China Vanadium Titano-Magnetite Mining Company Limited
中國釩鈦磁鐵礦業有限公司
(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立的有限公司）

Stock Code 股份代號: 893

Annual Report 2009
二零零九年年報

Acquiring Great Potentials
Crafting Bright Future
兼容並蓄 豐碩未來

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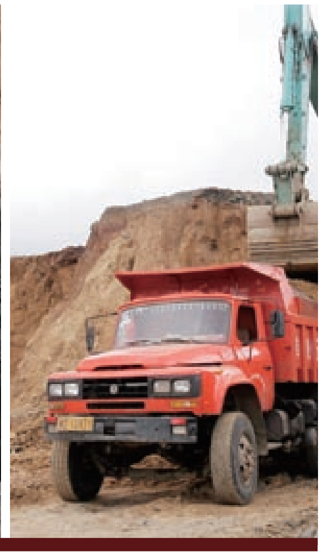

Corporate Information

DIRECTORS

Executive Directors

Mr. Jiang Zhong Ping *(Chairman)*
Mr. Liu Feng *(Chief Executive Officer)*
Mr. Wang Yun Jian *(Chief Operating Officer)*
Mr. Yu Xing Yuan *(Chief Investment Officer)*

Non-executive Directors

Mr. Wang Jin
Mr. Zhu Xiao Lin
Mr. Teo Cheng Kwee
Mr. Devlin Paul Jason

Independent Non-executive Directors

Mr. Yu Haizong
Mr. Gu Peidong
Mr. Liu Yi
Mr. Wu Wei

AUDIT COMMITTEE

Mr. Yu Haizong *(Chairman)*
Mr. Zhu Xiao Lin
Mr. Gu Peidong
Mr. Liu Yi

REMUNERATION COMMITTEE

Mr. Wang Jin *(Chairman)*
Mr. Yu Haizong
Mr. Gu Peidong
Mr. Wu Wei

COMPANY SECRETARY

Mr. Kong Chi Mo *(FCCA, ACIS, ACS)*

AUTHORISED REPRESENTATIVES

Mr. Jiang Zhong Ping
Mr. Kong Chi Mo *(FCCA, ACIS, ACS)*

AUDITORS

Ernst & Young
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

COMPLIANCE ADVISOR

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Hong Kong

REGISTERED OFFICE

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HEADQUARTERS IN THE PRC

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PRC

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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20 Pedder Street
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Butterfield House
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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LEGAL ADVISERS

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as to Cayman Islands law
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WEBSITE

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STOCK CODE

00893

SHARE INFORMATION

Board lot size: 1000

FINANCIAL CALENDAR

1 January to 31 December

Four Year Financial Summary

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last four financial years prepared on the basis set out in the note below is as follows:

Results

	Year ended 31 December			
	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,083,876**	791,163	366,670	211,103
Cost of sales	**(582,127)**	(364,122)	(187,769)	(100,130)
Gross profit	**501,749**	427,041	178,901	110,973
Other income	**40,914**	17,277	1,496	147
Selling and distribution costs	**(28,308)**	(22,444)	(86,572)	(51,261)
Administrative expenses	**(35,574)**	(33,002)	(13,108)	(7,300)
Other operating expenses	**(32,912)**	(37,000)	(3,107)	(1,334)
Finance costs	**(9,242)**	(3,048)	(1,920)	(1,792)
PROFIT BEFORE TAX	**436,627**	348,824	75,690	49,433
Income tax expense	**(69,708)**	(30,067)	(1,378)	(17,119)
Profit for the year	**366,919**	318,757	74,312	32,314
Other comprehensive income	**–**	–	–	–
Total comprehensive income for the year	**366,919**	318,757	74,312	32,314
Attributable to:				
Owners of the Company	**327,867**	248,675	53,686	23,042
Minority interests	**39,052**	70,082	20,626	9,272
	366,919	318,757	74,312	32,314
Earnings per share (RMB) – Basic	**0.20**	0.17	0.04	0.02

Four Year Financial Summary

Assets, Liabilities and Minority Interests

	31 December			
	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**840,209**	545,653	286,555	128,165
Current assets	**2,233,254**	405,652	306,325	82,833
Current liabilities	**(460,930)**	(289,976)	(301,906)	(136,917)
Non-current liabilities	**(5,707)**	(57,211)	(4,999)	(459)
Total equity	**2,606,826**	604,118	285,975	73,622
Minority interests	**(92,795)**	(64,768)	(82,992)	(23,715)
Equity attributable to owners of the Company	**2,514,031**	539,350	202,983	49,907

The financial information for each of the three years ended 31 December 2008 has been prepared upon the Reorganisation as if the group structure, at the time when the Shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The results for each of the three years ended 31 December 2008, and the assets, liabilities and minority interests as at 31 December 2006, 2007 and 2008 have been extracted from the Prospectus.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of China Vanadium Titano-Magnetite Mining Company Limited, I am pleased to present our first annual report for the year ended 31 December 2009 following the Listing. Clinging to the market uptrend, our Group experienced rapid business growth during the year. We have also made further inroads towards capacity expansion and fruitful results have been achieved.

2009 was a year marked by opportunities and breakthroughs. Our Company is the first Hong Kong listed PRC producer of iron ore and iron-ore related products, upon its Listing on the Main Board on 8 October 2009. Our IPO received an overwhelming response from international investors, with Hong Kong offering oversubscribed by about 39.6 times. The total net proceeds from the IPO and the Over-Allotment were approximately HK$1,887.3 million, laying a crucial foundation for our Company's entry into the international capital market. On balance, it was a milestone year for our Company.

The PRC economy was still under the haze of the financial crisis in 2009. Nevertheless, our Group maintained a steady growth during the year. Driven by the RMB4 trillion economic stimulus plan implemented by the PRC government, the development of the country's western region, the restructuring of post-earthquake Sichuan and the development push for the Chengdu-Chongqing Economic Zone, the supply-demand discrepancy in the PRC iron-ore market, particularly in Sichuan region, further widened during the year. The PRC's iron-ore prices gradually stabilised in 2009, with market projections that their mid to long-term development would continue to be robust.

Strong market demand has bolstered the revenue surge of our Group with a remarkable profit growth during the year. For the year of 2009, our Group achieved revenue of RMB1,083.9 million, representing an increase of 37.0% from the same period of last year. Concurrently, total comprehensive income attributable to owners of the Company amounted to RMB327.9 million for the year ended 31 December 2009, representing an increase of 31.8% as compared to the same period of last year. Our Group also recorded a net cash flows from operating activities of RMB342.1 million during the year.

Chairman's Statement

Demand continued to outpace supply in Sichuan's iron ore market. Leveraging on such a favourable market dynamics, our Group achieved satisfactory output levels in both iron concentrates and iron pellets. For the year ended 31 December 2009, our Group's total production volume of iron concentrates increased by 40.2% from 1,163.8 Kt to 1,631.3 Kt, as compared to the same period of the last year, while its total production volume of iron pellets increased by 111.4% from 325.3 Kt to 687.6 Kt, compared to the same period of the preceding year. As at 31 December 2009, the total proved and probable reserves of vanadium-bearing titano-magnetite in our Group's Baicao Mine and Xiushuihe Mine were approximately 75.1 Mt. During the year, our Group obtained an exploration permit for the area west of Xiushuihe Mine, with an exploration area of 1.7 sq.km. It is expected after the completion of exploration, the newly added vanadium-bearing titano-magnetite resources reach a level of 78.2 Mt. Furthermore, we obtained options for the acquisition of 5 iron-ore mines, bearing 126.2 Mt of resources in total. Upon extension of the related scope of mining right and completion of acquisitions, our Group's leading position in the market will be further bolstered.

Furthermore, our Group entered into a definitive agreement on 16 January 2010 to obtain the mining right of Yangqueqing Iron Mine upon completion of the relevant approval procedures. On 3 February 2010, our Group has also entered into an assets transfer agreement to acquire the exploration right of the Cizhuqing Mine together with the Huili Hailong production facility at Xiaoheiqing Town, Huili County, Sichuan, the PRC, as well as an assets lease agreement to rent the leased assets at an iron concentrates and high-grade titanium concentrates production facility at Heigutianshe, Xinjiu Town, Yanbian County, Sichuan for approximately 6 months from 3 February 2010 to 31 July 2010 and the Group has the option to acquire the leased assets during the term of the assets lease agreement. The transaction signals that our Group is moving towards its goal of active acquisitions.

Backed by our distinctive and premium-quality iron ore resources, we will relish challenges and take major strides forward in a determination to become a leader of the iron-ore mining industry. Looking ahead, our Company is set to optimise its leading position within the industry and realise its vigorous and clearly-defined strategic objectives, actively and systematically. Firstly, we have imminent plans to increase our iron-ore resources, through expanding the boundaries of our current mining operations and actively pursuing merger and acquisition opportunities targeting other mines. Secondly, we will further upgrade our production infrastructure and capitalise on the economies of scale through constructing or acquiring production lines of iron concentrates and high-grade titanium concentrates. As at 3 February 2010, the Group's self-produced annual production capacity of iron concentrates has reached 1,500.0 Kt and it is expected that at the end of 2010, our self-produced annual production capacity of high-grade titanium concentrates will reach 210.0 Kt. Thirdly, we will seize every opportunity to extend our reach into the related downstream titanium markets, improve our Group's product structure and derive additional value. Our Company will chart the course of its future developments, based primarily on expanding its mining production outputs and carrying out mergers and acquisitions, which, combined with the industry's optimistic outlook, will sustain the momentum of its future growth.

The many accomplishments we achieved in 2009 were the direct result of the combined efforts of our entire staff. On this, I wish to sincerely thank my fellow colleagues for their dedication, as well as our Shareholders and business partners for their continued support throughout the year. Capitalising on the favourable industry dynamics, our Company is positioned on its low-cost and high-efficiency competitive edge to explore the potential value of the distinctive vanadium-bearing titano-magnetite resources. We are committed to bringing solid financial returns to all our stakeholders.

By order of the Board
China Vanadium Titano-Magnetite Mining Company Limited
Jiang Zhong Ping
Chairman

Hong Kong, 22 February 2010

Management Discussion and Analysis

Favourable

Industry Dynamics

Significant and Visible Future Growth



The Group is the second largest operator and the largest non-state owned operator of iron ore mines in Sichuan in terms of actual output volume of iron ore in 2009, according to the Sichuan Metallurgy Economic Association (四川省冶金經濟協會).

Listed on the Main Board on 8 October 2009, the Company is the first Hong Kong listed PRC producer focused primarily on iron ore and iron-ore related products. The Group is primarily engaged in mining, ore processing, iron pelletising and the sale of iron concentrates, iron pellets and titanium concentrates to steel producers and downstream users of titanium-related products.

Management Discussion and Analysis

The Group owns and operates two vanadium-bearing titano-magnetite mines – the Baicao Mine and the Xiushuihe Mine, both of which are located in Panxi Region, a region with the most abundant vanadium-bearing titano-magnetite resources in the PRC.

MARKET REVIEW

In 2008, the PRC government announced a RMB4 trillion economic stimulus package. This resulted in an astonishing economic growth in 2009. Given this market surge, together with the post-earthquake construction and Chengdu-Chongqing Economic Zone development, all of these have stimulated strong demand of steel in Sichuan during the year and thus boosting that of iron ore.

Nevertheless, local iron ore output has been insufficient to meet the rising trend. This implies that the acute iron ore demand in the PRC has remained reliant on imported ore. Therefore, not surprisingly imports of iron ore in the PRC attained record heights in 2009, hitting approximately 627.8 Mt and up by more than 41.6% as compared to the previous year according to the General Administration of Customs of the PRC (中國海關總署). With the broadening gap between supply and demand in the PRC's iron ore market, the PRC apparently became the largest global net importer of the product regardless of the adverse effects of the global economic crunch.

Iron ore price in the PRC has stabilised since the second quarter of 2009. It is believed that the iron ore price in the PRC will stay strong in the mid to long-term.

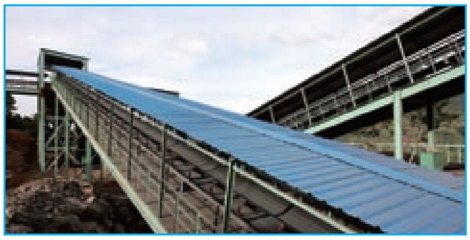
BUSINESS REVIEW

OPERATIONS

The following table summarised the breakdown of the total production volume and total sales volume of the Group's three core products:

	Year ended 31 December 2009 Kt	2008 Kt
Iron concentrates		
Baicao Processing Plant	**479.1**	342.7
Xiushuihe Processing Plant	**531.4**	360.3
First Independent Third Party Processing Contractor's plant	**617.2**	460.8
Second Independent Third Party Processing Contractor's plant	**3.6**	–
Total production volume	**1,631.3**	1,163.8
Total sales volume	**949.9**	796.9
Iron pellets		
Iron Pelletising Plant	**201.5**	312.5
First Independent Third Party Pelletising Contractor's plant	**255.5**	12.8
Second Independent Third Party Pelletising Contractor's plant	**230.6**	–
Total production volume	**687.6**	325.3
Total sales volume	**693.3**	305.4
Medium-grade titanium concentrates		
Baicao Processing Plant	**52.9**	70.0
Xiushuihe Processing Plant	**9.8**	16.8
First Independent Third Party Processing Contractor's plant	**89.7**	80.8
Total production volume	**152.4**	167.6
Total sales volume	**167.3**	216.7

Management Discussion and Analysis



Iron Concentrates

The total production volume of iron concentrates (which included the production volume produced by the independent third party processing contractors) increased from approximately 1,163.8 Kt in 2008 to approximately 1,631.3 Kt in 2009, representing an increase of 40.2%. The sales volume of iron concentrates increased from approximately 796.9 Kt in 2008 to approximately 949.9 Kt in 2009, representing an increase of 19.2%.

Iron Pellets

The total production volume of iron pellets (which included the production volume produced by the independent third party pelletising contractors) increased from approximately 325.3 Kt in 2008 to approximately 687.6 Kt in 2009, representing an increase of 111.4%. The sales volume of iron pellets increased from approximately 305.4 Kt in 2008 to approximately 693.3 Kt in 2009, representing an increase of 127.0%.

Medium-grade Titanium Concentrates

The total production volume of medium-grade titanium concentrates (which included the production volume produced by the independent third party processing contractors) decreased from approximately 167.6 Kt in 2008 to approximately 152.4 Kt in 2009, representing a decrease of 9.1%. The sales volume of medium-grade titanium concentrates decreased from approximately 216.7 Kt in 2008 to approximately 167.3 Kt in 2009, representing a decrease of 22.8%.

PRODUCTION FACILITIES EXPANSION

Iron Ore Products

For the iron ore products, the Group has increased the iron concentrates production capacity from 1,550.0 Kt as at 31 December 2008 to 1,900.0 Kt as at 31 December 2009 (including the 550.0 Kt and 700.0 Kt production capacity allocated to the Group by the independent third party processing contractors in 2008 and 2009, respectively) and iron pellets production capacity from 380.0 Kt as at 31 December 2008 to 760.0 Kt as at 31 December 2009 (including the 20.0 Kt and 400.0 Kt production capacity allocated to the Group by the independent third party pelletising contractors in 2008 and 2009, respectively).

Titanium Concentrates Products

The total production capacity of medium-grade and high-grade titanium concentrates were 240.0 Kt and 60.0 Kt, respectively as at 31 December 2009.

During the year, the Group has completed the main part of a new high-grade titanium concentrates production line in Baicao Processing Plant with a planned annual production capacity of 60.0 Kt. The new high-grade titanium concentrates production line was planned to commence production in early 2010.

Furthermore, the Group has commenced a new high-grade titanium concentrates production line with a planned annual production capacity of 50.0 Kt in Xiushuihe Processing Plant. The Group has planned to complete construction and commence the trial production by the end of 2010.

MINERALS EXPLORATION

Expansion of the Existing Boundaries of Xiushuihe Mine

In relation to the Group's strategy to extend the current mining right to adjacent mining areas, the Group obtained a two-year exploration permit in July 2009 to conduct exploration activities in the adjacent areas to the west of the current Xiushuihe mining right area. The exploration permit covers the entire 1.7 sq.km. of the Xiushuihe deposit and includes an area of 1.2 sq.km. previously unexplored by the Group. Excluding the resources covered by the current Xiushuihe mining right, the approximately 1.2 sq.km. area previously unexplored by the Group is estimated to contain total iron ore resources of approximately 78.2 Mt, including 51.8 Mt of higher-grade resource and 26.4 Mt of lower-grade resource.

Option Agreements in respect of Five Iron Ore Mines in Sichuan and Yunnan

During the year, the Group has entered into option agreements with the respective owners of five iron ore mines that allow the Group, within a specific time period and at the Group's sole discretion, to purchase the mining rights and related assets of the mines on terms to be negotiated. Together, the five mines are estimated to have total iron ore resources of approximately 126.2 Mt.

EVENTS AFTER THE REPORTING PERIOD

Termination Agreement

On 15 January 2010, Xiushuihe Mining and Nanjiang executed the termination agreement, pursuant to which the parties agreed to amend and terminate certain provisions under the new agreement dated 18 March 2009 (the "New Agreement"). The New Agreement related to the construction and upgrade of iron and titanium concentrates production lines at the Xiushuihe Processing Plant. The reason for the amendment is to reduce the amount of technical support service fee payable to Nanjiang under the New Agreement. Please refer to the Company's announcement dated 18 January 2010 for further details.

Assets Transfer Agreement for the Acquisition of Yangqueqing Iron Mine

On 16 January 2010, the Group has successfully entered into a definitive agreement to acquire the mining right of Yangqueqing Iron Mine at a consideration of RMB200.0 million, under which there is currently 17.92 Mt of iron ore resources. In addition, the transaction provides Huili Caitong with the opportunity to expand the current permitted mining area and to explore at a low cost the neighboring iron ore resources, which is estimated to be up to 81.60 Mt. This would significantly increase the iron ore resources of the Group, facilitate the expansion of the Group in respect of its iron mining area in the Huili County region and further improve the profitability and competitiveness of the Group. Please refer to the Company's announcement dated 18 January 2010 for further details.

