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ERNST & YOUNG
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

[Date]

The Directors
China Vanadium Titano-Magnetite Mining Company Limited

[●]

Dear Sirs,

We set out below our report on the financial information regarding China Vanadium Titano-Magnetite Mining Company Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") for each of the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 (the "Relevant Periods") and the six months ended June 30, 2008 (the "June 30, 2008 Financial Information"), prepared on the basis set out in Note 2 of Section II below, for inclusion in the document of the Company dated [●] (the "document").

The Company was incorporated in the Cayman Islands on April 28, 2008 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands under the name of China Vanadium Titano-Magnetite Mining Co., Ltd. The name of the Company was subsequently changed to its present name on May 26, 2008. Pursuant to a group reorganization (the "Reorganization"), details of which are further described in the "History, Reorganization and Group Structure — Reorganization" section in the document, the Company became the holding company of the subsidiaries now comprising the Group.

The Group is principally engaged in the business of mining, ore processing, iron pelletizing and sale of iron concentrates, iron pellets and titanium concentrates and management of strategic investments.

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Particulars of the principal companies comprising the Group at the date of this report are set out below:

Company name	Place and date of incorporation/ registration	Nominal value of issued and paid-up share/ registered paid-up capital	Percentage of equity interests attributable to the Company	Principal activities
			%	
Subsidiaries				
Directly held:				
Powerside Holdings Limited(1) ("Powerside")	British Virgin Islands January 8, 2008	US$1	100.0	Investment holding
First China Limited(2) ("First China")	Hong Kong March 5, 2008	HK$1	100.0	Investment holding
Indirectly held:				
Simply Rise Holdings Limited(2) ("Simply Rise")	Hong Kong January 2, 2008	HK$1	100.0	Investment holding
Huili County Caitong Iron and Titanium Co., Ltd. ("Huili Caitong")(3) 會理縣財通鐵鈦有限責任公司	PRC July 7, 1998	RMB178,571,000	90.5	Iron ore mining, and iron ore beneficiation, and sale of self-produced products
Huili County Xiushuihe Mining Co., Ltd. ("Xiushuihe Mining")(3)(4) 秀水河礦業有限公司	PRC March 21, 2000	RMB7,990,000	95.0	Iron ore mining and iron ore beneficiation

Notes:

(1) As of the date of this report, no audited financial statements have been prepared since the date of incorporation of Powerside as Powerside has not carried on any business other than the Reorganization and other events described in the "History, Reorganization and Group Structure — Reorganization" section in the document.

(2) The statutory financial statements of these companies for the year ended December 31, 2008 were audited by Ernst & Young, Certified Public Accountants, Hong Kong.

(3) The statutory financial statements of these companies for the years ended December 31, 2006 and 2007 were audited by Sichuan Jianke Certified Public Accountants (四川建科會計師事務所), certified public accountants registered in the PRC. The statutory financial statements of these companies for the year ended December 31, 2008 were audited by Sichuan Jun He Certified Public Accountants (四川君和會計師事務所), certified public accountants registered in the PRC.

(4) Xiushuihe Mining was incorporated as a township and village enterprise on March 21, 2000 under the name of Huili County Xiushuihe Iron ("Xiushuihe Iron"). On June 26, 2007, Xiushuihe Iron was re-incorporated as a limited liability company under the name of Huili County Xiushuihe Mining Co., Ltd. The Company's 95% interest in Xiushuihe Mining is held directly by Huili Caitong.

The English names of the subsidiaries and auditors registered in the PRC represent the best efforts made by management of the Company to translate their Chinese names as they do not have official English names.

All companies now comprising the Group have adopted December 31 as their financial year end date. No audited financial statements have been requested by the Company since the date of its incorporation as there is no statutory requirement for the Company to obtain audited financial statements. The statutory audited financial statements of the subsidiaries established in the People's Republic of China (the "PRC" or "Mainland China") were prepared in accordance with the generally accepted accounting principles and the relevant financial regulations of the PRC. The directors of the Company (the "Directors") have prepared the consolidated financial statements of the companies now comprising the Group for the Relevant Periods (the "IFRS Financial Statements") in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB").

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The financial information as set out in Sections I to III below (the "Financial Information") has been prepared from the IFRS Financial Statements and in accordance with the basis set out in Note 2 of Section II.

The Directors are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRS. The directors of the respective companies of the Group are responsible for the preparation and true and fair presentation of the respective financial statements and, where appropriate, management accounts in accordance with the relevant accounting principles and financial regulations applicable to these companies. In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, and that judgments and estimates made are prudent and reasonable. It is our responsibility to form an independent opinion based on our audit of the Relevant Periods and our review on the June 30, 2008 Financial Information, respectively, and to report our opinion and review conclusion, respectively, thereon.

Procedures performed in respect of the Relevant Periods

For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "[●] and the Reporting Accountant" issued by the HKICPA.

Procedures performed in respect of the June 30, 2008 Financial Information

For the purpose of this report, we have also performed a review of the June 30, 2008 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the June 30, 2008 Financial Information.

Opinion in respect of the Financial Information of the Relevant Periods

In our opinion, the Financial Information for the Relevant Periods prepared on the basis of presentation set out in Note 2 of Section II below gives, for the purpose of this report, a true and fair view of the consolidated profits and cash flows of the Group for each of the Relevant Periods and of the state of affairs of the Group as of December 31, 2006, 2007 and 2008 and June 30, 2009, and of the state of affairs of the Company as of December 31, 2008 and June 30, 2009.

Review conclusion in respect of the June 30, 2008 Financial Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the June 30, 2008 Financial Information is not prepared, in all material respects, in accordance with IFRS.

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I. FINANCIAL INFORMATION

Consolidated Statements of Comprehensive Income

	Notes	Year ended December 31, 2006	2007	2008	Six months ended June 30, 2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	5	211,103	366,670	791,163	315,335	486,041
Cost of sales	6	(100,130)	(187,769)	(364,122)	(137,051)	(276,538)
Gross profit		110,973	178,901	427,041	178,284	209,503
Other income	5	147	1,496	17,277	13,470	2,230
Selling and distribution costs		(51,261)	(86,572)	(22,444)	(8,751)	(12,749)
Administrative expenses		(7,300)	(13,108)	(33,002)	(12,977)	(11,762)
Other operating expenses		(1,334)	(3,107)	(37,000)	(21,002)	(5,478)
Finance costs	6	(1,792)	(1,920)	(3,048)	(1,214)	(2,293)
Profit before tax	6	49,433	75,690	348,824	147,810	179,451
Income tax expense	8	(17,119)	(1,378)	(30,067)	(10,205)	(29,573)
Total comprehensive income for the year/period		32,314	74,312	318,757	137,605	149,878
Attributable to:						
Owners of the Company		23,042	53,686	248,675	95,281	133,445
Minority interests		9,272	20,626	70,082	42,324	16,433
		32,314	74,312	318,757	137,605	149,878
Earnings per share (RMB) — Basic	9	0.02	0.04	0.17	0.06	0.09

Consolidated Statements of Financial Position

	Notes	December 31, 2006	2007	2008	June 30, 2009
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	10	100,596	122,896	357,264	451,141
Intangible assets	11	8,684	144,155	140,829	135,729
Prepaid land lease payments	12	—	—	23,177	49,375
Prepayment	14	—	—	—	16,604
Payment in advance	15	—	—	3,217	—
Goodwill	16	15,318	15,318	15,318	15,318
Long-term deposits	17	—	—	—	1,277
Deferred tax assets	18	3,567	4,186	5,848	6,241
		128,165	286,555	545,653	675,685
Current assets					
Pledged bank balances	19	14,310	4,316	40	—
Cash and cash equivalents	19	3,289	7,586	133,098	149,110
Trade and notes receivables	20	330	3	87,632	192,768
Prepayments, deposits and other receivables	14	13,247	32,884	88,854	111,792
Due from related parties	21	31,183	229,695	30,433	36,406
Inventories	22	20,474	31,841	65,595	60,964
		82,833	306,325	405,652	551,040
Current liabilities					
Interest-bearing bank loans	23	30,000	30,000	—	100,000
Trade and notes payables	24	46,892	78,723	108,030	102,792
Other payables and accruals	25	32,591	168,546	139,756	161,608
Due to related parties	21	—	—	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 assets/(liabilities)		(54,084)	4,419	115,676	102,750
Total assets less current liabilities		74,081	290,974	661,329	778,435
Non-current liabilities					
Other payables	25	459	—	51,870	44,918
Provision for rehabilitation	26	—	4,999	5,341	5,524
		459	4,999	57,211	50,442
Net assets		73,622	285,975	604,118	727,993
Equity					
Issued share capital	27	—	—	1	1
Reserves	28	49,907	202,983	539,349	652,794
Minority interests		23,715	82,992	64,768	75,198
Total equity		73,622	285,975	604,118	727,993

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Consolidated Statements of Changes in Equity

	Attributable to owners of the Company									
	Issued share capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Contributed surplus	Difference arising from the acquisition of minority interests	Retained earnings (accumulated losses)	Total	Minority interests	Total equity
	RMB’000 Note 27	RMB’000 Note 28 (a)	RMB’000 Note 28 (b)	RMB’000 Note 28 (c)	RMB’000 Note 28 (d)	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
At January 1, 2006	—	—	1,425	193	45,420	—	(20,173)	26,865	14,443	41,308
Total comprehensive income for the year	—	—	—	—	—	—	23,042	23,042	9,272	32,314
Transfer from/(to) reserves	—	—	2,433	(193)	—	—	(2,240)	—	—	—
At December 31, 2006 and January 1, 2007	—	—*	3,858*	—*	45,420*	—*	629*	49,907	23,715	73,622
Total comprehensive income for the year	—	—	—	—	—	—	53,686	53,686	20,626	74,312
Transfer from/(to) reserves	—	—	5,217	—	—	—	(5,217)	—	—	—
Capital injection (Note 29 (a))	—	—	—	—	99,390	—	—	99,390	38,651	138,041
At December 31, 2007 and January 1, 2008	—	—*	9,075*	—*	144,810*	—*	49,098*	202,983	82,992	285,975
Total comprehensive income for the year	—	—	—	—	—	—	248,675	248,675	70,082	318,757
Transfer from/(to) reserves	—	—	27,555	—	—	—	(27,555)	—	—	—
Acquisition of minority interests (Note 29(b))	—	—	—	—	—	(530,393)	—	(530,393)	(88,306)	(618,699)
Issue of shares	1	618,084	—	—	—	—	—	618,085	—	618,085
At December 31, 2008 and January 1, 2009	1	618,084*	36,630*	—*	144,810*	(530,393)*	270,218*	539,350	64,768	604,118
Total comprehensive income for the period	—	—	—	—	—	—	133,445	133,445	16,433	149,878
Transfer from/(to) reserves	—	—	10,383	—	—	—	(10,383)	—	—	—
Dividends declared to:										
— Minority shareholders	—	—	—	—	—	—	—	—	(6,003)	(6,003)
— Owners of the Company (Note 30)	—	—	—	—	—	—	(20,000)	(20,000)	—	(20,000)
Issue of shares	—	—	—	—	—	—	—	—	—	—
At June 30, 2009	1	618,084*	47,013*	—*	144,810*	(530,393)*	373,280*	652,795	75,198	727,993
(Unaudited)										
At January 1, 2008	—	—	9,075	—	144,810	—	49,098	202,983	82,992	285,975
Total comprehensive income for the period	—	—	—	—	—	—	95,281	95,281	42,324	137,605
Transfer from/(to) reserves	—		11,394	—	—	—	(11,394)	—	—	—
Issue of shares	1	—	—	—	—	—	—	1	—	1
At June 30, 2008	1	—	20,469	—	144,810	—	132,985	298,265	125,316	423,581

* These reserves accounts comprise the consolidated reserves in the consolidated statements of financial position.

