 shown signs of stabilization beginning in February 2009 and we expect that the price will gradually increase for the remainder of 2009.

Because steel production companies in Sichuan have commercial incentives to purchase large quantities of iron ore products from local iron ore producers due to significant transportation costs and the higher prices of imported iron ore products, we believe that we will benefit from the increased demand for steel created by Sichuan reconstruction plans. See "— Factors Affecting Results of Operations and Financial Conditions — Sales volume" in this section. Nevertheless, in the event that the demand for iron ore products in the PRC and Sichuan decreases, the market price will decrease and that 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 business depends on the economic growth of the PRC, the performance of the PRC iron and steel industries, and the growth of the PRC titanium and titanium-related industries" section in this document.

Titanium concentrates

Fluctuations in the price of titanium concentrates are primarily due to demand from downstream product producers such as titanium powder producers and fluctuations in the prices of titanium-related downstream products. See "— Results of Operations" in this section and the "Industry Overview — Overview of the Iron Ore and Titanium Industries — Iron ore and titanium prices" and "Business — Customers — Expansion of customer base" sections in this document for more information regarding the fluctuations in the average selling prices of our medium-grade titanium concentrates during the Track Record Period.

Sales of our medium-grade titanium concentrates recorded a gross loss margin of 155.9% for the six months ended June 30, 2009. This loss was mainly attributable to the substantial reduction of more than 50% in the price of medium-grade titanium concentrates that occurred around the end of 2008 and the decrease in our production volume of medium-grade titanium concentrates due to the discontinuation of the greater part of such production at our Xiushuihe Processing Plant during the six months ended June 30, 2009 as a result of a planned upgrade of the medium-grade titanium concentrates production line to a high-grade titanium concentrates production line. Going forward, we intend to discontinue the production of medium-grade titanium concentrates and focus on the production of high-grade titanium concentrates. See the "Business — Expansion and Construction Plan — Expansion and construction of production facilities" section in this document.

Sales volume

The sales volume of our iron concentrates and iron pellets increased substantially during the Track Record Period. The sales volume of our medium-grade titanium concentrates increased substantially from 2006 to 2008 but decreased substantially for the six months ended June 30, 2009 mainly due to discontinuation of the greater part of our production of medium-grade titanium concentrates at Xiushuihe Processing Plant during the six months ended June 30, 2009 due to a planned upgrade of the medium-grade titanium concentrates production line to a high-grade titanium concentrates production line. The following table sets forth the sales volume of our products for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
		(kt)		(kt)	
Iron concentrates	166.8	398.0	796.9	261.7	463.3
Iron pellets	169.9	255.6	305.4	135.8	332.5
Medium-grade titanium concentrates	25.2	63.9	216.7	137.6	64.9

The following table sets forth the month-to-month sales volume and revenue of our iron concentrates and iron pellets for 2008 and for the six months ended June 30, 2009:

	Jan' 08	Feb' 08	Mar' 08	Apr' 08	May' 08	Jun' 08	Jul' 08	Aug' 08	Sep' 08	Oct' 08	Nov' 08	Dec' 08	Total
Iron concentrates													
Sales volume (Kt)	31.8	32.3	46.5	53.4	40.2	57.6	62.4	71.6	133.1	73.5	94.3	100.2	796.9
Revenue (RMB'000)	16,602.6	16,074.4	29,498.5	33,390.4	29,075.7	44,019.2	45,732.8	54,293.8	92,785.8	44,371.3	43,106.5	46,617.0	495,568.0
Iron pellets													
Sales volume (Kt)	18.8	27.0	15.1	19.4	25.4	30.0	29.6	23.8	26.9	20.7	35.9	32.8	305.4
Revenue (RMB'000)	14,406.8	19,371.2	12,964.5	16,957.1	23,324.0	28,096.2	28,323.7	22,300.1	24,294.5	16,635.6	23,379.1	22,266.2	252,319.0

	Jan' 09	Feb' 09	Mar' 09	Apr' 09	May' 09	Jun' 09	Total (Jan-Jun' 09)
Iron concentrates							
Sales volume (Kt)	62.8	69.3	68.7	67.7	92.7	102.1	463.3
Revenue (RMB'000)	32,615.8	32,482.3	32,684.4	34,513.4	47,679.0	59,436.3	239,411.2
Iron pellets							
Sales volume (Kt)	40.0	44.8	56.7	23.4	91.2	76.4	332.5
Revenue (RMB'000)	27,344.1	30,274.4	38,325.2	16,019.1	65,427.3	63,107.4	240,497.5

The sales volume of our products is generally dependent upon our mineral reserves, production capacity, the demand for our products and the availability of reliable and adequate transportation capacity for our products.

We expect that increasing sales volumes will continue to be the main driver of our revenue growth in the future. In addition, the availability of sufficient transport capacity on the PRC railroad transportation network is an important factor affecting our continued growth.

Our mineral reserves and production capacity

Our future growth will largely be dependent on our capital investment plan to (a) increase our mineral reserves and (b) increase our production capacity. We plan to increase our mineral reserves through a combination of the acquisition of, or consolidation with, other mines in the region and by extending to areas adjacent to the boundary limits of our existing mines set forth in our current mining rights. We intend to expand our iron concentrates, iron pellets 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 quantity we procure from processing and pelletizing contractors. See the "Business — Strategies", "Business — Our Production Operations and Facilities" section in this document.

Demand for our products

According to the Hatch Report, iron ore demand in the PRC exceeded iron ore output in the PRC between 2001 and 2008. In 2008, iron ore demand exceeded iron ore output in the PRC by approximately 365.8 Mt. 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. The shortfall in the domestic supply of iron ore presents significant market opportunities for our iron concentrates and iron pellets. Details of the iron ore market are set out in the "Industry Overview — Overview of the Iron Ore and Titanium Industries — PRC iron ore industry" and "Industry Overview — Overview of the Iron Ore and Titanium Industries — Sichuan iron ore industry" sections in this document.

Availability of reliable and adequate transport capacity for our products

Our customers largely rely on the railroad system to transport our products. Any shortage in transportation capacity or any material increase in transportation costs may have a material adverse effect on the demand for our products.

Our mines and ore processing plants are located in close proximity to the railroad transportation network. See the "Business — Competitive Strengths — We are located close to our customers and to the railroad transportation network" section in this document for details on the location of our mines and the arrangement on the utilization of railroad transportation capacity by our customers.

Cost of sales

The following table sets forth the breakdown of our cost of sales for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2006 RMB'000	%	2007 RMB'000	%	2008 RMB'000	%	2008 RMB'000 (unaudited)	%	2009 RMB'000	%
Mining and stripping contracting fees	21,323	21.3	33,239	17.7	129,433	35.5	46,007	33.6	91,388	33.0
Processing contracting fees *(Note 1)*	—	—	37,810	20.1	65,473	18.0	28,778	21.0	35,112	12.7
Pelletizing contracting fees *(Note 2)*	—	—	—	—	1,750	0.5	—	—	22,761	8.2
Materials	31,053	31.0	74,501	39.7	76,402	21.0	29,111	21.2	32,388	11.7
Labor	7,701	7.7	7,969	4.2	15,119	4.2	6,202	4.5	8,679	3.1
Power and other utilities	9,313	9.3	11,141	5.9	26,561	7.3	10,759	7.9	20,644	7.5
Repair and maintenance	3,171	3.2	6,286	3.3	5,541	1.5	3,967	2.9	6,368	2.3
Depreciation and amortization	9,238	9.2	9,705	5.2	22,923	6.3	9,951	7.3	18,247	6.6
Transportation *(Note 3)*	2,855	2.9	4,458	2.4	8,113	2.2	2,135	1.6	10,812	3.9
Other manufacturing overheads	4,781	4.8	5,010	2.7	19,654	5.4	5,960	4.3	13,416	4.9
Other materials cost *(Note 4)*	13,870	13.9	—	—	—	—	—	—	—	—
Total production cost	103,305	103.3	190,119	101.2	370,969	101.9	142,870	104.3	259,815	93.9
Inventory movement *(Note 5)*	(3,175)	(3.3)	(2,350)	(1.2)	(6,847)	(1.9)	(5,819)	(4.3)	16,723	6.1
Total Cost of sales	**100,130**	**100.0**	**187,769**	**100.0**	**364,122**	**100.0**	**137,051**	**100.0**	**276,538**	**100.0**

Notes:

1. Our engagement with our first Independent Third Party Processing Contractor began in 2007, thus no processing contracting fees were incurred in 2006.

2. We only engaged our first Independent Third Party Pelletizing Contractor in December 2008, thus no pelletizing contracting fees were incurred in 2006 and 2007.

3. Transportation means the cost of transporting iron concentrates from the processing plants to our Iron Pelletizing Plant.

4. Other materials cost includes materials that we purchased from third party suppliers for sale to our customers. We have not sold any materials that we purchased from third party suppliers to our customers since 2007.

5. Inventory movement means the finished goods as of the beginning of the year less finished goods at the end of the year.

Mining and stripping contracting fees represent fees paid to our Independent Third Party Mining Contractor who carries out ore mining and waste stripping activities at our mines. Fluctuations in fees paid to our Independent Third Party Mining Contractor are primarily tied to increases or decreases in our mining and stripping activities. Our mining and stripping contracting fees increased substantially from RMB33.2 million for the year ended December 31, 2007 to RMB129.4 million for the year ended December 31, 2008 mainly due to the 12.4% increase in the mining contracting fees per tonne and the 34.8% increase in the stripping contracting fees per cubic meter, in 2008 and a substantial increase in the volume of iron ore mined and stripped by our Independent Third Party Mining Contractor for the year ended December 31, 2008. The volume of iron ore mined and stripped in 2008 exceeded the total volume of iron ore mined and stripped for 2007 by 172.4%. Our mining and stripping contracting fees increased substantially from RMB46.0 million for the six months ended June 30, 2008 to RMB91.4 million for the six months ended June 30, 2009 mainly due to increased mining and stripping activities required to meet the increase in our production level.

Processing contracting fees represent fees paid to our first Independent Third Party Processing Contractor who processes the ores from our Baicao Mine. Fluctuations in fees paid to our first Independent Third Party Processing Contractor are primarily tied to increases or decreases in our processing activities.

Pelletizing contracting fees represent fees paid to our first Independent Third Party Pelletizing Contractor and second Independent Third Party Pelletizing Contractor whom we engaged in December 2008 and in February 2009, respectively, to increase our iron pellets production capacity. Fees paid to our first Independent Third Party Pelletizing Contractor are 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. See the "Business — Independent Third Party Contractors — Pelletizing contractors" section in this document.

Materials used in our processing operations include coal, bentonite clay and iron concentrates, and the largest component of our materials cost from 2006 to 2008 was the cost of iron concentrates purchased by us from third party suppliers for the production of our iron pellets. We did not purchase iron concentrates from third party suppliers for the six months ended June 30, 2009. Whether we are required to purchase iron concentrates from external suppliers depends on the quantity of iron concentrates we are able to produce at our Xiushuihe Processing Plant and the feedstock demand of our Iron Pelletizing Plant. See the "Business — Products — Iron Pellets" section in this document.

Labor costs are primarily comprised of the wages paid to our employees who work at our processing plants. Repair and maintenance represents the cost of repairing and maintaining our processing equipment. Depreciation represents depreciation expenses for property, plant and equipment calculated on a straight-line basis. Amortization represents the cost of amortizing our mining rights over the estimated useful lives of our mines, in accordance with our production plans and their proved and probable reserves using the units of production method.

Transportation expenses

We have two main types of transportation arrangements with our customers.

In relation to Weiyuan Steel, for the years ended December 31, 2006 and 2007, we bore (i) the road transportation expenses from our processing plants or the processing plant of our first Independent Third Party Processing Contractor to the nearest train stations where our products were uploaded to trains; and (ii) the railroad transportation expenses to the train station designated by Weiyuan Steel. Such transportation expenses were thereafter reimbursed by Weiyuan Steel through the inclusion of these expenses in the purchase price paid by Weiyuan Steel for our products. Our transportation expenses per tonne for the delivery of products to Weiyuan Steel for the years ended December 31, 2006 and 2007 were approximately RMB126.9 and RMB126.5, respectively. As of January 1, 2008, Weiyuan Steel has changed its delivery location to train stations near our mines. We therefore now bear only the road transportation expenses mentioned in (i) above. As a result, there has been a significant decrease in transportation expenses relating to Weiyuan Steel. Our transportation expenses per tonne for the delivery of products to Weiyuan Steel for the year ended December 31, 2008 and for the six months ended June 30, 2009 were approximately RMB42.6 and RMB39.5, respectively.

In 2008, we also entered into a separate transportation arrangement with an Independent Third Party customer on similar terms to the arrangement we had with Weiyuan Steel in 2008. As of June 30, 2009, we have entered into separate transportation arrangements with two other Independent Third Party Customers also on similar terms to the arrangement we had with Weiyuan Steel in 2008.

In 2008, we also provided one-time transportation assistance to Chengdu Yingchi. Chengdu Yingchi required road transportation services because it is not located near a railroad line. We bore, on behalf of the customer, approximately RMB2.6 million in transportation expenses for the year ended

December 31, 2008. These transportation expenses were reimbursed by Chengdu Yingchi through the inclusion of such expenses in the purchase price paid by Chengdu Yingchi for our products.

During the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our remaining customers collected our products directly from our processing plants or the plant of our first Independent Third Party Processing Contractor. We therefore did not and do not bear transportation expenses for these customers.

Because the full transportation costs in the above arrangements are ultimately reimbursed by our customers by adding such costs to the contract sales price, our Directors are of the view that we have not been unduly exposed to risks associated with transportation expenses. The main risk we potentially face is the customer credit risk that arises if the relevant customer does not pay the contract purchase price. Our Directors believe that such customer credit risk is limited given that we did not face any difficulties in collecting the full purchase price from our customers during the Track Record Period.