Assets Lease Agreement with Option to Acquire the Leased Assets

On 3 February 2010, the Group has entered into an assets lease agreement with the First Independent Third Party Processing Contractor to rent an iron concentrates and high-grade titanium concentrates production line and other assets related to the production line for a term of approximately 6 months commencing from 3 February 2010 to 31 July 2010. During the term of the assets lease agreement, the Group has the option to acquire the leased assets which is subject to the results of due diligence against the leased assets. The lease agreement with option to acquire the leased assets will immediately increase the annual production capacity of iron concentrates and high-grade titanium concentrates of the Group, and upon the exercise of the option, the Group would internalise the increase in production capacities and integrate the leased assets in the Group's production facilities, which in turn will yield greater production output and increase revenue of the Group. Please refer to the Company's announcement dated 4 February 2010 for further details.

Assets Transfer Agreement for the Acquisition of the Cizhuqing Mine Exploration Right and Certain Assets Relating to the Huili Hailong Production Facility

On 3 February 2010, the Group has entered into an assets transfer agreement in which the Group has agreed to acquire, and Huili Hailong has agreed to transfer, at a consideration of RMB310.0 million, the exploration right of the Cizhuqing Mine and certain assets at an iron concentrates production facility located at Xiaoheiqing Town, Huili County, Sichuan, the PRC. The Cizhuqing Mine exploration right covers an exploration area of 2.30 sq.km. and the Cizhuqing Mine has an estimated resource of 25.57 Mt. The iron concentrates production line at the Huili Hailong production facility has an annual production capacity of 300.0 Kt for iron concentrates. This acquisition would increase resources and production capacity of the Group, facilitate the expansion of the Group in respect of its iron mining area in the Huili County region in Sichuan and further improve the profitability of the Group. Please refer to the Company's announcement dated 4 February 2010 for further details.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2009, the Group's revenue was approximately RMB1,083.9 million (2008: RMB791.2 million), representing an increase of 37.0% as compared to the previous year. Such increase was primarily attributable to the increase in sales volume of iron ore products given to the rising demand for steel and iron products stimulated by rapid infrastructural development in Sichuan.

Cost of Sales

For the year ended 31 December 2009, the Group's cost of sales was approximately RMB582.1 million (2008: RMB364.1 million), representing an increase of 59.9% as compared to the previous year. Such increase was primarily attributable to the increase in sales volume and the increase in average cost of raw iron ore used and the repair and maintenance fee for production plants.

Gross Profit and Margin

As a result of the foregoing, the gross profit for the year ended 31 December 2009 increased by 17.5%, from approximately RMB427.0 million to approximately RMB501.7 million. The gross profit margin decreased from 54.0% for the year ended 31 December 2008 to 46.3% for the year ended 31 December 2009. The decrease in gross profit margin was primarily due to the decrease in average selling prices of iron ore products coupled with the increase in average unit costs.

Other Income

The other income increased by 136.4%, from approximately RMB17.3 million for the year ended 31 December 2008 to approximately RMB40.9 million for the year ended 31 December 2009. The other income of the Group mainly included income from sales of raw materials and government grants received from the local government of Huili County.

Selling and Distribution Costs

The selling and distribution costs increased by 26.3%, from approximately RMB22.4 million for the year ended 31 December 2008 to approximately RMB28.3 million for the year ended 31 December 2009 and the increase was in line with the increase in sales volume during the year. Transportation fees mainly represented the road transportation cost, the goods loading and unloading fee, platform storage and platform administration fee.

Administrative Expenses

The administrative expenses increased by 7.9%, from approximately RMB33.0 million for the year ended 31 December 2008 to approximately RMB35.6 million for the year ended 31 December 2009, mainly due to the business expansion of the Group.

Other Operating Expenses

The other operating expenses decreased by 11.1%, from approximately RMB37.0 million for the year ended 31 December 2008 to approximately RMB32.9 million for the year ended 31 December 2009. The other operating expenses mainly included cost of raw materials sold and listing fees.

Finance Costs

The finance costs increased by 206.7%, from approximately RMB3.0 million for the year ended 31 December 2008 to approximately RMB9.2 million for the year ended 31 December 2009, primarily due to the increase in average bank loan balance and discounted bills.

Income Tax Expense

The income tax expense increased by 131.6%, from approximately RMB30.1 million for the year ended 31 December 2008 to approximately RMB69.7 million for the year ended 31 December 2009, primarily due to the increase in profit before tax as a result of the Group's production capacities expansion during the year, and the increase in effective income tax rate for the Group during the year as compared to the previous year.

Total Comprehensive Income for the Year

As a result of the foregoing, the total comprehensive income for the year increased by 15.1%, from approximately RMB318.8 million for the year ended 31 December 2008 to approximately RMB366.9 million for the year ended 31 December 2009. The net profit margin decreased from 40.3% for the year ended 31 December 2008 to 33.8% for the year ended 31 December 2009.

Total Comprehensive Income Attributable to Owners of the Company

The total comprehensive income attributable to owners of the Company increased by 31.8%, from approximately RMB248.7 million for the year ended 31 December 2008 to approximately RMB327.9 million for the year ended 31 December 2009.

Final Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2009.

LIQUIDITY AND CAPITAL RESOURCES

The following table sets out certain information regarding the Group's consolidated statement of cash flows for the years ended 31 December 2008 and 2009:

	Year ended 31 December	
	2009	2008
	RMB'000	RMB'000
Net cash flows from operating activities	**342,061**	423,033
Net cash flows used in investing activities	**(327,746)**	(267,063)
Net cash flows from/(used in) financing activities	**1,737,484**	(30,458)
Net increase in cash and cash equivalents	**1,751,799**	125,512

Net Cash Flows from Operating Activities

The Group's net cash flows from operating activities decreased by 19.1%, from approximately RMB423.0 million for the year ended 31 December 2008 to approximately RMB342.1 million for the year ended 31 December 2009. In 2009, it primarily included profit before tax of RMB436.6 million, and increase in other payables & accruals of RMB38.0 million that partially offset by increase in inventories and trade and other receivables due to the business expansion.

Net Cash Flows used in Investing Activities

The Group's net cash flows used in investing activities increased by 22.7%, from approximately RMB267.1 million for the year ended 31 December 2008 to approximately RMB327.7 million for the year ended 31 December 2009. In 2009, it primarily included the purchase of items of property, plant and equipment of RMB238.7 million, an increase in prepaid land lease payments of RMB37.7 million and the purchase of intangible assets of RMB51.4 million.

Net Cash Flows from/(used in) Financing Activities

The Group's net cash flows used in financing activities for the year ended 31 December 2008 was approximately RMB30.5 million and the net cash flows from financing activities for the year ended 31 December 2009 was approximately RMB1,737.5 million. In 2009, it primarily included the net proceeds from the IPO and the Over-Allotment of RMB1,661.7 million and the proceeds from bank borrowings of RMB100.0 million that partially offset by the dividend payment.

Analysis of inventories

The Group's inventories increased by 8.1%, from approximately RMB65.6 million as at 31 December 2008 to approximately RMB70.9 million as at 31 December 2009, primarily due to the increase in production volume.

Analysis of trade and note receivables

The Group's trade and note receivables increased by 56.8%, from approximately RMB87.6 million as at 31 December 2008 to approximately RMB137.4 million as at 31 December 2009, primarily due to the increase in sales in December 2009 as compared to December 2008 in accordance with the Group's standardised credit terms of 30 days given to the customers.

Analysis of trade and other payables

There was no significant change in trade and other payables as at 31 December 2009 as compared to the balance as at 31 December 2008.

Analysis of net current assets position

The Group's net current assets position increased by 1,431.8%, from approximately RMB115.7 million as at 31 December 2008 to approximately RMB1,772.3 million as at 31 December 2009, primarily due to the net proceeds of RMB1,661.7 million from the IPO and the Over-Allotment.

Borrowings

As at 31 December 2009, an unsecured interest-bearing bank loan from China Construction Bank (the "Lender") with maturity within three months amounted to RMB100.0 million, which was obtained by Huili Caitong in March 2009 and with an annual interest rate of 5.31%. 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 parties, and the Lender will be entitled to pre-emption right in the event of such mortgage or pledge. The Group has no borrowings as at 31 December 2008.

Contingent liabilities

As at 31 December 2009, the Group did not have any material contingent liabilities or guarantees.

Pledge of Assets

As at 31 December 2009, the Group did not have any pledge or charge on assets.

Foreign Currency Risk

The Group's businesses are located in the PRC and its operating transactions are conducted in Renminbi. Most of its assets and liabilities are denominated in Renminbi, except for net proceeds and certain payables to professional parties that are denominated in Hong Kong dollars and US dollars that arise from the Listing.

Since the Renminbi is not freely convertible, there is a risk that the PRC government may take actions affecting exchange rates which may have a material adverse effect on its net assets, earnings and any dividends it declare if such dividends are to be exchanged or converted into foreign exchange. Moreover, the Group has not hedged its foreign exchange rate risk.

Interest Rate Risk

The Group's income and operating cash flow are not substantially affected by changes in market interest rates. We have no significant interest-bearing assets, except for cash and cash equivalents, nor any interest-bearing liabilities. We have not used any interest rate swaps to hedge against interest rate risk.

Contractual Obligations

As at 31 December 2009, the Group's contractual obligations amounted to approximately RMB342.8 million, and increased by RMB334.9 million as compared to approximately RMB7.9 million as at 31 December 2008, which was primarily due to the various construction contracts entered for the Group's production facilities expansion in 2009.

Capital Expenditure

The Group's total capital expenditure decreased by 29.0% from approximately RMB257.5 million in 2008 to approximately RMB182.7 million in 2009. The capital expenditure in 2009 was primarily consisted of (a) the construction of a new iron concentrates and high-grade titanium concentrates production line in Baicao Processing Plant amounting to approximately RMB99.4 million; (b) the construction of reservoir amounting to approximately RMB33.0 million; (c) the construction projects related to tailing pool amounting to approximately RMB13.4 million; (d) the construction of two titanium slag production lines in Baicao Processing Plant amounting to approximately RMB2.7 million; (e) the construction of mine road, purchase of production equipment and mining infrastructure in Baicao Processing Plant amounting to approximately RMB16.8 million and (f) approximately RMB10.0 million of exploration cost incurred for expansion of mining boundaries in Xiushuihe Mining in 2009.

Financial Instruments

The Group did not have any hedging contracts or financial derivatives outstanding for the years ended 31 December 2008 and 2009.

Gearing Ratio

The Group's gearing ratio is net debt divided by total equity plus net debt. Net debt is defined as interest-bearing bank loans, net of cash and bank balance and it excludes liabilities incurred for working capital purpose. Equity includes equity attributable to the owners of the Company and minority interests.

As at 31 December 2009, the Group's cash and cash equivalents exceeded the interest-bearing bank loan. As such, the Group was at a net cash position and no gearing ratio as at 31 December 2009.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the year, the Group did not have any significant investments or acquisitions or disposal of subsidiaries.

USE OF NET PROCEEDS FROM THE IPO AND THE OVER-ALLOTMENT

The Shares of the Company were listed on the Main Board on 8 October 2009 with net proceeds from the IPO of approximately HK$1,634.0 million (RMB1,438.7 million) after deducting underwriting commissions and all related expenses. In addition, the net proceeds received by the Company from the Over-Allotment on 27 October 2009 was approximately HK$253.3 million (approximately RMB223.0 million). The total net proceeds from the IPO and the Over-Allotment were approximately HK$1,887.3 (approximately RMB1,661.7 million).

Use of proceeds	**Net proceeds from the IPO and the Over-Allotment**	
	Available to utilise RMB million	Utilised (up to 31 December 2009) RMB million
Acquisition or consolidation of other mines and expansion of the existing mining boundaries	**1,230.1**	10.0
Construction of titanium slag production lines	**115.1**	34.7
Construction of 300.0 Kt iron concentrates production line at Xiushuihe Processing Plant	**143.9**	52.2
Upgrade of medium-grade titanium concentrates production lines	**57.5**	8.7
Working capital	**115.1**	74.5
Total	**1,661.7**	180.1

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2009, the Group had a total of 1,012 dedicated full time employees (31 December 2008: 926 employees), including 55 management and administrative staff, 930 production staff and 27 operation supporting staff. For the year ended 31 December 2009, the staff cost (including directors' remuneration in the form of salaries and other benefits) was approximately RMB25.9 million (2008: RMB19.1 million). Details are set out in note 6 to financial statements.

In line with the Group and individual performance, a competitive remuneration package is offered to retain elite employees including salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC. The Group has also adopted a share option scheme for its employees, providing incentives and rewards to eligible participants with reference to their contribution. For details, please refer to the Directors' Report.

STRATEGIES AND PLANS

Given the enormous iron ore market in Sichuan and China driven by the robust demand, the Group will maintain a dynamic approach towards the market growth in the coming year. The PRC's RMB4 trillion economic stimulus package has facilitated an increase in infrastructure, which in turn has supported the rising demand of the Group's products. With this in mind, the iron ore industry in the PRC is expected to record mighty growth with stabilising price in 2010.

Supported by the extensive reserves and enhancing production scale, together with the favourable industry dynamics, the Group poised to achieve excellence while remaining in an enviable position in the PRC's iron ore industry capitalising on the following three core strategies:

Expansion of mineral resources

The Group plans to expand the mineral reserves through the acquisition of other mining sites and the expansion of the boundaries of our current mining concessions. The Group has already obtained a two-year exploration permit to conduct exploration activities in the adjacent areas to the west of the current Xiushuihe mining right area and the mining permit is expected to be obtained in mid 2011 after the completion of exploration activities. Furthermore, the Group has also entered into option agreements with the respective owners of five iron ore mines that allow the Group, within a specific time period and at the Group's sole discretion, to purchase the mining rights and related assets of the mines on terms to be negotiated.

Expansion of processing facilities

The Group intends to upgrade the existing medium-grade titanium concentrates production lines in Xiushuihe Processing Plant and Baicao Processing Plant to two high-grade titanium concentrates production lines with a planned annual production capacity of 50.0 Kt and 40.0 Kt, respectively and expect to complete the upgrade by the end of 2010.

Construction of new processing facilities

The Group intends to complete construction of a new iron concentrates production line with a planned annual production capacity of 300.0 Kt and a new high-grade titanium concentrates production line with a planned annual capacity of 60.0 Kt in Xiushuihe Processing Plant by July 2010. Furthermore, the Group has intended to capitalise on the cost benefits associated with the high titanium content of the ore by expanding the business into the production of downstream products such as titanium slag. Two new titanium slag production lines with a planned annual aggregate production capacity of 120.0 Kt are intended to construct in Luchang Vanadium Titanomagnetite Industrial Park in early 2010.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Jiang Zhong Ping (蔣中平)

Mr. Jiang, aged 43, is an executive Director and the chairman of the Company. Mr. Jiang is primarily responsible for the overall management and strategic planning and business development of the Group. Mr. Jiang joined the Group in March 2008 as a director of Huili Caitong. Mr. Jiang has over 19 years of experience in production and quality control in the steel industry. Mr. Jiang was a technician, head of quality control department and the chief manager of the audit department of Chuan Wei from August 1989 to April 2008. Mr. Jiang graduated from Chongqing Steel and Iron College (重慶鋼鐵專科學校) in Chongqing in July 1989 with a college degree in iron and steel rolling.

Mr. Liu Feng (劉峰)

Mr. Liu, aged 41, is an executive Director and the chief executive officer of the Company. Mr. Liu is primarily responsible for the management of daily operations and development of the operations of the Group. Mr. Liu joined the Group in December 2004 as the vice general manager of Huili Caitong. Mr. Liu has over 20 years of experience in civil engineering, quality control and technology applications in the steel industry. Mr. Liu was a technician, deputy head of civil engineering department, and deputy general managers of a number of subsidiaries of Chuan Wei from August 1988 to October 2005. Mr. Liu is responsible for the management of the Baicao Mine and the Baicao Processing Plant. Mr. Liu graduated from Chongqing Architecture University (重慶建築大學) in Chongqing in December 1996 with a college degree in construction engineering.

Mr. Wang Yun Jian (王運建)

Mr. Wang, aged 42, is an executive Director and the chief operating officer of the Company. Mr. Wang is primarily responsible for the daily operations of the Group. Mr. Wang joined the Group in May 2005 as a director of Huili Caitong. Mr. Wang has 19 years of experience in steel production, technology applications and operations management in the steel industry. Mr. Wang was a technician, technical chief, deputy general manager and the financial chief of Chuan Wei from October 1998 to November 2005. Mr. Wang graduated from Chongqing Steel and Iron College (重慶鋼鐵專科學校) in Chongqing in July 1989 with a college degree in steel rolling.

Mr. Yu Xing Yuan (余興元)

Mr. Yu, aged 40, is an executive Director and the chief investment officer of the Company. Mr. Yu is primarily responsible for the business development of the Group. Mr. Yu joined the Group in October 2004 as a director of Huili Caitong. Mr. Yu has 15 years of experience in steel production, technology applications and operations management in the steel industry. Mr. Yu was a technician, technical chief and the head of technical development department of Chuan Wei from August 1992 to September 2003. Mr. Yu graduated from Northeast Industrial Institute (東北工學院) in Shenyang, Liaoning in July 1992 with a bachelor's degree in mining engineering. Mr. Yu received a master's degree from Chongqing University (重慶大學) in Chongqing in December 2004 in metallurgy engineering.