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Consolidated Statements of Cash Flows

	Notes	Year ended December 31, 2006	2007	2008	Six months ended June 30, 2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash flows from operating activities						
Profit before tax		49,433	75,690	348,824	147,810	179,451
Adjustments for:						
Depreciation of property, plant and equipment	6, 10	10,666	10,844	18,720	6,152	13,943
Amortization of intangible assets	6, 11	147	755	7,774	4,100	5,100
Amortization of prepaid land lease payments	6, 12	—	—	119	9	429
Loss/(gain) on disposal of items of property, plant and equipment	6	460	714	—	—	(23)
Finance costs	6	1,792	1,920	3,048	1,214	2,293
Write-down of inventories to net realizable value	6, 22	—	—	1,805	—	370
Interest income	5	(60)	(128)	(147)	(75)	(63)
Cash flow before working capital changes		62,438	89,795	380,143	159,210	201,500
Decrease/(increase) in trade and notes receivables		(330)	327	(87,629)	(123,707)	(105,136)
Decrease/(increase) in inventories		(4,635)	(11,367)	(35,559)	(31,976)	4,261
Increase in prepayments, deposits and other receivables		(5,583)	(13,368)	(55,635)	(2,983)	(41,341)
Increase/(decrease) in trade and notes payables		7,407	31,831	29,307	29,476	(5,238)
Increase/(decrease) in other payables and accruals		10,141	10,965	10,494	2,423	(1,246)
Decrease/(increase) in amounts due from related parties		(22,713)	(198,512)	199,262	229,695	(4,618)
Increase in amounts due to related parties		—	—	11,851	40,015	980
Cash generated from/(used in) operations		46,725	(90,329)	452,234	302,153	49,162
Interest paid		(1,792)	(1,920)	(2,706)	(1,043)	(2,110)
Interest received		60	128	147	75	63
Income taxes paid		(301)	(4,794)	(26,642)	(25,161)	(15,249)
Net cash inflow/(outflow) from operating activities		44,692	(96,915)	423,033	276,024	31,866
Cash flows from investing activities						
Purchase of items of property, plant and equipment		(11,462)	(31,710)	(173,034)	(109,866)	(73,106)
Increase in long-term deposits		—	—	—	—	(1,277)
Increase in prepaid land lease payments		—	—	(11,540)	(5,270)	(37,711)
Proceeds from disposal of items of property, plant and equipment		436	—	—	—	—
Purchase of intangible assets		(8,488)	(14,463)	(86,765)	(86,765)	(3,800)
Decrease/(increase) in pledged bank balances		(10,001)	9,994	4,276	(6,413)	40
Net cash outflow from investing activities		(29,515)	(36,179)	(267,063)	(208,314)	(115,854)

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	Notes	Year ended December 31, 2006	Year ended December 31, 2007	Year ended December 31, 2008	Six months ended June 30, 2008	Six months ended June 30, 2009
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash flows from financing activities						
Capital injection	29 (a)	—	138,041	—	—	—
Issue of share		—	—	1	1	—
Proceeds from bank loans		30,000	30,000	55,000	—	100,000
Repayment of bank loans		(44,768)	(30,000)	(85,000)	—	—
Repayment of interest-free loan from a licensed non-banking financial institution		(650)	(650)	(459)	—	—
Net cash inflow/(outflow) from financing activities		(15,418)	137,391	(30,458)	1	100,000
Net increase/(decrease) in cash and cash equivalents		(241)	4,297	125,512	67,711	16,012
Cash and cash equivalents at beginning of year/period		3,530	3,289	7,586	7,586	133,098
Cash and cash equivalents at end of year/period		3,289	7,586	133,098	75,297	149,110
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	19	3,289	7,586	133,098	75,297	149,110

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Company's Statement of Financial Position

	Notes	December 31, 2008	June 30, 2009
		RMB'000	RMB'000
Non-current assets			
Investments in subsidiaries	13	618,700	618,700
Current assets			
Dividend receivable		—	57,187
Due from a subsidiary	13	—	6
Prepayments and other receivables	14	7,152	8,160
		7,152	65,353
Current liabilities			
Other payables	25	11,523	7,898
Dividend payable		—	20,000
Due to related parties	21	19,620	28,541
		31,143	56,439
Net current assets/(liabilities)		(23,991)	8,914
Net assets		594,709	627,614
Equity			
Issued share capital		1	1
Reserves		594,708	627,613
		594,709	627,614

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II. NOTES TO FINANCIAL INFORMATION

1. Corporate information and reorganization

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on April 28, 2008 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands under the name of China Vanadium Titano-Magnetite Mining Co., Ltd. The name of the Company was subsequently changed to its present name on May 26, 2008. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Group is principally engaged in the business of mining, ore processing, iron pelletizing and sale of iron concentrates, iron pellets and titanium concentrates and management of strategic investments.

Pursuant to the Reorganization as described in the "History, Reorganization and Group Structure — Reorganization" section in the document, the Company became the holding company of the subsidiaries now comprising the Group.

As a result of the above Reorganization, 79.56% of the share capital of the Company was owned by Trisonic International Limited ("Trisonic International"), a company incorporated in Hong Kong and ultimately controlled by Messrs. Wang Jin, Yang Xianlu, Wu Wendong, Zhang Yuangui, Shi Yinjun and Li Hesheng (collectively referred to the "Founders"). In the opinion of the Directors, Trisonic International is the parent and ultimate holding company of the Company.

2. Basis of preparation

The Reorganization involved companies under common control and the Group is regarded and accounted for as a continuing group. Accordingly, for the purpose of this report, the Financial Information as set out in this report has been prepared using 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 the Group for the Relevant Periods and the consolidated statements of financial position of the 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 Relevant Periods, or since their respective dates of incorporation/registration, whichever is the shorter period, to the extent of interest held by the Company's shareholders.

For subsidiaries historically acquired by the Group during the Relevant Periods, their financial statements are consolidated from their respective dates of acquisition. All income, expenses and unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The Financial Information has been prepared in accordance with the IFRS throughout the Relevant Periods, which comprise standards and interpretations approved by the IASB and the International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect.

The IASB issued a number of new or revised IFRS which are generally effective for annual periods beginning on or after January 1, 2006, January 1, 2007, January 1, 2008 and January 1, 2009.

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For the purpose of preparing and presenting the Financial Information, the Group has early adopted all these new and revised IFRS that are relevant to the Group's operations as of the beginning of the Relevant Periods. These are the first IFRS consolidated financial statements of the Group. IFRS 1 "First-time Adoption of International Financial Reporting Standards" has been applied in preparing the Financial Information. As the Company was incorporated on April 28, 2008, the Group did not present financial statements for previous periods. Accordingly, no reconciliation of the effect of the transition from the relevant accounting principles and financial regulations applicable to the previous Generally Accepted Accounting Principles ("GAAP") to IFRS is presented.

The accounting policies set out in Note 3.2 of Section II below have been applied consistently to all periods in this Financial Information and in preparing an opening IFRS statement of financial position as of January 1, 2006 for the purpose of the transition to IFRS. The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Financial Information has been prepared on a historical basis and presented in Renminbi ("RMB") and all other values are rounded to the nearest thousand except when otherwise indicated.

3.1 Impact of issued but not yet effective IFRS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in this Financial Information.

IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendments	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*
IFRIC 17	*Distribution of Non-cash Assets to owners*
IFRIC 18	*Transfers of Assets from Customers*
IFRS 5 Amendments	Amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell controlling interest in a subsidiary*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment - accounting for group cash-settled share-based payment transactions*

Except for amendments to IFRS 2 which is effective for annual periods beginning on or after January 1, 2010, the above new and revised IFRSs are effective for annual periods beginning on or after July 1, 2009.

Apart from the above, the IASB has also issued *Improvements to IFRSs** which sets out 12 amendments to 12 International Financial Reporting Standards resulting from its annual improvements project. Except for the amendment to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 which are effective for annual periods beginning on or after July 1, 2009, the remaining amendments are effective for annual periods beginning on or after January 1, 2010.

Revised IFRS 3 introduces a number of changes in accounting for business combination that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change

* The improvements to 12 IFRS include amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16.

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will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rate*s, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*. The changes introduced by the revised IFRS 3 and revised IAS 27 must be applied prospectively and will affect future acquisitions and transactions with minority interests.

The amendment to IAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

IFRIC 17 standardizes practice in the accounting for all non-reciprocal distributions of non-cash assets to owners. This new interpretation clarifies that (i) a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to IAS 10 *Events after the Reporting Date* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The amendments to IFRS 5 clarifies that assets and liabilities of a subsidiary should be classified as held for sale if the parent is committed to a plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after sale.

The amendments to IFRS 2 clarify how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements. In these arrangements, the subsidiary receives goods or services from employees or suppliers but its parent or another entity in the group must pay those suppliers. The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 Scope of IFRS 2 and IFRIC 11 IFRS 2 — *Group and Treasury Share Transactions*. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11.

The transfers of assets from customers to entities in sectors such as telecoms and utilities have resulted in diversity in the accounting methods used. IFRIC 18 provides guidance on when and how to recognize such assets.

The Group is in the process of making an assessment of the impact of these new and revised IFRS and IFRICs upon initial application. The Group anticipates that these new and revised IFRS and IFRICs are unlikely to have any significant impact on the Group's results of operations and financial position.

3.2 Summary of significant accounting policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Group controls, directly or indirectly, so as to obtain benefits from its activities.

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The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Minority interests

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

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as of the date of the acquisitions.

Goodwill arising on acquisition is recognized in the consolidated statements of financial position as an asset, initially measured at cost and subsequently at cost less any impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as of December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit (or group of cash-generating units) retained.