PRC enterprise income tax

Our PRC operating subsidiaries are subject to PRC enterprise income tax. Prior to January 1, 2008, the PRC enterprise income tax rate was 33%. The New Tax Law, which became effective on January 1, 2008, replaced the PRC Income Tax Law for Foreign Invested Enterprises and Foreign Enterprises (《中華人民共和國外商投資企業和外國企業所得稅法》). Under the New Tax Law, enterprises that previously enjoyed a preferential tax rate prior to March 16, 2007 will be gradually subject to a new tax rate of 25% over the five years beginning January 1, 2008. Enterprises that prior to March 16, 2007 enjoyed a fixed period of tax exemption and reduction will continue to enjoy their preferential tax treatment until the expiration of the prescribed period. Enterprises whose preferential tax treatment period has not yet commenced because of the lack of profit in prior years will enjoy such preferential tax treatment beginning January 1, 2008 and lasting until the expiration of the relevant preferential tax treatment period.

Under the previous tax regime, Huili Caitong, a foreign-invested enterprise since September 22, 2006, was exempted from enterprise income tax for its profit-making year ended December 31, 2007, and would have been entitled to a full exemption for the year ending December 31, 2008 and a 50% tax reduction for the subsequent three years. Under the New Tax Law, Huili Caitong will continue to enjoy a full exemption from enterprise income tax for 2008 and a 50% tax reduction from 2009 until 2011. From 2012 onwards, Huili Caitong will be subject to the 25% tax rate. Xiushuihe Mining was subject to a 33% enterprise income tax rate during the years ended December 31, 2006 and 2007 and has been subject to a 25% tax rate since January 1, 2008.

CRITICAL ACCOUNTING POLICIES

Our principal accounting policies are set forth in Note 3 of Section II of the "Accountants' Report", attached as Appendix I to this document. IFRS requires that we adopt accounting policies and make estimates that our Directors believe are most appropriate under the circumstances for the purposes of giving a true and fair view of our results and financial position. Critical accounting policies are those that require management to exercise judgment and make estimates which yield materially different results if management were to apply different assumptions or make different estimates. We believe the most complex and sensitive judgments, because of their significance to our financial information, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results in these areas may differ from our estimates. We have identified below the accounting policies that we believe are the most critical to our financial information and that involve the most significant estimates and judgments.

Revenue recognition

Revenue recognition involves estimates and judgments concerning timing. Significant changes in our management's estimates and judgments may result in revenue adjustments. As a general principle, revenue is recognized at the time when the economic benefits will most probably flow to us and when the amount of revenue can be measured reliably based on the following criteria:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, i.e., when goods are delivered and title has passed, provided that our Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Depreciation and amortization

The amount of depreciation and amortization expenses to be recorded on an asset is affected by a number of estimates made by our management, such as estimated useful lives, proved and probable reserves and residual values. If different judgments are used, material differences may result in the amount and timing of the depreciation or amortization charges related to the asset. We have identified below the accounting policies that we believe are critical to our financial information in connection with depreciation and amortization.

Property, plant and equipment

Depending on the nature of the item of property, plant and equipment, depreciation is calculated either (i) on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life or (ii) using the units of production method to write off the cost of the assets in proportion to the proved and probable mineral reserves. Our management estimates the useful lives, proved and probable reserves, residual values and related depreciation charges for property, plant and equipment. These estimates are based on the historical experience of the actual useful lives of each item of property, plant and equipment of a similar nature and function. They could change significantly as a result of technical innovations and actions of our competitors. The assumptions used in the determination of useful lives of property, plant and equipment are reviewed periodically. Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of those assets.

Mining rights

Mining rights are stated at cost less accumulated amortization and any impairment losses. Mining rights include (i) the cost of acquiring mining licenses; (ii) exploration and evaluation costs transferred from exploration rights and assets upon the determination that an exploration property is capable of commercial production; and (iii) the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights are amortized over the shorter of the unexpired period of the rights on the straight-line basis or the estimated useful lives of the mines in accordance with the production plans of the entities concerned and the proved and probable reserves of each mine using the units of production method. Mining rights are written off the consolidated statements of comprehensive income if the mining property is abandoned.

Exploration rights and assets

Exploration rights are amortized over the term of the rights. Equipment used in exploration is depreciated over its useful life or, if dedicated to a particular exploration project, over the life of the project, whichever is shorter. Amortization and depreciation are included, in the first instance, in exploration rights and assets and are transferred to mining rights when it can be reasonably ascertained whether an exploration property is capable of commercial production.

Exploration and evaluation costs include expenditures incurred to secure further mineralization in existing orebodies as well as in new areas of interest. Expenditure incurred prior to accruing legal rights to explore an area is written off as incurred.

When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs are capitalized and transferred to mining infrastructure and amortized using the units of production method based on the proved and probable mineral reserves. Exploration and evaluation assets are written off the consolidated statements of comprehensive income if the exploration property is abandoned.

Mine reserves

Engineering estimates of our mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgments involved in developing such estimates. There are authoritative guidelines regarding the engineering criteria that must be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated on a regular basis taking into account recent production and technical information regarding each mine. In addition, as prices and production costs change from year to year, the estimate of proved and probable mine reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis at related depreciation and amortization rates.

Impairment of mining and exploration assets, including property, plant and equipment

The carrying value of mining and exploration assets, including property, plant and equipment, is reviewed for impairment, when events or changes in circumstances indicate that the carrying value may not be recoverable, in accordance with the accounting policy as disclosed in Note 3 of Section II to the "Accountants' Report" attached as Appendix I to this document. The recoverable amount of these assets or, where appropriate, the cash generating unit to which they belong, is calculated as the higher of its fair value less costs to sell and value-in-use. Estimating the value-in-use requires our management to estimate future cash flows from the cash generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Net realizable value of inventories

Our management makes judgments on the net realizable value of inventories based on historical experience and various other assumptions that they believe to be reasonable under the circumstances.

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to be incurred through completion and disposal. These estimates are based on current market conditions and the historical experience of selling products of a similar nature. They may change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Our management reassesses these estimates on each statement of financial position date.

Impairment of goodwill

Our management determines whether goodwill is impaired at least on an annual basis. This determination requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating the value-in-use requires our management to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows. The estimation of the expected future cash flows from each cash-generating unit may change significantly should the cash-generating unit fail to sustain the estimated growth.

Impairment of receivables

Impairment of receivables is calculated based on an assessment of the recoverability of receivables. The calculation of impairment of receivables involves the use of estimates and judgments. An estimate for doubtful debt is made when collection of the full amount under the invoice is no longer probable, as supported by objective evidence based on available current and historical information to evaluate the impairment. Bad debts are written off as they are incurred. Where the actual outcome or future expectations differ from the original estimates, such difference will affect the carrying value of receivables and thus, the impairment loss in the period in which the estimate is changed.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of comprehensive income, or in equity if it relates to items that are recognized in the same or a different period directly in equity.

Current tax

We are incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law and, accordingly are exempted from payment of Cayman Islands Income Tax. Our PRC operating subsidiaries are subject to PRC enterprise income tax. As matters relating to PRC enterprise income tax are not usually confirmed by the relevant local tax authorities at the time when the financial statements are prepared, objective estimates based on currently enacted tax laws, regulations and other related policies are required in determining the provision of PRC enterprise income tax to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the income tax expenses and tax provisions in the period in which the differences realize.

Deferred tax

Deferred tax is provided, using the liability method, on all temporary differences at the statement of comprehensive income date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. As a result, the amount of deferred tax recorded on the statement of financial position depends on management's estimates.

(i) *Deferred tax assets*

Deferred tax assets are recognized for all deductible temporary differences by carrying forward the unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except (i) where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (ii) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized. The amount of such assets is measured at the rates that are expected to apply when the asset is realized, based on tax rates and tax laws that have been enacted or substantially enacted as of the statement of financial position date. We review the carrying amount of deferred tax assets at each statement of financial position date and reduce such amount to the extent that it is no longer probable (i.e., less than a 50% chance) that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

(ii) *Deferred tax liabilities*

Deferred tax liabilities are recognized for all taxable temporary differences, except (i) where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (ii) in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Provision for rehabilitation

We are subject to various PRC environmental laws and regulations as well as local environmental regulations. We are currently not obligated under any legal requirement, contractual agreement or arrangement with respect to mine closure, restoration or environmental clean up or rehabilitation. Our assessment of potential liabilities and estimate of the necessary reserves for rehabilitation are based on our (i) assessment of the applicable environmental policies and/or standards promulgated by the PRC governmental authorities; and (ii) calculations of the amounts and timing of future cash expenditure needed for potential future rehabilitation. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. We record a corresponding asset in the mining infrastructure line item in the period in which the liability is incurred. The asset is depreciated using the units of production method over its expected life and the liability is accreted to the projected expenditure date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognized at the appropriate discount rate. While we believe that our environmental rehabilitation provisions are adequate, the amounts estimated for future liabilities may differ materially from the costs that will actually be incurred to rehabilitate our mine sites in the future.

In particular, changes in environmental laws and regulations may increase the costs of environmental rehabilitation.

DESCRIPTION OF SELECTED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME LINE ITEMS

Revenue

Revenue represents the invoiced value of goods sold, net of trade discounts and returns, where applicable. Our revenue is derived primarily from the sale of our iron concentrates, iron pellets and medium-grade titanium concentrates to our customers. During the Track Record Period and as of the Latest Practicable Date, we have not provided for any trade discounts or returns.

The following table sets forth our sales volume, average selling price, revenue contribution by product categories and percentage of total revenue for the periods indicated:

	Year ended December 31,							Six months ended June 30,				
	2006		2007		2008			2008		2009		
	Revenue (RMB'000)	Percentage of total revenue (%)	Revenue (RMB'000)	Percentage of total revenue (%)	Revenue (RMB'000)	Percentage of total revenue (%)	CAGR from 2006 to 2008 (%)	Revenue (RMB'000)	Percentage of total revenue (%)	Revenue (RMB'000)	Percentage of total revenue (%)	Period increase/ (decrease) (%) (Note 3)
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	—

Notes:

1. 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 our customers since 2007.

2. This amount represents an adjustment to the selling price of other products sold in 2006 which was due to a higher content of iron and was agreed to by these customers in 2007.

3. 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.

For the years ended December 31, 2006 and 2007 and 2008 and the six months ended June 30, 2009, our iron concentrates and iron pellets together accounted for 89.6%, 96.9%, 94.5% and 98.7% of our total revenue, respectively. We expect iron concentrates and iron pellets to continue to account for the majority of our revenue for 2009.

Our revenue derived from our iron concentrates increased from RMB75.2 million in 2006 to RMB495.6 million in 2008, representing a CAGR of 156.7%. Our revenue derived from our iron concentrates increased from RMB168.7 million for the six months ended June 30, 2008 to RMB239.4 million for the six months ended June 30, 2009, representing an increase of 41.9%. Our revenue derived from our iron pellets increased from RMB113.9 million in 2006 to RMB252.3 million in 2008, representing a CAGR of 48.8%. Our revenue derived from our iron pellets increased from RMB115.1 million for the six months ended June 30, 2008 to RMB240.5 million for the six months ended June 30, 2009, representing an increase of 108.9%.

Our revenue derived from our medium-grade titanium concentrates increased from RMB7.5 million in 2006 to RMB43.3 million in 2008, representing a CAGR of 141.0%. Our revenue derived from our medium-grade titanium concentrates decreased from RMB31.6 million for the six months ended June 30, 2008 to RMB6.1 million for the six months ended June 30, 2009, representing a decrease of 80.6%. This decrease was mainly due to the substantial reduction of more than 50.0% in the price of medium-grade titanium concentrates that occurred around the end of 2008 and the decrease in our production volume of medium-grade titanium concentrates due to the discontinuation of the greater part of such production at our Xiushuihe Processing Plant during the six months ended June 30, 2009 as a result of a planned upgrade of the medium-grade titanium concentrates production line to a high-grade titanium concentrates production line.

We plan to use a portion of [●] to continue to increase our production capacity of iron concentrates. We also plan to use a portion of [●] to complete the upgrade of our existing medium-grade titanium concentrates production lines to produce high-grade titanium concentrates. Details of our plans on the expansion of our production capacities for iron concentrates and production of high-grade titanium concentrates are set out in the "Business — Expansion and Construction Plan" section in this document.

Cost of sales

Cost of sales mainly includes the mining and stripping contracting fees, processing contracting fees, cost of materials, labor, power and other utilities, repair and maintenance, depreciation and amortization, transportation and other overhead costs. For a breakdown and description of the components of our cost of sales, see "— Factors Affecting Results of Operations and Financial Condition — Cost of sales" in this section.

The following table sets forth our cost of sales by product and as a percentage of our total cost of sales for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2006		2007		2008		2008		2009	
	Cost of Sales (RMB '000)	Percentage of total cost of sales (%)	Cost of Sales (RMB '000)	Percentage of total cost of sales (%)	Cost of Sales (RMB'000)	Percentage of total Cost of Sales (%)	Cost of Sales (RMB'000) (unaudited)	Percentage of total Cost of Sales (%)	Cost of Sales (RMB'000)	Percentage of total Cost of Sales (%)
Iron concentrates	27,789	27.8	73,473	39.1	181,760	50.0	53,808	39.2	120,066	43.4
Iron pellets	55,690	55.6	106,092	56.5	138,540	38.0	55,889	40.8	140,781	50.9
Medium-grade titanium concentrates	2,781	2.8	8,204	4.4	43,822	12.0	27,354	20.0	15,691	5.7
Others(Note)	13,870	13.8	—	—	—	—	—	—	—	—
Total cost of sales	100,130	100.0	187,769	100.0	364,122	100.0	137,051	100.0	276,538	100.0

Note: Others include cost of sales of materials that we purchased from third party suppliers for sale to our customers. We have not sold any materials purchased from third party supplier to our customers since 2007.

Mining and stripping contracting fees constitute a significant portion of our cost of sales related to the production of our iron concentrates and medium-grade titanium concentrates. We entered into a mining and stripping contracting contract with our Independent Third Party Mining Contractor for a term of five years beginning on August 16, 2006. In addition, in March 2007, we engaged our first Independent Third Party Processing Contractor to process our ore to produce iron concentrates and medium-grade titanium concentrates from our Baicao Mine.

With respect to the production of our iron pellets, materials cost represents a significant proportion of our cost of sales. Of the materials cost, the cost of iron concentrates is the largest component. Our Xiushuihe Processing Plant supplies most of the iron concentrates used in the production of iron pellets at our Iron Pelletizing Plant. In the years ended December 31, 2006 and 2007 and 2008, we purchased iron concentrates from third party suppliers because the volume of iron concentrates produced from our Xiushuihe Processing Plant was insufficient to meet the production requirements of our iron pellets. Our Directors confirm that the increase in the cost of sales of iron pellets from 2006 to 2008 was in line with the corresponding increase in the production volume. The increase in the average cost of sales of iron pellets between 2006 and 2007 is due to our purchase of 19.3% and 45.1%, respectively, of the total iron concentrates feed used in our Iron Pelletizing Plant from third party suppliers. The market price of iron concentrates was relatively higher during that period, which also contributed to this increase in average cost of sales. As our production of iron concentrates increases, we plan to reduce our purchases from third party suppliers. We decreased our purchases from third party suppliers to 2.4% of the total iron concentrates feed used in our Iron Pelletizing Plant for 2008 as compared to 45.1% for 2007. For the six months ended June 30, 2009, we did not purchase iron concentrates feed from third party suppliers. In addition, due to demand for iron pellets from our customers, we entered into a contract with our first Independent Third Party Pelletizing Contractor for a term of one year from December 18, 2008, and a contract with our second Independent Third Party Pelletizing Contractor for a term of one year from February 19, 2009, to increase our iron pellets production capacity. The Independent Third Party Pelletizing Contractors will use the iron concentrates from our processing plants.

Other income

Our other income primarily consists of interest income and the income produced from the sale of materials to our contractors for the expansion and construction of our processing facilities.

Selling and distribution costs

Our selling and distribution costs primarily consist of transportation expenses for the delivery of our products to our major customers. See "— Factors Affecting Results of Operations and Financial Condition — Transportation expenses" in this section. The following table sets forth the breakdown of our selling and distribution costs for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006 (RMB'000)	2007 (RMB'000)	2008 (RMB'000)	2008 (RMB'000) (unaudited)	2009 (RMB'000)
Transportation expenses	50,432	86,000	20,465	7,770	11,725
Others	829	572	1,979	981	1,024
Total	51,261	86,572	22,444	8,751	12,749
Transportation expenses as percentage of total revenue	23.9%	23.5%	2.6%	2.5%	2.4%

During the years ended December 31, 2006 and 2007, pursuant to our arrangement with Weiyuan Steel, we were responsible for the (i) road transportation expenses from our processing plants or the processing plant of our first Independent Third Party Processing Contractor to the nearest train stations where our products were uploaded to trains and (ii) the railroad transportation expenses to the train stations designated by Weiyuan Steel. Our transportation expenses during this period are primarily related to this service we provided to Weiyuan Steel. After January 1, 2008, pursuant to new contracts signed with Weiyuan Steel, we only deliver our products sold to Weiyuan Steel to train stations near our mines. Transportation expenses for the year ended December 31, 2008 consisted of approximately RMB14.1 million relating to the delivery of our products to Weiyuan Steel; approximately RMB3.8 million relating to the delivery of our products to Independent Third Party customer G and approximately RMB2.6 million relating to a one-time delivery of our products to Chengdu Yingchi. Transportation expenses for the six months ended June 30, 2009 consisted of approximately RMB7.0 million relating to the delivery of our products to Weiyuan Steel and approximately RMB4.7 million relating to the delivery of our products to Independent Third Party customer H. See "— Factors Affecting Results of Operations and Financial Condition — Transportation expenses" in this section for more information on our transportation arrangement with our customers.

The change that occurred on January 1, 2008 in our transportation arrangement with Weiyuan Steel, which resulted in the inclusion of transportation expenses in the selling price paid by Weiyuan Steel for our products, has led to a decrease in the average selling price of our iron ore products and our gross profit margin. If the transportation arrangement with Weiyuan Steel had not changed, the average selling price per tonne of our iron concentrates and iron pellets in 2008 would have been RMB661.7 and RMB833.8, respectively. The average selling price of our iron concentrates and iron pellets after the change in the transportation arrangement with Weiyuan steel in 2008 was RMB621.9 and RMB826.1, respectively, representing a decrease of 6.0% and 0.9%. Our gross profit margin for 2008 also correspondingly decreased from 55.9% to 54.0% due to the new transportation arrangement with Weiyuan Steel.

Administrative expenses

Our administrative expenses primarily consist of staff costs, business development expenses, professional consulting fees, depreciation, taxes, office expenses, land charges, land and environmental compensation fees, mineral resource compensation fees, rental expenses and Nanjiang Project technical service fees. The following table sets forth the breakdown of our administrative expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006	2007 (RMB'000)	2008	2008 (RMB'000) (unaudited)	2009
Staff costs	2,855	4,656	8,576	2,545	4,504
Business development expenses	826	1,254	2,718	1,080	926
Professional consulting fees	918	609	10,541	6,799	734
Depreciation	174	172	387	118	605
Taxes	115	435	452	0	59
Office expenses	1,246	1,423	2,149	631	1,422
Land surcharges and compensation fees	483	2,335	1,284	522	1,323
Mineral resource compensation fees	247	1,187	2,178	653	843
Rental expenses	133	357	224	161	163
Nanjiang Project technical service fees(*Note*)	—	—	2,721	—	1,227
Others	303	680	1,772	468	(44)
Total	7,300	13,108	33,002	12,977	11,762

Note: The technical service fees were incurred after the completion of the upgrade of an existing 150.0 Kt iron concentrates production line to 200.0 Kt and the construction of a new 300.0 Kt iron concentrates production line in June 2008. No technical service fees were incurred in 2006 and 2007. See Note 34 of the Accountants' Report attached as Appendix I to this document.

Staff costs consist of payroll and bonus to administrative staff. The increase in staff costs during the Track Record Period was consistent with the increase in the number of administrative employees due to our business expansion.

Business development expenses primarily consist of travel and entertainment fees incurred during the Track Record Period. The increase in our business development expenses during the Track Record Period was consistent with the increase in our customer development activities and in business travel related to our business expansion and financing activities.

Professional consulting fees include fees paid to professional valuers, business consulting fees and fees paid to industry consultants providing exploration and excavation planning services for our mines.

Land surcharges and compensation fees primarily consist of (i) surcharges paid to the government and (ii) compensation for the use of peripheral farm land. See the "Business — Regulatory Compliance Issues" and "Business — Properties — Owned properties" sections in this document.

Mineral resource compensation fees are levied by the Mineral Resource Department of the People's Government (礦產資源管理局). The amount of mineral resources compensation fees is computed based on the revenue of mineral products as calculated according to certain compensation levy rates. The increase in these fees was mainly due to the increase in our production and sales volume during the Track Record Period.

Nanjiang Project technical fees are fees paid to Nanjiang for its provision of technical support services to us pursuant to the co-operation agreement between Nanjiang and us. See the "Business — Co-operation Agreement" section and Note 34 of Section II of the Accountants' Report attached as Appendix I to this document.

Other operating expenses

Our other operating expenses primarily consist of the cost of materials sold to our contractors for the expansion and construction of our processing facilities, [●] fee expenses, road maintenance fees charged by the government, loss on disposal of property, plant and equipment, and bank charges.

Finance costs

Our finance costs mainly represent interest on bank loans incurred during the Track Record Period.

Income tax expenses

Income tax expenses consist of provisions for current and deferred PRC income tax expenses. Overall, our effective tax rate for the years ended December 31, 2006, 2007 and 2008 and for the six months ended June 30, 2009 was 34.6%, 1.8%, 8.1%, and 16.1%, respectively. The decrease in our effective tax rate in the year ended December 31, 2007 was due to the tax holiday provided by law to Huili Caitong after it changed its status to a foreign-invested enterprise. Xiushuihe Mining remained subject to the PRC income tax rate of 33% in 2007. For the year ended December 31, 2008, Huili Caitong continued to enjoy its tax holiday and Xiushuihe Mining was subject to a 25% tax rate. The increase in our effective tax rate for the year ended December 31, 2008 was primarily due to the increase in profit before tax generated by Xiushuihe Mining. The increase in our effective tax rate for the six months ended June 30, 2009 was primarily due to the increase in profit before tax and the change in the PRC income tax preferential treatment enjoyed by Huili Caitong from a tax exemption in 2008 to a 50% tax reduction in 2009. See "— Factors Affecting Results of Operations and Financial Condition — PRC enterprise income tax" in this section.

The following table sets forth details regarding our income tax expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2006		2007		2008		2008		2009	
	RMB'000	Percentage of profit before tax %	RMB'000	Percentage of profit before tax %	RMB'000	Percentage of profit before tax %	RMB'000 (unaudited)	Percentage of profit before tax %	RMB'000	Percentage of profit before tax %
Profit before tax excluding loss incurred by our Company	49,433	—	75,690	—	372,200	—	158,351	—	183,760	—
Tax at applicable tax rate of 33% or 25% in the PRC	16,313	33.0	24,978	33.0	93,050	25.0	39,588	25.0	45,940	25.0
Lower tax rate for a subsidiary	—	—	(23,925)	(31.6)	(67,464)	(18.1)	(29,705)	(18.8)	(17,360)	(9.4)
Sub-total	16,313	33.0	1,053	1.4	25,586	6.9	9,883	6.2	28,580	15.6
Effect of change in enacted tax rate used for the recognition of deferred tax	—	—	939	1.3	—	—	—	—	—	—
Deferred tax assets arising from the provision for rehabilitation	—	—	(1,250)	(1.7)	—	—	—	—	—	—
Expenses not deductible for tax	806	1.6	636	0.8	1,867	0.5	322	0.2	993	0.5
Adjustments in respect of current tax of previous periods	—	—	—	—	2,614	0.7	—	—	—	—
	17,119	34.6	1,378	1.8	30,067	8.1	10,205	6.4	29,573	16.1

Cayman Islands profits tax

We are incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law and accordingly are exempt from payment of Cayman Islands Income Tax.

BVI profits tax

The BVI has no corporation, capital gains, wealth, or any other taxes applicable to a business company. We are not subject to any profit, income or other taxes of the BVI with respect to our business, provided that we do not have any employees in the BVI nor carry on any business in the BVI. Our Directors have confirmed that as of the Latest Practicable Date, we have no employees in the BVI and did not carry on any business in the BVI.

Hong Kong profits tax

Hong Kong profits tax is assessed on any profits arising or derived from Hong Kong. We have made no provision for Hong Kong profits tax because we had no assessable profits derived from or earned in Hong Kong during the Track Record Period.

PRC enterprise income tax

The provision for PRC income tax is based on the respective income tax rate applicable to our PRC operating subsidiaries as determined in accordance with the relevant income tax rules and regulations of the PRC based on taxable income determined under PRC GAAP during the Track Record Period. For more information on the relevant PRC enterprise income tax law, see “— Factors Affecting Results of Operations and Financial Condition — PRC enterprise income tax” in this section.

Prior to January 1, 2008, the PRC enterprise income tax rate was 33%. The New Tax Law, which became effective on January 1, 2008, replaced the PRC Income Tax Law for Foreign Invested Enterprise and Foreign Enterprise. Under the New Tax Law, enterprises that previously enjoyed a preferential tax rate prior to March 16, 2007 will be gradually subject to a new tax rate of 25% over the next five years from January 1, 2008. Enterprises that previously enjoyed a fixed period of tax exemption and reduction prior to March 16, 2007 will continue to enjoy their preferential tax treatment until the expiration of the prescribed period. Enterprises whose preferential tax treatment period has not commenced due to lack of profits in prior years will enjoy preferential tax treatment beginning January 1, 2008 and lasting until the expiration of the relevant preferential tax treatment period.

Minority interests

Minority interests represent the interests of outside shareholders not held by us in the results and net assets of our subsidiaries. An acquisition of minority interests is accounted for by using the entity concept method whereby the difference between the consideration and the net book value of the share of the net assets acquired is recognized as an equity transaction.

RESULTS OF OPERATIONS

The following table sets forth our consolidated statements of comprehensive income for the periods indicated, as derived from the Accountants' Report attached as Appendix I to this document.

	Year ended December 31,						Six months ended June 30,			
	2006		2007		2008		2008		2009	
	RMB'000	Percentage of revenue (%)	RMB'000	Percentage of revenue (%)	RMB'000	Percentage of revenue (%)	RMB'000 (Unaudited)	Percentage of revenue (%)	RMB'000	Percentage of revenue (%)
Revenue	211,103	100.0	366,670	100.0	791,163	100.0	315,335	100.0	486,041	100.0
Cost of sales	(100,130)	(47.4)	(187,769)	(51.2)	(364,122)	(46.0)	(137,051)	43.5	(276,538)	56.9
Gross profit	110,973	52.6	178,901	48.8	427,041	54.0	178,284	56.5	209,503	43.1
Other income	147	0.0	1,496	0.4	17,277	2.2	13,470	4.3	2,230	0.5
Selling and distribution costs	(51,261)	(24.3)	(86,572)	(23.6)	(22,444)	(2.8)	(8,751)	(2.8)	(12,749)	(2.6)
Administrative expenses	(7,300)	(3.5)	(13,108)	(3.6)	(33,002)	(4.2)	(12,977)	(4.1)	(11,762)	(2.4)
Other operating expenses	(1,334)	(0.6)	(3,107)	(0.8)	(37,000)	(4.7)	(21,002)	(6.7)	(5,478)	(1.1)
Finance costs	(1,792)	(0.8)	(1,920)	(0.5)	(3,048)	(0.4)	(1,214)	(0.4)	(2,293)	(0.5)
Profit before tax	49,433	23.4	75,690	20.7	348,824	44.1	147,810	46.8	179,451	36.9
Income tax expense	(17,119)	(8.1)	(1,378)	(0.4)	(30,067)	(3.8)	(10,205)	(3.2)	(29,573)	(6.1)
Total comprehensive income for the year/period	32,314	15.3	74,312	20.3	318,757	40.3	137,605	43.6	149,878	30.8
Attributable to:										
Owners of our Company	23,042	10.9	53,686	14.7	248,675	31.4	95,281	30.2	133,445	27.4
Minority interests	9,272	4.4	20,626	5.6	70,082	8.9	42,324	13.4	16,433	3.4
	32,314	15.3	74,312	20.3	318,757	40.3	137,605	43.6	149,878	30.8

Six months ended June 30, 2009 compared to the six months ended June 30, 2008

Revenue

Our revenue increased by 54.1%, or RMB170.7 million, from RMB315.3 million for the six months ended June 30, 2008 to RMB486.0 million for the six months ended June 30, 2009. The increase was primarily attributable to the increase in the sales volume of our iron concentrates and iron pellets.

For the six months ended June 30, 2009, we sold 463.3Kt and 332.5Kt of iron concentrates and iron pellets, respectively, compared to 261.7Kt and 135.8Kt for the six months ended June 30, 2008, respectively representing increases of 77.0% and 144.9%, respectively. The increase in the sales volume of our iron concentrates was primarily due to (i) the increase in our production volume and the production volume of our first Independent Third Party Processing Contractor; and (ii) production volume contributed by our second Independent Third Party Processing Contractor whom we engaged in April 2009. The increase in the sales volume of our iron pellets was primarily due to (a) the increase in our production volume and (b) production volume contributed by our first and second Independent Third Party Pelletizing Contractors whom we engaged in December 2008 and February 2009, respectively.

Due to the recent global economic slowdown and its effect on the demand for our products, the average selling prices of our iron concentrates and iron pellets for the six months ended June 30, 2009 have decreased compared to the average selling prices of our iron concentrates and iron pellets for the six months ended June 30, 2008. The average selling prices of our iron concentrates and iron pellets have shown signs of stabilization beginning in February 2009. The sales volume and the revenue of our iron concentrates and iron pellets for the six months ended June 30, 2009 have increased compared to the sales volume and revenue of our iron concentrates and iron pellets for the six months ended

June 30, 2008. See the “Industry Overview — Overview of the Iron Ore and Titanium Industries — Iron ore and titanium prices” and the “Business — Customers — Recent global economic trends and impact on our business” sections in this document.

Our revenue derived from our medium-grade titanium concentrates decreased from RMB31.6 million for the six months ended June 30, 2008 to RMB6.1 million for the six months ended June 30, 2009, representing a decrease of 80.6%. This decrease was mainly due to the substantial reduction of more than 50.0% in the price of medium-grade titanium concentrates that occurred around the end of 2008 and the decrease in our production volume of medium-grade titanium concentrates due to the discontinuation of the greater part of such production at our Xiushuihe Processing Plant during the six months ended June 30, 2009 as a result of a planned upgrade of the medium-grade titanium concentrates production line to a high-grade titanium concentrates production line.

Cost of sales

Our cost of sales increased by 101.8%, or RMB139.4 million, from RMB137.1 million for the six months ended June 30, 2008 to RMB276.5 million for the six months ended June 30, 2009. The increase in cost of sales was primarily due to the increase in our production volume. Our waste stripping activities and associated fees increased to meet the increase in our production levels. Processing contracting fees also increased as a result of the engagement of the second Independent Third Party Processing Contractor in April 2009. During the six months ended June 30, 2009, we did not purchase any iron concentrates for use in our Iron Pelletizing Plant from third party suppliers and currently do not expect to purchase iron concentrates from third parties in the future. As a percentage of revenue, our cost of sales increased from 43.5% for the six months ended June 30, 2008 to 56.9% for the six months ended June 30, 2009. This increase was primarily due to (i) lower prices of iron concentrates and iron pellets during the six months ended June 30, 2009 as compared to prices during the first six months ended June 30, 2008; (ii) a substantial increase in the sales volume of iron pellets, which have a higher unit cost of sales than iron concentrates; and (iii) an increase in the unit cost of production of iron concentrates. The unit cost of production of iron concentrates increased for the six months ended June 30, 2009 because we processed a relatively higher amount of primary raw ore during such period. Unlike the relatively more oxidized raw ore found closer to the surface, primary raw ore from deeper levels in the mine is harder and therefore the energy costs involved in the crushing and grinding processes increase and more raw ore is required to produce the same amount of iron concentrates. We plan to adjust the mix of harder primary raw ore with softer oxidized raw ore to lower the overall strength of our raw ore and reduce the unit cost of production in the future.

Gross Profit

As a result of the foregoing, our gross profit increased by 17.5%, or RMB31.2 million, from RMB178.3 million for the six months ended June 30, 2008 to RMB209.5 million for the six months ended June 30, 2009. Our gross profit margin decreased from 56.5% for the six months ended June 30, 2008 to 43.1% for the six months ended June 30, 2009. The decrease in gross profit margin is primarily due to the fact that the average selling prices of our iron ore products in the six months ended June 30, 2009 was lower than those in the six months ended June 30, 2008 as a result of the global economic downturn and the increased unit cost of production of iron concentrates in the same period. We believe that our gross profit margin will improve as (i) the average selling price of our iron concentrates and our iron pellets increases; and (ii) we adjust the mix of harder primary raw ore with softer oxidized raw ore to lower the overall strength of our raw ore. We also recorded a gross loss margin of 155.9% for our medium-grade titanium concentrates for the six months ended June 30, 2009 as compared with the gross profit margin of 13.3% for the six months ended June 30, 2008, which was primarily due to the substantial reduction of over 50.0% in the price of medium-grade titanium concentrates that occurred around the end of 2008.

Other income

Our other income decreased by 83.4%, or RMB11.3 million, from RMB13.5 million for the six months ended June 30, 2008 to RMB2.2 million for the six months ended June 30, 2009, mainly due to the decrease in the sale of construction materials to construction contractors used in the construction and expansion of our processing facilities because we had fewer construction projects during the six months ended June 30, 2009.

Selling and distribution costs

Our selling and distribution costs increased by 45.7%, or RMB3.9 million, from RMB8.8 million for the six months ended June 30, 2008 to RMB12.7 million for the six months ended June 30, 2009, mainly due to an increase in transportation expenses resulting from the increase in sales of iron ore products to Weiyuan Steel and Independent Third Party customer H in the six months ended June 30, 2009. As a percentage of revenue, our selling and distribution costs decreased from 2.8% for the six months ended June 30, 2008 to 2.6% for the six months ended June 30, 2009. See "— Description of Selected Consolidated Statement of Comprehensive Income Line Items — Selling and distribution costs" in this section.

Administrative Expenses

Our administrative expenses decreased by 9.4%, or RMB1.2 million, from RMB13.0 million for the six months ended June 30, 2008 to RMB11.8 million for the six months ended June 30, 2009, primarily due to the decrease in professional consulting fees, which was partially offset by (i) increases in staff costs; and (ii) the payment of Nanjiang Project technical service fees. The decrease in professional consulting fees was due to our engagement of an industry consultant in 2008 only (but not in 2009) to advise on our expansion and construction plans. The increase in staff costs was due to our business expansion in the period. The Nanjiang Project technical service fees are comprised of fees paid to Nanjiang for its provision of technical support services to us pursuant to the co-operation agreement between Nanjiang and Xiushuihe Mining. See the "Business — Co-operation Agreement" section and Note 34 of section II of the Accountants' Report attached as Appendix I to this document. As a percentage of revenue, our administrative expenses decreased from 4.1% for the six months ended June 30, 2008 to 2.4% for the six months ended June 30, 2009. See "— Description of Selected Consolidated Statement of Comprehensive Income Line Items — Administrative expenses" in this section.

Other operating expenses

Other operating expenses decreased by 73.9%, or RMB15.5 million, from RMB21.0 million for the six months ended June 30, 2008 to RMB5.5 million for the six months ended June 30, 2009, primarily due to (i) the decrease in the sale of raw materials to our contractors used in the expansion and construction of our processing facilities because we had fewer construction projects during the first half of 2009; (ii) the lack of any sales of iron ore to our first Independent Third Party Processing

Contractor; and (iii) the decrease in fees expensed in connection with [●] in the six months ended June 30, 2009.

Finance costs

Finance costs increased by 88.9%, or RMB1.1 million from RMB1.2 million for the six months ended June 30, 2008 to RMB2.3 million for the six months ended June 30. 2009, primarily due to interest arising from a new bank loan of RMB100.0 million and discounted bills.

Income tax expense

Income tax expense increased by 189.8%, or RMB19.4 million, from RMB10.2 million for the six months ended June 30, 2008 to RMB29.6 million for the six months ended June 30, 2009, primarily due to a change in the preferential treatment for PRC income tax enjoyed by Huili Caitong from a tax exemption in 2008 to a 50.0% tax reduction in 2009.

Total comprehensive income

As a result of the foregoing, our total comprehensive income increased by 8.9%, or RMB12.3 million, from RMB137.6 million for the six months ended June 30, 2008 to RMB149.9 million for the six months ended June 30, 2009. Our net profit margin decreased from 43.6% for the six months ended June 30, 2008 to 30.8% for the six months ended June 30, 2009.

Total comprehensive income attributable to owners of our Company

Total comprehensive income attributable to owners of our Company increased by 40.1%, or RMB38.1 million, from RMB95.3 million for the six months ended June 30, 2008 to RMB133.4 million for the six months ended June 30, 2009.

Minority interests

Minority interests decreased by 61.2%, or RMB25.9 million, from RMB42.3 million for the six months ended June 30, 2008 to RMB16.4 million for the six months ended June 30, 2009. This decrease was mainly due to our acquisition of a 18.5% equity interest in Huili Caitong. See the "History, Reorganization and Group Structure — History and Development — Pre-[●] investment — Our corporate investor" section in this document.

Year ended December 31, 2008 compared to the year ended December 31, 2007

Revenue

Our revenue increased by 115.8%, or RMB424.5 million, from RMB366.7 million in 2007 to RMB791.2 million in 2008. The increase was primarily attributable to (i) the increase in the sales volume of our iron concentrates and iron pellets and, to a lesser extent, of our medium-grade titanium concentrates and (ii) the increase in the average selling prices of iron concentrates, iron pellets and medium-grade titanium concentrates during the year ended December 31, 2008.

In 2008, we sold 796.9 Kt, 305.4 Kt and 216.7 Kt of iron concentrates, iron pellets and medium-grade titanium concentrates, respectively, compared to 398.0 Kt, 255.6 Kt and 63.9 Kt in 2007, respectively, representing increases of 100.2%, 19.5% and 238.9%, respectively. The increase in the sales volume of our iron concentrates was primarily due to the increase in our production volume and in the production volume of our first Independent Third Party Processing Contractor to meet increased demand. The increase in the sales volume of our iron pellets was due to the increase in production volume at our Iron Pelletizing Plant to meet increased demand. The increase in the sales volume of our medium-grade titanium concentrates was due to the increase in our production volume as well as the sale of approximately 46.5 Kt of our inventory to a single customer in completion of a contract which was negotiated in 2007 and settled in 2008.

Due to the recent global economic slowdown and its effect on demand for our products, the average selling prices of our iron concentrates and iron pellets decreased between June 2008 and December 2008. However, the sales volume and revenue of our iron concentrates and iron pellets in 2008 have increased when compared to the sales volume and revenue of our iron concentrates and iron pellets in 2007. See the "— Factors Affecting Results of Operations and Financial Conditions — Price of products" in this section, the "Industry Overview — Overview of the Iron Ore and Titanium Industries — Iron ore and titanium prices" and the "Business — Customers — Recent global economic trends and impact on our business" sections in this document.

Cost of sales

Our cost of sales increased by 93.9%, or RMB176.3 million, from RMB187.8 million in 2007 to RMB364.1 million in 2008. The increase in cost of sales was primarily due to the increase in our production volume. Our waste stripping fees increased due to (i) the renegotiation of the waste stripping contract with our Independent Third Party Mining Contractor that led to an increase in waste stripping fees and (ii) an increase in waste stripping activities. Processing contracting fees also increased as a result of the increase in exclusive processing capacity allocated to us by our first Independent Third Party Processing Contractor in 2008. Such increases were partially offset by a decrease in costs related to purchasing iron concentrates feed for our Iron Pelletizing Plant in 2008 because we were increasingly able to supply the plant with our own iron concentrates as a result of our increased production capacity during 2008. As a percentage of revenue, our cost of sales decreased from 51.2% in 2007 to 46.0% in 2008 because our revenue was increasing at a comparatively higher rate than our cost of sales.

Gross profit

As a result of the foregoing, our gross profit increased by 138.7%, or RMB248.1 million, from RMB178.9 million in 2007 to RMB427.0 million in 2008. Our gross profit margin for the same period increased from 48.8% in 2007 to 54.0% in 2008. The increase in gross profit margin was primarily due to the fact that the increase in average selling price of our iron ore products was proportionally greater than the increase in our unit cost of sales during the year ended December 31, 2008. This increase was partially offset by a gross loss margin of 1.3% for our medium-grade titanium concentrates in 2008 as compared to a gross profit margin of 27.2% in 2007, which is primarily due to the increase in the average selling price of our medium-grade titanium concentrates being proportionally lower than the increase in our unit cost of sales for these products during the year ended December 31, 2008.

Other income

Our other income increased by 1,054.9%, or RMB15.8 million, from RMB1.5 million in 2007 to RMB17.3 million in 2008, mainly due to sales of construction materials made to construction contractors and a one-off sale of our iron ore to our first Independent Third Party Processing Contractor in 2008 which amounted to RMB8.6 million and RMB8.4 million, respectively. Our first Independent Third Party Processing Contractor typically uses iron ore provided by us to produce iron concentrates for us. In April, 2008, because our inventories of iron ore at that time were insufficient to supply the requirements of the first Independent Processing Contractor, we purchased 157.5 Kt of iron ore from the first Independent Third Party Processing Contractor for RMB8.4 million with the understanding that the first Independent Third Party Processing Contractor would use the iron ore in the production of iron concentrates for us. It was further agreed that we would sell back to the first Independent Third Party Processing Contractor the same amount of iron ore and at the same price once we had enough ore to do so. Accordingly, on May 2008, we sold 157.5 Kt of iron ore at RMB8.4 million to the first Independent Third Party Processing Contractor. The cost incurred by us in connection with this sale was RMB5.3 million and was recorded as other operating expenses in the consolidated statement of comprehensive income for the year ended December 31, 2008.

Selling and distribution costs

Our selling and distribution costs decreased by 74.1%, or RMB64.2 million, from RMB86.6 million in 2007 to RMB22.4 million in 2008, mainly due to the decrease in transportation expenses. See “— Factors Affecting Results of Operations and Financial Conditions — Transportation expenses” in this section and the “Risk Factors — Risks Relating to Our Business and Industry — We may incur transportation costs if our customers do not pay the contract sales price” section in this document. As a percentage of revenue, our selling and distribution costs decreased from 23.6% in 2007 to 2.8% in 2008. See “— Description of Selected Statement of Consolidated Comprehensive Income Line Items — Selling and distribution costs” in this section.

Administrative expenses

Our administrative expenses increased by 151.8%, or RMB19.9 million, from RMB13.1 million in 2007 to RMB33.0 million in 2008, primarily due to increases in our staff costs, professional consulting fees, Nanjiang Project technical service fees and other expenses incurred in 2008 of RMB3.9 million, RMB9.9 million and RMB2.7 million, respectively. Our staff costs increase is in line with the increase in the number of our administrative employees due to the expansion of our business. The increase in professional consulting fees is due to our hiring of an industry consultant in 2008 to advise on our expansion and construction plan. Nanjiang Project technical service fees are fees paid to Nanjiang for its provision of technical support services to us pursuant to the co-operation agreement between Nanjiang and the Xiushuihe Mining. See the “Business — Co-operation Agreement” section and Note 34 of section II of the Accountants’ Report attached as Appendix I to this document. Our other expenses are expenses incurred in relation to our business expansion and are in line with the increase in our other income in 2008. As a percentage of revenue, our administrative expenses increased from 3.6% in 2007 to 4.2% in 2008. See “— Description of Selected Consolidated Statement of Comprehensive Income Line Items — Administrative expenses” in this section.

Other operating expenses

Other operating expenses increased by 1,091.2%, or RMB33.9 million, from RMB3.1 million in 2007 to RMB37.0 million in 2008, primarily due to the fees expensed in connection with the [●]. As at December 31, 2008, we incurred legal and other professional fees relating to [●] of RMB28.5 million in aggregate, of which RMB21.4 million was expensed in 2008 in accordance with IAS 32. The remainder, being [●] fees, of RMB7.1 million were deferred and capitalized as “Deferred [●] fees” under “Prepayments, deposits and other receivables” in the consolidated statements of financial position and will be deducted from our share premium when we complete [●]. Moreover, the ongoing construction and upgrades of our facilities that were completed in 2008 and a one-off sale of iron ore to our first Independent Third Party Processing Contractor in 2008 also contributed to an increase in our other operating expenses.

Finance costs

Finance costs increased by 58.8% or RMB1.1 million, from RMB1.9 million in 2007 to RMB3.0 million in 2008, primarily due to the increase in the effective interest rates of our bank loans and an additional bank loan of RMB25.0 million that we obtained in September 2008 and repaid in December 2008.

Income tax expense

Income tax expense increased by 2,081.9%, or RMB28.7 million, from RMB1.4 million in 2007 to RMB30.1 million in 2008, mainly due to our profit before tax generated by Xiushuihe Mining in 2008. See "— Description of Selected Statement of Consolidated Comprehensive Income Line Items — Income tax expenses" in this section.

Total comprehensive income

As a result of the foregoing, our total comprehensive income increased by 328.9%, or RMB244.4 million, from RMB74.3 million in 2007 to RMB318.8 million in 2008. Our net profit margin increased from 20.3% in 2007 to 40.3% in 2008.

Total comprehensive income attributable to owners of our Company

Total comprehensive income attributable to owners of our Company increased by 363.2%, or RMB195.0 million, from RMB53.7 million in 2007 to RMB248.7 million in 2008.

Minority interests

Minority interests increased by 239.8%, or RMB49.5 million, from RMB20.6 million in 2007 to RMB70.1 million in 2008. The percentage increase in total comprehensive income attributable to owners of our Company in 2008 was higher than the percentage increase in total comprehensive income attributable to minority interests in 2007 primarily as a result of the acquisition of a 18.5% equity interest in Huili Caitong by our Group. See the "History, Reorganization and Group Structure — History and Development — Pre-[●] investment — Our corporate investor" section in this document.

Year ended December 31, 2007 compared to year ended December 31, 2006

Revenue

Our revenue increased by 73.7%, or RMB155.6 million, from RMB211.1 million in 2006 to RMB366.7 million in 2007. The increase was primarily attributable to (i) the increase in the sales volume of our iron concentrates, iron pellets and, to a lesser extent, medium-grade titanium concentrates and (ii) the increase in the average selling price of our iron concentrates.

In 2007, we sold 398.0 Kt, 255.6 Kt and 63.9 Kt of iron concentrates, iron pellets and medium-grade titanium concentrates, respectively, compared to 166.8 Kt, 169.9 Kt and 25.2 Kt in 2006, respectively, representing an increase of 138.6%, 50.4% and 153.9%, respectively. The increase in sales volume of our iron concentrates and medium-grade titanium concentrates was primarily due to (i) the engagement of our first Independent Third Party Processing Contractor to process our ore beginning in March 2007 and (ii) a material increase in the production volume of our Baicao Processing Plant in

2007. The increase in our Baicao Processing Plant’s production volume was primarily due to the gradual increase in the production capacity of its iron concentrates production line by the end of 2006 and improvements in its operational efficiency. We decided to engage our first Independent Third Party Processing Contractor to process our ore to allow us to increase our production volume significantly within a short period of time without incurring substantial capital expenditure. The annual production volume of our iron concentrates and medium-grade titanium concentrates (including our first Independent Third Party Processing Contractor’s production volume) increased by 80.8% and 444.7%, respectively, from 287.0 Kt and 24.6 Kt in 2006, respectively, to 519.0 Kt and 134.1 Kt in 2007, respectively. The increase in sales volume of our iron pellets was due to the gradual increase in the production capacity of our Iron Pelletizing Plant, which reached its maximum production capacity in 2007.

The average selling price of our iron concentrates increased from RMB450.8 per tonne in 2006 to RMB477.8 per tonne in 2007. This increase was primarily due to the increase in the market price of iron concentrates. The average selling price of our iron pellets decreased from RMB670.2 per tonne in 2006 to RMB646.0 per tonne in 2007, primarily due to the lowering of the iron content level of our iron concentrates used in the production of our iron pellets from 56% in 2006 to 55% in 2007. Our customers agreed to our lowering of the iron content level. The average selling price of our medium-grade titanium concentrates decreased from RMB295.9 per tonne in 2006 to RMB176.3 per tonne in 2007, primarily due to the lowering of the average titanium dioxide content level of our medium-grade titanium concentrates from our Baicao Processing Plant from 37% in 2006 to 27% in 2007, which resulted from changes in the production process of medium-grade titanium concentrates in the course of implementing of the technology and equipment upgrade program for the production of high-grade titanium concentrates.

Cost of sales

Our cost of sales increased by 87.5%, or RMB87.7 million, from RMB100.1 million in 2006 to RMB187.8 million in 2007, primarily as a result of the increase in revenue. As a percentage of revenue, our cost of sales increased slightly from 47.4% in 2006 to 51.2% in 2007. This increase was primarily due to two factors. First, there was an increase in our purchases of iron concentrates, the main raw materials for our iron pellets, from third party suppliers at market prices because our own supplies were insufficient to meet the processing demands of our Iron Pelletizing Plant. Second, in March 2007 we decided to outsource the ore processing at our Baicao Processing Plant to our first Independent Third Party Processing Contractor in order to expand our processing capacity quickly to meet the increasing demand for our iron ore products. Such increase in demand was mainly due to (i) an overall increase in consumption of steel in the PRC; and (ii) increased demand from Weiyuan Steel as it expanded its steel production.

Gross profit

As a result of the foregoing, our gross profit increased by 61.2%, or RMB67.9 million, from RMB111.0 million in 2006 to RMB178.9 million in 2007. Our gross profit margin for the same period decreased from 52.6% in 2006 to 48.8% in 2007, primarily due to the increase in our unit cost of sales as result of our purchase of 119.5 Kt of iron concentrates from third party suppliers as raw material for our Iron Pelletizing Plant.

Other income

Our other income increased by 917.7%, or RMB1.4 million, from RMB0.1 million in 2006 to RMB1.5 million in 2007, mainly due to the increase in the sale of materials from RMB83,000 in 2006 to RMB1.4 million in 2007 to our contractors for the expansion and construction of our processing facilities.

Selling and distribution costs

Our selling and distribution costs increased by 68.9%, or RMB35.3 million, from RMB51.3 million in 2006 to RMB86.6 million in 2007, mainly due to the increase in transportation expenses for delivery of our products to Weiyuan Steel by 71.8% from RMB49.7 million in 2006 to RMB85.4 million in 2007, which resulted from the increase in the volume of products delivered to Weiyuan Steel. The increase in our selling and distribution costs from 2006 to 2007 was in line with our increase in revenue over the same period. As a percentage of revenue, our selling and distribution costs remained stable between 23.6% and 24.3% over the same period. See "— Description of Selected Consolidated Statement of Comprehensive Income Line Items — Selling and distribution costs" in this section.

Administrative expenses

Our administrative expenses increased by 79.6%, or RMB5.8 million, from RMB7.3 million in 2006 to RMB13.1 million in 2007, mainly due to the increase in staff costs, land surcharges and compensation fees. The increase in staff costs was due to our business expansion in this period, while the increase in land surcharges and compensation fees was related to our payment of surcharges in 2007. See the "Business — Regulatory Compliance Issues" section in this document. As a percentage of revenue, our administrative expenses remained stable at 3.5% in 2006 and 3.6% in 2007. See "— Description of Selected Consolidated Statement of Comprehensive Income Line Items — Administrative expenses" in this section.

Other operating expenses

Other operating expenses increased by 132.8%, or RMB1.8 million, from RMB1.3 million in 2006 to RMB3.1 million in 2007, mainly due to the increase in cost of materials sold to our contractors for the expansion and construction of our processing facilities and losses on the disposal of property, plant and equipment.

Finance costs

Finance costs increased by 7.1%, or RMB0.1 million, from RMB1.8 million in 2006 to RMB1.9 million in 2007.

Income tax expense

Income tax expense decreased by 92.0%, or RMB15.7 million, from RMB17.1 million in 2006 to RMB1.4 million in 2007, mainly due to the fact that Huili Caitong enjoyed its first tax holiday in 2007, as a result of which RMB23.9 million of taxable income was exempt from PRC enterprise income tax.

Total comprehensive income

As a result of the foregoing, our total comprehensive income increased by 130.0%, or RMB42.0 million, from RMB32.3 million in 2006 to RMB74.3 million in 2007. Our net profit margin increased from 15.3% in 2006 to 20.3% in 2007.

Total comprehensive income attributable to owners of our Company

Total comprehensive income attributable to owners of our Company increased from RMB23.0 million in 2006 to RMB53.7 million in 2007.

Minority interests

Minority interests increased by 122.5%, or RMB11.3 million, from RMB9.3 million in 2006 to RMB20.6 million in 2007, mainly due to the increase in the profitability of our PRC operating subsidiaries.

ANALYSIS OF VARIOUS CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

Intangible assets

Our intangible assets consist of mining rights and exploration and evaluation assets. As of December 31, 2006, 2007 and 2008 and June 30, 2009, our intangible assets were RMB8.7 million, RMB144.2 million, RMB140.8 million and RMB135.7 million, respectively.

The increase in intangible assets as of December 31, 2006 was primarily due to exploration and evaluation costs incurred by us to conduct exploration of our Baicao Mine and Xiushuihe Mine in connection with the renewal of the mining permits for these mines, which amounted to RMB5.4 million and RMB2.5 million, respectively.

The balance of intangible assets as of December 31, 2007 further increased by RMB135.5 million, which was primarily attributable to (i) consideration paid for the renewal of the mining permits of Baicao Mine and Xiushuihe Mine for a term of 20 years, amounting to RMB76.7 million and RMB42.7 million, respectively; and (ii) additional exploration and evaluation costs incurred to conduct further exploration of Baicao Mine and Xiushuihe Mine in connection with the renewal of the mining permits for these mines, amounting to RMB10.2 million and RMB6.6 million, respectively.

The balance of intangible assets as of December 31, 2008 decreased by RMB3.3 million as compared to the balance as of December 31, 2007, mainly due to the amortization of mining rights in 2008 in the amount of RMB7.8 million. Such decrease was partially offset by the additional professional fees of RMB4.4 million incurred for the purpose of increasing the ore production quotas of our Baicao Mine and Xiushuihe Mine.

The balance of intangible assets as of June 30, 2009 decreased by RMB5.1 million as compared to the balance as of December 31, 2008, due to an amortization of mining rights in the amount of RMB5.1 million.

Trade and notes receivables

	December 31,			June 30,
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
Trade receivables	330	3	82,432	192,768
Note receivables	—	—	5,200	—
	330	3	87,632	192,768

The ageing analysis of trade receivables that are not considered to be impaired is as follows:

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables				
— Neither past due nor impaired	—	3	82,417	192,768
— Over 30 days past due	330	—	15	—
	330	3	82,432	192,768

Trade receivables represent receivables from the sale of goods to unrelated parties. Our trade receivables outstanding balances as of December 31, 2007 were relatively small because Independent Third Party customers of our iron concentrates and iron pellets were generally required to make full payment upfront before delivery. Our trade receivables outstanding balance as of December 31, 2006 was due to an amount overdue from sales of medium-grade titanium concentrates to a customer which was collected in January 2007. Since January 1, 2008, we have standardized the credit term granted to all customers of our iron ore products, including Weiyuan Steel and any other connected persons, to a maximum of 30 days. We decided to standardize our credit period to 30 days for customers of iron ore products because we expect that our Independent Third Party customers will be purchasing the majority of our products in the future and we believe that it is important to treat our Independent Third Party customers and our related customers equally under these circumstances. In relation to sales of medium-grade titanium concentrates, 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, unless we are aware that they have a good credit history. Our sales to Independent Third Parties increased in 2008, which led to an increase in our trade receivables in 2008. As of June 30, 2009, the balance of our trade and notes receivables was RMB192.8 million.

Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables mainly consist of prepayments for construction in progress and purchase of machinery, fees prepaid to our first Independent Third Party Processing Contractor, prepaid stripping fees and deferred [●] fees. The increase of prepayments for construction in progress and purchase of machinery from RMB2.4 million as of December 31, 2006 to RMB8.7 million as of December 31, 2007 was mainly due to preparation for the planned upgrade of our existing medium-grade titanium concentrates production lines to produce high-grade titanium concentrates and the planned construction of new iron concentrates production lines in 2008. As of December 31, 2008, the balance for prepayments for construction in progress and purchase of machinery remained stable at RMB9.0 million due to RMB8.6 million in payments made for the construction of new iron ore production capacity and a new production line at our Baicao Mine. As of June 30, 2009, the balance for prepayments for construction in progress and purchase of machinery decreased to RMB7.2 million, primarily due to the fact that we had fewer construction projects during the first half of 2009.

The prepaid stripping fees represent waste stripping contracting fees prepaid by us to our Independent Third Party Mining Contractor. The increase in our prepaid stripping fees from RMB8.5 million as of December 31, 2006 to RMB23.1 million as of December 31, 2007, to RMB40.0 million as of December 31, 2008 and to RMB103.9 million as of June 30, 2009 is due to increased waste stripping activities at our mines during these periods. We recognize prepaid stripping fees as part of production costs once the raw iron ore is put into use. As of June 30, 2009, we had also prepaid RMB3.7 million in contracting fees to our first Independent Third Party Processing Contractor for the processing of iron concentrates and medium-grade concentrates and deferred [●] fees of RMB8.1 million. The prepayment to our first Independent Third Party Processing Contractor was in the form of a security deposit.

Balances due from related parties

Balances due from related parties consist of amounts due from Chuan Wei, Weiyuan Steel, Jian An and Tongyu:

	December 31,			Six months ended June 30,
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
Chuan Wei	31,183	229,695	—	—
Weiyuan Steel	—	—	29,541	35,051
Jian An	—	—	892	—
Tongyu	—	—	—	1,355
	31,183	229,695	30,433	36,406

The increase in our total outstanding balance due from a related party was in line with the increase in sales made to Weiyuan Steel during the years ended December 31, 2006 and 2007. Chuan Wei is a company controlled by our Founders and is our connected person. The balances with Chuan Wei are trade in nature arising from the sale of our products to, and the purchase of goods from and services provided by, companies controlled by Chuan Wei. Until December 31, 2007, the balance due from Chuan Wei resulted from the sale to and purchase of goods from companies controlled by Chuan Wei and subsequently transferred to Chuan Wei at each statement of financial position date pursuant to the centralized cash flow management system implemented by Chuan Wei. The balances due from Chuan Wei as of December 31, 2005, 2006 and 2007 were interest-free, unsecured and have no fixed credit term. The outstanding balance due from Chuan Wei to us as of December 31, 2007 was settled in full in 2008.

As of the Latest Practicable Date, all of the outstanding balances due from our related parties as of June 30, 2009 had been settled in full.

Inventories

Our inventories consist of raw materials, spare parts and consumables and finished goods. Raw materials include raw ore, coal and the iron concentrates used for the production of iron pellets. The following table sets forth our balances of inventory as of each of the statement of financial position dates:

	December 31,			June 30,
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
At cost:				
Raw materials	4,842	12,406	34,062	43,617
Spare parts and consumables	2,058	3,511	10,567	13,475
Finished goods	13,574	15,924	20,059	2,189
	20,474	31,841	64,688	59,281
At net realizable value:				
Finished goods	—	—	907	1,683
At the lower of cost and net realizable value	20,474	31,841	65,595	60,964

The balance of inventories as of December 31, 2007 increased by RMB11.4 million as compared to December 31, 2006 mainly due to the combined effect of (i) the increase in raw materials of our iron concentrates held for the production of iron pellets of RMB2.4 million; (ii) the increase in coal inventory of RMB2.5 million and; (iii) the increase in the finished goods of our medium- grade titanium concentrates of RMB13.5 million, partially offset by the decrease in the finished goods of our iron concentrates of RMB8.7 million as of December 31, 2007.

The balance of inventory as of December 31, 2008 increased by RMB33.8 million as compared to the balance as of December 31, 2007 primarily due to the accumulation of more raw materials in response to our production needs.

The balance of inventories as of June 30, 2009 decreased by RMB4.6 million as compared to the balance of inventories as of December 31, 2008, primarily due to increased sales in the first half of 2009.

Trade and notes payables

	December 31,			June 30,
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
Trade payables	32,592	64,423	108,030	102,792
Notes payables	14,300	14,300	—	—
	46,892	78,723	108,030	102,792

Our trade payables mainly consist of payables in respect of (i) the purchase of coal; (ii) transportation expenses incurred for the delivery of our products to our customers; and (iii) fees paid to our Independent Third Party contractors for their mining, processing and pelletizing services. Our trade payables are non-interest-bearing and are normally settled within 60 to 180 days. The following table sets forth an ageing analysis of our trade payables, based on the invoice date, as of each of the statement of financial position dates:

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000			
Outstanding balance with ages:				
Within 180 days	21,090	63,882	107,512	99,463
181-365 days	10,975	281	191	2,865
1-2 years	459	18	141	150
2-3 years	68	174	18	128
Over 3 years	—	68	168	186
	32,592	64,423	108,030	102,792

We were not in default in the settlement of our trade payables during the Track Record Period. The increase in the outstanding balance for trade payables of over one year throughout the Track Record Period was primarily due to the fact that certain of our suppliers have not yet furnished their official invoices to us. We will make the payment once we receive the official invoices from them. Other than the amount of trade payables in connection with those suppliers who have not furnished us with their official invoices, which represented an amount less than RMB530,000 as of each of December 31, 2006, 2007 and 2008 and June 30, 2009, we did not encounter difficulties in settling our trade payables during the Track Record Period.

The increase in trade payables during the Track Record Period was in line with the increase in our production volume over the same period.

The notes payables as of December 31, 2006 were fully settled by us when they matured in March 2007. In addition, notes payables as of December 31, 2007 were fully settled by us when they matured in January 2008.

Other payables and accruals

Except for an interest-free loan from a licensed non-banking financial institution which has a repayment term of four years and payables related to the Nanjiang Project where the repayment terms are determined based on the yearly projected profit of Xiushuihe Mining, our other payables and accruals are non-interest bearing and have average terms of one to three months, consisting mainly of payables related to construction in progress, taxes other than income tax and mining rights and exploration and evaluation assets. Our other payables and accruals in 2008 include payables related to the Nanjiang Project, land use rights and the [●] fees. See the "Business — Co-operation Agreement" section in this document for information relating to the Nanjiang Project and Note 34 of Section II of the Accountants' Report attached as Appendix I to this document.

Our balance of other payables and accruals as of June 30, 2009 was RMB206.5 million, representing an increase of RMB14.9 million from the balance of RMB191.6 million as of December 31, 2008. This increase was primarily due to the increase in payables related to construction in progress of RMB34.2 million, representing payments to our contractors for construction projects that were completed or close to completion in the first half of 2009.

Our balance of other payables and accruals as of December 31, 2008 was RMB191.6 million, representing an increase of RMB23.1 million from the balance of RMB168.5 million as of December 31, 2007. This increase was mainly due to (i) the increase in payables related to construction in progress of RMB13.0 million, which was mainly attributable to more construction activities in 2008; (ii) the increase in payables related to land use rights of RMB14.3 million, which was mainly attributable to the acquisition of land use rights by Huili Caitong in 2008. See the “Business — Properties — Owned properties — Long-term state-owned land use rights and building ownership” section in this document; (iii) the increase in payables related to [●] fees by RMB11.2 million to professional parties involved in [●]; (iv) the increase in payables to Nanjiang related to the cost of upgrade and construction of our production lines and technical service fees totalling RMB70.1 million; and (v) the decrease in the payables related to the mining rights and taxes other than income tax totalling RMB88.0 million, which was mainly attributable to the payments made in 2008 related to the renewal our mining permits for Baicao Mine and Xiushuihe Mine.

The balance of other payables and accruals increased from RMB32.6 million as of December 31, 2006 to RMB168.5 million as of December 31, 2007, mainly due to (i) the increase in the payables related to the mining rights and exploration and evaluation assets by RMB121.8 million, (ii) the increase in payables related to construction in progress by RMB3.4 million and (iii) the increase in payables by RMB7.9 million related to taxes other than income tax, such as value added taxes and resource tax, which was mainly attributable to the increase in sales volume.

We recorded accumulated losses as of January 1, 2006 because the losses incurred prior to January 1, 2005 were higher than the amount of profit recorded during the year ended December 31, 2005. Losses were incurred prior to 2005 mainly because Huili Caitong and Xiushuihe Mining both owned mines that were non-operational and thus did not operate at full production capacity prior to January 1, 2005 and had also not reached a size at which they could benefit from economies of scale. As a result, Huili Caitong and Xiushuihe Mining incurred relatively larger fixed overhead costs compared to revenue recorded prior to January 1, 2005, mainly due to the depreciation of plant and machinery.

Goodwill

	December 31,			June 30,
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
At cost:				
At beginning and at end of year	15,318	15,318	15,318	15,318

Goodwill is recorded in the consolidated statements of financial position. The goodwill amount arose from Huili Caitong’s acquisition of Xiushuihe Mining and represented an excess in the cost of combination over the Company’s interest in the net fair value of Xiushuihe Mining’s identifiable assets and liabilities as of the date of the acquisition.

Impairment testing of goodwill

The goodwill amount arising from the acquisition described above was recorded in the consolidated statements of financial position as an asset and measured at cost initially and was subsequently tested for impairment.

The recoverable amount of the cash-generating unit was determined based on a value in-use-calculation. Estimating the value-in-use calculation requires our management to make an estimate of the expected future cash flows based on financial budgets over a five-year period and with the assumption that cash flows beyond the five-year period will be stable. The discount rate applied to these cash flow projections is 13.4%.

ANALYSIS OF VARIOUS FINANCIAL RATIOS

The following table sets forth the turnover days of our trade receivables, inventories and trade payables for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2006	2007	2008	2009
Trade receivables turnover days (unrelated customers)(Note 1)	<1	<1	19	51
Trade receivables turnover days (related customers)(Note 2)	34	130	60	12
Inventory turnover days(Note 3)	66	51	49	41
Trade payables turnover days(Note 4)	105	94	86	69

Notes:

1. Trade receivables turnover days (unrelated customers) represent turnover days with respect to trade receivables from our unrelated customers. Trade receivables turnover days (unrelated customers) for the relevant year/period is calculated by dividing the average of the opening and closing balances of trade receivables for the relevant year/period by revenue and then multiplied by the number of days in the relevant year/period.

2. Trade receivables turnover days (related customers) represent turnover days with respect to trade related receivables from our related customers. Trade receivables turnover days (related customers) for the relevant year/period is calculated by dividing the average opening and closing balances of the due from related parties that are of a trade nature for the relevant year/period by revenue and then multiplied by the number of days in the relevant year/period.

3. Inventory turnover days for the relevant year/period is calculated by dividing the average of the opening and closing balances of inventories for the relevant year/period by cost of sales and then multiplied by the number of days in the relevant year/period.

4. Trade payables turnover days represent turnover days with respect to payables to our suppliers. Trade payables turnover days for the relevant year/period is calculated by dividing the average of the opening and closing balances of trade payables for the relevant year/period by cost of sales and then multiplied by the number of days in the relevant year/period.

Trade receivables turnover days (unrelated customers)

During the years ended December 31, 2006 and 2007, our trade receivables turnover days (unrelated customers) were less than one day because we derived the majority of our sales from a connected person and Independent Third Party customers were generally required to make full payment upfront before delivery. Since January 1, 2008, we have been imposing a standardized 30-day credit term on all customers of our iron ore products. With the increase in the number of Independent Third Party customers and our standardized 30-day credit term for the sale of our iron ore products, our trade receivables turnover days (unrelated customers) for the year ended December 31, 2008 increased to 19 days. The trade receivables turnover days (unrelated customers) for the six months ended

June 30, 2009 increased to 51 days primarily due to the substantial balance of trade and notes receivable as of June 30, 2009 as a result of substantial sales transactions concluded in June 2009.

Our revenue in June 2009 accounted for over 25% of our total revenue for the six months ended June 30, 2009. As of June 30, 2009, none of the balance of trade and notes receivables was overdue. As of July 31, 2009, we had collected RMB177.7 million of the outstanding balance for the sales of our iron ore products to our Independent Third Party customers, representing approximately 92.2% of the trade receivables as of June 30, 2009.

We concluded substantial sales transactions in both May and June 2009 relative to the first four months of 2009 because during the first quarter of 2009 we performed annual maintenance work on our production lines and such lines were not producing at full capacity. By April 2009, our maintenance work was complete and we increased production of our iron ore products. The increase in our production of iron concentrates, used as feed for the production of iron pellets, also allowed our Independent Third Party Pelletizing contractors to increase their production of iron pellets for us. With this increase in production of our iron ore products beginning in April 2009, we were able to sell increased quantities of our iron ore products in May and June 2009. Our sales transactions in the first six months ended June 30, 2008 show a similar pattern because we usually carry out our annual maintenance work in the first quarter of the year.

Trade receivables turnover days (related customers)

Our trade receivables turnover days (related customers) increased from 34 days in 2006 to 130 days in 2007 mainly due to the increase in sales to our related customers in the same period. Our trade receivables turnover days (related customers) decreased from 130 days in 2007 to 60 days in 2008 and further decreased to 12 days for the six months ended June 30, 2009 because we imposed a standardized 30-day credit term on all customers of our iron ore products from January 1, 2008 and the sales amount to related customers in 2008 decreased to 21.1% of the total revenue of the same period. As of the Latest Practicable Date, we have collected all of the outstanding balances for the sales of goods from related parties as of June 30, 2009.

We seek to create effective credit control policies for our Group. Since January 1, 2008, we have imposed a standardized 30-day credit term on sales to all customers of our iron ore products. In relation to sales of medium-grade titanium concentrates, 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 smaller, unless we are aware that they have a good credit history. Our trade receivables turnover days for our unrelated customers and related customers in 2008 was 19 days and 60 days, respectively. Our trade receivables turnover days for our unrelated customers in 2008 of 19 days was within the 30-day credit term we grant to all customers of our iron ore products. The number of trade receivables turnover days for related customers in 2008 was greater than the number of trade receivables turnover days for unrelated customers for the same period mainly because part of the balance of trade receivables from related customers during such period was incurred in connection with sales of our products prior to January 1, 2008, at a time when related customers were not required to settle their amounts within a fixed period of time. For the sales of our products that take place after January 1, 2008, all of our related customers and unrelated customers of iron ore products are subject to a credit term of 30 days. As of December 31, 2008, the balance of the amount due from related parties for the sales of goods was RMB29.5 million. For the six months ended June 30, 2009, our trade receivables turnover days (related customers) was 12 days, which was within the 30-day credit term we grant to all customers of our iron ore products. Based on the above, our Directors are of the view that our current credit control policies are effective.

Inventory turnover days

Our inventory turnover days decreased from 66 days in 2006 to 51 days in 2007. There was no material change in our inventory turnover days in 2008, remaining stable at 49 days. Our inventory turnover days decreased further to 41 days for the six months ended June 30, 2009. See "— Analysis of Statement of Financial Position Items — Inventory" in this section.

Trade payables turnover days

Our trade payables turnover days decreased from 105 days in 2006 to 94 days in 2007 and further decreased to 86 days in 2008 and 69 days for the six months ended June 30, 2009, mainly due to the increase in our revenue and our improved cash flow during these periods that allowed us to settle our trade payables in a shorter period of time.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we funded our operations principally with cash generated from our operations and short-term bank loans. Our primary uses of funds include our operating expenses, purchases of property, plant and equipment and repayment of our borrowings.

As of June 30, 2009, we had cash and cash equivalents of approximately RMB149.1 million. Numerous factors beyond our control, including fluctuations in the market prices of our products, may adversely impact our cash flows from operations and may require us to seek other sources of funds including bank borrowings. See the "Risk Factors — Risks Relating to our Business and Industry" and "Business — Customers — Recent global economic trends and impact on our business" sections in this document, and "— Factors Affecting Results of Operations and Financial Condition — Price of products" in this section.

The principal uses of cash that affect our liquidity position include operational expenditures, capital expenditures, interest expense and income tax payments.

The table below sets forth the breakdown of our current assets and current liabilities as of each of the statement of financial position dates:

	December 31,			June 30,
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
Current assets				
Pledged bank balances	14,310	4,316	40	—
Cash and bank equivalents	3,289	7,586	133,098	149,110
Trade and notes receivables	330	3	87,632	192,768
Prepayments, deposits and other receivables	13,247	32,884	88,854	111,792
Due from related parties	31,183	229,695	30,433	36,406
Inventories	20,474	31,841	65,595	60,964
	82,833	306,325	405,652	551,040
Current liabilities				
Interest-bearing bank loans	30,000	30,000	—	100,000
Trade and notes payables	46,892	78,723	108,030	102,792
Other payables and accruals	32,591	168,546	139,756	161,608
Due to related parties	—	—	12,466	13,446
Dividend payable	—	—	—	26,003
Tax payable	27,434	24,637	29,724	44,441
	136,917	301,906	289,976	448,290
Net current (liabilities)/assets	(54,084)	4,419	115,676	102,750

We had net current liabilities of RMB54.1 million as of December 31, 2006 and net current assets of RMB4.4 million, RMB115.7 million and RMB102.8 million as of December 31, 2007 and 2008 and June 30, 2009, respectively.

Our net current liabilities as of December 31, 2006 were primarily due to the following factors: (i) capital expenditures incurred in 2006 for intangible assets amounting to RMB8.5 million; (ii) a RMB15.6 million increase in income tax and VAT payable arising from an increase in sales and profit for 2006 due to the increase in demand for our products and the expansion of our production capacity; and (iii) an increase in costs arising from the purchase of raw materials amounting to RMB7.4 million in line with our production expansion in 2006. The net current assets of RMB4.4 million as of December 31, 2007 were mainly due to (i) a capital injection by one of our Controlling Shareholders, Trisonic International, of US$18 million (equivalent to RMB138 million) for the purpose of subscribing for a 72% equity interest in Huili Caitong as part of the Reorganization as described in the "History, Reorganization and Group Structure — Reorganization" section in this document and (ii) an increase in our sales which led to an increase in the amount due from a related party by RMB198.5 million that was partially offset by an one-time payable for the acquisition of the 20-year mining rights for our Baicao Mine and Xiushuihe Mine and related exploration and evaluation expenditures aggregating to RMB121.8 million.

As of December 31, 2008, we recorded net current assets of RMB115.7 million. Our improved liquidity position as of December 31, 2008 was primarily attributable to the stronger sales performance by our PRC operating subsidiaries in 2008. Our sales increased by 115.8%, or RMB424.5 million, from RMB366.7 million in 2007 to RMB791.2 million in 2008. The significant increase in our sales led to an increase in the amount of cash and cash equivalents and trade receivables.

As of June 30, 2009, we recorded net current assets of RMB102.8 million. Our liquidity position as of June 30, 2009 remained stable compared to our position as of December 31, 2008. This stability was primarily attributable to the increased sales by our PRC operating subsidiaries in the six months ended June 30, 2009. Our revenue increased by 54.1%, or RMB170.7 million, from RMB315.3 million for the six months ended June 30, 2008 to RMB486.0 million for the six months ended June 30, 2009. The significant increase in our sales led to an increase in the amount of cash and cash equivalents and trade receivables as at June 30, 2009, partially offset by increases in current interest-bearing bank loans, other payables and accruals, dividends payable and tax payable.

As of July 31, 2009, we had net current assets of approximately RMB147.4 million, comprising current assets of approximately RMB577.2 million and current liabilities of approximately RMB429.8 million. The following table sets out the composition of our unaudited current assets and liabilities as of July 31, 2009:

	July 31, 2009
	RMB'000 (Unaudited)
Current assets	
Cash and cash equivalents	192,146
Trade and notes receivables	169,109
Prepayments, deposits and other receivables	115,571
Due from related parties	37,639
Inventories	62,740
	577,205
Current liabilities	
Interest-bearing bank loans	100,000
Trade and notes payables	100,353
Other payables and accruals	140,857
Due to related parties	13,807
Dividend payable	26,003
Tax payable	48,749
	429,769
Net current assets	147,436

Our liquidity position has improved during the period from June 30, 2009 to July 31, 2009. As of June 30, 2009, our net current assets were RMB102.8 million, whereas our net current assets as of July 31, 2009 were RMB147.4 million. This increase is mainly due to the combined effect of (i) the increase in our current assets as of July 31, 2009 and (ii) the decrease in our current liabilities as of July 31, 2009.

The increase in our current assets from RMB551.0 million as of June 30, 2009 to RMB577.2 million as of July 31, 2009 was mainly due to the combined effect of the increase in cash and cash equivalents and the decrease in the trade and notes receivables. Our cash and cash equivalents increased from RMB149.1 million as of June 30, 2009 to RMB192.1 million as of July 31, 2009 mainly due to our increased sales performance in June 2009. Our trade and notes receivables decreased from RMB192.8 million as of June 30, 2009 to RMB169.1 million as of July 31, 2009, mainly due to the collection of trade receivables in July 2009.

The decrease in our current liabilities from RMB448.3 million as of June 30, 2009 to RMB429.8 million as of July 31, 2009 was mainly due to decrease in other payables and accruals. Our other payables and accruals decreased from RMB161.6 million as of June 30, 2009 to RMB140.9

million as of July 31, 2009 mainly due to settlement of payment for our construction projects in July 2009.

Our Directors are of the view that the working capital available to our Group is sufficient for our present requirements for the next 12 months taking into consideration factors such as our revenue and net cash inflow in the six months ended June 30, 2009. See “— Indebtedness, contractual obligations, capital commitments, contingent liabilities and off-statement of financial position arrangements — Directors opinion on the sufficiency of working capital” in this section.

Cash flow data

The following table sets forth selected cash flow data from our consolidated statements of cash flow for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006 RMB’000	2007 RMB’000	2008 RMB’000	2008 RMB’000	2009 RMB’000
Net cash inflow (outflow) from operating activities	44,692	(96,915)	423,033	276,024	31,866
Net cash outflow from investing activities	(29,515)	(36,179)	(267,063)	(208,314)	(115,854)
Net cash inflow (outflow) from financing activities	(15,418)	137,391	(30,458)	1	100,000
Increase (decrease) in cash and cash equivalents	(241)	4,297	125,512	67,711	16,012

Net cash inflow (outflow) from operating activities

For the six months ended June 30, 2009, our net cash inflow from operating activities was RMB31.9 million. The net cash inflow from operating activities was primarily attributable to profit before tax of RMB179.5 million and a decrease in inventories of RMB4.3 million, primarily due to the sales of finished goods, partially offset by (a) an increase in the trade and notes receivables of RMB105.1 million primarily due to the increase in sales; (b) an increase in prepayments, deposits and other receivables of RMB41.3 million primarily due to an increase in prepaid stripping fees of RMB63.9 million; (c) a decrease in trade and notes payables of RMB5.2 million primarily due to settlement of trade payables; and (d) an increase in the balance due from related parties of RMB4.6 million primarily due to the increase in sales to Weiyuan Steel.

In 2008, our net cash inflow from operating activities was RMB423.0 million. The net cash inflow from operating activities was primarily attributable to profit before tax of RMB348.8 million and (i) an increase in trade and notes payables of RMB29.3 million, primarily due to the increase in fees payable to our Independent Third Party contractors in connection with their mining, processing and pelletizing services, which was in line with the increase in our production volume in 2008; and (ii) a decrease in the amount due from related parties of RMB199.3 million, partially offset by (a) an increase in trade and notes receivables of RMB87.6 million, primarily due to the increase in sales to our Independent Third Party customers and the implementation of our new credit term policy, pursuant to which we grant a 30-day credit term to all customers of our iron ore products, (b) an increase in prepayments, deposits and other receivables of RMB55.6 million, primarily due to an increase in the balance of fees prepaid to our first Independent Third Party Processing Contractor of RMB29.6 million, prepaid stripping fees of RMB16.9 million and deferred [●] fees of RMB7.1 million and (c) an increase in inventories of RMB35.6 million, primarily due to the expansion of our processing plants which required more raw materials in 2008.

In 2007, net cash outflow from operating activities was RMB96.9 million. The net cash outflow from operating activities was primarily attributable to (i) an increase in the amount due from a related party of RMB198.5 million primarily due to an increase in sales of our products to related parties; (ii) an increase in prepayments, deposits and other receivables of RMB13.4 million, primarily due to an increase in the balance of prepaid stripping fees which totaled RMB14.6 million for waste stripping contracting fees which was in line with the increase in waste stripping activities; and (iii) an increase in inventory of RMB11.4 million, primarily due to the expansion of our processing plants which required more materials in 2008, and partially offset by profit before tax of RMB75.7 million and (i) an increase in trade and notes payables of RMB31.8 million, primarily due to the increase in fees payable to our Independent Third Party contractors in connection with their mining, stripping and ore processing services, which was in line with the increase in our production volumes in 2007; and (ii) an increase in other payables and accruals of RMB10.9 million, primarily due to the increase in the payables related to taxes other than income taxes and other payables which amounted to RMB7.9 million and RMB3.4 million, respectively.

In 2006, net cash inflow from operating activities was RMB44.7 million. The net cash inflow from operating activities was primarily attributable to profit before tax of RMB49.4 million; and (i) an increase in trade and notes payables of RMB7.4 million, which was in line with the increase in our production volumes in 2007; and (ii) an increase in other payables and accruals of RMB10.1 million, primarily due to an increase in the payables related to payroll and welfare and taxes, which were mainly attributable to the increase in our sales volume, partially offset by (a) an increase in the amount due from a related party of RMB22.7 million, primarily due to the increase in sales of our products to the related party; (b) an increase in prepayments, deposits and other receivables of RMB5.6 million, primarily due to an increase in prepaid stripping fees of RMB3.5 million for waste stripping contracting fees due to the increase in waste stripping activities and prepayments of RMB1.5 million made to an Independent Third Party supplier for the purchase of iron concentrates as feedstock for our Iron Pelletizing Plant in 2007; and (c) an increase in inventory of RMB4.6 million, primarily due to an increase in our spare parts and finished goods inventory which totaled RMB4.8 million.

Net cash outflow from investing activities

Cash used in investing activities has primarily been used to fund the construction and upgrade of our production facilities.

For the six months ended June 30, 2009, our net cash outflow from investing activities was RMB115.9 million, consisting primarily of the purchase of property, plant and equipment of RMB73.1 million and an increase in the prepaid land lease payments of RMB37.7 million.

In 2008, our net cash outflow from investing activities was RMB267.1 million, consisting primarily of the purchase of property, plant and equipment of RMB173.0 million, the purchase of mining rights of RMB86.8 million, an increase in prepaid land lease payments of RMB11.5 million, partially offset by a decrease in pledged bank balance of RMB4.3 million for notes payable granted to us.

In 2007, our net cash outflow from investing activities was RMB36.2 million, consisting primarily of the purchase of property, plant and equipment of RMB31.7 million and the purchase of intangible assets of RMB14.5 million, partially offset by a decrease in pledged bank balance of RMB10.0 million for notes payables granted to us.

In 2006, our net cash outflow from investing activities was RMB29.5 million, consisting primarily of the purchase of property, plant and equipment of RMB11.5 million, an increase in pledged bank balance of RMB10.0 million for notes payables granted to us and the purchase of intangible assets of RMB8.5 million.

Net cash inflow (outflow) from financing activities

The cash flows from financing activities mainly consist of capital injections from one of our Controlling Shareholders, Trisonic International, and net proceeds from, or the repayment of, bank and other borrowings.

For the six months ended June 30, 2009, our net cash inflow from financing activities was RMB100.0 million, representing the proceeds from bank borrowings.

In 2008, our net cash outflow from financing activities was RMB30.5 million, primarily as a result of the repayment of bank borrowings of RMB85.5 million, partially offset by proceeds from bank and other borrowings of RMB55.0 million.

In 2007, our net cash inflow from financing activities was RMB137.4 million, primarily as a result of (i) a capital injection in the amount of approximately RMB138.0 million from one of our Controlling Shareholders for an increase in the registered share capital of Huili Caitong and (ii) proceeds from bank loans of RMB30.0 million, partially offset by repayment of bank and other borrowings of RMB30.5 million.

In 2006, our net cash outflow from financing activities was RMB15.4 million, primarily as a result of repayment of bank and other borrowings of RMB45.4 million, partially offset by proceeds from bank loans of RMB30.0 million.

Capital expenditures

Capital expenditures are expenditures made for the acquisition or upgrade of property, plant and equipment and intangible assets. The following table sets forth our capital expenditures for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2006 RMB'000	**2007 RMB'000**	**2008 RMB'000**	**2009 RMB'000**
Property, plant and equipment	8,576	33,858	253,088	109,152
Intangible assets				
— Exploration and evaluation assets	7,929	16,811	—	—
— Mining rights	559	119,415	4,448	—
	17,064	170,084	257,536	109,152

Our total capital expenditures increased by 896.7% from RMB17.1 million in 2006 to RMB170.1 million in 2007. In 2008, our total capital expenditures further increased to RMB257.5 million. For the six months ended June 30, 2009, our total capital expenditures amounted to RMB109.2

million. We used our capital expenditures primarily to expand our production capacity and to improve our processing technology, including, among others, costs incurred to further explore and develop our mine reserves and the acquisition of mining rights in respect of our Baicao Mine and Xiushuihe Mine. The significant increase in capital expenditure in 2008 in property, plant and equipment related primarily to additional costs for (a) construction of an iron concentrates production line with an annual production capacity of 300.0 Kt at our Baicao Processing Plant amounting to RMB153.5 million, which was completed in July 2008; (b) construction of plant, road and mining infrastructure at our Baicao Processing Plant amounting to RMB17.4 million; (c) construction of phase II of a new 500.0 Kt iron concentrates production line with a planned annual production capacity of 200.0 Kt at our Baicao Processing Plant, which was completed in May 2009. The phase II iron concentrates production line of 200.0 Kt commenced production in August 2009, with a total estimated capital expenditures of RMB36.0 million; (d) the construction of an iron concentrates production line with an annual production capacity of 300.0 Kt at our Xiushuihe Processing Plant amounting to RMB67.3 million, which was completed in June 2008, as part of the Nanjiang Project; (e) the construction of a high titanium concentrates production line with a planned annual production capacity of 30.0 Kt and the expansion of this line to the annual production capacity of 50.0 Kt at our Xiushuihe Processing Plant amounting to RMB2.4 million, which is expected to be completed by December 2009, with a total estimated capital expenditures of RMB23.0 million, as part of the Nanjiang Project; and (f) purchase of machinery amounting to RMB8.3 million. The construction costs for the iron concentrates production line at our Baicao Processing Plant were higher than the construction costs incurred at our Xiushuihe Processing Plant because the iron concentrates production line at our Baicao Processing Plant was constructed in a newly constructed production plant while the iron concentrates production line at our Xiushuihe Processing Plant was constructed within the existing production plant. In 2006 and 2007, we spent approximately RMB7.9 million and RMB16.8 million in exploration costs for our mines. In 2007, we spent approximately RMB76.7 million and RMB42.7 million to renew our mining permits for our Baicao Mine and Xiushuihe Mine, respectively.

Our expected capital expenditure plans for our Baicao Mine and Xiushuihe Mine for the years ending December 31, 2009, 2010 and 2011 are set forth below:

	Forecast		
	Year ending December 31,		
Item	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Processing Facilities	155,819	181,800	—
Tailings	35,980	—	—
Exploration	6,000	14,000	—
Land	23,568	—	—
Property Acquisition	9,550	—	93,000
Total	**230,917**	**195,800**	**93,000**

Our forecasted capital expenditures for processing facilities relates to the construction and upgrading of our processing facilities. See the “Business — Expansion and Construction Plan — Expansion and construction of production facilities” section in this document.

We plan to fund our capital expenditures through cash generated from our operations, bank borrowings and [●]. However, the estimated amounts and items of capital expenditures may be subject to change depending on a number of factors, including the implementation of our business plan and market conditions. As we continue to expand, we may incur additional expenditures. Our ability to obtain additional funding in the future is subject to a variety of uncertainties including our future results of operations, financial condition and cash flow, economic, political and other conditions in the PRC and Hong Kong.

Related party transactions

The related party transactions during the Track Record Period are set out in Note 33 of the Accountants' Report attached as Appendix I to this document.

Our Directors confirm that as of June 30, 2009, other than the sales of our products to Weiyuan Steel, there are no other material related party transactions.

INDEBTEDNESS, CONTRACTUAL OBLIGATIONS, CAPITAL COMMITMENTS, CONTINGENT LIABILITIES AND OFF-STATEMENT OF FINANCIAL POSITION ARRANGEMENTS

Indebtedness

Our bank and other borrowings on each of the statement of financial position date were as follows:

	December 31,			June 30,
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
Repayable within one year:				
Bank loans — secured and guaranteed	30,000	30,000	—	—
Unsecured	—	—	—	100,000
	30,000	30,000	—	100,000

The outstanding bank loan of RMB30.0 million as of December 31, 2006 was fully repaid by us in August 2007. Upon repayment, we obtained a new bank loan of RMB30.0 million in August 2007, which we fully repaid in August 2008.

Our Directors confirm that there were no overdue bank loan balances during the Track Record Period.

(a) Bank loans:

	December 31,			June 30,
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
Guaranteed by a related party(*Note*):				
Xichang Vanadium	30,000	30,000	—	—
Jointly secured by:				
Net book value of mining rights	196	—	—	—

Note: All guaranteed bank loans have been released in 2008.

(b) The effective fixed interest rates of our bank loans per annum for the periods indicated were as follows:

	December 31,			June 30,
	2006	2007	2008	2009
Bank loans	5.58% to 5.85%	5.85% to 6.84%	—	5.31%

Contractual obligations

We have certain additional commitments and contingent liabilities that are not recorded on our consolidated statements of financial position, but may result in future cash requirements.

(i) Operating lease arrangements

We lease some of our office premises under operating lease arrangements, with leases negotiated for terms ranging from two to five years with an option for renewal after that date, at which time all terms will be renegotiated.

At each of the relevant statement of financial position dates, we had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	December 31,			June 30,
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
Within one year	119	221	91	215
In the second to fifth years, inclusive	276	199	177	271
	395	420	268	486

Capital commitments

In addition to the operating lease commitments set out above, we have the following capital commitments at each of the statement of financial position dates as follows:

	December 31,			June 30,
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
Contracted, but not provided for:				
In respect of				
— Plant and machinery	—	—	7,922	12,395
	—	—	7,922	12,395
Authorized, but not contracted for:				
In respect of				
— Land use rights	—	—	17,973	—
— Plant and machinery	5,500	115,576	73,746	241,477
— Reservoir	—	—	36,000	6,332
— Nanjiang project: a new titanium concentrates production line with an annual production capacity of 50.0 Kt	—	—	20,626	20,632
	5,500	115,576	148,345	268,441
Total	5,500	115,576	156,267	280,836

Our capital commitments increased materially from December 31, 2006 to December 31, 2007 primarily due to the construction of new production lines at our Baicao Processing Plant. See the

"Business — Expansion and Construction Plan — Expansion and construction of production facilities" section in this document. Our capital commitments as of December 31, 2008 and June 30, 2009 further increased to RMB156.3 million and RMB280.8 million, primarily due to the construction of the new production lines at our Baicao Processing Plant, the construction of a water reservoir near our Baicao Processing Plant and the Nanjiang Project.

Contingent liabilities

We had the following contingent liabilities at each of the statement of financial position dates as follows:

	December 31,			June 30,
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
Guaranteed bank loans of related parties	—	330,500	—	—

As of the Latest Practicable Date, we did not have any guarantee over bank loans by/to related parties outstanding.

Off-statement of financial position arrangements

As of the Latest Practicable Date, we did not have any off-statement of financial position arrangements.

Directors opinion on the sufficiency of working capital

Our Directors are of the view that the working capital available to our Group is sufficient for our present requirements for the next 12 months commencing from the date of the publication of this document, taking into consideration the following:

(a) we had recorded a significant revenue of RMB486.0 million and a net cash inflow from operating activities of RMB31.9 million for the six months ended June 30, 2009;

(b) we have also obtained three letters of intent from China Construction Bank (Sichuan Branch) each dated February 25, 2009, pursuant to which China Construction Bank (Sichuan Branch) agreed to provide credit facilities aggregating to RMB200.0 million to finance three of our projects, subject to the completion of their assessment of our projects as discussed below and our Company obtaining the approvals for the projects from the relevant government authorities.

    We expect that China Construction Bank (Sichuan Branch) will complete the assessment of the following two projects in September 2009: (i) the construction of a new iron concentrates production line with an annual production capacity of 200.0 Kt and (ii) the upgrade of an existing medium-grade titanium concentrates production line to a high-grade titanium concentrates production line with an annual production capacity of 40.0 Kt. The assessment by China Construction Bank (Sichuan Branch) of our plan to construct the third project, the two titanium slag production lines, is expected to be completed before the end of 2009. We expect to enter into agreements with China Construction Bank (Sichuan Branch) for the credit facilities with respect to the first two projects in October 2009 and the third project in December 2009. See the "Business — Expansion and Construction Plan — Expansion and construction of production facilities" section in this document; and

(c) cash required for other investing activities can be satisfied by the [●].

MARKET RISK DISCLOSURE

We are exposed to various types of market risks in the ordinary course of our business, including the following:

Liquidity risk

We monitor our risk of funds shortage by considering the maturity of both our financial instruments and financial assets and projected cash flows from operations. Our objective is to maintain a balance between continuity of funding and flexibility through the use of a mix of interest-bearing bank facilities and advances from related parties.

Interest rate risk

We are not subject to any significant exposure to the risk of changes in market interest rates because we do not have any long term receivables or any debt obligations subject to floating interest rates. However, if interest rates increase in the future, the finance cost of new debt will increase. We do not currently use any derivative instruments to modify the nature of our debt so as to manage our interest rate risk.

Foreign currency risk

Our businesses are located in the PRC and our primary operating transactions are conducted in Renminbi. Most of our assets and liabilities are denominated in Renminbi, except for certain payables that are denominated in Hong Kong dollars and in US dollars that mainly arise from professional fees incurred relating to [●].

The Renminbi exchange rate has been relatively stable during the past few years. However, the Renminbi is not freely convertible. There is a risk that the PRC government may take actions affecting exchange rates which may have a material adverse effect on our net assets, earnings and any dividends we declare if such dividends are to be exchanged or converted into foreign exchange. Moreover, we have not hedged our foreign exchange rate risk. See the "Risk Factors — Risks Relating to Conducting Our Operations in the PRC — All of our revenue is denominated in Renminbi, which is not freely convertible for capital account transactions and may be subject to exchange rate volatility" section in this document.

Credit risk

During the year ended December 31, 2006 and 2007, we traded mainly with our related parties. It was our policy to ensure that sales were conducted with related parties possessing an appropriate credit history. We traded only with recognized and creditworthy third parties. It is our policy that all third party customers who wish to trade on credit terms are subject to credit verification policies. Since January 1, 2008, we increased our sales to recognized and creditworthy third parties with no requirement for collateral. In addition, receivable balances from related and unrelated customers are monitored on an ongoing basis and our exposure to bad debts is not significant.

During the Track Record Period, our cash and cash equivalents were mainly deposits with state-owned banks in the PRC. Our credit risk on other financial assets, which are comprised of trade and note receivables, other receivables and amounts due from related parties, arises from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. During the Track Record Period, we had no other financial assets which carried significant exposure to credit risk.

During the Track Record Period, we did not have a concentration of credit risk with any single counterparty other than the amount due from a related party which arose from the ordinary course of business. See the "— Analysis of Various Consolidated Statement of Financial Position Items — Balance due from related parties" paragraph in this section and Note 21 to the "Accountants' Report" attached as Appendix I to this document.

PROFIT FORECAST

Our Directors forecast that, on the bases and assumptions set out in Appendix III to this document and in the absence of unforeseen circumstances, the forecast consolidated total comprehensive income attributable to owners of our Company for the year ending December 31, 2009 will not be less than RMB321.8 million (equivalent to approximately HK$365.0 million).

The profit forecast for the year ending December 31, 2009 has been prepared by our Directors based on our audited consolidated results for the six months ended June 30, 2009, our consolidated unaudited results for the one month ended July 31, 2009 and a forecast of our consolidated results for the remaining five months ending December 31, 2009.

The above profit forecast is based on the assumptions set out in Appendix III to this document including prices and sales volume for our iron concentrates and iron pellets. The average selling prices of iron concentrates, iron pellets and medium-grade titanium concentrates per tonne for 2009 used in the above profit forecast are based on the selling prices of iron concentrates, iron pellets and medium-grade titanium concentrates delivered in 2009 and the contracted selling price of these products expected to be delivered in 2009, taking into account the market research analysis prepared by the Directors.

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

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

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

DIVIDEND POLICY

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

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

We declared one-off and non-recurring special dividends of RMB20.0 million to our Shareholders on February 24, 2009 and distributed such dividends on September 16, 2009. Because such special dividends were derived from the undistributed profits of Huili Caitong prior to January 1, 2008, our PRC legal advisors have advised us that such dividends are not subject to PRC withholding tax. Other than the declaration of such special dividends, we did not declare or pay any dividends during the Track Record Period.

Taking into account our present financial position, we currently intend to distribute to our Shareholders not less than 20% of our annual distributable profit attributable to owners of our Company in respect of the financial year ending December 31, 2010 and each financial year thereafter. However, such intention does not amount to any guarantee or representation or indication that the Company must or will declare and pay dividends in such manner or declare or pay dividends at all. We cannot assure you that dividends will be paid in the future or as to the timing of any dividends that may be paid in the future. See the “Risk Factors — Risks Relating to our Shares — We cannot assure you that we will declare dividends in the future” section in this document. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars.

WORKING CAPITAL

Our Directors are of the opinion that, taking into account our present available banking facilities and internal resources, we have sufficient working capital for our present requirements for at least the next 12 months commencing from the date of this document.

DISTRIBUTABLE RESERVES

As of June 30, 2009, the aggregate amount of distributable reserves of our Company was RMB627,613,000.

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

As of the Latest Practicable Date, our Directors confirm there are no circumstances that will give rise to a disclosure requirement under rule 13.13 to rule 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm there has been no material adverse change in our financial or trading position or prospects since June 30, 2009, being the date of our latest audited financial results as set out in the "Accountants' Report" attached as Appendix I to this document.

PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interests as of June 30, 2009 and is of the opinion that the capital value of our property interests in aggregate amounted to RMB210.6 million as of June 30, 2009. Details of valuation of our property interests as of June 30, 2009 are set out in Appendix IV to this document.