Profile of Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Wang Jin (王勁)

Mr. Wang, aged 47, is a non-executive Director of the Company. Mr. Wang is the chairman and chief executive officer of Chuan Wei. Mr. Wang joined the Group in April 2008 as a Director of the Company. Mr. Wang obtained the qualification of senior economist (高級經濟師) from Sichuan Province Professional Title Reform Leading Group (四川省職稱改革領導小組), a PRC governmental authority in April 2000. Mr. Wang has accumulated over 20 years of experience in steel production, raw material procurement and operations management in the steel industry. Mr. Wang joined Chuan Wei in September 1987 and was promoted to the chairman of Chuan Wei in May 1998. Mr. Wang has been a director of the Atlantic China Welding Consumables, INC. (四川大西洋焊接材料股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600558), since September 1999. Mr. Wang graduated from Chongqing University (重慶大學) in Chongqing in July 1987 with a bachelor's degree in viscous pressure. Mr. Wang received a master's degree in industrial engineering from Chongqing University (重慶大學) in Chongqing in December 2002. He served as a deputy to the 10th National People's Congress (第十屆全國人大代表) from March 2003 to March 2008 and he is currently serving as a deputy to the 11th National People Congress (第十一屆全國人大代表). He is also currently the director of the China Confederation of the Iron and Steel Industry (中國鋼鐵工業聯合會常務理事), the vice-chairman of the Sichuan Chamber of Commerce (四川省商會副會長), and the vice-chairman of the Sichuan Enterprise Confederation and Sichuan Entrepreneur Association (四川省企業聯合會暨企業家協會副會長).

Mr. Zhu Xiao Lin (朱曉林)

Mr. Zhu, aged 37, is a non-executive Director of the Company. Mr. Zhu joined Chuan Wei in October 2004 and is currently the chief investment officer of Chuan Wei. Mr. Zhu joined the Group in April 2008 as a Director of the Company and has over 13 years of experience in accounting and enterprise management in various industries. Mr. Zhu obtained the qualified accountant certificate from Ministry of Finance (財政部) in December 1997. Mr. Zhu was an accountant and manager of Leshan-Phoenix Semiconductor Co., Ltd. and was the chief financial officer and chief investment officer of Xinde Telecom International Venture from August 1995 to March 1997 and from March 1997 to March 2002, respectively. Mr. Zhu was the chief financial officer of New Hope Group from March 2002 to December 2004. Mr. Zhu graduated from Southwestern University of Finance and Economics (西南財經大學) in Chengdu, Sichuan in July 1995 with a bachelor's degree in accounting.

Mr. Teo Cheng Kwee (張青貴)

Mr. Teo, aged 57, is a non-executive Director of the Company. He joined the Group in July 2008 as a Director of the Company. Mr. Teo has over 30 years of experience in the building and construction industry. Mr. Teo is the chief executive officer and founder of Sapphire Corporation Limited, a company listed on the Singapore Exchange Limited (Ticker symbol: 589.SI). He was appointed to the board of Sapphire Corporation Limited since 26 November 1985. Mr. Teo graduated from Thomson Secondary School (德新中學) in Singapore in 1971.

Mr. Devlin Paul Jason

Mr. Devlin, aged 40, is a non-executive Director of the Company. He was appointed by Green Globe Investments Limited as a Director of the Company since July 2008. Mr. Devlin has experience in the investment finance field. He was the first vice-president, head of Central bank Sales of Asia Painewebber International (Singapore) Pte. Ltd., an investment firm. Mr. Devlin has been the managing director of Sky Mountain Capital Management Limited, a private equity management firm since 20 September 2007. Mr. Devlin has been a full member of the Institute of Directors in London since September 2008. Mr. Devlin graduated from Victoria University in Manchester, UK in 1992 with a bachelor of arts in economic and social studies and the University of Chicago Graduate School of Business in Chicago, USA with a Master of Business Administration degree in 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yu Haizong (余海宗)

Mr. Yu, aged 45, is an independent non-executive Director of the Company since 4 September 2009. Mr. Yu was a chartered public accountant in Sichuan Tongde Certified Accountants Firm (四川同德會計師事務所) (formerly known as Chengdu Xinda Certified Accountants Firm (成都信達會計師事務所)) from 1994 to 2000. Mr. Yu was a chartered public accountant (non-practicing) in the PRC, a member of the Chartered Public Accountant Further Education Committee of Sichuan Association of Chartered Public Accountants (四川省註冊會計師協會CPA後續教育委員會), a member of the expert panels of Bureau of Land and Resources of Sichuan (四川省國土資源廳) and Science and Technology Bureau of Sichuan (四川省科學技術廳). Mr. Yu is a professor, master and doctoral supervisor of the Accounting Faculty of Southwestern University of Finance and Economics (西南財經大學) in Chengdu, Sichuan. Mr. Yu is also the dean of the Modern Accounting Research Institute at Southwestern University of Finance and Economics (西南財經大學現代會計研究所) in Chengdu, Sichuan. Mr. Yu worked in the finance department of Weiyuan Steel Factory (威遠鋼鐵廠) from July 1988 to August 1990. Mr. Yu served as an independent non-executive director of Xinan Huaji Company Limited (西南化機股份有限公司), a company listed on the Shenzhen Stock Exchange from 1998 to 2000 and he has been serving as an independent non-executive director of Jinyu Checheng Company Limited (金宇車城股份有限公司) ("Jinyu Checheng"), a company listed on the Shenzhen Stock Exchange since May 2004. He is currently a member of audit committee and remuneration committee of Jinyu Checheng. As a member of the audit committee of Jinyu Checheng, Mr. Yu's duties include reviewing the internal control system and reviewing and analyzing financial statements of the company. Currently, Mr. Yu is also an independent non-executive director of Chengdu Tianxing Instruments (Group) Co., Ltd. (成都天興儀表股份有限公司), a company listed on the Shenzhen Stock Exchange. Mr. Yu received a bachelor's degree from Southwestern University of Finance and Economics (西南財經大學) in Chengdu, Sichuan in accounting in July 1988, a master's degree in economics (accounting) in December 1992 and a doctoral degree in management (accounting) in March 2002. Through his professional qualification as a chartered public accountant, his education background in accounting and his previous experience as an independent non-executive director of public companies, he meets the criteria for accounting and related financial management expertise as required by Rule 3.10(2) of the Listing Rules. The Directors are of the view that Mr. Yu's experience with internal controls and reviewing and analyzing audited financial statements of a public company gained while serving as a member of audit committee of Jinyu Checheng enables him to meet the requirements under Rule 3.10(2) of the Listing Rules.

Mr. Gu Peidong (顧培東)

Mr. Gu, aged 53, is an independent non-executive Director of the Company since 4 September 2009. Mr. Gu was a PRC qualified lawyer. Mr. Gu was a commissioner of the Lawyer Notarisation Expert Advisory Committee of the PRC Ministry of Justice (司法部律師公証專家諮詢委員會), an adviser to the Science and Technology Advisory Group of Sichuan (四川省科技顧問團), a commissioner of the Expert Advisory Committee of the People's Procuratorate of Sichuan (中國國際貿易仲裁委員會) and an arbitrator of the China International Economic and Trade Arbitration Commission. Mr. Gu was a teacher in Southwest University of Political Science and Law (西南政法大學) in Chongqing from 1984 to 1987. Mr. Gu was a director of the Graduate School of Development and Reform of the Sichuan Systems Reform Commission (四川省發展與改革研究所) from 1987 to 1995 and a secretary general of the Sichuan Systems Reform Commission (四川省發展與改革委員會). In 1995, Mr. Gu established his own law firm Sichuan Zhongwei Law Firm (四川中維律師事務所). Mr. Gu was a professor and doctoral supervisor at Southwest University of Political Science and Law (西南政法大學) in Chongqing in 2003 and is currently a professor and doctoral supervisor at Sichuan University (四川大學). Mr. Gu received a bachelor's degree in civil litigation law from Southwest University of Political Science and Law (西南政法大學) in Chongqing in December 1981 and a master's degree in law in January 1985.

Profile of Directors and Senior Management

Mr. Liu Yi (劉毅)

Mr. Liu, aged 47, is an independent non-executive Director of the Company since 4 September 2009. Mr. Liu has been working at Sichuan Metallurgical Design and Research Institute (四川省冶金設計研究院) since July 1987, engaging in project consulting, beneficiation process and tile design, feasibility study and engineering design work and specialising in mineral processing engineering. His past experiences in mining design projects include constructing iron concentrates production lines of various capacities, and mining operations planning for vanadium-bearing titano-magnetite mines. He is currently the director and chief project designer of the mining office of Sichuan Metallurgical Design and Research Institute (四川省冶金設計研究院). Mr. Liu studied at the faculty of mining resource engineering of Xi'an Metallurgy and Architecture College (西安冶金建築學院) in Xi'an, Shanxi and received a bachelor's degree in engineering from Xi'an Metallurgy and Architecture College (西安冶金建築學院) in Xi'an, Shanxi in 1987.

Mr. Wu Wei (吳瑋)

Mr. Wu, aged 49, is an independent non-executive Director of the Company since 4 September 2009. Mr. Wu has been working at various positions within the Panzhihua Iron & Steel (Group) Company (攀枝花鋼鐵(集團)公司) between 1982 and 2007. He has over 20 years' experience in the iron and titanium-related business, specially in mining and beneficiation process. Mr. Wu studied at the mining faculty of the North Eastern Engineering College (東北工學院) in Shenyang, Liaoning and received a bachelor's degree in engineering from the North Eastern Engineering College (東北工學院) in Shenyang, Liaoning in 1982. Mr. Wu was certified as a Senior Engineer (高級工程師) by Panzhihua Iron and Steel (Group) Company in April 1994.

SENIOR MANAGEMENT

Mr. Jiang Zhong Ping (蔣中平)

Mr. Jiang is the chairman of the Company. Details of his biography are set out above in this section.

Mr. Liu Feng (劉峰)

Mr. Liu is the chief executive officer of the Company. Details of his biography are set out above in this section.

Mr. Wang Yun Jian (王運建)

Mr. Wang is the chief operating officer of the Company. Details of his biography are set out above in this section.

Mr. Yu Xing Yuan (余興元)

Mr. Yu is the chief investment officer of the Company. Details of his biography are set out above in this section.

Mr. Kong Chi Mo (江智武)

Mr. Kong, aged 34, *FCCA, ACIS, ACS,* is the chief financial officer of the Company since May 2008. Prior to joining the Company, Mr. Kong was an audit senior manager at KPMG's Beijing Office. In his eight years with KPMG, Mr. Kong was the engagement manager on audits for the initial public offerings and annual audits of several Chinese companies listed in Hong Kong and the United States. Mr. Kong has been a fellow of the Association of Chartered Certified Accountants since February 2008 and an associate member of the Hong Kong Institute of Company Secretaries and the Institute of Company Secretaries and Administrators, respectively, since April 2009. Prior to joining KPMG, Mr. Kong worked as a tax associate and finance trainee in PricewaterhouseCoopers and Hutchison Telecommunications (Hong Kong) Limited, respectively. Mr. Kong graduated from the Chinese University of Hong Kong in May 1997 with a bachelor's degree in business administration.

COMPANY SECRETARY

Mr. Kong Chi Mo (江智武)

Mr. Kong is the company secretary of the Company. Mr. Kong is working for the Company on a full time basis. Details of his biography are set out above in this section.

Emulating the Past Striving for Excellence



The Directors hereby present their report and the audited financial statements of the Group for the year ended 31 December 2009.

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands on 28 April 2008 as an exempted company with limited liability under the Cayman Islands Companies Law under the name of China Vanadium Titano-Magnetite Mining Co. Ltd. The name of the Company was subsequently changed to its present name on 28 May 2008.

Directors' Report

Pursuant to the Reorganisation, the Company became the holding company of the subsidiaries now comprising the Group.

The Shares were listed on the Main Board on 8 October 2009.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are mining, ore processing, iron pelletising and sale of iron concentrates, iron pellets and titanium concentrates in the PRC.

Details of the Company's principal subsidiaries as at 31 December 2009 are set out in note 14 to financial statements of this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 47 of this annual report.

The Directors do not recommend the payment of a final dividend and propose that the profit for the year be retained.

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment of the Group for the year ended 31 December 2009 amounted to approximately RMB170.0 million. Details of the movements during the year in the Group's property, plant and equipment are set out in note 11 to financial statements of this annual report.

According to the property valuation report as set out in Appendix IV to the Prospectus, the aggregated valuation amount of the Group's prepaid lease payments and buildings were approximately RMB210.6 million as at 30 June 2009, whereas the prepaid lease payments and buildings of the Group were stated at cost less accumulated depreciation or amortisation in the Accountants' Report attached as Appendix I in the Prospectus with aggregated carrying values of approximately RMB197.2 million as at 30 June 2009. The additional aggregated depreciation and amortisation that would have been charged against the consolidated statement of comprehensive income for the year ended 31 December 2009 had the prepaid lease payments and buildings been stated at the valuation amount amounted to approximately RMB1.8 million.

SHARE CAPITAL

Details of the movements during the year in the issued share capital of the Company are set out in note 27 to financial statements of this annual report.

DISTRIBUTABLE RESERVES

Details of the movements during the year ended 31 December 2009 in the reserves of the Group are set out in the consolidated statement of changes in equity on page 50 of this annual report.

As at 31 December 2009, the Company's reserves available for distribution to the Shareholders in accordance with the Articles of Association was RMB2,094.2 million.

Under the laws of Cayman Islands, the share premium account subject to the provisions of the Articles is distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

The reserves of the Group available for distribution depend on the dividend distributable by the Company's subsidiaries. For dividend purpose, the amount which the Company's subsidiaries in the PRC can legally distribute by way of a dividend is determined by reference to their distributable profits as reflected in the PRC statutory financial statements which are prepared in accordance with accounting principles generally accepted in the PRC. These distributable profits differ from those that are reflected in the Group's financial statements prepared in accordance with the IFRSs.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last four financial years is set out on pages 4 and 5 of this annual report.

LOANS AND BORROWINGS

Details of the loans and borrowings of the Group are set out in note 25 to financial statements of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the years ended 31 December 2009 and 2008, sales to the Group's five largest customers accounted for 85.9% and 89.9% of the total revenue of the Group, respectively, and sales to the largest customer included therein accounted 18.4% and 21.1%, respectively.

For the years ended 31 December 2009 and 2008, purchases from the Group's five largest suppliers accounted for 94.5% and 88.2% of the total purchases of the Group, respectively, and purchases from the largest supplier included therein accounted for 60.6% and 48.9%, respectively.

Save that Mr. Wang Jin, a non-executive Director who currently has a beneficial interest of 38.4% in Weiyuan Steel, none of the Directors or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest suppliers or customers.

DIRECTORS

The Directors during the year and up to the date of this annual report are as follows:

Executive Directors

Mr. Jiang Zhong Ping *(Chairman)*
Mr. Liu Feng *(Chief executive officer)*
Mr. Wang Yun Jian *(Chief operating officer)*
Mr. Yu Xing Yuan *(Chief investment officer)*

Non-executive Directors

Mr. Wang Jin
Mr. Zhu Xiao Lin
Mr. Teo Cheng Kwee
Mr. Devlin Paul Jason

Independent non-executive Directors

Mr. Yu Haizong	(Appointed on 4 September 2009)
Mr. Gu Peidong	(Appointed on 4 September 2009)
Mr. Liu Yi	(Appointed on 4 September 2009)
Mr. Wu Wei	(Appointed on 4 September 2009)

Biographical details of the above Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 23 to 27 of this annual report.

In accordance with articles 84(1) and 84(2) of the Articles, Messrs. Wu Wei and Gu Peidong will retire at the forthcoming AGM. Further, pursuant to article 83(3) of the Articles, Messrs. Jiang Zhong Ping, Liu Feng, Wang Yun Jian, Yu Xing Yuan, Wang Jin, Zhu Xiao Lin, Teo Cheng Kwee and Devlin Paul Jason will retire at the forthcoming AGM. Messrs. Wang Yun Jian, Zhu Xiao Lin and Wu Wei have decided not to stand for re-election.

There is no disagreement between each of Messrs. Wang Yun Jian, Zhu Xiao Lin and Wu Wei and the Board and there is no matter which needs to be brought to the attention of the Shareholders. The other retiring Directors, being eligible, will offer themselves for re-election at the forthcoming AGM.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has entered into a service contract with the Company for an initial term of two years commencing from the Listing Date. Each of our non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of two years commencing from the Listing Date.

None of the Directors proposed for re-election at the forthcoming AGM has entered into any service agreement with the Company which is not determinable within one year without payment of compensation (other than the statutory compensation).

REMUNERATION OF THE DIRECTORS

The remuneration of the Directors is determined with reference to the Directors' duties, responsibilities, performance and the results of the Group.

Details of the remuneration of the Directors are set out in note 7 to financial statements of this annual report.

REMUNERATION POLICY

The remuneration policy of the Group is based on performance, experience, competence and market comparables. Remuneration package generally comprises salary, housing allowance, contribution to pension schemes and discretionary bonuses relating to the performance of the Group.

When compared to other employees of the Group, the remuneration package of the Directors and senior management puts a heavier weighting on their contributions to the performance of the Group. This is achieved by way of share option scheme. The remuneration policy of the Directors and senior management is overseen by the remuneration committee of the Company.

Details of the scheme are set out under the section headed "Share Options" in this report and note 28 to financial statements.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2009, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in Shares

	Number of Shares held, capacity and nature of interest			
Name of Director	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Mr. Wang Jin	–	1,193,400,000 (Note)	1,193,400,000	57.51%

Note: These Shares were held by Trisonic International which is owned as to, inter alia, 30.6% by Mr. Wang Jin and 40% by Kingston Grand which in turn is owned as to 60% by Mr. Wang Jin.

(b) Long positions in share options granted by the Company

Number of share options held by the Directors and chief executives of the Company as at 31 December 2009:

Name	Number of options held	Number of underlying Shares
Mr. Jiang Zhong Ping	3,000,000	3,000,000
Mr. Liu Feng	4,000,000	4,000,000
Mr. Yu Xing Yuan	7,000,000	7,000,000
Mr. Zhu Xiao Lin	7,000,000	7,000,000
Mr. Kong Chi Mo	3,000,000	3,000,000

The details of share options held by the Directors and chief executives of the Company are disclosed in the section headed "Share Options" of this report.