Impairment of non-financial assets other than goodwill

When an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, goodwill, financial assets and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statement of comprehensive income in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of comprehensive income in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

Depreciation of items of property, plant and equipment, other than mining infrastructure, is calculated on the straight-line basis to depreciate the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

- Buildings 7-35 years
- Plant and machinery 7-18 years
- Office equipment 5-7 years
- Motor vehicles 7-10 years

Depreciation of mining infrastructure is calculated using the Units of Production ("UOP") method to depreciate the cost of the assets proportionate to the extraction of the proved and probable mineral reserves.

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 these assets.

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each statement of financial position date.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the consolidated statement of comprehensive income in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each statement of financial position date.

Mining rights

Mining rights are stated at cost less accumulated amortization and any impairment losses. Mining rights include the cost of acquiring mining licenses, exploration and evaluation costs transferred from exploration rights and assets upon determination that an exploration property is capable of commercial production, and 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

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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 the mines using the UOP method. Mining rights are written off to the consolidated statement of comprehensive income if the mining property is abandoned.

Exploration rights and assets

Exploration rights are stated at cost less accumulated amortization and any impairment losses and exploration assets are stated at cost less impairment losses. Exploration rights and assets include the cost of acquiring exploration rights, topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and deferred amortization and depreciation charges in respect of assets consumed during the exploration activities.

Exploration rights are amortized over the term of 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 on a straight line basis, whichever is shorter. Amortization and depreciation is included, in the first instance, in exploration rights and assets and are transferred to mining rights when it can be reasonably ascertained that an exploration property is capable of commercial production.

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

Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to the consolidated statement of comprehensive income as incurred, unless the Directors conclude that a future economic benefit is more likely to be realized than not. When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalized are transferred to mining infrastructure and amortized using the UOP method based on the proved and probable mineral reserves. Exploration and evaluation assets are written off to the consolidated statement of comprehensive income if the exploration property is abandoned.

Deferred stripping costs

The Group defers and capitalizes excess stripping costs and allocates those costs to the production derived in the subsequent year. The Group adopted the specific identification approach where the deferred stripping costs are allocated to the quantity of mineral ore that becomes accessible. The deferred stripping costs are capitalized as “prepaid subcontracting fees” under “prepayments, deposits and other receivables” in the consolidated statements of financial position and amortized when the related mineral ore is extracted.

Leases

Leases that transfer substantially all the risks and rewards of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases are included in property, plant and equipment and

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depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated statement of comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

Leases are accounted for as operating leases where substantially all the rewards and risks of ownership of assets remain with the lessor. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and the rentals receivable under the operating leases are credited to the consolidated statement of comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating lease, net of any incentives received from the lessor are charged to the consolidated statement of comprehensive income on the straight-line basis over the lease term.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, held to maturity investments, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. During the Relevant Periods, the Group only held loans and other receivables.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the statement of financial position date.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Fair value

The fair value of investment that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at the statement of financial position date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include recent arm’s length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis.

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Impairment of financial assets

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognized in the consolidated statement of comprehensive income. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance amount. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are recognized when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred substantially all the risks and nor retained substantially all the rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred substantially all the risks and nor retained substantially all the rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortized cost (including interest-bearing bank loans)

Financial liabilities including trade and notes payables, other payables, amounts due to related parties and interest-bearing bank loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognized within "finance costs" in the consolidated statements of comprehensive income.

Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Financial guarantee contracts

Financial guarantee contracts in the scope of IAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognized initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognized at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the statement of financial position date; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 *Revenue*.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the statement of financial position date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in the consolidated statement of comprehensive income.

Provisions for the Group's obligations for rehabilitation are based on estimates of required expenditure at the mines in accordance with PRC rules and regulations. The obligation generally arises when the asset is installed or the ground environment is disturbed at the production location. The Group estimates its liabilities for final rehabilitation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work. 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. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining infrastructure. Over the time, the discounted liability is increased for the change in present value based on the appropriate discount rate. The periodic unwinding of the discount is recognized within "finance costs" in the consolidated statements of comprehensive income. The asset is depreciated using the UOP method over its expected life and the liability is accreted to the projected expenditure date. Additional disturbances or changes in estimates (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur at the appropriate discount rate.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statements 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 assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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Deferred tax liabilities are recognized for all taxable temporary differences, except:

- 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
- 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.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of 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:

- 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
- 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 carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Conversely, previously unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(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 the 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.

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Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized.

Other borrowing costs that are not directly attributable to the acquisition, construction or production of qualifying assets are recognized as expenses in the consolidated statements of comprehensive income in the period in which they are incurred.

Foreign currencies

The Financial Information is presented in RMB, which is the functional and presentation currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the statement of financial position date. All differences are taken to the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Employee benefits

The employees of the subsidiaries in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the central pension schemes. The contributions are charged to the consolidated statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

In addition to the above, the Group also participates in a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Scheme for its employee in Hong Kong. Contribution is made based on a percentage of the employee's basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independent administered fund.

Contributions to an accommodation fund administered by the Public Accumulation Funds Administration Centre are charged to the consolidated statement of comprehensive income as incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognized as a liability.

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Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

3.3 Significant accounting estimates

The preparation of the Group's Financial Information requires management to make significant estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, the inherent uncertainty about these significant assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

(a) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This 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 the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2006, 2007 and 2008 and June 30, 2009 was RMB15,318,000. More details are given in Note 16.

(b) Impairment of receivables

Impairment of receivables is made based on an assessment of the recoverability of receivables. The assessment of impairment of receivables involves the use of estimates and judgments. An estimate for doubtful debts is made when collection of full amount under the invoice is no longer probable, as supported by objective evidence using available contemporary and historical information to evaluate the exposure. Bad debts are written off as incurred. Where the actual outcome or expectation in the future is different from the original estimates, such differences will affect the carrying value of receivables and thus the impairment loss in the period in which such estimate is changed. There was no impairment provision for receivables during the Relevant Periods.

(c) PRC corporate income tax ("CIT")

The Group's operating subsidiaries in the PRC are subject to PRC CIT. As a result of the fact that certain matters relating to CIT have not been confirmed by the relevant local tax authorities, objective estimate based on currently enacted tax laws, regulations and other related policies are required in determining the provision of CIT 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 and tax provision in the period in which the differences realize. The carrying amounts of PRC CIT payables at December 31, 2006, 2007 and 2008 and June 30, 2009 were RMB27,434,0000, RMB24,637,000, RMB29,724,000 and RMB44,441,000, respectively.

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(d) Useful lives of property, plant and equipment

The Group estimates useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and actions of its competitors. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will record reserve for technically obsolete assets that have been abandoned. The carrying amounts of property, plant and equipment at December 31, 2006, 2007 and 2008 and June 30, 2009 were RMB100,596,000, RMB122,896,000, RMB357,264,000 and RMB451,141,000, respectively.

(e) Impairment of property, plant and equipment, including mining infrastructure

The Group assesses each cash generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. The carrying value of the property, plant and equipment, including mining infrastructure, 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 the relevant part of this section. Estimating the value in use requires the Group 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. The carrying amounts of property, plant and equipment at December 31, 2006, 2007 and 2008 and June 30, 2009 were RMB100,596,000, RMB122,896,000, RMB357,264,000 and RMB451,141,000, respectively.

(f) Mine reserves

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated on regular intervals taking into account recent production and technical information about each mine. In addition, as prices and cost levels 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 in both depreciation and amortization rates calculated on a UOP basis and the time period for discounting the rehabilitation provision. Changes in the estimate of mine reserves are also taken into account in impairment assessment of non-current assets.

(g) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each statement of financial position date. The carrying amounts of inventories at December 31, 2006, 2007 and 2008 and June 30, 2009 were RMB20,474,000, RMB31,841,000, RMB65,595,000 and RMB60,964,000, respectively.

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(h) Provision for rehabilitation

Provision for rehabilitation is based on estimates of future expenditures incurred by management to undertake rehabilitation and restoration work which are discounted at a rate reflecting the term and nature of the obligation (6.84% as of June 30, 2009) to their present value. Significant estimates and assumptions are made in determining the provision for rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in discount rate. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at statement of financial position date represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the consolidated statement of financial position by adjusting the rehabilitation asset and liability. The carrying amounts of provision for rehabilitation at December 31, 2007 and 2008 and June 30, 2009 were RMB4,999,000, RMB5,341,000 and RMB5,524,000, respectively.

(i) Estimation of repayment terms related to the construction cost for the upgrade and new production lines

As explained in Note 34, the repayment terms are determined based on the yearly profits projected by the Group for the new and upgraded production lines of Xiushuihe Mining. Such payment terms require the use of estimates. Actual profits may be higher or lower than estimated at the statement of financial position date, which would affect the reclassification of current and non-current payables in the consolidated statement of financial position. The carrying amounts of payables for the new and upgraded production lines of Xiushuihe Mining at December 31, 2008 and June 30, 2009 was RMB67,338,000. More details are contained in Note 34.

4. Segment information

The Group's revenue and contribution to profit during the Relevant Periods were mainly derived from its mining, ore processing, iron pelletizing and sale of iron concentrates, iron pellets and titanium concentrates. The principal assets employed by the Group are located in Sichuan Province, the PRC. Accordingly, no segment analysis by business or geographical segments is provided.

5. Revenue and other income

Revenue represents the net invoiced value of goods sold, net of trade discounts and returns and various types of government surcharges, where applicable. There were no trade discounts or returns during the Relevant Periods.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Sale of goods	211,103	366,670	791,163	315,335	486,041
Other income					
Bank interest income	60	128	147	75	63
Sale of raw materials	83	1,356	17,004	13,240	2,133
Others	4	12	126	155	34
	147	1,496	17,277	13,470	2,230
Total revenue and other income	211,250	368,166	808,440	328,805	488,271

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6. Profit before tax

The Group's profit before tax is arrived at after charging:

	Notes	Year ended December 31, 2006	2007	2008	Six months ended June 30, 2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of inventories sold		100,130	187,769	364,122	137,051	276,538
Staff costs (including directors' emoluments as set out in Note 7):						
Wages and salaries		6,899	9,335	17,139	6,254	9,928
Retirement costs						
— Defined contribution fund		507	1,119	1,907	1,008	1,456
Housing fund						
— Defined contribution fund		—	—	67	8	101
Total staff costs		7,406	10,454	19,113	7,270	11,485
Interest on bank loans		1,792	1,920	2,706	1,043	1,578
Interest on discounted bills		—	—	—	—	532
Unwinding of discount	26	—	—	342	171	183
Total finance costs		1,792	1,920	3,048	1,214	2,293
Auditors' remuneration		9	15	80	30	—
Depreciation of property, plant and equipment	10	10,666	10,844	18,720	6,152	13,943
Amortization of intangible assets	11	147	755	7,774	4,100	5,100
Amortization of prepaid land lease payments	12	—	—	119	9	429
Loss/(gain) on disposal of items of property, plant and equipment		460	714	—	—	(23)
Write-down of inventories to net realizable value	22	—	—	1,805	—	370
Operating lease rentals in respect of:						
— Land		65	274	74	57	37
— Office		109	124	150	124	126

7. Directors' remuneration

Details of the remuneration of directors are as follows:

	Year ended December 31, 2006	2007	2008	Six months ended June 30, 2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Fees	—	—	—	—	—
Other emoluments:					
Salaries, allowances and benefits in kind	162	264	1,126	117	430
Pension scheme contributions	14	17	69	9	26
	176	281	1,195	126	456
	176	281	1,195	126	456

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(a) Independent non-executive directors

The independent non-executive directors are Messrs. Yu Haizong, Gu Peidong, Liu Yi and Wu Wei.

There were no emoluments payable to the independent non-executive directors during the Relevant Periods.

(b) Executive directors and non-executive directors

	Fee	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2006				
Executive				
Mr. Jiang Zhongping	—	—	—	—
Mr. Liu Feng	—	162	14	176
Mr. Wang Yunjian	—	—	—	—
Mr. Yu Xingyuan	—	—	—	—
	—	162	14	176
Non-executive				
Mr. Wang Jin	—	—	—	—
Mr. Zhu Xiaolin	—	—	—	—
Mr. Teo Cheng Kwee	—	—	—	—
Mr. Devlin Paul Jason	—	—	—	—
	—	162	14	176
Year ended December 31, 2007				
Executive				
Mr. Jiang Zhongping	—	—	—	—
Mr. Liu Feng	—	264	17	281
Mr. Wang Yunjian	—	—	—	—
Mr. Yu Xingyuan	—	—	—	—
	—	264	17	281
Non-executive				
Mr. Wang Jin	—	—	—	—
Mr. Zhu Xiaolin	—	—	—	—
Mr. Teo Cheng Kwee	—	—	—	—
Mr. Devlin Paul Jason	—	—	—	—
	—	264	17	281
Year ended December 31, 2008				
Executive				
Mr. Jiang Zhongping	—	300	14	314
Mr. Liu Feng	—	351	27	378
Mr. Wang Yunjian	—	214	14	228
Mr. Yu Xingyuan	—	261	14	275
	—	1,126	69	1,195
Non-executive				
Mr. Wang Jin	—	—	—	—
Mr. Zhu Xiaolin	—	—	—	—
Mr. Teo Cheng Kwee	—	—	—	—
Mr. Devlin Paul Jason	—	—	—	—
	—	1,126	69	1,195

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	Fee	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended June 30, 2008 (unaudited)				
Executive				
Mr. Jiang Zhongping	—	—	—	—
Mr. Liu Feng	—	117	9	126
Mr. Wang Yunjian	—	—	—	—
Mr. Yu Xingyuan	—	—	—	—
	—	117	9	126
Non-executive				
Mr. Wang Jin	—	—	—	—
Mr. Zhu Xiaolin	—	—	—	—
Mr. Teo Cheng Kwee	—	—	—	—
Mr. Devlin Paul Jason	—	—	—	—
	—	117	9	126
Six months ended June 30, 2009				
Executive				
Mr. Jiang Zhongping	—	146	7	152
Mr. Liu Feng	—	120	7	128
Mr. Wang Yunjian	—	82	6	88
Mr. Yu Xingyuan	—	82	6	88
	—	430	26	456
Non-executive				
Mr. Wang Jin	—	—	—	—
Mr. Zhu Xiaolin	—	—	—	—
Mr. Teo Cheng Kwee	—	—	—	—
Mr. Devlin Paul Jason	—	—	—	—
	—	430	26	456

Except for Mr. Liu Feng, none of the executive and non-executive directors of the Company received emoluments from the Group during the years ended December 31, 2006 and 2007. The emoluments received by Mr. Liu Feng during the Relevant Periods were wholly and exclusively for the work performed for the Group's operations and business for his capacity as general manager of Huili Caitong since 2006.

Mr. Wang Yunjian and Mr. Yu Xingyuan were nominated by Sichuan Chuanwei Group Co., Ltd. ("Chuan Wei"), a company ultimately controlled by the Founders, as directors of Huili Caitong since May 2005 and October 2004, respectively. And Mr. Jiang Zhongping was nominated by Trisonic International as the director of Huili Caitong since March 2008. During the years ended December 31, 2006 and 2007, Mr. Jiang Zhongping, Mr. Wang Yunjian and Mr. Yu Xingyuan did not receive any remuneration from the Group but from Chuan Wei arising from their individual capacity as senior management of Chuan Wei.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

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(c) Five highest paid employees

The five highest paid employees during the Relevant Periods fall into the following categories:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
Directors	1	1	4	1	4
Non-directors	4	4	1	4	1
	5	5	5	5	5

Details of directors' remuneration are set out in section II, Note 7 (b) above.

Details of the remuneration of the remaining non-director, highest paid employees during the Relevant Periods are as follows:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries, allowances and benefits in kind	835	808	781	254	600
Pension contributions	25	27	39	19	30
	860	835	820	273	630

The remuneration of each of the individuals in each year in the Relevant Periods is below HK$1,000,000.

During the Relevant Periods, no emoluments were paid by the Group to any of the persons who are directors of the Company, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

8. Income tax expense

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods.

The provision for PRC CIT is based on the respective CIT rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC for the Relevant Periods.

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The major components of income tax expenses for the Relevant Periods are as follows:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current — Mainland China					
CIT payable for the year/period	16,939	1,997	29,115	11,221	29,966
Adjustments in respect of current income tax of previous year	—	—	2,614	—	
Deferred tax movement (Note 18)	180	(619)	(1,662)	(1,016)	(393)
Total tax charge for the year/period	17,119	1,378	30,067	10,205	29,573

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate in the PRC to income tax expense at the Group's effective income tax rate for each of the Relevant Periods is as follows:

		Year ended December 31,			Six months ended June 30,	
	Notes	2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before tax		49,433	75,690	348,824	147,810	179,451
Add: Expenses incurred by overseas companies*		—	—	23,376	10,541	4,309
Profit before tax generated by PRC subsidiaries		49,433	75,690	372,200	158,351	183,760
Tax at applicable statutory tax rates of 33% for 2006 and 2007, 25% for 2008 and 2009 in the PRC		16,313	24,978	93,050	39,588	45,940
Lower tax rate for a subsidiary	(i)	—	(23,925)	(67,464)	(29,705)	(17,360)
Subtotal		16,313	1,053	25,586	9,883	28,580
Effect of change in enacted tax rate used for the recognition of deferred tax	(ii)	—	939	—	—	—
Deferred tax assets arising from provision for rehabilitation		—	(1,250)	—	—	—
Expenses not deductible for tax		806	636	1,867	322	993
Adjustments in respect of current income tax of previous year		—	—	2,614	—	—
Total tax charge for the year/period		17,119	1,378	30,067	10,205	29,573

* Expenses incurred by the overseas companies for the year ended December 31, 2008 and the six months ended June 30, 2009 and 2008 (2006 and 2007: Nil) mainly consist of [●] fees which were expensed off to the consolidated statement of comprehensive income based on the proportion of the number of shares of the Company after the [●] (as described in the paragraph headed "Statutory and General Information — Further Information about Our Group — Resolutions of our Shareholders" as attached as Appendix VII to the document) (Note 9) compared with the number of shares of the Company immediately upon [●]. The expenses are not expected to be tax deductible.

(i) Pursuant to the relevant tax rules and regulations of the PRC applicable to foreign investment enterprise ("FIE"), a FIE is entitled to a tax holiday whereby it is exempted from PRC CIT for its first two profit making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the subsequent three years. On September 22, 2006, Huili Caitong was converted from a domestic limited company to a FIE. In accordance with the relevant tax rules and regulations applicable to FIE, Huili Caitong has the option not to choose 2006 as its first profitable year as Huili Caitong became a FIE in September 2006. As such, for income tax purposes, Huili Caitong was approved to enjoy its tax holiday from 2007 and hence, is not liable to PRC CIT in 2007 and 2008 and is entitled to a 50% tax reduction for the subsequent three years (2009 to 2011).

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(ii) On March 16, 2007, the National People’s Congress approved the PRC Corporate Income Tax Law (the “New CIT Law”), which became effective from January 1, 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Pursuant to the grandfathering arrangement under the New CIT Law, Huili Caitong will continue to enjoy the existing tax holiday. Thereafter, it will be subject to the new CIT rate of 25%.

In accordance with IAS 12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Therefore, except for Huili Caitong, the tax rate of 25% is adopted in the calculation of deferred taxes which are expected to be realized or settled after January 1, 2008. For Huili Caitong, deferred tax assets and liabilities are measured at 0%, 12.5% or 25% depending on whether the assets are expected to be realized or the liabilities settled in 2008, 2009 to 2011, or 2012 and subsequently, respectively.

9. Earnings per share

The calculation of basic earnings per share for the Relevant Periods is based on the profit attributable to owners of the Company for each of the Relevant Periods and on the assumption that 1,500,000,000 shares, representing the number of shares of the Company immediately after the [●] as described in the paragraph headed “Statutory and General Information — Further Information about Our Group — Resolutions of our Shareholders” as attached as Appendix VII to the document, had been in issue throughout the Relevant Periods.

No diluted earnings per share amounts are presented for any of the Relevant Periods as no diluting events occurred during the Relevant Periods.