Save as disclosed above, as at 31 December 2009, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SHARE OPTIONS

The Company has adopted the Share Option Scheme for the purpose of providing incentive or reward to eligible persons for their contributions to, and continuing efforts to promote the interests of our Company and enabling our Group to recruit and retain high caliber employees.

The Share Option Scheme shall be valid and effective for a period of 10 years from 4 September 2009, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

The maximum aggregate number of shares which may be issued upon exercise of all outstanding options to be granted and yet to be exercised under the Share Option Scheme and any other share option schemes must not, in aggregate, exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares issued and to be issued upon exercise of the options granted to any eligible person under the Share Option Scheme and any other share option schemes shall not in any 12-month period up to the date of grant exceed 1% of the issued share capital of the Company as of the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting. The period within which an option may be exercised under the Share Option Scheme will be determined by the Board at its absolute discretion. Under the Share Option Scheme, the exercise price in relation to each option shall be determined by the Board at its absolute discretion, but in any event shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of such option; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of such option; and (iii) the nominal value of a share on the date of grant of such option.

On 29 December 2009, options ("Options") to subscribe for a total of 27,200,000 new Shares were granted under the Share Option Scheme. There were no options outstanding as at 1 January 2009 and the number of options outstanding as at 31 December 2009 was 27,200,000. No option was exercised, cancelled or lapsed during the year ended 31 December 2009. For further details on the financial aspects of the Share Option Scheme, please refer to note 28 to financial statements.

The Options shall entitle the Grantees to subscribe for the new Shares upon the exercise of Options at an exercise price of HK$5.05 per Share, which represents the highest of: (a) the closing price of HK$5.05 per Share as stated in the Stock Exchange's daily quotations sheet on the date of grant; (b) the average closing price of HK$4.86 per Share as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; and (c) the nominal value of the Shares of HK$0.10. The closing price of the Shares on 28 December 2009, i.e. immediately before the date on which the Options were granted was HK$5.11. The Options shall be exercisable during the period of 10 years from the date of grant. Among the Options granted as mentioned above, Options granted to the directors, chief executives and other employees of the Group were as follows:

Name of Grantees	**Position**	**No. of Option Shares**		**Total**
		(with exercise period from 29 June 2012 to 28 December 2019)	**(with exercise period from 29 December 2014 to 28 December 2019)**	
Mr. Jiang Zhong Ping	Chairman of the Board and executive Director	1,500,000	1,500,000	3,000,000
Mr. Liu Feng	Chief executive officer and executive Director	2,000,000	2,000,000	4,000,000
Mr. Yu Xing Yuan	Chief investment officer and executive Director	3,500,000	3,500,000	7,000,000
Mr. Zhu Xiao Lin	Non-executive Director	3,500,000	3,500,000	7,000,000
Mr. Kong Chi Mo	Chief financial officer and company secretary	1,500,000	1,500,000	3,000,000
Other 4 employees		1,600,000	1,600,000	3,200,000
		13,600,000	13,600,000	27,200,000

Save as disclosed above, at no time during the year was the Company, its holding companies or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

DEED OF NON-COMPETITION

In order to restrict competition activities between the Controlling Shareholders and the Company, the Controlling Shareholders have entered into a deed of non-competition in favour of the Company dated 23 September 2009 (the "**Non-Competition Deed**").

The undertakings and covenants stipulated under the Non-Competition Deed cover any business which involves ore processing and the sale of iron concentrates, iron pellets, titanium concentrates and titanium-related downstream products or any other business from time to time conducted by any member of our Group ("**Competing Business**") in Hong Kong, the PRC or such other part of the world where any member of our Group carries on its business from time to time other than the mines owned or operated by Weixi Iron Ore Development Company Limited, Aba Mining Company Limited and Yanyuan County Xiwei Mining Company Limited (together the "**Excluded Mines**").

Controlling Shareholders having an opportunity to invest in, participate in, engage in, operate or manage any Competing Business ("**Business Opportunity**") shall notify the Company about such Business Opportunity in writing. The Company shall have the first right of refusal under the same investment terms to such Controlling Shareholders. The Controlling Shareholders shall implement the project only if the Company has confirmed that it has no intention to invest, participate in, engage in or operate such Business Opportunity as approved by the Board. Nevertheless, the Company still has an option to acquire such Business Opportunity at a fair market price to be negotiated between the parties. Such price must not be higher than the net assets value of the Business Opportunity or the total amount of investment contributed by the Controlling Shareholders in relation to the Business Opportunity.

Excluded Mines

According to the Non-Competition Deed, the Excluded Mines are indirectly owned by the Controlling Shareholders through their shareholding in Chuan Wei, which the Company has been given options to acquire pursuant to undertakings and granted by the owners of the Excluded Mines. The exercise of the options upon execution of a binding agreement for the purchase of any of the mining rights and related assets of the Excluded Mines shall comply with the applicable requirements under Chapter 14A of the Listing Rules. In addition, any decisions relating to the exercise of any of the rights under the Non-Competition Deed shall be made by the independent non-executive Directors, who will convene at least once a year or upon our request to consider whether or not to exercise the options to purchase any of the mining rights and related assets of the Excluded Mines.

The independent non-executive Directors will consider, among other things, the total proved and probable reserves, the average grade and content of the reserves, the market value of iron ore, regulatory compliance and the scale of production in respect of the relevant Excluded Mines. In the event the independent non-executive Directors consider appropriate, they will appoint experts or independent technical advisors to assist them in their consideration of whether to exercise the said options.

The independent non-executive Directors have reviewed the exercise and non-exercise of each of the options and rights of first refusal under the Non-Competition Deed and concluded that non-competition undertakings and covenants stipulated in the Non-Competition Deed have been complied with.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as is known to any Directors or chief executives of the Company, as at 31 December 2009, Shareholders (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions:

Name	Notes	Capacity and nature of interest	Number of Shares held	Percentage of the Company's issued share capital
Trisonic International	1&5	Beneficial owner	1,193,400,000	57.51%
Kingston Grand	1,2&5	Interest of controlled corporation	1,193,400,000	57.51%
Mr. Yang Xianlu	1	Interest of controlled corporation	1,193,400,000	57.51%
Mr. Wu Wendong	1	Interest of controlled corporation	1,193,400,000	57.51%
Mr. Li Hesheng	1	Interest of controlled corporation	1,193,400,000	57.51%
Mr. Shi Yinjun	1	Interest of controlled corporation	1,193,400,000	57.51%
Mr. Zhang Yuangui	1	Interest of controlled corporation	1,193,400,000	57.51%
Sapphire Corporation Limited	2&5	Interest of controlled corporation	1,193,400,000	57.51%
Green Globe Investments Limited	3&4	Beneficial owner	204,480,000	9.85%
AL Safat Asia Resources I Limited	3&4	Interest of controlled corporation	204,480,000	9.85%
AL Safat Investment Company K.S.C.C.	3&4	Interest of controlled corporation	204,480,000	9.85%
Invesco Hong Kong Limited		Investment manager	134,206,000	6.47%
Schroder Investment Management (Hong Kong) Limited		Investment manager	105,589,000	5.09%

Notes:

1. The issued share capital of Trisonic International is owned as to 6% by Mr. Yang Xianlu; 6% by Mr. Wu Wendong, 3% by Mr. Li Hesheng, 30.6% by Mr. Wang Jin, 7.2% by Mr. Shi Yinjun and 7.2% by Mr. Zhang Yuangui; and 40% by Kingston Grand. Mr. Yang Xianlu, Mr. Wu Wendong, Mr. Li Hesheng, Mr. Wang Jin, Mr. Shi Yinyun, Mr. Zhang Yuangui and Kingston Grand are deemed under SFO to be interested in 1,193,400,000 Shares held by Trisonic International. The interests of Mr. Wang Jin in the Shares of the Company is disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

2. The issued share capital of Kingston Grand is owned as to 60% by Mr. Wang Jin and 40% by Sapphire Corporation Limited. Mr. Wang Jin and Sapphire Corporation Limited are deemed under SFO to be interested in 1,193,400,000 Shares held by Kingston Grand.

3. The issued share capital of Green Globe Investments Limited is owned as to 100% by AL Safat Asia Resources I Limited. AL Safat Asia Resources I Limited is deemed under SFO to be interested in 204,480,000 Shares held by Green Globe Investments Limited.

4. The issued share capital of AL Safat Asia Resources I Limited is owned as to 100% by AL Safat Investment Company K.S.C.C. AL Safat Investment Company K.S.C.C. is deemed under SFO to be interested in 204,480,000 Shares held by Green Globe Investments Limited.

5. Both Mr. Wang Jin and Mr. Teo Cheng Kwee are directors of Trisonic International and Kingston Grand. Further, Mr. Wang Jin is a non-independent and non-executive director and Mr. Teo Cheng Kwee is the chief executive officer of Sapphire Corporation Limited.

Save as disclosed above, as at 31 December 2009, the Company had not been notified by any persons (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the business of the Group, to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a Controlling Shareholder of the Company or any of its subsidiaries subsisted at the end of year or at any time during the year.

No contracts of significance between the Company or any of its subsidiaries and a Controlling Shareholder of the Company or any of its subsidiaries subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

So far as the Directors were aware, none of the Directors or their associates had any interest in a business that competes or may compete with the business of the Group.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Sale of products to Weiyuan Steel

For the year ended 31 December 2009, sales of iron concentrates of approximately RMB199.7 million were made to Weiyuan Steel, a connected person to the Group under the agreement dated 26 December 2007 and two supplemental agreements dated 20 April 2009 and 1 June 2009 (the "June Supplemental Agreement"), respectively, pursuant to which the Group sells iron concentrates to Weiyuan Steel from time to time from 1 January 2008 to 31 December 2011. Weiyuan Steel is a company established in the PRC in which Trisonic International, one of the Controlling Shareholders, owns 68.0% of the equity interest. Accordingly, Weiyuan Steel is a connected person for the purpose of the Listing Rules.

The prices of iron concentrates sold to Weiyuan Steel are determined based on arm's length negotiations. The June Supplemental Agreement specifies the pricing arrangement with Weiyuan Steel for iron concentrates contracted for 2009 and 2010. According to the June Supplemental Agreement, the minimum selling price of iron concentrates for 2009 and 2010 is RMB605.1 and RMB632.5 per tonne, respectively, subject to adjustment based on the market price of iron concentrates. If the market price of iron concentrates falls below the minimum selling price, the sales price will remain the same. If the market price of iron concentrates rises above the minimum selling price, the sales price will be adjusted to a higher amount, which is equal to the sum of the minimum selling price and an amount to be agreed that is no more than 50% of the increase in the market price above the minimum selling price.

The sales of iron concentrates constitute a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. For detailed information on the above transaction, please refer to the "Connected transactions – Non-exempt continuing connected transaction subject to independent Shareholders' approval requirements" section to the Prospectus.

The Directors had approved and the independent non-executive Directors had reviewed the continuing connected transaction and they confirmed that the transaction was entered into: (i) in the ordinary and usual course of the Group's business; (ii) on normal commercial terms; and (iii) in accordance with the terms of the relevant agreements governing such transaction on terms that were fair and reasonable and in the interests of the Shareholders of the Company as a whole.

The Directors had received letter from Ernst & Young, the auditors of the Company confirming that the continuing connected transaction (i) had received the approval of the Board of Directors; (ii) was in accordance with the pricing policies of the Company; (iii) had been entered into in accordance with the relevant agreements governing the transaction; and (iv) had not exceeded the cap amount for the financial year ended 31 December 2009 as set out in the Prospectus.

AUDIT COMMITTEE

In compliance with Rule 3.21 of the Listing Rules and the CG Code as set out in Appendix 14 to the Listing Rules, the Company established an audit committee on 4 September 2009. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures.

The audit committee currently comprises one non-executive Director, namely Mr. Zhu Xiao Lin and three independent non-executive Directors, Mr. Yu Haizong (Chairman), Mr. Gu Peidong and Mr. Liu Yi.

The audit committee has reviewed, together with the management of the Company, the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the financial statements of the Group for the year ended 31 December 2009.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 4 September 2009 in compliance with the CG Code.

The remuneration committee currently comprises one non-executive Director, namely Mr. Wang Jin (Chairman) and three independent non-executive Directors, Mr. Yu Haizong, Mr. Gu Peidong and Mr. Wu Wei.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the Cayman Islands Companies Law where the Company is incorporated.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the period from the Listing Date and up to the date of this annual report (the "Review Period").

CODE OF CORPORATE GOVERNANCE PRACTICE

The Company has adopted the CG Code. Throughout the Review Period, the Company has complied with all the applicable code provisions as set out in the CG Code.

For details of the Corporate Governance Report, please refer to pages 41 to 44 of this annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Throughout the Review Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

USE OF NET PROCEEDS FROM THE IPO AND THE OVER-ALLOTMENT

The Shares of the Company were listed on 8 October 2009 on the Main Board. The total net proceeds from the Company's issue of new Shares (after the Over-Allotment and deducting underwriting commissions and all related expenses) amounted to approximately HK$1,887.3 million, which have been progressively applied in accordance with the proposed application set out in the section headed "Future Plans and Use of proceeds" to the Prospectus.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group in the ordinary course of business are set out in note 34 to financial statements. In relation to the related party transaction of sale of goods to Weiyuan Steel which constitutes non-exempt continuing connected transaction under the Listing Rules, the applicable requirements under the Listing Rules have been complied with.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief and at the date of this annual report, the Company has maintained sufficient public float since the Listing.

AUDITORS

The Company has appointed Ernst & Young as auditors of the Company for the year ended 31 December 2009. A resolution will be proposed for approval by Shareholders at the forthcoming AGM to re-appoint Ernst & Young as auditors of the Company.

On behalf of the Board
Jiang Zhong Ping
Chairman

22 February 2010

Corporate Governance Report

The Company has adopted the CG Code as its own code of corporate governance. The Directors consider that throughout the Review Period, the Company has complied with the code provisions under the CG Code.

The Directors are committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximise the interests of the Shareholders.

Set out below is detailed discussion of the corporate governance practices adopted and observed by the Company during the Review Period.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the Review Period.

BOARD OF DIRECTORS

The Board currently comprises a combination of executive Directors, non-executive Directors and independent non-executive Directors. At least one of the independent non-executive Directors possesses appropriate professional qualifications (or accounting or related financial management expertise) as required by the Listing Rules. As of the date of this annual report, the composition of the Board is as follows:

Executive Directors

Mr. Jiang Zhong Ping *(Chairman)*
Mr. Liu Feng *(Chief executive officer)*
Mr. Wang Yun Jian *(Chief operating officer)*
Mr. Yu Xing Yuan *(Chief investment officer)*

Non-executive Directors

Mr. Wang Jin
Mr. Zhu Xiao Lin
Mr. Teo Cheng Kwee
Mr. Devlin Paul Jason

Independent non-executive Directors

Mr. Yu Haizong
Mr. Gu Peidong
Mr. Liu Yi
Mr. Wu Wei

Biographical details of the above Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 23 to 27 of this annual report.

Each of our executive Directors has entered into a service contract with the Company for an initial term of two years commencing from the Listing Date. Each of our non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of two years commencing from the Listing Date. The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

The Board is responsible for the overall development and guidance of the Group. The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. The Board has delegated the day-to-day operation to the executive Directors and senior management under the supervision of the Board to ensure effectiveness and appropriateness.

During the Review Period, there was one board meeting held, at which the Directors approved, among other things, the annual results of the Group for the year ended 31 December 2009. Sufficient notice convening the Board meeting was dispatched to the Directors setting out the matters to be discussed. All Directors are given an opportunity to include matters in the agenda for the Board meeting and have access to the company secretary of the Company to ensure that all board procedures and all applicable rules and regulations are followed. The Board also enabled the Directors to seek independent professional advice at the Company's expense in appropriate circumstances. At the meeting, the Directors were provided with the relevant documents to be discussed and approved. The company secretary of the Company is responsible for keeping minutes for the Board meetings.

The following is the attendance record of the board meeting held by the Board during the Review Period:

	Attendance at meeting
Executive Directors	
Mr. Jiang Zhong Ping *(Chairman)*	1/1
Mr. Liu Feng *(Chief executive officer)*	1/1
Mr. Wang Yun Jian *(Chief operating officer)*	1/1
Mr. Yu Xing Yuan *(Chief investment officer)*	1/1
Non-executive Directors	
Mr. Wang Jin	1/1
Mr. Zhu Xiao Lin	1/1
Mr. Teo Cheng Kwee	1/1
Mr. Devlin Paul Jason	1/1
Independent non-executive Directors	
Mr. Yu Haizong	1/1
Mr. Gu Peidong	1/1
Mr. Liu Yi	1/1
Mr. Wu Wei	1/1

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Company's chairman and the chief executive officer are segregated. Mr. Jiang Zhong Ping is the chairman of the Board who is chiefly responsible for managing the Board while Mr. Liu Feng is the chief executive officer of the Company who takes charge of the supervision of the execution of the policies determined by the Board. The chairman also chairs the Board meetings and briefs the Board members on the issues discussed at the Board meetings.

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

According to the Articles of Association, at each annual general meeting one-third of the Directors are subject to retirement by rotation or, if the number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and shall be eligible for re-election. The Directors to be retired by rotation shall be those who have been longest in office since their last appointment or re-election. Every Director shall be subject to retirement at an annual general meeting at least once every three years. Any other appointment, resignation, removal or re-designation of Director will be timely disclosed to the Shareholders by announcement and shall include in such announcement, the reasons given by the Director for his resignation.

Before the Listing, the Directors have been provided with training on their duties and responsibilities as a director of a listed company and the compliance issues under the Listing Rules. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Company's business.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 4 September 2009 with written terms of reference in compliance with the CG Code. The remuneration committee currently comprises one non-executive Director, namely Mr. Wang Jin (Chairman) and three independent non-executive Directors, Mr. Yu Haizong, Mr. Gu Peidong and Mr. Wu Wei. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management.