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10. Property, plant and equipment

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Mining infrastructure	Construction in progress (CIP)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At January 1, 2006	61,099	75,425	62	1,342	—	4,257	142,185
Additions	1,559	858	61	—	—	6,098	8,576
Transferred from CIP	4,954	3,267	—	—	—	(8,221)	—
Disposals	(150)	(1,076)	—	—	—	—	(1,226)
At December 31, 2006 and January 1, 2007	67,462	78,474	123	1,342	—	2,134	149,535
Additions	677	448	133	995	4,999	26,606	33,858
Transferred from CIP	—	6,426	—	—	10,000	(16,426)	—
Disposals	(350)	(882)	—	—	—	—	(1,232)
At December 31, 2007 and January 1, 2008	67,789	84,466	256	2,337	14,999	12,314	182,161
Additions	5,960	8,486	488	268	—	237,886	253,088
Transferred from CIP	120,259	76,732	—	509	9,492	(206,992)	—
At December 31, 2008 and January 1, 2009	194,008	169,684	744	3,114	24,491	43,208	435,249
Additions	403	807	132	—	—	107,810	109,152
Transferred from CIP	—	2,093	—	—	—	(2,093)	—
Disposals	(4,133)	—	—	—	—	—	(4,133)
At June 30, 2009	190,278	172,584	876	3,114	24,491	148,925	540,268
Accumulated depreciation:							
At January 1, 2006	19,244	18,413	11	935	—	—	38,603
Provided for the year	3,361	7,218	14	73	—	—	10,666
Disposals	(8)	(322)	—	—	—	—	(330)
At December 31, 2006 and January 1, 2007	22,597	25,309	25	1,008	—	—	48,939
Provided for the year	4,034	6,724	31	55	—	—	10,844
Disposals	(34)	(484)	—	—	—	—	(518)
At December 31, 2007 and January 1, 2008	26,597	31,549	56	1,063	—	—	59,265
Provided for the year	7,110	10,195	92	243	1,080	—	18,720
Disposals	—	—	—	—	—	—	—
At December 31, 2008 and January 1, 2009	33,707	41,744	148	1,306	1,080	—	77,985
Provided for the period	5,550	7,473	73	126	721	—	13,943
Disposals	(2,801)	—	—	—	—	—	(2,801)
At June 30, 2009	36,456	49,217	221	1,432	1,801	—	89,127
Net book value:							
At January 1, 2006	41,855	57,012	51	407	—	4,257	103,582
At December 31, 2006	44,865	53,165	98	334	—	2,134	100,596
At December 31, 2007	41,192	52,917	200	1,274	14,999	12,314	122,896
At December 31, 2008	160,301	127,940	596	1,808	23,411	43,208	357,264
At June 30, 2009	153,822	123,367	655	1,682	22,690	148,925	451,141

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As of December 31, 2006, 2007 and 2008, the Group was in the customary process of obtaining the relevant building ownership certificates ("BOC") for certain buildings and land use rights where these buildings were occupied with net book value of approximately RMB44,865,000, RMB41,192,000 and RMB70,543,000, respectively.

As of June 30, 2009, the Group had obtained all the required BOC and land use rights for the above mentioned buildings.

11. Intangible assets

	Mining rights	Exploration and evaluation assets	Total
	RMB'000 (Note a)	RMB'000 (Note b)	RMB'000
Cost:			
At January 1, 2006	531	—	531
Additions	559	7,929	8,488
At December 31, 2006 and January 1, 2007	1,090	7,929	9,019
Additions	119,415	16,811	136,226
Transfer in/(out)	24,740	(24,740)	—
At December 31, 2007 and January 1, 2008	145,245	—	145,245
Additions	4,448	—	4,448
At December 31, 2008 and January 1, 2009	149,693	—	149,693
Additions	—	—	—
At June 30, 2009	149,693	—	149,693
Accumulated amortization:			
At January 1, 2006	188	—	188
Provided for the year	147	—	147
At December 31, 2006 and January 1, 2007	335	—	335
Provided for the year	755	—	755
At December 31, 2007 and January 1, 2008	1,090	—	1,090
Provided for the year	7,774		7,774
At December 31, 2008 and January 1, 2009	8,864	—	8,864
Provided for the period	5,100	—	5,100
At June 30, 2009	13,964	—	13,964
Net book value:			
At January 1, 2006	343	—	343
At December 31, 2006	755	7,929	8,684
At December 31, 2007	144,155	—	144,155
At December 31, 2008	140,829	—	140,829
At June 30, 2009	135,729	—	135,729

(a) As of December 31, 2006, mining rights with net book value of RMB196,000 have been pledged to banks for bank loan granted to the Group (Note 23).

The mining rights represent rights for the mining of vanadium-bearing titanomagnetite reserves in the Baicao Mine and Xiushuihe Mine where both are located in Huili County, Sichuan, in the PRC. The Baicao Mine and Xiushuihe Mine are operated by Huili Caitong and Xiushuihe Mine, respectively. In 2004, the Group acquired short-term mining rights of the Baicao Mine and Xiushuihe Mine, which were fully amortized and also expired in December 2007. Upon expiry, the Group further acquired the mining rights of the Baicao Mine and Xiushuihe Mine for a term of 20 years from December 2007 to December 2027, which the Company commenced amortizing on January 1, 2008 in accordance with the production plans of Baicao Mine and Xiushuihe Mine and the proved and probable reserves of each mine.

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(b) The exploration and evaluation assets comprise costs which are directly attributable to researching and analyzing existing exploration data; conducted topographical and geological surveys; exploratory drilling and samplings and trenching; and activities in relation to commercial and technical feasibility studies. The cost of exploration and evaluation assets incurred in 2006 and 2007 represent cost incurred for the exploration and evaluation works undertaken by an independent technical advisor for the purpose of acquiring mining rights of Baicao Mine and Xiushuihe Mine in December 2007.

12. Prepaid land lease payments

	December 31, 2008	June 30, 2009
	RMB’000	RMB’000
Cost:		
At beginning of year/period	—	23,296
Additions during the year/period	23,296	26,627
	23,296	49,923
Accumulated amortization:		
At beginning of year/period	—	119
Amortization for the year/period	119	429
	119	548
Net book value:		
At end of year/period	23,177	49,375
At beginning of year/period	—	23,177

Prepaid land lease payments represent cost of land use rights in respect of the Group’ leasehold land located in Sichuan Province, the PRC, and are held under a medium lease term.

13. Investments in subsidiaries

	Notes	December 31, 2008	June 30, 2009
		RMB’000	RMB’000
Unlisted investments, at cost:			
Powerside	(a)	1	1
First China	29(b)	618,699	618,699
		618,700	618,700

The amount due from a subsidiary as of June 30, 2009 included in the Company’s current assets is unsecured, interest-free and is repayable on demand.

(a) On May 22, 2008, the Company acquired the entire issued share capital of Powerside, which is the immediate holding company of the other subsidiaries of the Group, from Trisonic International by issuing 7,955 shares to Trisonic International, which was credited as fully paid-up share capital.

14. Prepayments, deposits and other receivables

Group

	Notes	December 31, 2006	December 31, 2007	December 31, 2008	June 30, 2009
		RMB'000	RMB'000	RMB'000	RMB'000
Current portion:					
Prepayments consisted of:					
Prepayments for CIP and purchase of machinery		2,395	8,664	8,999	7,200
Purchase of raw materials		1,500	—	15	106
Utilities		597	550	780	1,095
Fees prepaid to the process subcontractor	(a)	—	—	29,603	3,681
Prepaid subcontracting fees	(b)	8,470	23,109	39,978	87,280
Deferred [●] fees	(c)	—	—	7,139	8,147
Other receivables		285	561	2,340	4,283
		13,247	32,884	88,854	111,792
Non-current portion:					
Prepaid subcontracting fees	(b)	—	—	—	16,604
		13,247	32,884	88,854	128,396

(a) The balance represents fees prepaid to the subcontractor for processing of iron concentrates and medium grade titanium concentrates in the forthcoming year.

(b) The balance represents deferred stripping costs capitalized for subcontracting fees paid by the Group to an independent third party for the stripping activities of Baicao Mine and Xiushuihe Mine, which will be recognized as part of the production costs once the raw iron ore is put into use within twelve months from the respective statement of financial position dates.

(c) Deferred [●] fees represent legal and other professional fees relating to the [●], which will be deducted from equity when the Company completes the [●].

The carrying amounts of prepayments, deposits and other receivables closely approximate their respective fair values.

None of the above assets is either past due or impaired. The financial assets included in the above "Other receivables" relate to receivables for which there was no recent history of default.

Company

As of December 31, 2008 and June 30, 2009, prepayments mainly represent deferred [●] fees incurred for the [●]. Deferred [●] fees represent legal and other professional fees relating to the [●], which will be deducted from equity when the Company completes the [●].

15. Payment in advance

Payment in advance represents advance payment made to Huili County Land and Resources Bureau for the acquisition of state-owned land use rights located at Baicao Mine. The payment in advance was utilized as part of cost of land use rights when the related land state-owned use rights were obtained by the Group in February 2009.

16. Goodwill

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

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Goodwill arose on the acquisition of Xiushuihe Mining by Huili Caitong which represents the excess of the cost of the business 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

Goodwill arising on the above acquisition was recognized in the consolidated statement of financial position as an asset, initially measured at cost and subsequently assessed for impairment testing.

The recoverable amount of the cash-generating unit has been determined based on a value-in-use calculation, using cash flow projections based on financial budgets covering a five-year period with cash flows beyond the five-year period assumed to be stable. The discount rate applied to the cash flow projections is 13.4%.

Key assumptions were used in the value in use calculation of the cash-generating unit for each of the statement of financial position dates. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the budgeted gross margins is based on the past performance and its expectations for market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant unit.

17. Long-term deposits

Long-term deposits represent environmental deposits paid to the government in respect of the Group’s rehabilitation obligations for close down of Baicao Mine and Xiushuihe Mine and are not expected to be refunded within the next twelve months.

18. Deferred tax

The movements in deferred tax assets are as follows:

	Excess tax depreciation over book value of property, plant and equipment	Provision for rehabilitation	Unrealized profit from inter-co. transactions	Total
	RMB’000	RMB’000	RMB’000	RMB’000
At January 1, 2006	3,128	—	619	3,747
Deferred tax credited/(charged) to consolidated statement of comprehensive income during the year	268	—	(448)	(180)
At December 31, 2006 and January 1, 2007	3,396	—	171	3,567
Deferred tax credited/(charged) to consolidated statement of comprehensive income during the year	(460)	1,250	(171)	619
At December 31, 2007 and January 1, 2008	2,936	1,250	—	4,186
Deferred tax credited to consolidated statement of comprehensive income during the year	769	85	808	1,662
At December 31, 2008 and January 1, 2009	3,705	1,335	808	5,848
Deferred tax credited/(charged) to consolidated statement of comprehensive income during the period	955	46	(608)	393
At June 30, 2009	4,660	1,381	200	6,241

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The basis for determining the PRC CIT rates is set out in Note 8 (ii).

As mentioned in Note 8 (ii), deferred tax assets that are expected to be realized and settled in 2008 and onwards have been provided at an enacted corporate income tax rate of 25%. The effect of change in enacted tax rate used in the recognition of deferred tax assets amounting to RMB939,000 has been included in the line "deferred tax charged to the consolidated statement of comprehensive income during the year" for the year ended December 31, 2007.

Pursuant to the New CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and jurisdiction of the foreign investors. Pursuant to the "Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income" effective on January 1, 2007 and "Guoshuihan [2009] No. 81" promulgated on February 20, 2009, the payment of dividend by Huili Caitong to Simply Rise and First China, which hold 72.0% and 18.5% equity interest in Huili Caitong, respectively, would be subject to applicable withholding tax rates of 5% and 10%, respectively.

According to the articles of associations of Huili Caitong, the board of directors of Huili Caitong has the ultimate power to decide Huili Caitong's dividend policy. Pursuant to the resolution of the board of directors of Huili Caitong on February 9, 2009 and July 16, 2009, the net profit of Huili Caitong for the year ended December 31, 2008 and for the six months ended June 30, 2009, after appropriations to the statuary reserve fund, will be used for business development of Huili Caitong and will not be distributed to its shareholders. As a result, no deferred tax liabilities relating to withholding tax on the distributable profits of Huili Caitong for the year ended December 31, 2008 and six months ended June 30, 2009 have been recognized.

19. Cash and cash equivalents and pledged bank balances

		December 31,			June 30,
	Note	2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand		29	4	229	22
Cash at banks		17,570	11,898	132,909	149,088
		17,599	11,902	133,138	149,110
Less: Pledged bank balances	24	(14,310)	(4,316)	(40)	—
Cash and cash equivalents		3,289	7,586	133,098	149,110

In the preparation of the consolidated statements of cash flows, pledged bank balances have been excluded from cash and cash equivalents.

The Group's cash and bank balances are denominated in RMB at each of statement of financial position dates, except for the following:

	RMB equivalent	
	December 31, 2008	June 30, 2009
	RMB'000	RMB'000
Cash and bank balances:		
HK$	2	2
US$	3	3

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The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

The carrying amounts of the cash and cash equivalents and pledged bank balances in the consolidated statements of financial position approximate to their fair values.

20. Trade and notes receivables

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

The aged 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 of the Group represented proceeds receivable from the sale of goods. For the years ended December 31, 2006 and 2007, the Group's customers were generally required to make full payment upfront before delivery, except that a credit term of up to 30 days was granted to customers with approved credit. Since January 1, 2008, the Group has standardized the credit terms given to its customers of iron ore products for an approved credit term of 30 days. For the sales of medium grade titanium products, the Group generally requires full payment prior to delivery.

Receivables as of December 31, 2006 that were past due were fully recovered subsequent to December 31, 2006. The Group does not hold any collateral or other credit enhancement over these balances.

The carrying amounts of trade receivables closely approximate their fair values.

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21. Balances with related parties

Group

	Notes	December 31, 2006 RMB'000	December 31, 2007 RMB'000	December 31, 2008 RMB'000	June 30, 2009 RMB'000
Due from related parties:					
Trade in nature					
— Chuan Wei	(a)	31,183	229,695	—	—
— Weiyuan Steel	(b)	—	—	29,541	35,051
		31,183	229,695	29,541	35,051
Non-trade in nature					
— Jian An	(c)	—	—	892	—
— Tongyu	(d)	—	—	—	1,355
		31,183	229,695	30,433	36,406
Maximum amount outstanding during the year/period					
— Chuan Wei		37,147	274,188	229,695	—
— Weiyuan Steel		—	—	71,171	63,781
— Jian An		—	—	892	892
— Tongyu		—	—	—	1,355
Due to related parties:					
Trade in nature					
— Xichang Vanadium	(e)	—	—	132	—
Non-trade in nature					
— Trisonic International	(f)	—	—	11,924	13,306
— Sichuan Huiyuan Gang Jian Technology Co., Ltd.	(g)			410	91
— Longwei Hotel	(h)	—	—	—	49
		—	—	12,466	13,446

Notes:

(a) As of December 31, 2006 and 2007, the balances due from Chuan Wei, a company ultimately controlled by the Founders are trade in nature and arising from the sale to and purchase of goods from the companies controlled by Chuan Wei during the years ended December 31, 2006 and 2007. The balances arose from sales to and purchases of goods from the companies controlled by Chuan Wei, including sales of goods to Weiyuan Steel, which were transferred to Chuan Wei periodically pursuant to the centralized cash flow management system implemented by Chuan Wei. The balances due from Chuan Wei as of December 31, 2006 and 2007 were interest-free and unsecured and have since been repaid.

The amount due from Chuan Wei as of the statement of financial position dates can be further analyzed as follows:

	December 31, 2006 RMB'000	December 31, 2007 RMB'000	December 31, 2008 RMB'000	June 30, 2009 RMB'000
Due from Weiyuan Steel	78,383	36,131	—	—
Due from/(to) Chuan Wei	(47,200)	193,564	—	—
Net	31,183	229,695	—	—

In addition, during the years ended December 31, 2006 and 2007, amounts due from Chuan Wei did not have fixed term of repayment. Since January 1, 2008, the Group has standardized the credit terms granted to all the Group's customers of iron ore products, including related customers of the Group, to a maximum period of 30 days. For the sales of medium grade titanium products, the Group generally requires full payment prior to delivery.

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An aged analysis of amounts due from Chuan Wei as of the statement of financial position dates, based on the invoiced date, is as follows:

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Outstanding balances with ages:				
Within 30 days	15,865	122,309	—	—
30 - 180 days	8,753	107,082	—	—
181 - 365 days	6,565	304	—	—
	31,183	229,695	—	—

Since January 1, 2008, Chuan Wei ceased to implement the centralized cash flow management system and accordingly, balances with companies controlled by Chuan Wei with the Group are settled directly. Thus, there was no balance with Chuan Wei as of December 31, 2008 and June 30, 2009.

(b) The balance due from Weiyuan Steel Co., Ltd. ("Weiyuan Steel"), which is a company controlled by Trisonic International, represents amounts receivable for the sales of goods to Weiyuan Steel and aged within 30 days as of the statement of financial position date.

(c) Sichuan Chuanwei Construction and Installation Project Co., Ltd. ("Jian An") is a company controlled by Chuan Wei. Balance represents prepayment made for construction of high grade titanium production line at Baicao Mine.

(d) Sichuan Chuanwei Tongyu Transportation Co., Ltd. ("Tongyu) is a company controlled by Chuan Wei. Balance represents consideration receivable from Tongyu for the disposal of the Group's items of property, plant and equipment.

(e) Xichang Vanadium and Titanium Products Co., Ltd. ("Xichang Vanadium") is the substantial shareholder of Huili Caitong and a minority shareholder of Xiushuihe Mining. In addition, Messrs. Wang Jin, Yang Xianlu, Wu Wendong and Zhang Yuangui are also the directors of Xichang Vanadium. The balance due to Xichang Vanadium represents amount payable for the purchase of raw materials.

(f) Trisonic International is a company that is controlled by the Founders. The balance due to Trisonic International represents [●] fees paid on behalf of the Company for the [●].

(g) One of the directors of Sichuan Huiyuan Gang Jian Technology Co., Ltd. ("Sichuan Huiyuan"), Mr. Yu Xingyuan is also an executive director of the Company. The balance due to Sichuan Huiyuan represents design fee payable for the construction of production line.

(h) Sichuan Longwei Hotel Management Co., Ltd. ("Longwei Hotel") is owned as to 90% by Sichuan Jinli Property Development Co., Ltd. ("Sichuan Jinli Property) and 10% by an independent third party. Sichuan Jinli Property is owned as to 10.0% by Chuan Wei, 9.7% by Mr. Wang Jin, 8.9% by Mr. Wu Wendong and 5.2% by Mr. Li Hesheng. Balance due to Longwei Hotel represents rental payable to Longwei Hotel for the leasing of office premises by Huili Caitong.

Except for balance with Weiyuan Steel with credit term of 30 days, balances with other related parties are interest-free, unsecured and have no fixed term of repayment.

The directors confirmed that the non-trade balances with related parties will be settled prior to the [●].

The carrying amounts of balances with related parties approximate to their fair values.

Company

	December 31, 2008	June 30, 2009
	RMB'000	RMB'000
Due to related parties:		
Non-trade in nature		
— Huili Caitong	7,712	15,271
— Trisonic International	11,908	13,270
	19,620	28,541

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The balances due to Trisonic International and Huili Caitong represent [●] fees paid on behalf for the [●], which are interest-free, unsecured and repayable on demand. The directors confirmed that balance due to Trisonic International will be settled prior to the [●].

The carrying amounts of amounts due to related parties approximate to their fair values.

22. Inventories

	December 31, 2006	December 31, 2007	December 31, 2008	June 30, 2009
	RMB'000	RMB'000	RMB'000	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 write-down of inventories recognized during the six months ended June 30, 2009 of RMB370,000 (2008: RMB1,805,000; 2006 and 2007: Nil) was in respect of write-down of finished goods to net realizable value.

23. Interest-bearing bank loans

	Notes	December 31, 2006	December 31, 2007	December 31, 2008	June 30, 2009
		RMB'000	RMB'000	RMB'000	RMB'000
Repayable within one year:					
Secured and guaranteed	(a)	30,000	30,000	—	—
Unsecured	(b)	—	—	—	100,000
		30,000	30,000	—	100,000
The bank loans bear interest at fixed interest rates per annum in the range of:		5.58% to 5.85%	5.85% to 6.84%	—	5.31%

At each of the statement of financial position dates, all interest-bearing bank loans of the Group are denominated in RMB. The carrying amounts of the Group's bank loans approximate to their fair values.

(a) The above bank loans were secured and guaranteed by:

	December 31, 2006	December 31, 2007	December 31, 2008	June 30, 2009
	RMB'000	RMB'000	RMB'000	RMB'000
Guaranteed by related parties (Note 33):				
Xichang Vanadium*	30,000	30,000	—	—
* Jointly secured by:				
Net book value of mining rights (Note 11 (a))	196	—	—	—

The bank loans were guaranteed by related parties free of charge.

(b) In accordance with the loan agreement entered into between Huili Caitong and the lender, Huili Caitong agreed not to mortgage or pledge any of Huili Caitong's land use rights or mining rights to any party, and the lender will be entitled to pre-emption right in the event of such mortgage or pledge.

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24. Trade and notes payables

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

The carrying amounts of trade and notes payables closely approximate their fair values.

Trade payables are non-interest-bearing and are normally settled in 60 to 180 days.

Notes payable represent bank acceptance issued by Shanghai Pudong Development Bank and are interest-free with the terms of maturity ranging from three to nine months.

The Group's notes payable are secured by the pledge of certain of the Group's bank balances (Note 19).