The remuneration committee has not held any meeting during the Review Period as the remuneration package and the service agreement of each Director have been considered and approved at a full Board meeting held before the establishment of the remuneration committee. After the Listing Date, there is no new Director appointed. It is the Company's policy that the remuneration package of each Director and senior management shall be determined by reference to, inter alia, their duties, responsibilities, experience and qualifications.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the CG Code on 4 September 2009. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee currently comprises one non-executive Director, namely Mr. Zhu Xiao Lin and three independent non-executive Directors, Mr. Yu Haizong (Chairman), Mr. Gu Peidong and Mr. Liu Yi.

Up to the date of this annual report, the audit committee has held one meeting, at which the members of audit committee have reviewed and discussed with the external auditors of the Company the Group's financial statements for the year ended 31 December 2009, who is of the opinion that such statements have complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

The following is the attendance record of the meeting held by the audit committee during the Review Period.

	Attendance at meeting
Mr. Zhu Xiao Lin	1/1
Mr. Yu Haizong	1/1
Mr. Gu Peidong	1/1
Mr. Liu Yi	1/1

AUDITORS' REMUNERATION

For the year ended 31 December 2009, apart from the provisions of annual audit services, the Group's external auditors, Ernst & Young, were also the reporting accountants of the Company in relation to the Listing. For the year ended 31 December 2009, the total fee paid/payable in respect of audit and non-audit services provided by the Group's external auditors is set out below:

	RMB'000
Audit services	
Annual audit services	1,290.0
Reporting accountants in relation to the Listing	7,060.0
Non-audit services	
Tax and internal control advisory services	900.0

The audit committee is responsible for making recommendation to the Board as to the appointment, re-appointment and removal of the external auditors, which is subject to the approval by the Board and at the general meetings of the Company by the Shareholders.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company deploys appropriate and sufficient resources to prepare audited accounts. Senior management is required to present and explain the financial reporting and matters that materially affect or may have material impact on the financial performance and operations of the Company to the audit committee and the Board and respond to the queries and concerns raised by the audit committee and the Board to their satisfaction. The consolidated financial statements have been prepared in accordance with the IFRSs. In addition, the financial statements include applicable disclosures required by the Listing Rules and by the Companies Ordinance. The reporting responsibility of the external auditors of the Company on the financial statements of the Group is set out in the independent auditors' report on page 45 of this annual report.

INTERNAL CONTROL

The internal control system has been designed to safeguard the assets of the Group, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations.

The Board is responsible for maintaining and reviewing the effectiveness of the Group's internal control system. They have carried out an annual review of the implemented system and procedures, including areas covering financial, operational and legal compliance controls and risk management functions. The internal control system is implemented to minimise the risks to which the Group is exposed and used as a management tool for the day-to-day operation of business. The system can only provide reasonable but not absolute assurance against misstatement or losses.

The Board is responsible for implementing the internal control system and reviewing its effectiveness. For the year ended 31 December 2009, the Board considered that the Company's internal control system is adequate and effective and the Company has complied with the CG Code.

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of
CHINA VANADIUM TITANO-MAGNETITE MINING COMPANY LIMITED
(Established in the Cayman Islands with limited liability)

We have audited the financial statements of China Vanadium Titano-Magnetite Mining Company Limited set out on pages 47 to 111, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

22 February 2010

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Revenue	3	**1,083,876**	791,163
Cost of sales		**(582,127)**	(364,122)
Gross profit		**501,749**	427,041
Other income	4	**40,914**	17,277
Selling and distribution costs		**(28,308)**	(22,444)
Administrative expenses		**(35,574)**	(33,002)
Other operating expenses		**(32,912)**	(37,000)
Finance costs	5	**(9,242)**	(3,048)
PROFIT BEFORE TAX	6	**436,627**	348,824
Income tax expense	8	**(69,708)**	(30,067)
Profit for the year		**366,919**	318,757
Other comprehensive income		**–**	–
Total comprehensive income for the year		**366,919**	318,757
Attributable to:			
Owners of the Company	9	**327,867**	248,675
Minority interests		**39,052**	70,082
		366,919	318,757
Earnings per share attributable to ordinary owners of the Company:			
Basic	10	**RMB0.20**	RMB0.17

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**495,832**	357,264
Intangible assets	12	**142,092**	140,829
Prepaid land lease payments	13	**48,889**	23,177
Prepayments and deposits	15	**30,442**	–
Payments in advance	16	**99,630**	3,217
Goodwill	17	**15,318**	15,318
Deferred tax assets	18	**8,006**	5,848
Total non-current assets		**840,209**	545,653
CURRENT ASSETS			
Inventories	19	**70,904**	65,595
Trade and notes receivables	20	**137,427**	87,632
Prepayments, deposits and other receivables	15	**91,110**	88,854
Due from related parties	21	**49,810**	30,433
Pledged bank balances	22	**–**	40
Cash and cash equivalents	22	**1,884,003**	133,098
Total current assets		**2,233,254**	405,652
CURRENT LIABILITIES			
Trade payables	23	**85,949**	108,030
Other payables and accruals	24	**198,852**	139,756
Interest-bearing bank loans	25	**100,000**	–
Due to related parties	21	**4,254**	12,466
Tax payables		**70,074**	29,724
Dividends payable		**1,801**	–
Total current liabilities		**460,930**	289,976
NET CURRENT ASSETS		**1,772,324**	115,676
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,612,533**	661,329
NON-CURRENT LIABILITIES			
Other payables	24	**–**	51,870
Provision for rehabilitation	26	**5,707**	5,341
		5,707	57,211
Net assets		**2,606,826**	604,118

continued/...

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued share capital	27	**182,787**	1
Reserves	29	**2,331,244**	539,349
		2,514,031	539,350
Minority interests		**92,795**	64,768
Total equity		**2,606,826**	604,118

Jiang Zhong Ping
Director

Liu Feng
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

	Attributable to owners of the Company									
	Issued capital	**Share premium account**	**Statutory reserves**	**Contributed surplus**	**Share option reserve**	**Difference arising from acquisition of minority interests**	**Retained earnings**	**Total**	**Minority interests**	**Total equity**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 27	note 29(a)	note 29(b)	note 29(c)	note 28					
At 1 January 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 of a subsidiary	–	–	–	–	–	(530,393)	–	(530,393)	(88,306)	(618,699)
Issue of shares	1	618,084	–	–	–	–	–	618,085	–	618,085
At 31 December 2008 and 1 January 2009	1	618,084*	36,630*	144,810*	–	(530,393)*	270,218*	539,350	64,768	604,118
Total comprehensive income for the year	–	–	–	–	–	–	327,867	327,867	39,052	366,919
Issue of new shares (note 27(g))	44,045	1,497,513	–	–	–	–	–	1,541,558	–	1,541,558
Issue of new shares (note 27(h))	6,608	224,660	–	–	–	–	–	231,268	–	231,268
Capitalisation of share premium account	132,133	(132,133)	–	–	–	–	–	–	–	–
Share issue expenses	–	(111,140)	–	–	–	–	–	(111,140)	–	(111,140)
Equity-settled share option arrangement	–	–	–	–	106	–	–	106	–	106
Transfer from/(to) reserves	–	–	28,008	–	–	–	(28,008)	–	–	–
Gain on deemed acquisition of minority interests (note 14)	–	–	–	–	–	5,022	–	5,022	(5,022)	–
Dividends declared to:										
– Minority shareholders	–	–	–	–	–	–	–	–	(6,003)	(6,003)
– Owners of the company (note 30)	–	–	–	–	–	–	(20,000)	(20,000)	–	(20,000)
At 31 December 2009	182,787	2,096,984*	64,638*	144,810*	106*	(525,371)*	550,077*	2,514,031	92,795	2,606,826

* These reserve accounts comprise the consolidated reserves of RMB2,331,244,000 (2008: RMB539,349,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**436,627**	348,824
Adjustments for:			
Interest expenses	5	**7,765**	3,048
Unrealised foreign exchange loss		**894**	–
Bank interest income	4	**(330)**	(147)
Equity-settled share option expense	6	**106**	–
Loss on disposal of items of property, plant and equipment	6	**81**	–
Write-down/(reversal of write-down) of inventories to net realisable value	6, 19	**(943)**	1,805
Depreciation of items of property, plant and equipment	6, 11	**30,148**	18,720
Amortisation of intangible assets	6, 12	**11,435**	7,774
Amortisation of prepaid land lease payments	6, 13	**925**	119
		486,708	380,143
Increase in trade and notes receivables		**(49,795)**	(87,629)
Increase in inventories		**(4,366)**	(35,559)
Increase in prepayments, deposits, and other receivables		**(40,266)**	(55,635)
Increase/(decrease) in trade payables		**(22,081)**	29,307
Increase in other payables and accruals		**38,035**	10,494
Decrease/(increase) in amounts due from related parties		**(19,377)**	199,262
Increase/(decrease) in amounts due to related parties		**(8,212)**	11,851
Cash generated from operations		**380,646**	452,234
Interest paid		**(7,399)**	(2,706)
Interest received		**330**	147
Income tax paid		**(31,516)**	(26,642)
Net cash flows from operating activities		**342,061**	423,033
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(238,666)**	(173,034)
Proceeds from disposal of items of property, plant and equipment		**1,251**	–
Increase in long-term deposits		**(1,277)**	–
Increase in prepaid land lease payments		**(37,721)**	(11,540)
Purchase of intangible assets		**(51,373)**	(86,765)
Decrease in pledged bank balances		**40**	4,276
Net cash flows used in investing activities		**(327,746)**	(267,063)

continued/...

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Net cash flows used in investing activities		**(327,746)**	(267,063)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**1,772,826**	1
Share issue expenses		**(111,140)**	–
New bank loans	25	**100,000**	55,000
Repayment of bank loans		**–**	(85,000)
Repayment of an interest-free loan from a licensed non-banking financial institution		**–**	(459)
Dividends paid		**(20,000)**	–
Dividends paid to minority shareholders		**(4,202)**	–
Net cash flows from/(used in) financing activities		**1,737,484**	(30,458)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,751,799**	125,512
Cash and cash equivalents at beginning of year		**133,098**	7,586
Effect of foreign exchange rate changes, net		**(894)**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,884,003**	133,098
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**1,267,667**	133,098
Time deposits with original maturity of less than three months	22	**616,336**	–
		1,884,003	133,098

Company's Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	5	–
Investments in subsidiaries	14	618,700	618,700
Total non-current assets		618,705	618,700
CURRENT ASSETS			
Dividend receivable		17,157	–
Due from subsidiaries	14	681,465	–
Prepayments and other receivables	15	524	7,152
Due from a related party	21	343	–
Cash and cash equivalents	22	1,005,575	–
Total current assets		1,705,064	7,152
CURRENT LIABILITIES			
Due to a subsidiary	14	18,940	7,712
Due to related parties	21	–	11,908
Other payables	24	27,733	11,523
Total current liabilities		46,673	31,143
NET CURRENT ASSETS/(LIABILITIES)		1,658,391	(23,991)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,277,096	594,709
Net assets		2,277,096	594,709
EQUITY			
Issued share capital	27	182,787	1
Reserves	29	2,094,309	594,708
Total equity		2,277,096	594,709

Jiang Zhong Ping
Director

Liu Feng
Director

Notes to Financial Statements

31 December 2009

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 28 April 2008 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Room 2201, 22/F, Wheelock House, 20 Pedder Street, Central, Hong Kong.

During the year, the Group was principally engaged in the business of mining, ore processing, iron pelletising, sale of iron concentrates, iron pellets and titanium concentrates and management of strategic investments. There were no significant changes in the nature of the Group's principal activities during the year.

Pursuant to the Reorganisation in preparation for the Listing, the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation were set out in the Prospectus. The Company's shares have been listed on the Main Board since 8 October 2009.

In the opinion of the Directors, Trisonic International is the parent and ultimate holding company of the Company.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with the IFRSs. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company'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 recognised as an equity transaction.

2.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements:

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standard*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*[2]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2]
IFRS 3 (Revised)	*Business Combinations*[1]
IFRS 9	*Financial Instruments*[6]
IAS 24 (Revised)	*Related Party Disclosures*[5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[5]
IFRIC 17	*Distributions of Non-cash Assets to Owners*[1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to IFRS 5 included in *Improvements to IFRSs* issued in October 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*[1]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

Apart from the above, the IASB has issued *Improvements to IFRSs 2009* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 38 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

IFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of IFRSs, the amendments will not have any financial impact on the Group.

Notes to Financial Statements

31 December 2009

2.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The IFRS 1 Amendments provide relief from the full retrospective application of IFRSs for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the existing exemption relating to decommissioning liabilities has also been revised.

The amendments to IFRS 2 clarify how an individual subsidiary in a group should account for certain 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 revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, 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 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 Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*. The changes introduced by the revised IFRS 3 and revised IAS 27 are to be applied prospectively and will affect the accounting for future acquisitions. It will not affect the accounting for transactions with minority interests as the Group's current policy is consistent with the revised IAS 27.

The IASB issued IFRS 9 *Financial Instruments* as the first step in its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets and uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. IFRS 9 also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. Thus, IFRS 9 improves comparability and makes financial statements easier to understand for investors and other users.

The purpose of the revised IAS 24 is to simplify the identification of related party relationships and re-balance the extent of disclosures of transactions between related parties based on the cost to preparers of financial statement and the benefits to users of financial statement in having this information available in the financial statements. The revised IAS 24 also added explicit disclosure requirements for commitments (including executory contracts) with related parties.

The amendment to IAS 32 alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants (together, here termed rights) as equity instruments. This is applicable if the rights are given *pro-rata* to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. By changing the definition of a liability, these rights are no longer considered derivative instruments. Their fair value adjustments will no longer impact the profit or loss.

2.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

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 a hedged item.

The IFRIC 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment of future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments.

IFRIC 17 standardises 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 recognised when the dividend is appropriately authorised 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 recognise 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 Period* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are considered "consideration paid" in accordance with IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. IFRIC 19 states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.

The amendments to IFRS 5 clarify 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.

Notes to Financial Statements

31 December 2009

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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.

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 at the date of the acquisitions.

Goodwill arising on acquisition is recognised in the consolidated statement 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. 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 recognised. An impairment loss recognised 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

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill (continued)

An impairment loss is recognised 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 statement of comprehensive income in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised 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/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the 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 a member of the key management personnel of the Group or its parent;

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

(d) 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 (b) or (c).

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. 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Notes to Financial Statements

31 December 2009

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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 in proportion to the extraction of the proved and probable mineral reserves. The estimated useful lives of the mining infrastructure ranging from 5.8 years to 14.0 years are in accordance with the production plans of the entities concerned and the proved and probable reserves of mines using the UOP method.

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, plant 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 financial year end.

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

Construction in progress representing items of property, plant and equipment under construction 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)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Mining rights

Mining rights are stated at cost less accumulated amortisation 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 amortised over the shorter of the unexpired period of the rights on the straight-line basis and 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 amortisation 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 amortisation and depreciation charges in respect of assets consumed during the exploration activities.

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

Exploration and evaluation costs include expenditure incurred to secure further mineralisation 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.

Exploration and evaluation assets shall be assessed for impairment when facts and circumstances indicate that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. An impairment test is performed if any of the following indicators are present:

(a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

(b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

(c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Exploration rights and assets (continued)

(d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

When exploration and evaluation assets can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to either mining infrastructure or mining rights and reserves and depreciated/amortised 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.

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash generating units of production fields that are located in the same geographical region.

Deferred stripping costs

The Group defers and capitalises 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 capitalised as "prepaid subcontracting fees" under "prepayments, deposits and other receivables" in the consolidated statement of financial position and amortised 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 a finance lease, the cost of the leased asset is capitalised 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 capitalised finance leases are included in property, plant and equipment and 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 operating leases, 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 terms.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

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, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised 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.

All regular way purchases and sales of financial assets are recognised 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.

The Group's financial assets include cash and bank balances and trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the consolidated statement of comprehensive income. The loss arising from impairment is recognised in the consolidated statement of comprehensive income in other operating expenses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of the reporting period. 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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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or decreased by adjusting the allowance amount. If a future write-off is later recovered, the recovery is credited to the consolidated statement of comprehensive income.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 derecognised when:

- the rights to receive cash flows from the asset have expired;

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred substantially all the risks nor retained substantially all the rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to ultimate holding company and interesting-bearing loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of comprehensive income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

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 recognised in the consolidated statement of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable 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 realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement 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 recognised 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 recognised for a provision is the present value at the end of the reporting period 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Provisions for the Group's obligations for rehabilitation are based on estimates of required expenditure at the mines in accordance with the 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 recognised, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining infrastructure.

Over 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 recognised within "finance costs" in the consolidated statement 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 recognised as additions or charges to the corresponding assets and rehabilitation liabilities when they occur at the appropriate discount rate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income.

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, based on tax rates that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

Deferred tax liabilities are recognised 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.

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised 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 utilised, 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 recognised 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 utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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 recognised 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 capitalised as part of the cost of those assets. The capitalisation 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 capitalised.

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

Foreign currencies

These financial statements are 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 recorded by the entities in the Group are initially recorded using their respective 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 end of the reporting period. 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 Mainland China 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 scheme. 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 benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Scheme for its employees in Hong Kong. Contributions are 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.

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognised as a liability.

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 recognised immediately as a liability when they are proposed and declared.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grant after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of comprehensive income for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share, when appropriate.

2.4 SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements require 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 end of the reporting period. 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 end of the reporting period, 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 31 December 2009 was RMB15,318,000 (2008: RMB15,318,000). More details are given in note 17.

(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 year.

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31 December 2009

2.4 SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

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

The Group's operating subsidiaries in Mainland China 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 estimates 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 realise. The carrying amount of PRC CIT payable at 31 December 2009 was RMB70,074,000 (2008: RMB29,724,000).

(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 an impairment provision for technically obsolete assets that have been abandoned. The carrying amount of property, plant and equipment at 31 December 2009 was RMB495,832,000 (2008: RMB357,264,000).

(e) Impairment of property, plant and equipment

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 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 amount of property, plant and equipment at 31 December 2009 was RMB495,832,000 (2008: RMB357,264,000).

(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 estimates for accounting purposes and is reflected on a prospective basis in both depreciation and amortisation 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 assessments of non-current assets.

2.4 SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

(g) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost 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 downstream industries that consume the Group's products. Management reassesses these estimates at the end of each reporting period. The carrying amount of inventories at 31 December 2009 was RMB70,904,000 (2008: RMB65,595,000).

(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 obligations (6.84% as of 31 December 2009) to their present values. 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 the end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the consolidated statement of financial position by adjusting the rehabilitation asset and liability. The carrying amount of provision for rehabilitation as at 31 December 2009 was RMB5,707,000 (2008: RMB5,341,000).

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3. REVENUE AND SEGMENT INFORMATION

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 year.

The Group's revenue and contribution to profit were mainly derived from its sale of iron concentrates, iron pellets and titanium concentrates, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for purposes of resource allocation and performance assessment. In addition, the principal assets employed by the Group are located in Sichuan, the PRC. Accordingly, no segment analysis is presented other than entity-wide disclosures.

Entity-wide disclosures

Information about products

The following table sets forth the total revenue from external customers by product and the percentage of total revenue by product during the year:

	2009		2008	
	RMB'000	%	RMB'000	%
Iron concentrates	529,748	48.9	495,568	62.6
Iron pellets	537,113	49.6	252,319	31.9
Medium-grade titanium concentrates	17,015	1.5	43,276	5.5
	1,083,876	100.0	791,163	100.0

Geographical information

All external revenue of the Group during each of the two years ended 31 December 2009 were attributable to customers established in the PRC, the place of domicile of the Group's operating entities. Meanwhile, the Group's non-current assets are all located in the PRC.

Information about major customers

Revenue from major customers, each of whom amounted to 10% or more of the total revenue, is set out below:

	2009	2008
	RMB'000	RMB'000
Customer A	199,657	179,361
Customer B	187,663	131,342
Customer C	184,872	145,115
Customer D	183,739	–
Customer E	174,718	109,546
Customer F	136,212	158,056

4. OTHER INCOME

An analysis of other income is as follows:

	2009 RMB'000	2008 RMB'000
Bank interest income	330	147
Sale of raw materials	27,551	17,004
Government grants*	13,000	–
Miscellaneous	33	126
Total other income	40,914	17,277

* During the year, Huili Caitong, a subsidiary of the Group, received government grants for business development purpose. There were no unfulfilled conditions or contingencies relating to these grants.

5. FINANCE COSTS

	Note	2009 RMB'000	2008 RMB'000
Interest on bank loans		4,277	2,706
Interest on discounted notes receivable		3,122	–
Unwinding of discount	27	366	342
Total interest expenses		7,765	3,048
Foreign exchange losses, net		1,477	–
		9,242	3,048

Notes to Financial Statements

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6. PROFIT BEFORE TAX

The Group's profit before tax was arrived at after charging/(crediting):

	Notes	2009 RMB'000	2008 RMB'000
Cost of inventories sold		**582,127**	364,122
Staff costs (including directors' remuneration (note 7)):			
Wages and salaries		**22,807**	17,139
Equity-settled share option expense		**106**	–
Retirement costs			
– Defined contribution fund		**2,858**	1,907
Housing fund			
– Defined contribution fund		**163**	67
Total staff costs		**25,934**	19,113
Depreciation	11	**30,148**	18,720
Amortisation of intangible assets	12	**11,435**	7,774
Amortisation of prepaid land lease payments	13	**925**	119
Depreciation and amortisation expenses		**42,508**	26,613
Minimum lease payments under operating leases:			
Land		**211**	74
Office		**465**	150
Auditors' remuneration		**1,292**	80
Loss on disposal of items of property, plant and equipment		**81**	–
Write-down/(reversal of write-down) of inventories to net realisable value	19	**(943)**	1,805

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2009	2008
	RMB'000	RMB'000
Fees	**595**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**818**	1,126
Equity-settled share option expense	**82**	–
Pension scheme contributions		
– Defined contribution fund	**45**	69
	945	1,195
	1,540	1,195

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 28 to financial statements. The fair value of such options which are being recognised in the statement of comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees and other emoluments paid to independent non-executive directors during the year (2008: Nil) were as follows:

	Fees	**Salaries, allowances and benefits in kind**
	RMB'000	RMB'000
Mr. Yu Haizong	25	9
Mr. Gu Peidong	25	9
Mr. Liu Yi	25	9
Mr. Wu Wei	25	9
	100	36

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7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive directors and non-executive directors

	Fee	Salaries allowances and benefits in kind	Equity-settled share option benefits	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2009					
Executive					
Mr. Jiang Zhong Ping	**116**	**200**	**12**	**13**	**341**
Mr. Liu Feng	**93**	**233**	**16**	**13**	**355**
Mr. Wang Yun Jian	**58**	**179**	**–**	**13**	**250**
Mr. Yu Xing Yuan	**116**	**128**	**27**	**6**	**277**
	383	**740**	**55**	**45**	**1,223**
Non-executive					
Mr. Wang Jin	**31**	**12**	**–**	**–**	**43**
Mr. Zhu Xiao Lin	**31**	**12**	**27**	**–**	**70**
Mr. Teo Cheng Kwee	**25**	**9**	**–**	**–**	**34**
Mr. Devlin Paul Jason	**25**	**9**	**–**	**–**	**34**
	112	**42**	**27**	**–**	**181**
	495	**782**	**82**	**45**	**1,404**
2008					
Executive					
Mr. Jiang Zhong Ping	–	300	–	14	314
Mr. Liu Feng	–	351	–	27	378
Mr. Wang Yun Jian	–	214	–	14	228
Mr. Yu Xing Yuan	–	261	–	14	275
	–	1,126	–	69	1,195
Non-executive					
Mr. Wang Jin	–	–	–	–	–
Mr. Zhu Xiao Lin	–	–	–	–	–
Mr. Teo Cheng Kwee	–	–	–	–	–
Mr. Devlin Paul Jason	–	–	–	–	–
	–	–	–	–	–
	–	1,126	–	69	1,195

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(c) There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2008: Nil).

(d) The five highest paid employees during the year included three (2008: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2008: one) non-director, highest paid employees for the year are as follows:

	2009 RMB'000	2008 RMB'000
Salaries, allowances and benefits in kind	1,668	781
Equity-settled share option expense	12	–
Pension scheme contributions	60	39
	1,740	820

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2009	2008
Nil to HK$1,000,000	1	1
HK$1,000,001 to HK$1,500,000	1	–
	2	1

During the year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 28 to financial statements. The fair value of such options, which are being recognised in the statement of comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

(e) During the year, 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 (2008: Nil).

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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 year.

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 year.

The major components of income tax expenses for the year were as follows:

	2009	2008
	RMB'000	RMB'000
Current – Mainland China		
CIT payable for the year	**71,866**	29,115
Adjustments in respect of current income tax of previous year	**–**	2,614
Deferred	**(2,158)**	(1,662)
Total tax charge for the year	**69,708**	30,067

A reconciliation of the tax expense applicable to profit before tax at the applicable tax rates for companies within the Group to the tax expense at the effective tax rate is as follows:

		2009	2008
	Notes	**RMB'000**	RMB'000
Profit before tax		**436,627**	348,824
Tax at applicable tax rate of 25%		**109,157**	87,206
Lower tax rate for a subsidiary	(i)	**(45,716)**	(67,464)
Expenses not deductible for tax	(ii)	**6,267**	7,711
Adjustments in respect of current income tax of previous year		**–**	2,614
Tax charge at the Group's effective tax rate		**69,708**	30,067

8. INCOME TAX EXPENSE (continued)

(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 22 September 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 had 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 purpose, Huili Caitong was approved to enjoy its tax holiday from 2007 and hence, was 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).

(ii) Expenses not deducted for tax mainly consist of certain IPO transaction costs which were charged to the consolidated statement of comprehensive income.

(iii) On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Law"), which became effective from 1 January 2008. The New CIT Law introduced a wide range of changes which included, but were not limited to, the unification of the income tax rates 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 until the end of 2011. 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 realised 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 realised or settled after 1 January 2008. For Huili Caitong, deferred tax assets and liabilities are measured at 12.5% or 25% depending on whether the assets are expected to be realised or the liabilities settled in 2010 and 2011, or thereafter, respectively.

9. COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated comprehensive income attributable to owners of the Company for the year ended 31 December 2009 includes a comprehensive income of RMB40,595,000 (2008: A loss of RMB23,376,000) which has been dealt with in the financial statements of the Company (note 29).

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10. EARNINGS PER SHARE

The basic earnings per share attributable to ordinary owners of the Company are as follows:

	2009	2008
	RMB'000	RMB'000
Profit attributable to ordinary owners of the Company	327,867	248,675

	Number of shares	
	2009	2008
	'000	'000
Weighted average number of Shares in issue during the year	1,630,000	1,500,000

The weighted average number of Shares used to calculate the basic earnings per Share for the year ended 31 December 2008 is the pro forma number of 1,500,000,000 issued Shares, comprising: (i) number of issued shares as at 31 December 2008 of 10,000 shares; and (ii) the capitalisation issue of 1,499,990,000 Shares as referred to in note 27(f) to financial statements respectively.

The weighted average number of Shares used to calculate the basic earnings per share for the year ended 31 December 2009 includes the weighted average number of Shares of 130,000,000 Shares issued upon the Listing on 8 October 2009 and the Over-Allotment as referred to in notes 27(g) and 27(h) to financial statements, respectively, in addition to the aforementioned 1,500,000,000 Shares.

No diluted earnings per Share amount was presented as there were no potential Shares outstanding during the year ended 31 December 2008 and the exercise price of the Company's outstanding share options was higher than the average market price for the Shares during the year ended 31 December 2009.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress ("CIP") RMB'000	Total RMB'000
31 December 2009							
Cost:							
At 1 January 2009	194,008	169,684	744	3,114	24,491	43,208	435,249
Additions	3,214	1,903	233	640	–	164,058	170,048
Transferred from CIP	58,807	46,233	–	–	–	(105,040)	–
Disposals	(4,133)	–	–	–	–	–	(4,133)
At 31 December 2009	251,896	217,820	977	3,754	24,491	102,226	601,164
Accumulated depreciation:							
At 1 January 2009	33,707	41,744	148	1,306	1,080	–	77,985
Provided for the year	10,986	17,044	159	249	1,710	–	30,148
Disposals	(2,801)	–	–	–	–	–	(2,801)
At 31 December 2009	41,892	58,788	307	1,555	2,790	–	105,332
Net carrying amount:							
At 1 January 2009	160,301	127,940	596	1,808	23,411	43,208	357,264
At 31 December 2009	210,004	159,032	670	2,199	21,701	102,226	495,832

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11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress ("CIP") RMB'000	Total RMB'000
31 December 2008							
Cost:							
At 1 January 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 31 December 2008	194,008	169,684	744	3,114	24,491	43,208	435,249
Accumulated depreciation:							
At 1 January 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 31 December 2008	33,707	41,744	148	1,306	1,080	–	77,985
Net carrying amount:							
At 1 January 2008	41,192	52,917	200	1,274	14,999	12,314	122,896
At 31 December 2008	160,301	127,940	596	1,808	23,411	43,208	357,264

12. INTANGIBLE ASSETS

	Mining rights RMB'000	Exploration and evaluation assets RMB'000	Total RMB'000
31 December 2009			
Cost:			
At 1 January 2009	**149,693**	**–**	**149,693**
Additions	**2,698**	**10,000**	**12,698**
At 31 December 2009	**152,391**	**10,000**	**162,391**
Accumulated amortisation:			
At 1 January 2009	**8,864**	**–**	**8,864**
Provided for the year	**11,435**	**–**	**11,435**
At 31 December 2009	**20,299**	**–**	**20,299**
Net carrying amount:			
At 1 January 2009	**140,829**	**–**	**140,829**
At 31 December 2009	**132,092**	**10,000**	**142,092**
31 December 2008			
Cost:			
At 1 January 2008	145,245	–	145,245
Additions	4,448	–	4,448
At 31 December 2008	149,693	–	149,693
Accumulated amortisation:			
At 1 January 2008	1,090	–	1,090
Provided for the year	7,774	–	7,774
At 31 December 2008	8,864	–	8,864
Net carrying amount:			
At 1 January 2008	144,155	–	144,155
At 31 December 2008	140,829	–	140,829

The mining rights represent rights for the mining of vanadium-bearing titano-magnetite reserves in Baicao Mine and Xiushuihe Mine, both of which are located in Huili County, Sichuan, the PRC. Baicao Mine and Xiushuihe Mine have terms of 20 years each from December 2007 to December 2027.

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13. PREPAID LAND LEASE PAYMENTS

	2009 RMB'000	2008 RMB'000
Carrying amount at 1 January	23,177	–
Additions	26,637	23,296
Amortisation for the year	(925)	(119)
Carrying amount at 31 December	48,889	23,177

Prepaid land lease payments represented costs of land use rights in respect of the Group's leasehold land located in Sichuan, the PRC, and are held under medium lease terms.

14. INVESTMENTS IN SUBSIDIARIES

	2009 RMB'000	2008 RMB'000
Unlisted investments, at cost		
Powerside Holdings Limited ("Powerside")	1	1
First China Limited ("First China")	618,699	618,699
	618,700	618,700

The amounts due from/to subsidiaries as at 31 December 2009 and 2008 included in the Company's current assets and current liabilities were unsecured, interest-free and were repayable on demand or within one year. The carrying amounts of the amounts due from/to subsidiaries approximate to their fair values.

14. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries are set out below:

Company name	Place and date of incorporation/ registration	Nominal value of issued registered share/paid-up capital	Percentage of equity interests attributable to the Company %	Principal activities
Directly held:				
Powerside	British Virgin Islands 8 January 2008	US$1	100.0	Investment holding
First China	Hong Kong 5 March 2008	HK$1	100.0	Investment holding
Indirectly held:				
Simply Rise Holdings Limited ("Simply Rise")	Hong Kong 2 January 2008	HK$1	100.0	Investment holding
Huili Caitong*	PRC 7 July 1998	RMB400,000,000	92.77	Iron ore mining, and iron ore beneficiation, and sale of self-produced products
Huili County Xiushuihe Mining Co., Ltd. ("Xiushuihe Mining")	PRC 21 March 2000	RMB7,990,000	95.0	Iron ore mining and iron ore beneficiation, and sale of self- produced products

* On 23 December 2009, the Group increased its equity interest in Huili Caitong by way of additional capital injection of an amount of RMB221,429,000. The additional capital injection was satisfied by cash. Upon the completion of additional capital injection, the registered capital of Huili Caitong increased from RMB178,571,000 to RMB400,000,000.

The difference of RMB5,022,000 between the minority shareholders' share of net assets in Huili Caitong before and after the Group's additional capital injection in Huili Caitong has been recognised as "Gain on deemed acquisition of minority interests" and accounted for as an equity transaction.

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15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2009	2008	**2009**	2008
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current portion:					
Prepayments consisted of:					
Prepayments for CIP and purchase of machinery		**154**	8,999	**–**	–
Purchase of raw materials		**67**	15	**–**	–
Utilities		**550**	780	**–**	–
Fees paid to the processing contractor	(a)	**–**	29,603	**–**	–
Prepaid stripping fees	(b)	**87,216**	39,978	**–**	–
Deferred listing fees		**–**	7,139	**–**	7,139
Other receivables		**3,123**	2,340	**524**	13
		91,110	88,854	**524**	7,152
Non-current portion:					
Prepaid stripping fees	(b)	**29,165**	–	**–**	–
Long-term deposits	(c)	**1,277**	–	**–**	–
		30,442	–	**–**	–
		121,552	88,854	**524**	7,152

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

(b) The balances represented deferred stripping costs capitalised for contracting fees paid by the Group to an independent third party mining contractor for the stripping activities of Baicao Mine and Xiushuihe Mine, which will be recognised as part of the production costs once the raw iron ore is put into use.

(c) Long-term deposits represented environmental deposits made to the government in respect of the Group's rehabilitation obligations for the closure of Baicao Mine and Xiushuihe Mine and are not expected to be refunded within the next 12 months.

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

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

16. PAYMENTS IN ADVANCE

	Note	2009 RMB'000	2008 RMB'000
Advance payments in respect of:			
Purchase of land use rights	(a)	–	3,217
Purchase of property, land and equipment		99,630	–
Carrying amount at 31 December		99,630	3,217

(a) As at 31 December 2008, the balance represented advance payment made to Huili County Land and Resources Bureau for the acquisition of state-owned land use rights of certain land located at Baicao Mine. The payment in advance was accounted for as part of the cost of land use rights when they were obtained by the Group in February 2009.

17. GOODWILL

	2009 RMB'000	2008 RMB'000
At cost		
At beginning and end of year	15,318	15,318

Goodwill, which arose on the acquisition of Xiushuihe Mining by Huili Caitong, 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 recognised 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%.

The following are the key assumptions 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 management's expectations for market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

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18. DEFERRED TAX ASSETS

	Excess tax depreciation over book value of property, plant and equipment	Provision for rehabilitation	Unrealised profit from inter-company transactions	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 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 31 December 2008	3,705	1,335	808	–	5,848
Deferred tax credited/(charged) to consolidated statement of comprehensive income during the year	1,476	91	(179)	770	2,158
At 31 December 2009	5,181	1,426	629	770	8,006

The basis for determining the PRC CIT rate is set out in note 8(i).

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 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the Mainland China and the jurisdiction of the foreign investors. Pursuant to the "Arrangement between the Mainland China 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 1 January 2007 and "Guoshuihan [2009] No. 81" promulgated on 20 February 2009, the payment of dividend by Huili Caitong to Simply Rise and First China, which hold 72.0% and 18.5% equity interests 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 resolutions of the board of directors of Huili Caitong on 9 February 2009, 16 July 2009 and 27 January 2010, the net profit of Huili Caitong for the years ended 31 December 2008 and 2009, after appropriations to the statuary reserve fund, would be used for business development of Huili Caitong and would 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 years ended 31 December 2008 and 2009 have been recognised.

19. INVENTORIES

	2009 RMB'000	2008 RMB'000
At cost:		
Raw materials	41,405	34,062
Spare parts and consumables	17,465	10,567
Finished goods	11,606	20,059
	70,476	64,688
At net realisable value:		
Finished goods	428	907
At the lower of cost and net realisable value	70,904	65,595

During the year, a reversal of the provision for write-down of finished goods to net realisable value of RMB943,000 was made in respect of finished goods sold during the year. The provision recorded at 31 December 2008 of RMB1,805,000 was in respect of the write-down of finished goods to net realisable value.

20. TRADE AND NOTES RECEIVABLES

	2009 RMB'000	2008 RMB'000
Trade receivables	88,927	82,432
Notes receivables	48,500	5,200
	137,427	87,632

Trade receivables of the Group represented proceeds receivable from the sale of goods.

As disclosed in note 3, the Group sells most of its products to a small number of customers. As a result, it faces a high level of concentration of credit risk. The Group manages this risk by offering standardised 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. The Group seeks to maintain strict control over its outstanding receivables and senior management regularly reviews the overdue balances. Trade receivables are non-interest-bearing.

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20. TRADE AND NOTES RECEIVABLES (continued)

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2009 RMB'000	2008 RMB'000
Within 1 month	79,911	82,417
1 to 2 months	9,016	15
	88,927	82,432

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

	2009 RMB'000	2008 RMB'000
Trade receivables		
– Neither past due nor impaired	79,911	82,417
– Less than 1 month past due	9,016	15
	88,927	82,432

Receivables that were past due but not impaired relate to an independent customer that has a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The carrying amounts of trade and notes receivables approximate to their fair values.

21. BALANCES WITH RELATED PARTIES

Group

	Notes	2009 RMB'000	2008 RMB'000
Due from related parties:			
Trade in nature			
– Weiyuan Steel	(a)	**49,496**	29,541
Non-trade in nature			
– Jian An	(b)	**–**	892
– Trisonic International	(c)	**314**	–
		49,810	30,433
Due to related parties:			
Trade in nature			
– Longwei Metal	(d)	**4,036**	–
– Xichang Vanadium	(e)	**–**	132
Non-trade in nature			
– Trisonic International	(c)	**–**	11,924
– Sichuan Huiyuan	(f)	**91**	410
– Longwei Hotel	(g)	**127**	–
		4,254	12,466

(a) The balance due from Weiyuan Steel, which is a company controlled by Trisonic International, represents receivable from the sale of goods to Weiyuan Steel and aged within 30 days as at the end of the reporting period.

(b) Sichuan Chuanwei Construction and Installation Project Co., Ltd. ("Jian An") is a company controlled by Chuan Wei. Both Chuan Wei and Trisonic International are ultimately controlled by the same group of individual shareholders. The balance represents prepayment made for construction of high grade titanium production line at Baicao Mine.

(c) The balance due to Trisonic International represented listing fees paid on behalf of the Company for the Listing, which were over-paid in 2009, giving rise to a receivable.

(d) Sichuan Longwei Metal Ware Co., Ltd. ("Longwei Metal"), is a company controlled by Chuan Wei.

(e) Xichang Vanadium and Titanium Products Co., Ltd. ("Xichang Vanadium") is the minority shareholder of Huili Caitong and Xiushuihe Mining. The balance due to Xichang Vanadium represents payable for the purchase of raw materials.

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21. BALANCES WITH RELATED PARTIES (continued)

Group (continued)

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

(g) 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 partially owned by Chuan Wei, and shareholders of Trisonic International. The balance due to Longwei Hotel represents rental payable to Longwei Hotel for the leasing of office premises by Huili Caitong.

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

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

Company

	2009 RMB'000	2008 RMB'000
Due from/(to) a related party:		
Non-trade in nature		
– Trisonic International	343	(11,908)

The carrying amounts of the amounts from/(to) a related party approximate to their fair values.

22. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Cash and bank balances	1,267,667	133,138	389,239	–
Time deposits	616,336	–	616,336	–
	1,884,003	133,138	1,005,575	–
Less: Pledged bank balance	–	(40)	–	–
Cash and cash equivalents	1,884,003	133,098	1,005,575	–

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

22. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES (continued)

The Group's cash and bank balances are denominated in RMB at the end of each reporting period, except for the following:

	RMB equivalent	
	31 December 2009 RMB'000	31 December 2008 RMB'000
Cash and bank balances:		
HK$	**1,275,788**	2
US$	**3**	3

The RMB is not freely convertible into other currencies, however, under Mainland China'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 authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for three months, and earn interest at the short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

The carrying amounts of the cash and cash equivalents approximate to their fair values.

23. TRADE PAYABLES

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

	2009 RMB'000	2008 RMB'000
Within 180 days	**81,075**	107,512
181 to 365 days	**3,140**	191
1 to 2 years	**1,471**	141
2 to 3 years	**78**	18
Over 3 years	**185**	168
	85,949	108,030

Trade payables are non-interest-bearing and are normally settled in 60 to 180 days. The carrying amounts of trade payables approximate to their fair values.

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24. OTHER PAYABLES AND ACCRUALS

Group

	Note	2009 RMB'000	2008 RMB'000
Current portion:			
Advances from customers		4,325	2,783
Payables related to:			
Construction in progress		63,234	26,067
Taxes other than income tax		31,081	20,538
Payroll and welfare payable		5,715	4,416
Mining rights		771	39,446
Sichuan Nanjiang Mining Co., Ltd.			
– Nanjiang Project Consideration	(a)	52,338	15,468
– Technical service fee	(a)	7,700	2,721
Consulting fee		343	493
Listing fees		25,952	11,164
Land use rights		–	14,301
Deposits received		382	397
Other payables		7,011	1,962
		198,852	139,756
Non-current portion:			
Nanjiang Project Consideration	(a)	–	51,870
		–	51,870
		198,852	191,626

(a) Pursuant to series of co-operation agreements entered into between the Group and Nanjiang for a period from June 2008 to November 2023 (the "Nanjiang Agreement"), whereby Nanjiang is required to construct two production lines and update one production line at Xiushuihe Mining (collectively referred to as "Nanjiang Project") and provide technical support service to Xiushuihe Mining. The consideration for the Nanjiang Project (the "Nanjiang Project Consideration") was determined at RMB67,338,000 based on the audited construction costs incurred by Nanjiang, and is repayable starting from the completion of the Nanjiang Project. The principal repayment is determined at 85% x {9% of the profit generated from Nanjiang Project on sales volume within 150 kt + 50% of the profit generated from the Nanjiang Project above sales volume of 150 kt (referred to as "Sum of Profits")}. The remaining 15% of the Sum of Profits will be paid to Nanjiang as a technical service fee for its provision of technical support services to Xiushuihe Mining. Upon full settlement of the Nanjiang Project Consideration, the entire Sum of Profits for each financial year will be paid to Nanjiang as a technical service fee until the expiry of the Nanjiang Agreement.

Please refer to the note 36 (a) for the amendment of certain provisions under the Nanjiang Agreement subsequent to the end of the reporting year.

24. OTHER PAYABLES AND ACCRUALS (continued)

Group (continued)

Except as disclosed in note (a) above, the 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 values.

Company

As of 31 December 2008 and 2009, other payables mainly represented listing fees payable for the Listing.

25. INTEREST-BEARING BANK LOANS

	2009 RMB'000	2008 RMB'000
Repayable within one year		
Unsecured	100,000	–

In accordance with the loan agreement entered into between Huili Caitong and China Construction Bank, Xichang Branch (the "Lender"), Huili Caitong agreed not to mortgage or pledge any of Huili Caitong's land use rights or mining rights to any parties, and the Lender will be entitled to a pre-emption right in the event of such mortgage or pledge.

As at 31 December 2009, the unsecured bank loan bore interest at a fixed rate of 5.31% per annum and was denominated in RMB.

The carrying amount of the Group's bank loan approximates to its fair value.

26. PROVISION FOR REHABILITATION

	2009 RMB'000	2008 RMB'000
At the beginning of year	5,341	4,999
Unwinding of discount *(note 5)*	366	342
At end of year	5,707	5,341

A provision for rehabilitation is mainly recognised 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 the closure and environmental restoration and 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 and are discounted at a discount rate of 6.84% (2008: 6.84%). Changes in assumptions could significantly affect these estimates.

Subsequently, the provision for rehabilitation will be increased each year by the accretion of interest due to the passage of time which is recognised as interest expense.

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27. SHARE CAPITAL

Shares

	2009 RMB'000	2008 RMB'000
Authorised:		
10,000,000,000 (2008: 3,800,000) Shares of HK$0.1 each	**880,890**	335
Issued and fully paid:		
2,075,000,000 (2008: 10,000) Shares of HK$0.1 each	**182,787**	1

The following changes in the Company's authorised and issued share capital took place during the period from the date of incorporation to 31 December 2009:

	Notes	Number of ordinary shares	Nominal value of ordinary shares RMB'000
Authorised:			
At the date of incorporation and 31 December 2008 (3,800,000 shares of HK$0.1 each)	(a)	3,800,000	335
Increase in authorised capital	(b)	9,996,200,000	880,555
As at 31 December 2009		10,000,000,000	880,890
Issued and fully paid:			
At the date of incorporation (1 share of HK$0.1)	(c)	1	–
Issue of new shares	(d)	7,955	1
Issue of new shares	(e)	2,044	–
As at 31 December 2008 and 1 January 2009		10,000	1
Capitalisation of share premium account	(f)	1,499,990,000	132,133
Issue of new shares	(g)	500,000,000	44,045
Issue of new shares	(h)	75,000,000	6,608
As at 31 December 2009		2,075,000,000	182,787

27. SHARE CAPITAL (continued)

(a) On the date of incorporation of the Company, the authorised share capital of the Company was HK$380,000 divided into 3,800,000 shares of HK$0.10 each.

(b) On 4 September 2009, pursuant to the written resolutions of the Company's shareholders, the Company's authorised share capital was increased from HK$380,000 to HK$1,000,000,000 by the creation of an additional of 9,996,200,000 shares of HK$0.10 each.

(c) On the date of incorporation of the Company, one share of HK$0.10 was allotted and issued for cash.

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

(e) On 21 July 2008, the Company acquired the entire share capital of First China by issuing an additional 2,044 Shares, which were credited as fully paid share capital, to the former shareholder of First China.

(f) On 4 September 2009, pursuant to the written resolutions of the Company's shareholders, an aggregate of 1,499,990,000 shares of HK$0.10 each of the Company were allotted and issued, credited as fully paid at par, by way of capitalisation of a sum of HK$149,999,000 from the share premium account, to the Company's shareholders at that date. Such allotments were paid in full by applying an amount of conditional on the share premium account being credited as a result of the issue of new Shares to the public in connection with the Listing as detailed in (g) below.

(g) In connection with the Listing, 500,000,000 shares of HK$0.10 each were issued at a price of HK$3.50 per Share for a total cash consideration, before listing expenses, of HK$1,750,000,000.

The proceeds of HK$50,000,000, representing the par value, have been credited to the Company's share capital and the remaining proceeds of HK$1,700,000,000 have been credited to the share premium account

(h) In connection with the Listing, the Company granted an over-allotment option to the international underwriters, whereby the Company was required to allot and issue up to an aggregate of 75,000,000 additional Shares to cover any over-allocation in the international offering.

On 27 October 2009, the over-allotment option was exercised and accordingly 75,000,000 new Shares were issued by the Company at a price of HK$3.50 per Share for a total cash consideration, before expenses, of approximately HK$262,500,000.

The proceeds of HK$7,500,000, representing the par value, have been credited to the Company's share capital and the remaining proceeds of HK$255,000,000 have been credited to the share premium account.

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28. SHARE OPTION SCHEME

The Company operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include the Directors, including non-executive Directors, and other employees of the Group. The Share Option Scheme was approved by the Company's shareholders on 4 September 2009 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme shall not, in aggregate, exceed 200,000,000 Shares, being 10% of the Shares in issue immediately after the IPO. The maximum number of Shares issuable under the Share Option Scheme to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the Shares in issue as of the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to Directors, chief executives, Directors and chief executives who are substantial shareholders of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors (excluding the independent non-executive Directors who are the grantees of the options). In addition, for any share options granted to substantial shareholders or independent non-executive Directors of the Company, or to any of their associates in excess of 0.1% of the Shares in issue and with an aggregate value (based on the closing price of the Shares quoted on the Stock Exchange at the date of grant) in excess of HK$5 million, such grant made within any 12-month period from the date of grant (inclusive) would be subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of 2.5 to 5 years and ends on a date which is a period of 10 years from the date of grant.

The exercise price of share options is determinable by the Directors, but may not be less than the higher of (i) the nominal value of the Shares; (ii) the closing price of the Shares as stated on the Stock Exchange's daily quotation sheet on the date of offer of the share options; and (iii) the average closing price of the Shares as stated on the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The exercise prices and exercise periods of the share options outstanding as at 31 December 2009 (2008: Not applicable) are as follows:

Number of options	**Exercise price per share**	**Exercise period**
'000	HK$	
13,600	5.05	From 29 June 2012 to 28 December 2019
13,600	5.05	From 29 December 2014 to 28 December 2019

28. SHARE OPTION SCHEME (continued)

The fair value of the share options granted during the year was HK$75,009,000 (equivalent to approximately RMB66,075,000) or HK$2.76 each (equivalent to approximately RMB2.43 each) of which the Group recognised a share option expense of HK$120,000 (approximately RMB106,000) during the year ended 31 December 2009 (2008: Not applicable).

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	1.41
Expected volatility (%)	68.56
Risk-free interest rate (%)	2.652

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 27,200,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 27,200,000 additional Shares and additional share capital of HK$2,720,000 and share premium of HK$134,640,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 27,200,000 share options outstanding under the Share Option Scheme, which represented approximately 1.31% of the Shares in issue as at that date.

29. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 50 of the financial statements.

(a) Share premium

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.

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29. RESERVES (continued)

Group (continued)

(b) *Statutory surplus reserve and statutory reserve fund*

In accordance with the Company Law of the PRC and the respective articles of associations 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 Generally Accepted Accounting Principles ("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 22 September 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 capitalised as paid-up capital.

(c) *Contributed surplus*

The contributed surplus represented the difference between nominal value of the Company's shares issued in exchange for the subsidiaries acquired as part of the Reorganisation and the aggregate amount of the nominal value of the paid-up capital of these subsidiaries attributable to the owners of the Company.

29. RESERVES (continued)

Company

The amounts of the Company's reserves and the movements therein for the current and prior year are as follows:

	Notes	Share premium account RMB'000	Share option reserve RMB'000	Retained earnings/ (accumulated) losses RMB'000	Total RMB'000
At 1 January 2008		–	–	–	–
Total comprehensive income for the year		–	–	(23,376)	(23,376)
Issue of new shares	27	618,084	–	–	618,084
At 31 December 2008 and 1 January 2009		618,084	–	(23,376)	594,708
Total comprehensive income for the year		–	–	40,595	40,595
Issue of new shares	27(g)	1,497,513	–	–	1,497,513
Issue of new shares	27(h)	224,660	–	–	224,660
Capitalisation of share premium account	27(f)	(132,133)	–	–	(132,133)
Share issue expenses		(111,140)	–	–	(111,140)
Equity-settle share option arrangement	28	–	106	–	106
Dividends declared	30	–	–	(20,000)	(20,000)
At 31 December 2009		2,096,984	106	(2,781)	2,094,309

30. DIVIDENDS

On 24 February 2009, the Company declared one-off and non-recurring special dividend 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 were derived from the distributable reserves of Huili Caitong prior to 1 January 2008, such dividends were not subject to PRC withholding tax.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2009.

31. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

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32. OPERATING LEASE ARRANGEMENTS

As lessee

The Group entered into commercial leases on certain office buildings based on the reason that it is not in the best interest of the Group to purchase these assets. These leases have an average life of 1 to 5 years.

At 31 December 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**1,028**	91	**836**	–
In the second to fifth years, inclusive	**1,579**	177	**1,394**	–
	2,607	268	**2,230**	–

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the end of the reporting period:

	2009	2008
	RMB'000	RMB'000
Contracted, but not provided for:		
– Plant and machinery	**319,893**	7,922
– Exploration and evaluation assets	**22,916**	–
	342,809	7,922
Authorised, but not contracted for:		
– Land use rights	**–**	17,973
– Reservoir	**–**	36,000
– Plant and machinery	**93,767**	94,372
	93,767	148,345
Total capital commitments	**436,576**	156,267

34. RELATED PARTY TRANSACTIONS

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

Name of related parties	Notes	2009 RMB'000	2008 RMB'000
Recurring transactions			
Sales of goods			
Weiyuan Steel	(i)	199,657	179,361
Xichang Vanadium	(i)	–	240
		199,657	179,601
Office rental			
Longwei Hotel	(ii)	123	37
Non-recurring transactions			
Purchases of goods			
Longwei Metal	(i)	3,444	–
Xichang Vanadium	(i)	–	353
		3,444	353
Transportation fee			
Sichuan Chuanwei Tongyu Transportation Co., Ltd. ("Tongyu")*	(iii)	227	502
Construction of property, plant and equipment			
Sichuan Huiyuan	(iv)	–	1,040
Disposal of property, plant and equipment			
Tongyu*	(v)	1,251	–

* This is a company controlled by Chuan Wei.

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34. RELATED PARTY TRANSACTIONS (continued)

(a) During the year, the Group had the following material transactions with related parties: (continued)

(i) 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.

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

(iii) The directors consider that the fees for transportation service provided by the related company was determined based on price similarly available to third party customers. The transportation fee mainly represents the road transportation cost for the purchase and delivery of the Group's products.

(iv) The directors consider that the design fee for the construction of production line from a related company was determined based on price similarly available to third party customers.

(v) The items of property, plant and equipment were disposed of for a consideration approximate to their respective net book values of RMB1,332,000.

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

	2009 RMB'000	2008 RMB'000
Fees	**384**	–
Basic salaries and other benefits	**3,197**	2,500
Equity-settled share option expense	**66**	–
Pension scheme contributions	**108**	89
Total compensation paid to key management personnel	**3,755**	2,589

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, dividends payable, and interest-bearing bank loans.

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 summarised below.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 the end of each reporting period, based on the contractual payments, was as follows:

	31 December 2009				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank loans	–	100,000	–	–	100,000
Trade payables	4,874	81,075	–	–	85,949
Other payables and accruals	138,814	–	60,038	–	198,852
Dividends payable	1,801	–	–	–	1,801
Due to related parties	4,254	–	–	–	4,254
	149,743	181,075	60,038	–	390,856

	31 December 2008				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade 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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35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group's exposure to interest rate risk relates primarily 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 25. The Group manages its interest rate exposure arising 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 50 basis points in the interest rates would have no material impact on the Group's consolidated statement of comprehensive income during the year.

Credit risk

Substantial amounts of the Group's cash and cash equivalents are held in major reputable financial institutions located in Mainland China and Hong Kong, which management believes are of high credit quality. The credit risk of the Group's other financial assets, which comprise trade and notes receivables, other receivables and amount due from related parties, 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.

As disclosed in Note 3, the Group sells most of the products to a small number of customers. As a result, it faces a high level of concentration of credit risk. The Group manages this risk by offering standardised credit terms given to its customers of iron ore products for an approved credit term of 30 days. For the sale of medium-grade titanium products, the Group generally requires full payment prior to delivery. The Group seeks to maintain strict control over its outstanding receivables and senior management regularly reviews the overdue balances. 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 year, 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 steel producers, thereby exposing the Group to the concentration of credit risk in the steel industry.

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 cash and cash equivalents that are denominated in HK$ arising from proceeds from the Listing.

The Group does not enter into any hedging transactions to manage the potential fluctuation in foreign currencies as the directors consider the Group will utilise the proceeds from the Listing to expand its business operations in Mainland China in the near future.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of cash and cash equivalents denominated in HK$).

	Increase/ (decrease) in HK$ exchange rate %	Increase/(decrease) in profit before tax for the year ended 31 December 2009 RMB'000
If RMB weakens against HK$	5	63,789
If RMB strengthens against HK$	(5)	(63,789)

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 instruments. 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 maturity at the end of each reporting periods.

Capital management

The primary objective of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' 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 year.

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 equity plus net debt. The Group's policy is to keep the gearing ratio between 20% and 50% over the long term. Net debt is defined as interest-bearing bank loans, net of cash and bank balances and it excludes liabilities incurred for working capital purposes. Equity includes equity attributable to the owners of the Company and minority interests.

As at 31 December 2008 and 2009 respectively, the Group's cash and bank balances exceeded the total interest-bearing bank loans. As such, no gearing ratio as at 31 December 2008 or 31 December 2009 is presented.

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36. EVENTS AFTER THE REPORTING PERIOD

(a) On 15 January 2010, Xiushuihe Mining and Nanjiang executed a Termination Agreement (the "Termination Agreement"), pursuant to which parties to the Termination Agreement agreed to amend or terminate certain provisions under the Nanjiang Agreement dated 18 March 2009. The reason for the amendment or termination is to reduce the amount of technical support service fee payable to Nanjiang under the Nanjiang Agreement. Key provisions under the Termination Agreement are as follows:

- Change of repayment terms of the Nanjiang Project Consideration

  Within 90 days from the date of the Termination Agreement, Xiushuihe Mining shall pay to Nanjiang approximately RMB85 million as part repayment of the outstanding construction costs under the Nanjiang Agreement. The outstanding construction costs of RMB85.0 million include the costs of the upgrade and construction of iron and titanium concentrates production lines. As a result of the Termination Agreement, the balance of the Nanjiang Project Consideration as at 31 December 2009 of RMB52.4 million, would be settled in full in 2010.

- Settlement of technical support service fee under the Nanjiang Agreement

  Within 90 days from the date of the Termination Agreement, Xiushuihe Mining shall pay to Nanjiang approximately RMB7.7 million as the technical support service fee for the period of 1 July 2008 to 31 December 2009 under the Nanjiang Agreement.

- Continuous technical support to be provided by Nanjiang

  Nanjiang will continue to provide technical service support to Xiushuihe Mining in relation to the Nanjiang Project until 31 December 2024. Within 180 days from the date of the Termination Agreement, Xiushuihe Mining shall make an one-off prepayment to Nanjiang of approximately RMB62.0 million as technical service support fee for a period of 15 years ending on 31 December 2024. As such, the prepaid technical support fee will be amortised according to straight line method based on the terms of technical service to be provided by Nanjiang with yearly technical fee of approximately RMB4.1 million.

Particulars of the Termination Agreement are set out in the Company's announcement dated 15 January 2010.

(b) On 22 December 2009, Huili Caitong, Huilixian Yangqueqing Iron Mine ("HYIM") and the sole proprietor of HYIM entered into a non-binding framework agreement relating to the transfer of the mining right of Yangqueqing Iron Mine (the "Framework Agreement 1"). On 11 January 2010, Huili Caitong paid RMB61.0 million as a deposit under the Framework Agreement 1. Such deposit could be applied as part of the repayment of the purchase consideration when parties in the Framework Agreement 1 enter into a definitive agreement. On 16 January 2010, parties to the Framework Agreement 1 entered into the definitive agreement to obtain the mining right of Yangqueqing Iron Mine at a purchase consideration of RMB200 million. The purchase consideration is determined by reference to the valuation conducted by an independent PRC assets valuer. After applying the deposits as part of the payment of the purchase consideration, the balance of the remaining purchase consideration is payable by five separate installments.

Particulars of the agreement for the transfer of the mining right of Yangqueqing Iron Mine are set out in the Company's announcement dated 18 January 2010.

36. EVENTS AFTER THE REPORTING PERIOD (continued)

(c) On 3 February 2010, Huili Caitong, and Yanbian County Caitong Iron and Titanium Co., Ltd. (the "Lessee"), a wholly-owned subsidiary of Huili Caitong incorporated subsequent to 31 December 2009 have entered into a lease agreement (the "Lease Agreement") with Yanbian County Hongyuan Mining Co., Ltd. (the "Lessor"). Pursuant to the Lease Agreement, the Lessee has agreed to rent the iron and high-grade titanium concentrates production line and other assets related to the production line (the "Leased Assets") for a term of approximately 6 months commencing from 3 February 2010 to 31 July 2010 for a rental of RMB2.5 million per month. During the term of the Lease Agreement, Huili Caitong has the option to acquire the Leased Assets which is subject to the results of due diligence against the Leased Assets and at its sole discretion (the "Option"). In the event that Huili Caitong decides to exercise the Option by serving written notice to the Lessor, the Lessor shall diligently conduct negotiation with Huili Caitong to procure the signing of a definitive assets transfer agreement.

Particulars of the Leased Agreement are set out in the Company's announcement dated 4 February 2010.

(d) On 24 December 2009, Huili Caitong and Huili Hailong entered into a non-binding framework agreement (the "Framework Agreement 2") relating the acquisition of the mine exploration right of Cizhuqing Mine ("Exploration Right") together with certain assets at an iron concentrates production facility located ("Target Assets") at an iron concentrates production facility located at Xiaoheiqing Town, Huili County, Sichuan. On 11 January 2010, Huili Caitong paid RMB120.0 million as a deposit under the Framework Agreement 2. Such deposit could be applied as part of the repayment of the purchase consideration when parties to the Framework Agreement 2 enter into a definitive agreement. On 3 February 2010, Huili Caitong, Huili Hailong and the major shareholder of Huili Hailong entered into an assets transfer agreement to acquire the Exploration Right and Target Assets at consideration of RMB120.0 million and RMB190.0 million, respectively. The part of the consideration relating to the Target Assets is based on the valuation conducted by an independent PRC assets valuer. The part of the consideration relating to the Exploration Right is based on arm's length negotiation with reference to the market price of per tonne of iron ore resources. After applying the deposits as part of the payment of the purchase consideration, the balance of the remaining purchase consideration is payable by three separate installments.

Particulars of the agreement for the acquisition of the Exploration Right and Target Assets are set out in the Company's announcement dated 4 February 2010.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 February 2010.

Glossary

"AGM"	the Shareholders' annual general meeting to be held on 15 April 2010
"Articles of Association" or "Articles"	the memorandum and articles of association of our Company, adopted on 4 September 2009 and as amended from time to time
"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Baicao Mine"	the Baicao vanadium-bearing titano-magnetite mine located in Xiaoheiqing Townlet, Huili County, Sichuan, the PRC and operated by Huili Caitong
"Baicao Processing Plant"	the ore processing plant located at our Baicao Mine
"beneficiation"	a process to upgrade the mineralised content of an ore or of ore concentrates typically through flotation, gravity or magnetic separation
"Board" or "Board of Directors"	our board of Directors
"Cayman Islands Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"CG Code"	the Code on Corporate Governance Practice as set out in Appendix 14 to the Listing Rules
"Chengdu-Chongqing Economic Zone"	an economic zone incorporates 14 cities of Sichuan and 23 districts and counties of Chongqing for the purpose of urban-rural comprehensive reform in Sichuan and Chongqing
"China" or "PRC"	the People's Republic of China, but for the purposes of this annual report, excluding Hong Kong
"Chongqing"	Chongqing Municipality in China
"Chuan Wei"	Sichuan Chuanwei Group Co., Ltd. (四川省川威集團有限公司), a limited liability company established in the PRC on 29 March 1998 and a connected person to our Group
"Cizhuqing Mine"	the vanadium-bearing titano-magnetite mine located at Huili County, Liangshanzhou, Sichuan, the PRC whose permitted exploration area is approximately 2.30 sq.km.
"Companies Ordinance"	Companies Ordinance, (Chapter 32 of the Laws of Hong Kong) as amended and supplemented from time to time
"Company" or "our Company", "we" or "us"	China Vanadium Titano-Magnetite Mining Company Limited (中國釩鈦磁鐵礦業有限公司), a limited liability company incorporated in the Cayman Islands on 28 April 2008 and, except where the context indicates otherwise, including our subsidiaries
"concentrates"	the product of ore processing plants that contain higher concentrations of the minerals and are suitable for smelting
"connected person"	has the meaning ascribed thereto in the Listing Rules

Glossary

"Controlling Shareholder(s)"	has the meaning ascribed thereto in the Listing Rules and in the context of this report, refers to Trisonic International, Kingston Grand, Messrs. Wang Jin, Shi Yinjun, Yang Xianlu, Wu Wendong, Zhang Yuangui and Li Hesheng
"Director(s)"	director(s) of our Company or any one of them
"First Independent Third Party Pelletising Contractor"	Panzhihua Henghong Iron Pellets Co., Ltd. (攀枝花恒弘球團有限公司), established on 20 July 2005, a limited liability company (non-state owned) and an independent third party contractor which entered into a pelletising contract with us with effect from December 2008
"First Independent Third Party Processing Contractor"	Yanbian County Hongyuan Mining Co., Ltd. (鹽邊縣宏緣礦業有限責任公司), established on 25 April 2001, a limited liability company (non-state owned) and an independent third party contractor which entered into a processing contract with us with effect from August 2006. It commenced the production of iron concentrates and medium-grade titanium concentrates from our ore in January 2007
"grade"	the concentration, commonly expressed as percentage or grams per tonne, of useful elements, minerals or their components in any ore or concentrate
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HK$"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"Huili County"	a county in Sichuan
"Huili Caitong"	Huili County Caitong Iron and Titanium Co. Ltd. (會理縣財通鐵鈦有限責任公司), established in the PRC on 7 July 1998 and is a Sino-foreign equity joint venture enterprise in the PRC
"Huili Hailong"	Huili County Hailong Mining Development Co. Ltd. (會理縣海龍礦產有限責任公司), a limited liability company established in the PRC who is owned as to 76.69% by Mr. Luo Hong You, a PRC individual
"IFRSs"	International Financial Reporting Standards, which comprise standards and interpretations approved by International Accounting Standards Board (the "IASB") and the International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect
"IPO"	the initial public offering and listing of Shares of the Company on the Main Board on 8 October 2009
"iron"	a silvery-white, lustrous, malleable, ductile, magnetic or magnetisable, metallic element occurring abundantly in combined forms, notably in hematite, limonite, magnetite, and taconite, and alloyed for use in a wide range of important structural materials
"iron ore"	compounds of iron and oxygen (iron oxides) mixed with impurities (gangue); it is a mineral which when heated in the presence of a reductant will yield metallic iron

Glossary

"iron concentrates"	concentrates whose main mineral content (by value) is iron
"iron pellets"	a round hardened clump of iron-rich material suitable for application in blast furnaces
"Iron Pelletising Plant"	our plant that produces iron pellets and is located approximately 36 km from our Xiushuihe Mine
"km"	kilometer(s), a metric unit measure of distance
"Kt"	thousand tonnes
"Kingston Grand"	Kingston Grand Limited, a company incorporated in the British Virgin Islands on 20 February 2007, holder of 40% of the issued share capital of Trisonic International and one of our Controlling Shareholders and a connected person to our Group owned as to 60% by Mr. Wang Jin and 40% by Sapphire Corporation Limited
"Listing"	listing of the Shares on the Stock Exchange pursuant to the IPO
"Listing Date"	8 October 2009
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	the Main Board of the Stock Exchange
"mining rights"	the rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed
"Ministry of Finance"	Ministry of Finance of the PRC (中華人民共和國財政部)
"Model Code"	Model Code for Securities Transactions by Directors of the Listed Issues as set out in Appendix 10 of the Listing Rules
"Messrs."	Messieurs
"Mr."	Mister
"Mt"	million tonnes
"Nanjiang"	Sichuan Nanjiang Mining Group Co., Ltd. (四川南江礦業集團有限公司), established on 10 April 1996, a limited liability company (non-state owned) and an independent third party which entered into a new cooperation agreement with us with effect from 18 March 2009
"ore processing"	the process which in general refers to the extraction of usable portions of ores by using physical and chemical extraction methods
"ore resource(s)" or "resource(s)"	a concentration or occurrence of iron ore of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction

Glossary

"Over-Allotment"	the exercise of the over-allotment option, pursuant to the announcement published by the Company on 28 October 2009
"Panxi Region"	a region in Sichuan located southwest of Chengdu reaching from Panzhihua to the Xichang region
"pelletising"	a process to compress the iron ore into the shape of a pellet
"Prospectus"	the prospectus of the Company dated 24 September 2009 issued in connection with IPO
"Renminbi" or "RMB"	the lawful currency of the PRC
"Reorganisation"	the corporate reorganisation of our Group effected for the preparation for the Listing, details of which are set out in the "History, Reorganisation and Group Structure" section to the Prospectus
"reserve(s)"	the part of a measured and/or indicated resource which could be mined and from which valuable or useful minerals could be recovered economically under conditions reasonably assumed at the time of estimation
"resource(s)"	a concentration or occurrence of iron ore of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction
"Second Independent Third Party Pelletising Contractor"	Panzhihua City Guangchuan Metallurgy Co. Ltd. (攀枝花市廣川冶金有限公司), established on 27 October 2004, a limited liability company (non-state owned) and an independent third party contractor which entered into a pelletising contract with us with effect from February 2009
"Second Independent Third Party Processing Contractor"	Panzhihua City Aolei Gongmao Co., Ltd. (攀枝花市奥磊工貿有限責任公司), established on 12 March 2004, a limited liability company (non-state owned) and an independent third party contractor which entered into a processing contract with us with effect from April 2009
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Shareholder(s)"	holder(s) of the Share(s)
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 4 September 2009, the principal terms of which are set forth under the paragraph headed "Share Option Scheme" in Appendix VII of the Prospectus
"Sichuan"	the Sichuan province of the PRC
"sq.km."	square kilometer
"State" or "PRC government"	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities of them or any of them as the context requires

Glossary

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Shares"	ordinary shares in the share capital of the Company, with a nominal value of HK$0.10 each
"titanium"	a light, strong, lustrous, corrosion-resistant transition metal with a white-silvery-metallic color
"titanium concentrates"	concentrates whose main content (by value) is titanium dioxide
"titanium slag"	a slag containing the metal atoms of titanium
"tonne"	metric ton
"trading day"	the day on which the Stock Exchange is open
"Trisonic International"	Trisonic International Limited (合創國際有限公司), a company incorporated in Hong Kong on 19 July 2006 and one of our controlling shareholders holding 57.51% of our issued share capital
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US dollars" or "US$"	the lawful currency of the United States
"Weiyuan Steel"	Weiyuan Steel Co., Ltd. (威遠鋼鐵有限公司), a Sino-foreign equity joint venture enterprise established in the PRC on 3 April 2001 and a connected person to our Group
"Xiushuihe Mine"	the Xiushuihe vanadium-bearing titano-magnetite mine located in Ailang Townlet, Huili County, Sichuan, the PRC and operated by Xiushuihe Mining
"Xiushuihe Mining"	Huili County Xiushuihe Mining Co. Ltd. (會理縣秀水河礦業有限公司), a limited liability company established in the PRC on 26 June 2007 and a member of our Group
"Xiushuihe Processing Plant"	the ore processing plant located at our Xiushuihe Mine and operated by us
"Yangqueqing Iron Mine"	Yangqueqing Iron Mine (陽雀箐鐵礦), located in Huili County, Liangshanzhou, Sichuan, the PRC in connection to which a definitive agreement has been entered on 16 January 2010 for Huili Caitong to obtain the mining right of Yangqueqing Iron Mine

China Vanadium Titano-Magnetite Mining Company Limited
中國釩鈦磁鐵礦業有限公司
(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立的有限公司）

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