An aged analysis of trade payables, based on the invoice date, is as follows:

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Outstanding balances 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

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25. Other payables and accruals

Group

	Notes	December 31, 2006	December 31, 2007	December 31, 2008	June 30, 2009
		RMB'000	RMB'000	RMB'000	RMB'000
Current portion:					
Advances from customers		1,398	330	2,783	1,921
Payables related to:					
Construction in progress		9,598	13,016	26,067	60,314
Taxes other than income tax		18,305	26,179	20,538	23,484
Payroll and welfare payable		2,081	2,156	4,416	4,452
Mining rights & exploration and evaluation assets		—	121,763	39,446	35,646
Interest-free loans from a licensed non-banking financial institution	(a)	650	459	—	—
Sichuan Nanjiang Mining Co., Ltd.					
— Nanjiang Project Consideration	(b), 34	—	—	15,468	22,420
— Technical service fee	(b), 34	—	—	2,721	3,948
Consulting fee		—	—	493	418
[●] fees		—	—	11,164	7,888
Land use rights		—	—	14,301	—
Deposits received		215	204	397	145
Accrued liabilities		—	674	—	—
Other payables		344	3,765	1,962	972
		32,591	168,546	139,756	161,608
Non-current portion:					
Interest-free loan from a licensed non-banking financial institution	(a)	459	—	—	—
Sichuan Nanjiang Mining Co., Ltd.	(b), 34	—	—	51,870	44,918
		459	—	51,870	44,918
		33,050	168,546	191,626	206,526

(a) The interest-free and unsecured loans represented loans from Huili County Credit Corporation, a licensed non-banking financial institution. On December 21, 2004, Huili Caitong entered into a debt restructuring agreement with Huili County Credit Corporation pursuant to which Huili Caitong will settle the principals of the interest-free loans by five annual fixed installments before December 20, 2008. No interest and other charges or fees should be levied. The principals of the interest-free loans are repayable as follows:

	December 31, 2006	December 31, 2007	December 31, 2008	June 30, 2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	650	459		—
In the second year	459	—	—	—
	1,109	459	—	—
Portion classified as current liabilities	(650)	(459)	—	—
Non-current portion	459	—	—	—

(b) Balances represent payables related to the cost for the upgrade and construction of the Group's production lines by an independent third party, Sichuan Nanjiang Mining Group Co., Ltd. ("Nanjiang") and technical service fee payable to Nanjiang as disclosed in Note 34.

(c) Except as disclosed in Note 25 (a) and (b) above, the remaining other payables and accruals are non-interest-bearing and have average terms of one to three months.

The carrying amounts of other payables and accruals approximate to their fair value.

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As of December 31, 2008 and June 30, 2009, other payables mainly represent [●] fees payable for the [●].

26. Provision for rehabilitation

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	—	—	4,999	5,341
Additions	—	4,999	—	—
Unwinding of discount (Note 6)	—	—	342	183
At end of year/period	—	4,999	5,341	5,524

A provision for rehabilitation is mainly recognized for the present value of costs to be incurred for the restoration of tailing ponds and the removal of the processing plants in complying with the Group's obligations for close down, restoration and environmental clean up on completion of the Group's mining activities. These costs are expected to be incurred on mine closure, based on the current terms of mining rights for Baicao Mine and Xiushuihe Mine. As the extent of the rehabilitation from the mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to revision.

The provision was based on best estimate for future expenditure to be made by the Group and was discounted to its net present value using a discount rate of 6.84%. The discount rate adopted reflected the current market assessments of the time value of money and the risks specific to the provision. Subsequently, the provision for rehabilitation will be increased each year by the accretion of interest due to the passage of time which is recognized as interest expense.

27. Issued share capital

On April 28, 2008, the Company was incorporated in the Cayman Islands and 1 share of HK$0.10 each was allotted and issued to Trisonic International.

On May 22, 2008, the Company acquired the entire share capital of Powerside from Trisonic International by issuing an additional 7,955 shares to Trisonic International, which was credited as fully paid share capital.

On July 21, 2008, the Company acquired the entire share capital of First China by issuing an additional 2,044 shares, which was credited as fully paid share capital.

As of December 31, 2008 and June 30, 2009, 10,000 shares were in issued at HK$0.10 each.

28. Reserves

The amounts of the Group's reserves and the movement therein for the Relevant Periods are presented in the consolidated statement of changes in equity.

(a) Share premium

Share premium represents the difference between the purchase consideration of US$90 million and the nominal value of 2,044 shares of the Company issued for the acquisition of the entire equity interest in First China (Note 29(b)).

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The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the constitutional documents and the Companies Law of the Cayman Islands, the share premium is distributable as dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

(b) Statutory surplus reserve and statutory reserve fund

In accordance with the Company Law of the PRC and the respective articles of association of subsidiaries domiciled in Mainland China (the "PRC Subsidiaries"), each of the PRC Subsidiaries is required to allocate 10% of its profits after tax, as determined in accordance with PRC GAAP, to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of its registered capital.

As Huili Caitong was converted from a domestic limited company to a FIE on September 22, 2006, allocation to SSR is not required. According to Huili Caitong's articles of association, Huili Caitong is required to allocate 10% of its profit after tax in accordance with PRC GAAP to the statutory reserve fund (the "SRF").

SSR and SRF are non-distributable except in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations. They can be used to offset accumulated losses or capitalized as paid-up capital.

(c) Statutory public welfare fund (the "PWF")

Prior to January 1, 2006, in accordance with the Company Law of the PRC and the respective articles of association of the PRC subsidiaries, the PRC subsidiaries were required to transfer 5% to 10% of their profits after tax, as determined in accordance with PRC GAAP, to the statutory public welfare fund (the "PWF") which reserve is non-distributable other than in the event of liquidation.

The PWF must be used for capital expenditure on staff's collective facilities and these facilities remain the assets of the PRC subsidiaries.

In accordance with the revised Company Law of the PRC effective from January 1, 2006, the PRC subsidiaries are no longer required to transfer a portion of their profits after tax to PWF. In 2006, the balance of PWF as of January 1, 2006 was transferred to the SSR according to the revised Company Law of the PRC.

(d) Contributed surplus

The contributed surplus of the Group resulted from the preparation of the Group's Financial Information on the basis of preparation set out in Note 2 of Section II. It represents the difference between nominal value of the Company's shares issued in exchange for the subsidiaries acquired as part of the Reorganization and the aggregate amount of the nominal value of the paid-up capital of these subsidiaries attributable to the owners of the Company. Prior to the incorporation of the Company, the contributed surplus represents the aggregate amount of the nominal value of the paid-up capital of these subsidiaries attributable to the owners of the Company.

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29. Notes to the consolidated statements of cash flows

(a) Capital injection

Capital injection represents cash injections from Trisonic International during 2007 for an increase in share capital of Huili Caitong amounting to approximately RMB138,041,000.

(b) Major non-cash transactions — Acquisition of minority interests in Huili Caitong

On May 25, 2008, pursuant to a series of share sale and purchase and equity transfer agreements entered into among the Company, First China, Xichang Vanadium, Sichuan Xingchuancheng Cement Co., Ltd. ("Sichuan Xingchuancheng"), Green Globe Investments Limited ("Green Globe"), Trisonic International and Mr. Wang Jin, First China agreed to purchase from Xichang Vanadium and Sichuan Xingchuancheng their 17.6% and 0.9% equity interest in Huili Caitong, respectively, at a consideration of US$85.6 million and US$4.4 million, respectively. In addition, the Company agreed to acquire the entire equity interest in First China from Green Globe for a consideration of US$90.0 million by way of allotment and issue of 2,044 shares of the Company. On June 23, 2008, the 17.6% and 0.9% equity interest in Huili Caitong held by Xichang Vanadium and Sichuan Xingchuancheng were transferred to First China.

The transaction was completed on July 21, 2008 when the Company allotted and issued 2,044 shares to Green Globe, credited as fully paid. The difference between the purchase consideration of US$90.0 million (equivalent to approximately RMB618,084,000) and the nominal value of 2,044 shares of the Company issued of RMB618,084,000 was credited to the share premium account. As a result, the Company acquired the entire issued share capital of First China, which became a wholly owned subsidiary of the Company since July 21, 2008. After the acquisition, the Group's equity interest in Huili Caitong increased from 72.0% to 90.5%, representing an acquisition of 18.5% minority interests in Huili Caitong. Details are as follows:

	Year ended December 31, 2008
	RMB'000
Purchase consideration	618,084
Add: Incidental costs associated with the acquisition	615
Total investment costs recorded by the Company/Group	618,699
Less: book value of the share of net assets acquired	88,306
Difference arising from the acquisition of minority interests	530,393

The difference of RMB530,393,000 between the consideration and the book value of the share of net assets acquired has been recognized in equity as the acquisition of minority interests are considered as an equity transaction.

Total investment costs are satisfied by:

	Year ended December 31, 2008
	RMB'000
Shares issued	618,084
Due to related parties	615
	618,699

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30. Dividends

On February 24,, 2009, the Company declared one-off and non-recurring special dividends of RMB2,000 per ordinary share amounting to RMB20,000,000 to all members registered in the Register of Members of the Company. As such special dividends are derived from the distributable reserves of Huili Caitong prior to January 1, 2008, the Group's PRC legal advisors, King & Wood have advised the Group that such dividends are not subject to PRC withholding tax.

31. Commitments

(a) Capital commitments

The Group had the following capital commitments at each of the statement of financial position dates:

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:				
— Plant and machinery	—	—	7,922	12,395
Authorized, but not contracted for:				
— 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
	5,500	115,576	156,267	280,836

(b) Operating lease arrangements

As lessee

The Group leases certain of its 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 the statement of financial position dates, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

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

32. Contingent liabilities

The Group had the following contingent liabilities:

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Guaranteed bank loans of:				
Related parties (Note 33)	—	330,500	—	—

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All guarantees granted to related parties were fully released in 2008.

33. Related party transactions

(a) During the Relevant Periods, the Group had the following material transactions with related parties:

Name of related parties	Notes	Year ended December 31, 2006	2007	2008	Six months ended June 30, 2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Recurring transactions						
Sales of goods						
Weiyuan Steel Co., Ltd.	(2)	204,450	344,870	179,361	31,009	84,200
Xichang Vanadium	(2)	—	10,924	240	—	—
		204,450	355,794	179,601	31,009	84,200
Office rental						
Longwei Hotel	(6)	—	—	37	—	49
Non-recurring transactions						
Transportation fee						
Tongyu	(1&3)	43,615	58,877	502	502	—
Purchase of goods						
Xichang Vanadium	(2)	—	—	353	—	—
Construction of property, plant and equipment						
Neijang Chuanwei Construction Co., Ltd.	(1&4)	—	3,429	—	—	—
Sichuan Huiyuan	(4)	—	—	1,040	—	—
		—	3,429	1,040	—	—
Disposal of property, plant and equipment						
Tongyu	(1&7)	—	—	—	—	1,355
Guarantees of bank loans						
By the related parties:						
Xichang Vanadium	(5)	30,000	30,000	—	30,000	—
To related parties:						
Sichuan Zhonglong Co., Ltd.	(1&5)	—	25,500	—	—	—
Chuan Wei	(5)	—	60,000	—	60,000	—
Weiyuan Steel Co., Ltd.	(5)	—	180,000	—	180,000	—
Sichuan Boyu International Trading Co., Ltd.	(1&5)	—	65,000	—	65,000	—
		—	330,500	—	305,000	—

Notes:

(1) These companies are controlled by Chuan Wei.

(2) The directors consider that sales and purchases were undertaken on commercial terms similar to those offered to/by unrelated customers/ suppliers in the ordinary course of business of the relevant companies, with the exception of credit terms to related customers for the years ended December 31, 2006, 2007 and 2008. During the years ended December 2006 and 2007, unrelated customers were generally required to make full payment upfront before delivery of products or with more favorable credit terms up to 30 days with approved credit histories and related customers were not required to pay within a fixed period of time. Since January 1, 2008, the Group has standardized the credit terms given to its customers of iron ore products to a maximum period of 30 days for all customers. For the sales of medium grade titanium products, the Group generally requires full payment prior to delivery.

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(3) The directors consider that the fees for transportation service provided by the related companies were determined based on prices similarly available to third party customers. The transportation fee mainly represents the road and railway transportation cost for the delivery of the Group's products to Weiyuan Steel, which was the Group's major customer.

(4) The directors consider that the amounts paid for the construction services and machinery purchase from the related companies were determined based on prices similarly available to third party customers. These related companies mainly provided the iron production line construction and machinery installation service.

(5) The bank loans were guaranteed by a related party free of charge and were released upon the full repayment of bank loans by the Group in 2008 (Note 23). Guarantees were given by the Group for bank loans of related companies free of charge and all existing guarantees granted to related parties had been fully released during 2008 (Note 32).

(6) The directors consider that the office rental as determined under the tenancy agreement was based on market rate for similar premises in similar locations.

(7) The items of property, plant and equipment were disposed of at their respective net book value.

(8) During the Relevant Periods, the Founders and the Group effected the following transactions with Trisonic International to rationalize the Group's structure:

(i) On September 22, 2006, the registered capital of Huili Caitong was increased to RMB178,571,450. Through the capital injection of US$18 million, Trisonic International acquired a 72% equity interest in the enlarged registered capital of Huili Caitong and became the controlling shareholder of Huili Caitong.

(ii) Pursuant to an equity interest transfer agreement dated March 6, 2008, the Company's subsidiary, Simply Rise acquired from Trisonic International its 72% equity interest in Huili Caitong at a consideration of US$18 million, with reference to the subscription cost of Huili Caitong paid by Trisonic International. After the acquisition, Huili Caitong became an indirect subsidiary of the Company.

(b) Outstanding balances with related parties:

Details of the Group's balances with its related parties at each of the statement of financial position dates together with maximum outstanding balances due from related parties during the particular year/period are disclosed in Note 21 to the Financial Information.

(c) Compensation of key management personnel of the Group:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Basic salaries and other benefits	998	1,195	2,500	409	1,294
Pension scheme contributions	38	48	89	27	79
	1,036	1,243	2,589	436	1,373

34. Significant event

Pursuant to a co-operation agreement dated August 8, 2007 (the "Original Agreement") entered into among the Group, an independent third party, Sichuan Nanjiang Mining Group Co., Ltd. ("Nanjiang") and a related party, Chuan Wei (collectively "the Parties") and a new co-operation agreement dated March 18, 2009 (the "New Agreement"):

(a) Nanjiang is required to construct new iron and titanium concentrates production lines with annual production capacity of 300 thousand tonnes (Kt) and 50 Kt, respectively (the "New Production Lines") at the ore processing plant located at Xiushuihe Mine (the "Xiushuihe Processing Plant"), and to upgrade the existing 150 Kt iron concentrates production line (the "Upgraded Production Line") at our Xiushuihe Processing Plant. The projects undertaken pursuant to the Old Agreement and the New Agreement are all constructed or to be constructed at Xiushuihe Processing Plant and are referred to as the "Nanjiang Project";

(b) the consideration of the Nanjiang Project (the "Nanjiang Project Consideration") is based on the audited amount of construction costs incurred by Nanjiang according to the final completion report as mutually agreed by the Parties. According to the final completion report as mutually agreed by the Parties, the Nanjiang Project Consideration (which is the audited construction costs incurred by Nanjiang) is RMB67,338,000;

(c) under the Original Agreement and New Agreement, the Nanjiang Project Consideration is repayable within 15 years from the completion date i.e. June 2008 of the Nanjiang Project to November 2023. The principal repayment is determined based on the following formula:

85% x {9% of the profits generated from the New Production Lines and Upgraded Production Line on sales volume within 150 Kt + 50% of the profits generated from the New Production Lines and Upgraded Production Line above sales volume of 150 Kt (collectively referred to as the "Sum of Profits")}. The Sum of Profits will first be determined by the Group and reviewed by Nanjiang and then mutually agreed upon by Nanjiang and the Group. A portion (i.e., 85%) of the Sum of Profits is recorded as the principal repayment for the Nanjiang Project Consideration. Based on the audited construction costs incurred, which was mutually agreed by the Parties in the final completion report, the Group estimates that it will pay four principal repayments in each of the four years 2009, 2010, 2011 and 2012.

Prior to the full settlement of the Nanjiang Project Consideration, 15% of the Sum of Profits will be paid to Nanjiang as a technical service fee for its technical support provided to the Group. Upon full settlement of the Nanjiang Project Consideration, the entire Sum of Profits will be paid to Nanjiang as a technical service fee until the expiry of the co-operation agreement in November 2023. The technical service fee is recognized as an expense in the consolidated statement of comprehensive income in the period in which it is incurred. During the year ended December 31, 2008 and the six months ended June 30, 2009, technical service fee payable to Nanjiang amounted to approximately RMB2,721,000 and RMB1,227,000, respectively (2006 and 2007: Nil).

According to the final completion report as mutually agreed by the Parties, the Nanjiang Project Consideration is RMB67,338,000. On initial recognition, the construction costs relating to the new and upgraded production lines aggregating RMB67,338,000 are recorded as part of property, plant and equipment, and depreciated over the estimated useful lives of the assets on the straight line basis. Based on the estimation made by the Group, the Nanjiang Project Consideration is expected to be repaid as follows:

	December 31, 2008	June 30, 2009
	RMB'000	RMB'000
Within one year	15,468	22,420
Within second and five years	51,870	44,918
	67,338	67,338

35. Financial risk management objectives and policies

The financial assets of the Group mainly include cash and bank balances, trade and notes receivables, prepayments, deposits and other receivables and amounts due from related parties, which arise directly from its operations. Financial liabilities of the Group mainly include advances from customers, other payables and accruals, trade and notes payables, amounts due to related parties, dividend payable, and interest-bearing bank loans.

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Risk management is carried out by the finance department which is led by the Group's executive directors. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units. The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, credit risk and foreign currency risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders. The board regularly reviews these risks and they are summarized below.

Liquidity risk

The Group monitors its exposure to a shortage of funds by considering the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank loans and advances from related parties.

The maturity profile of the Group's financial liabilities at each of the statement of financial position dates, based on the contractual payments, was as follows:

	December 31, 2006				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	—	—	30,000	—	30,000
Trade and notes payables	11,502	35,390	—	—	46,892
Other payables and accruals	26,414	5,527	650	459	33,050
	37,916	40,917	30,650	459	109,942

	December 31, 2007				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	—	—	30,000	—	30,000
Trade and notes payables	541	78,182	—	—	78,723
Other payables and accruals	44,596	123,491	459	—	168,546
	45,137	201,673	30,459	—	277,269

	December 31, 2008				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and notes payables	518	107,512	—	—	108,030
Other payables and accruals	92,320	47,436	—	51,870	191,626
Due to related parties	12,466	—	—	—	12,466
	105,304	154,948	—	51,870	312,122

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	June 30, 2009				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	—	—	100,000	—	100,000
Trade and notes payables	3,328	99,464	—	—	102,792
Other payables and accruals	153,429	—	8,179	44,918	206,526
Dividend payable	26,003	—	—	—	26,003
Due to related parties	13,446	—	—	—	13,446
	196,206	99,464	108,179	44,918	448,767

Interest rate risk

The Group's exposure to interest rate risk relates primary to the Group's bank deposits and interest-bearing bank loans. The interest rates and terms of repayment of interest-bearing bank loans are disclosed in Note 23. The Group manages its interest rate exposure from all of its interest-bearing loans through the use of fixed rates.

In addition, the Group does not consider that it has any significant exposure to the risk of changes in market interest rates from its bank deposits as a reasonably possible change of 25 basis points in the interest rates would have no material impact on the Group's consolidated statement of comprehensive income during the Relevant Periods.

Credit risk

During the years ended December 31, 2006 and 2007, the Group traded mainly with its related parties. The Group has a policy in place to ensure that sales are made to related parties with an appropriate credit history. The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all third party customers who wish to trade on credit terms are subject to credit verification policies. Since January 1, 2008, the Group increased its sales to recognized and creditworthy third parties customers with no requirement for collateral. In addition, receivable balances from related and unrelated customers are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The Group's cash and cash equivalents are mainly deposits with state-owned banks in the PRC. The credit risk of the Group's other financial assets, which comprise trade and notes receivables, other receivables and amount due from a related party, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group has no other financial assets which carry significant exposure to credit risk.

During the Relevant Periods, the Group has no concentration of credit risk with any single counterparty other than amounts due from Chuan Wei and Weiyuan Steel as set out in the Note 21 which arose during the ordinary course of business. In addition, the Group's exposure to credit risk is also influenced by the individual characteristics of each customer and default risk of the industry in which customers operate. During the Relevant Periods, the Group generated its revenue from the sales of iron ore products to the producers of steel and distributors that purchase the Group's products and resell them to end users, which expose the Group to the concentration of credit risk on these customers.

Foreign currency risk

The Group's businesses are located in the PRC and all transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB, except for certain payables that are denominated in Hong Kong Dollars and in US$, mainly arising from professional fees incurred relating to the [●]. The Group has not hedged its foreign exchange rate risk.

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Fair values

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The carrying amounts of the Group's financial instruments approximated to their fair values due to the short-term to maturity at each of the statement of financial position dates.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or raise new capital from its investors.

No changes were made in the objectives, policies or processes for managing financial risk during the Relevant Periods.

The Group is currently funding its capital expenditure through internal generated funds from its operations and new bank borrowings. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 20% and 50%. Net debt is defined as interest-bearing bank loans, net of cash and bank balances and it excludes liabilities incurred for working capital purposes. Capital includes equity attributable to the owners of the Company and minority interests.

As of December 31, 2008 and June 30, 2009 respectively, the Group's cash and bank balances exceeded the total interest-bearing bank loans. As such, no gearing ratio at December 31, 2008 or June 30, 2009 is presented. The Group's gearing ratios or the excess of cash and bank balances over net debt at each of the statement of financial position dates were as follows:

	December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	30,000	30,000	—	100,000
Less: Cash and bank balances	(17,599)	(11,902)	(133,138)	(149,110)
Net debt/(excess of cash and bank balances over net debt)	12,401	18,098	(133,138)	(49,110)
Capital	73,622	285,975		
Capital and net debt	86,023	304,073		
Gearing ratio	62%	50%		

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36. SUBSEQUENT EVENTS

On September 4, 2009, written shareholders’ resolutions were passed to approve matters described in the paragraph headed “Statutory and General Information — Further Information about Our Group — Resolutions of our Shareholders” attached as Appendix VII to the document.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group and the Company in respect of any period subsequent to June 30, 2009.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong