The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated statements of financial position and our consolidated statements of comprehensive income and consolidated statements of cash flows and the related notes set out in the Accountants' Report included as Appendix I to this Prospectus (the "Consolidated Financial Information"). Our consolidated financial statements have been prepared in accordance with IFRS which may differ in material aspects from generally accepted accounting principles in other jurisdictions.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this Prospectus.

SUMMARY OF HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The selected financial information from our consolidated statements of financial position as of 31 December 2008, 2009 and 2010, consolidated statements of comprehensive income and consolidated statements of cash flows for the years ended 31 December 2008, 2009 and 2010 set forth below are derived from our Accountants' Report included in Appendix I to this Prospectus, and should be read in conjunction with the Accountants' Report and with "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein.

Summary Consolidated Statements of Comprehensive Income Data

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Continuing operations			
Revenue[1]	–	–	–
Cost of sales	–	–	–
Gross Profit	–	–	–
Administrative expenses	(227)	(2,136)	(7,747)
Other expense	–	–	(95)
Finance (costs)/income	–	(27)	4,894
Gain on disposal of a subsidiary	–	15	–
Loss before tax from continuing operations	(227)	(2,148)	(2,948)
Income tax expense	–	–	–
Loss for the year from continuing operations	(227)	(2,148)	(2,948)
Discontinued operation			
Loss for the year from a discontinued operation	(144)	(85)	–
Total comprehensive loss	(371)	(2,233)	(2,948)
Attributable to:			
Owners of the parent	(367)	(2,204)	(2,921)
Non-controlling interests	(4)	(29)	(27)
	(371)	(2,233)	(2,948)

(1) During the Track Record Period, our business activities were focused on infrastructure development in preparation for the production of iron concentrate and we did not generate revenue from our operations during this period.

Summary Consolidated Statements of Financial Position Data

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Non-current assets	67,846	67,766	357,811
Current assets	492	18,296	116,931
Total assets	68,338	86,062	474,742
Current liabilities	53,025	48,087	438,490
Net current liabilities	(52,533)	(29,791)	(321,559)
Total assets less current liabilities	15,313	37,975	36,252
Non-current liabilties	1,180	1,180	1,180
Net assets	14,133	36,795	35,072
Total equity	14,133	36,795	35,072

Summary Consolidated Statements of Cash Flows Data

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents at beginning of year	784	340	4,043
Net cash (used in)/flows from operating activities	(86)	(11,913)	13,570
Net cash flows used in investing activities	(5,513)	(10,374)	(233,334)
Net cash flows from financing activities	5,155	26,017	273,120
Net (decrease)/increase in cash and cash equivalents	(444)	3,730	53,356
Effect of foreign exchange rate changes	–	(27)	(1,465)
Cash and cash equivalents at end of year	340	4,043	55,934

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with the consolidated financial information included in our Accountants' Report and the notes thereto included in Appendix I to this Prospectus and the operating data included elsewhere in this Prospectus. The financial information has been prepared in accordance with IFRS.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. See "Risk Factors" and "Forward-looking Statements."

Our Iron Ore Mining Operations

We hold the mining rights to the Yanjiazhuang Mine, a large-scale open-pit iron ore mine occupying a mining area of approximately 5.22 km^2. According to the Independent Technical Report, the Yanjiazhuang Mine had proved and probable reserves of approximately 260.0 Mt, which were converted from total measured and indicated iron ore resources of approximately 311.8 Mt as of 31 December 2010.

Based on the Independent Technical Report, the Hatch Report and the cost curve prepared by AME, we believe we will be a leading iron ore producer in China with low operating costs. According to AME, the Yanjiazhuang Mine is estimated to be in the lowest 5% of the estimated cost curve for Chinese iron ore producers on an iron equivalent basis. We use cost-efficient mining and processing methods to extract and process our iron ore. We use open-pit mining to extract our reserves. Open-pit mining is characterized by shorter time frames for mine infrastructure construction, lower capital expenditure requirements and a relatively simple iron ore extraction process. Based on these facts and the estimated future operating costs set forth in the Independent Technical Report, we believe we will be able to maintain a low mining cost structure. We also expect to enjoy low iron ore processing costs because our iron ore is relatively easy to crush and mill due to its density and mineral composition and because the strong magnetic properties of our iron ore allow iron to be easily separated from non-magnetic tailings and waste rocks through the use of magnetic pulleys. Moreover, our iron ore resources contain low levels of harmful elements, such as sulfur and phosphorus, which reduces the need to treat tailings. As a result, our overall iron ore processing costs are low and we believe we will be able to produce iron concentrate with an iron grade of 66% through a relatively simple iron ore processing phase. We also have relatively low transportation costs as we are located in close proximity to many of our existing and potential customers.

Furthermore, our estimated future operating costs, as set forth in the Independent Technical Report, are significantly lower than the current iron concentrate prices in China. According to Hatch, the continued rapid growth of China's steel industry will likely be accompanied by increases in domestic iron ore prices. The combination of our estimated future operating costs being significantly lower than current iron ore prices highlights the potential profitability of our operations. For information on our estimated operating and production costs, see "Business – Our Existing Production Operations and Facilities – Operating Costs."

Based on our current reserves as confirmed by the Independent Technical Advisor, the Yanjiazhuang Mine has a mine life of approximately 26 years based on the assumption that our iron ore processing capacity will increase to 10,500 ktpa in the second quarter of 2012.

Commercial Production and Expansion Plan

We plan to increase our iron concentrate production capacity at the Yanjiazhuang Mine in three phases.

As part of our Phase One commissioning and production ramp-up schedule we commenced commercial production on 1 January 2011. During the course of January and February 2011 we produced and sold 33.0 kt of iron concentrate. We use independent third-party contractors to perform part of our mining, hauling and road-building activities.

Following the commencement of commercial production we were impacted by severe droughts that were experienced in Northern China, including the Yanjiazhuang Mine area, which were the worst in 60 years. As a result, we experienced a shortage of water supply to our processing plants and accordingly our production levels were significantly reduced in March 2011. Instead of waiting for the drought to end and to mitigate our exposure to future droughts, we devoted significant management time and resources to identifying additional water sources and constructing facilities to give us access to them. We identified the Lincheng Reservoir as an adequate and reliable future water source and commenced construction of a 20 km long water pipeline to the Lincheng Reservoir. We estimate that the Lincheng Reservoir water project will be completed by August 2011.

We expect to complete Phase One of our expansion plan with processing efficiency optimization in June 2011 and we intend to complete construction of the additional water pipeline to the Lincheng Reservoir by August 2011. While there will be limited production during this period, we expect to resume normal commercial production in September 2011 upon the completion of the water projects and to ramp up to our expected Phase One iron ore processing capacity of 3,000 ktpa and total iron concentrate production capacity of approximately 760 ktpa.

We commenced preparation for Phase Two of our expansion plan in September 2010. Phase Two is expected to increase our mining and ore processing capacities to 7,000 ktpa and achieve an iron concentrate production capacity of approximately 1,770 ktpa. We expect to complete this phase in the third quarter of 2011. We expect to complete Phase Three of our expansion plan, which is expected to involve increasing our ore processing capacity to 10,500 ktpa, in the second quarter of 2012, and we expect to reach this level of production in October 2012.

During the Track Record Period, our business activities were focused on exploration, mine planning, construction and infrastructure development to prepare for the production of iron concentrate and we have not yet generated revenue from our operations. As a result, our total comprehensive losses for the years ended 31 December 2008, 2009 and 2010 were approximately RMB371,000, RMB2.2 million and RMB2.9 million, respectively. In addition, because we believe it is in our best interest to focus on the development and further exploration of the Yanjiazhuang Mine, we disposed of our interest in Guomu Nangou Mining Ltd. in November 2009. We completed initial production at the Yanjiazhuang Mine from 20 December 2010 through 27 January 2011 with respect to the No. 1 Processing Facility and No. 2 Processing Facility.

Iron Concentrate Customer Agreements

We entered into an agreement with Shougang Hong Kong on 28 April 2011. Under this agreement, we are obligated to sell, and Shougang Hong Kong is obligated to buy, 30% of our annual iron concentrate production (which we will endeavor to supply at a grade not lower than 66%), at a 3% discount to the market price at the time of supply, regardless of whether Shougang Hong Kong and the Company enter into a definitive supply agreement or specific purchase orders. The Shougang Agreement also contemplates that the parties will negotiate and enter into definitive agreements for strategic cooperation and the provision of technical support in future investment opportunities.

Shougang Hong Kong, a wholly-owned subsidiary of Shougang Corporation, is a Hong Kong incorporated investment holding company. Through its subsidiaries and associated companies, Shougang Hong Kong is engaged in a variety of diversified businesses such as manufacturing and trading of steel and metallic products, shipping, mineral exploration and mining, property investment, and financial services. Shougang Hong Kong holds a significant number of interests in various companies listed on the Stock Exchange, representing a substantial market value as of the Latest Practicable Date. We are not aware of any reason that would render Shougang Hong Kong unable to honor its obligations under the Shougang Agreement.

As one of the largest Chinese steel companies, Shougang Corporation is a state-owned enterprise under the direct supervision of the State Council of the PRC. Shougang Corporation's primary focus is on the steel industry, with other operational interests in the mining, electronics and machinery, construction and real estate, service and trading industries. It is a market leader in the areas of steel industry, production specifications and technical expertise. Shougang Corporation's major iron production facilities are located in the Hebei Province. Shougang Corporation has not guaranteed the obligations of Shougang Hong Kong under the Shougang Agreement.

We have also entered into memoranda of understanding in 2009 with Hebei New Wuan, Handan Iron & Steel, Wen'an Iron & Steel, Hebei Baoxin, Xingtai Weilai and Xingtai Longhai, all of which are major steel producers and are Independent Third Parties. Under the terms of these memoranda of understanding, we have agreed with each of these parties to negotiate the terms of future specific purchase contracts specifying the amount of iron concentrate, the price and other terms. If we cannot agree on such terms, then no such sale will occur. The Company expects that after the completion of Phase One and after further progress has been made on Phases Two and Three of the expansion plan, the Company will seek to enter into long-term binding sales contracts with these parties and other potential long-term customers, which is expected to occur in the second half of 2011.

The Company believes that, barring unforeseen circumstances, it will be able to sell substantially all of its iron concentrate production for 2011 and 2012.

Our customers will arrange for transportation of the iron concentrate from our processing facilities to their sites. We estimate that transportation costs for customers located within a radius of approximately 100 km of our operations will be approximately RMB28/tonne, based on roadway transportation costs for similarly situated companies in our vicinity. We sold iron concentrate at an average price of approximately RMB1,140/tonne (including VAT) in January and February 2011.

Gabbro-Diabase Business

We entered into memoranda of understanding in February 2011 with Hengda Real Estate Group Limited (a subsidiary of Evergrande Real Estate Group Limited), Sinolink Properties Limited (a subsidiary of Sinolink Worldwide Holdings Limited), Glorious Qiwei (Shanghai) Industries, Co., Ltd. (a subsidiary of Glorious Property Holdings Limited) and Champ Max Enterprise Limited (a subsidiary of C C Land Holdings Limited), all of which are PRC property companies or their subsidiaries, and are Independent Third Parties. In April 2011, we amended the memoranda of understanding with Hengda Real Estate Group Limited and Champ Max Enterprise Limited. Under the terms of these original and amended memoranda of understanding, the buyer and seller have agreed to negotiate the terms of future specific purchase contracts specifying the amount of gabbro-diabase, the price and other terms. If we cannot agree on such terms, then no such sale will occur. These memoranda of understanding are effective from 1 May 2011 to 31 December 2015 and contemplate sales up to an aggregate of 507,000 m^2, 897,000 m^2, 1,287,000 m^2, 1,287,000 m^2 and 1,287,000 m^2 in 2011, 2012, 2013, 2014 and 2015, respectively. Certain of these memoranda of understanding further specify that the current average market price of gabbro-diabase slabs is RMB150 per m^2, although there is no certainty we will make any sales at this price.

According to Hatch, China's stone industry and gabbro-diabase demand are expected to continue to grow over the next several years. Our Directors believe that the willingness of developers to enter into long-term agreements with us for the sale of gabbro-diabase is further evidence of the likely future demand for our gabbro-diabase products. We may also enter into new contracts with other Independent Third Parties for the sale of our planned gabbro-diabase products.

Basis of Presentation

The Reorganization involved business combinations of entities under common control and the Group is regarded and accounted for as a continuing group. Accordingly, for the purpose of this report, the financial information has been prepared on a combined basis by applying the principles of merger accounting prior to the foundation of the Company.

The financial information has been prepared as if our current structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation or registration, where there is a shorter period. Our consolidated statements of financial position as of 31 December 2008, 2009 and 2010 have been prepared to present our assets and liabilities as of the respective dates as if the current group had been in existence at those dates.

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

As of 31 December 2008, 2009 and 2010, our current liabilities exceeded current assets by approximately RMB52.5 million, RMB29.8 million and RMB321.6 million, respectively.

Notwithstanding the net current liabilities position, the Financial Information has been prepared on a going concern basis as the Controlling Shareholders of the Company have undertaken in writing to provide continuing financial support to the Group, by way of additional shareholder loans, if necessary, up to the time of the Listing, and not to demand repayment of any amounts due to them up to the time of the Listing.

The net current liabilities position of the Group is expected to be eliminated immediately upon use of the proceeds of the Global Offering, by using a portion of the net proceeds of the Global Offering to repay shareholder loans, and by waiving the remainder of such loans that are outstanding on the Listing Date and are not repaid out of such proceeds. See "Future Plans and Use of Proceeds – Use of Proceeds."

Factors Affecting Our Results of Operations and Financial Condition

Our financial condition, results of operations and the period-to-period comparability of our financial results are principally affected, or are expected to be principally affected now that we have started commercial production, by the following factors:

Prices of products

The main factors affecting the sales prices of our iron concentrate products are the content and quality of the iron ore and fluctuations in the market price of iron concentrate. Although we believe that through our test runs of our facilities and equipment, we are able to produce iron concentrate at a high iron grade of 66%, there is no guarantee that we can maintain such grade for our concentrate, which may negatively affect the unit prices of our products.

In addition, fluctuations in the price of iron ore due to factors such as demand in the global, PRC and local Hebei Province iron ore markets and other macro-economic factors such as interest rates, expectations regarding inflation, currency exchange rates as well as general global economic conditions can also influence the unit price of our products. Most of our potential customers are located in Hebei Province, which has historically experienced a significant gap reflecting high demand for iron concentrate from steel producers and insufficient supply by local iron ore operators. The high demand for iron ore products in Hebei Province has led in the past to substantial price increases in iron concentrate. In addition, the emphasis on major infrastructure projects by the PRC Government and China's rapid urbanization and industrialization have also increased the demand for steel, which in turn has boosted the demand for iron ore products. Please refer to the section headed "Risk Factors – Risks Relating to Our Business – Fluctuations in the market price for iron concentrate or steel and foreign currency exchange rates could materially and adversely affect our business, financial condition and results of operations." in this Prospectus.

Sales volume

The sales volume of our products varies with a number of factors, primarily the demand for our products, our iron ore reserves and our production capacity expansion plan. As we transition to commercial production after completing Phase One of our expansion plan, we expect increases in sales volumes from the potential growth of our business to be the main driver of revenue growth in the future.

The potential for the growth of our business depends on how successfully we also expect to be able to expand our mineral reserves and production capacity. Our plans to grow our mineral reserves are based on a two-pronged approach: (1) organic growth through the expansion of the area covered by our current mining permits; and (2) acquisitive growth through the integration of other iron ore assets located in the surrounding region. We intend to increase our production capacity by developing additional open-pitmining pits, upgrading existing processing facilities and infrastructure and constructing new dry magnetic cobbing systems and processing facilities.

Costs of production

Major components of our costs of production are directly related to production volume. Variations in production volume and the costs of mining ore, hauling ore to the processing facilities and processing ore into concentrates are key factors that affect our costs of production, which mainly include depreciation, employee costs, fuel costs, utilities fees, contracting costs and production overheads.

For information on our operating and production costs, see "Business – Our Existing Production Operations and Facilities – Operating costs."

Development, construction and mining operations

Our plans for expanding our business and operations are largely dependent on our ability to meet production, timing and cost estimates for our current mine development projects. Factors such as obtaining regulatory approval from the appropriate authorities and financing could affect the outlook of our current and future mine projects. Our capital expenditures for the Yanjiazhuang Mine were RMB3.3 million, RMB12.5 million and RMB286.7 million for the years ended 31 December 2008, 2009 and 2010, respectively.

PRC Government control and policies

The PRC local, provincial and central authorities exercise a substantial degree of control over the iron ore industry in China. Our operations are subject to extensive PRC laws, regulations, policies, standards and requirements in relation to, among other things, mine exploration, development, production, taxation, labor standards, occupational health and safety, waste treatment and environmental protection and operation management. The PRC Government has full authority to grant, renew and terminate exploration, mining permits, production safety permits and metallurgical mineral production permits pursuant to relevant laws and regulations. While we expect to be able to renew our mining permit, production safety permits, metallurgical mineral production permits and convert any exploration permit into a mining permit, as necessary, at our mines, if for any reason we are unable to do so, our results of operations would be materially and adversely affected. In China, foreign companies are required to operate within a framework that is different from that imposed on domestic PRC companies. However, the PRC Government has been opening up opportunities for and has encouraged foreign investment in mining projects and this process is expected to continue. We expect that the extent to which participation in the mining sector by foreign companies is allowed will affect our business going forward.

Critical Accounting Policies

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

Depreciation and amortization

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

Property, plant and equipment

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

Stripping costs

Stripping costs incurred in the development of a mine before production commences are capitalized in property, plant and equipment as part of the cost of constructing the mine, and subsequently amortized over the life of the mine using the units of production ("UOP") method.

Stripping costs incurred during the production phase are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred, unless the stripping activity can be shown to give rise to future benefits from the mineral property, in which case the stripping costs would be capitalized into property, plant and equipment. Future benefits arise when stripping activity increases the future output of the mine by providing access to a new ore body.

Mining rights

Mining rights are stated at cost less accumulated amortization and any impairment losses. Mining rights include the cost of acquiring mining licenses, exploration and evaluation costs transferred from exploration rights and assets upon determination that an exploration property is capable of commercial production, and the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights are amortized over the 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 unit-of-production method. Mining rights are written off to the consolidated statement of comprehensive income if the mining property is abandoned.

According to the Independent Technical Advisor, the estimated mine life of the Yanjiazhuang Mine is approximately 26 years based on its ore reserve estimates as of 31 December 2010 and assuming mining and ore processing capacities gradually increase to 10,500 ktpa in the second quarter of 2012 (we expect to reach this level of production in October 2012) and gradually decrease at the end of the Yanjiazhuang Mine's life.

Exploration rights and assets

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

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

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

Useful lives of property, plant and equipment

We estimate useful lives and related depreciation charges for our items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and actions of its competitors. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will record reserve for technically obsolete assets that have been abandoned.

Impairment of property, plant and equipment, including mining infrastructure

We assess each cash-generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. The carrying value of the property, plant and equipment, including mining infrastructure, is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. Estimating the value in use requires us to estimate future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of property, plant and equipment as of 31 December 2008, 2009 and 2010 were approximately RMB63.2 million, RMB65.5 million and RMB351.7 million, respectively.

Mine reserves

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

Description of Components of Results of Operations

Revenue

Revenue represents the net invoiced value of goods sold, net of trade discounts and returns and various types of government surcharges, where applicable. During the Track Record Period, our business activities were focused on infrastructure development in preparation for the production of iron concentrate and we have not yet generated revenue from our operations.

Cost of sales

We did not incur any cost of sales during the Track Record Period as our commercial operations had not yet commenced.

Administrative expenses

Administrative expenses mainly represent costs related to employee benefits, depreciation costs and other expense, including professional consulting fees and office administrative fees. We incurred administrative expenses of approximately RMB227,000, RMB2.1 million and RMB7.7 million for the years ended 31 December 2008, 2009 and 2010, respectively.

Other expense

Other expense mainly represents donations to schools. We incurred other expense of RMB95,000 during the year ended 31 December 2010 (during the two years ended 31 December 2008 and 2009: nil).

Finance (costs)/income

Our finance (costs)/income during the Track Record Period mainly represent foreign exchange losses and gains. We incurred finance costs of approximately nil, RMB27,000 and finance income of RMB4.9 million for the years ended 31 December 2008, 2009 and 2010, respectively.

Gain on disposal of a subsidiary

Gain on disposal of a subsidiary represents our gain on the disposal of our 99% interest in Guomu Nangou Mining Ltd., which was completed on 12 November 2009. We recorded a gain on disposal of a subsidiary for the year ended 31 December 2009 of RMB15,000. We did not record gains on disposal of a subsidiary during other periods under consideration.

Income tax expense

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

Under the rules and regulations of the Cayman Islands and BVI, we are not subject to any income tax in the Cayman Islands or BVI. We have not made any provisions for Hong Kong profits tax as we had no assessable profits derived from or earned in Hong Kong during the Track Record Period.

On 16 March 2007, the PRC Government promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Enterprise Income Tax Law") and, on 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Enterprise Income Tax Law. Under the New Enterprise Income Tax Law and the Implementation Regulations, effective 1 January 2008, a unified enterprise income tax rate is set at 25% for both domestic enterprises and foreign invested enterprises. As a result, our PRC subsidiaries are subject to PRC income tax at a tax rate of 25% for the years ended 31 December 2008 and 2009. We did not incur any income tax expenses for periods under consideration.

Loss for the year from a discontinued operation

Loss for the year from a discontinued operation represents the results of Guomu Nangou Mining Ltd. during the Track Record Period and prior to its disposal on 12 November 2009. We incurred losses for the year from a discontinued operation of RMB144,000, RMB85,000 and nil, for the years ended 31 December 2008, 2009 and 2010, respectively.

Results of Operations

Year ended 31 December 2010 compared with year ended 31 December 2009

Revenue

During the years ended 31 December 2009 and 2010, our business activities were focused on exploration and infrastructure development in preparation for the production of iron concentrate and we did not generate revenue from our operations.

Cost of sales

During the years ended 31 December 2009 and 2010, we did not incur any cost of sales as our commercial operations had not yet commenced.

Administrative expenses

Our administrative expenses increased by 262.7%, from RMB2.1 million for the year 2009 to RMB7.7 million for 2010. The increase was primarily due to the increase in: (i) employee salary and benefit costs from RMB446,000 for the year ended 31 December 2009 to RMB3.3 million for the year ended 31 December 2010 as a result of a significant increase in our employee headcount as we developed our mine; and (ii) rent from RMB217,000 for the year ended 31 December 2009 to RMB2.2 million for the year ended 31 December 2010 as we only started renting the office premises beginning October 2009.

Other expense

Other expense increased from nil for the year ended 31 December 2009 to approximately RMB95,000 for the year ended 31 December 2010 due to our donations to schools.

Finance (costs)/income

During the year ended 31 December 2010, we earned a net finance income of RMB4.9 million mainly due to foreign exchange gains of approximately RMB5.0 million. We incurred finance costs of approximately RMB27,000 for the year ended 31 December 2009. Our foreign exchange gains were due to the strengthening of the RMB against the U.S. dollar.

Gain on disposal of a subsidiary

We did not record any such gain for the year ended 31 December 2010 but recorded a gain of RMB15,000 on disposal of a subsidiary in the year ended 31 December 2009.

Loss before tax from continuing operations

As a result of the foregoing factors, our loss before income tax from continuing operations increased by 37.2%, from RMB2.1 million for the year ended 31 December 2009 to RMB2.9 million for the year ended 31 December 2010.

Income tax expenses

We did not incur any income tax expenses for the years ended 31 December 2009 and 2010 as we had not commenced commercial operations during those years.

Loss for the year from continuing operations

As a result of the foregoing factors, our loss for the year from continuing operations increased by 37.2%, from RMB2.1 million for the year ended 31 December 2009 to RMB2.9 million for the year ended 31 December 2010.

Loss for the year from a discontinued operation

Our loss for the year from a discontinued operation was RMB85,000 for the year ended 31 December 2009, as compared to nil for the year ended 31 December 2010 as Guomu Nangou Mining Ltd. was disposed of in November 2009.

Total comprehensive income

As a result of the foregoing factors, our loss for the year increased by 32.0%, from RMB2.2 million for the year ended 31 December 2009 to RMB2.9 million for the year ended 31 December 2010.

Year ended 31 December 2009 compared with year ended 31 December 2008

Revenue

During the years ended 31 December 2008 and 2009, our business activities were focused on exploration and infrastructure development in preparation for the production of iron concentrate and we did not generate revenue from our operations.

Cost of sales

During the years ended 31 December 2008 and 2009, we did not incur any cost of sales as our commercial operations had not yet commenced.

Administrative expenses

Our administrative expenses increased by 841.0% from RMB227,000 for the year ended 31 December 2008 to RMB2.1 million for the year ended 31 December 2009. The increase was primarily due to the increase in: (i) employee benefit costs from nil for the year ended 31 December 2008 to RMB446,000 for the year ended 31 December 2009 as a result of a significant increase in our employee headcount as we ramped up our operations; (ii) depreciation costs from RMB227,000 for the year ended 31 December 2008 to RMB383,000 for the year ended 31 December 2009 attributable to the purchase of new engineering vehicles during the second half of 2008; and (iii) other expense from nil for the year ended 31 December 2008 to RMB1.3 million for the year ended 31 December 2009 attributable to the increase in operating expenses, such as electricity costs and travel expenses associated with the development of our operations, as well as professional consulting fees.

Finance costs

During the year ended 31 December 2009, we incurred finance costs of RMB27,000 due to net foreign exchange losses of RMB27,000. We did not incur any such costs for the year ended 31 December 2008 as we did not have any foreign currency transactions.

Gain on disposal of a subsidiary

During the year ended 31 December 2009, we recorded a gain of RMB15,000 for the disposal of a subsidiary, Guomu Nangou Mining Ltd. We did not record any such gain for the year ended 31 December 2008.

Loss before tax from continuing operations

As a result of the foregoing factors, our loss before income tax from continuing operations increased by 846.3%, from RMB227,000 for the year ended 31 December 2008 to RMB2.1 million for the year ended 31 December 2009.

Income tax expenses

We did not incur any income tax expenses for the years ended 31 December 2008 and 2009 as we had not commenced commercial operations during those years.

Loss for the year from continuing operations

As a result of the foregoing factors, our loss for the year from continuing operations increased by 846.3%, from RMB227,000 for the year ended 31 December 2008 to RMB2.1 million for the year ended 31 December 2009.

Loss for the year from a discontinued operation

Our loss for the year from a discontinued operation decreased by 41.0%, from RMB144,000 for the year ended 31 December 2008 to RMB85,000 for the year ended 31 December 2009 due to the termination of construction and development activity for the Guomu Nangou Mine.

Total comprehensive income

As a result of the foregoing factors, our loss for the year increased by 501.9%, or RMB1.9 million from RMB371,000 for the year ended 31 December 2008 to RMB2.2 million for the year ended 31 December 2009.

FINANCING OF OUR MINING PROJECTS

During the Track Record Period, we financed the development of the Yanjiazhuang Mine with funds obtained through capital injections from shareholders. For details of each phase of our expansion plan, see “Business – Future Plans for Expanding Production Capacity for the Yanjiazhuang Mine.” The timing and actual amount of our capital expenditures are subject to change as the mine develops. We had invested approximately RMB207.1 million as of 31 December 2010 for the completion of Phase One of our expansion plan, upon the completion of which we expect to attain mining and ore processing capacities of 3,000 ktpa.

We commenced Phase One in the fourth quarter of 2009. We expect to fully complete Phase One in June 2011 by undertaking plant construction and modifications, including the planned Phase One upgrade to our No. 2 Processing Facility and the replacement of a section of our ore crushing equipment with machines which are able to produce crushed ores of smaller and more uniform dimensions. Upon completion of Phase One, our total processing capacity will be 3,000 ktpa. We estimate our total investment for Phase One of our expansion plan to be approximately RMB240.1 million, of which we have already invested approximately RMB207.1 million as of 31 December 2010. The following table sets forth our expected capital expenditures for Phase One of our expansion plan:

Estimated Phase One	Capital Expenditures
	(RMB in millions)
One open-pit mining pit and upgrade of existing two mining pits and mining pit equipment	34.7
No. 1 and No. 2 dry magnetic cobbing systems	55.2
Upgrade No.1 and No.2 Processing Facility	43.2
Road infrastructure (36 km)	79.3
Water supply (including Huangmi I and II Reservoir)	19.0
Supporting equipment	3.4
Land rehabilitation	3.0
Tailing Storage Facility	2.3
Total capital expenditures	240.1

We commenced preparation for Phase Two in September 2010. During Phase Two, we expect to increase our total mining and ore processing capacities by an additional 4,000 ktpa to 7,000 ktpa in the third quarter of 2011. We estimate a total investment for the completion of Phase Two of our expansion plan of approximately RMB380.0 million, of which we have already invested approximately RMB84.6 million up to 31 December 2010. The following table sets forth our expected capital expenditures for Phase Two of our expansion plan:

Estimated Phase Two	Capital Expenditures
	(RMB in millions)
Three open-pit mining pits and mining pit equipment	49.9
No. 3 dry magnetic cobbing system	55.9
No. 3 Processing Facility	85.4
Road infrastructure (29 km)	83.7
Water supply	40.3
Electrical converting station	13.6
Supporting equipment	17.0
Land rehabilitation	7.0
Tailing Storage Facility	27.2
Total capital expenditures	380.0

We expect to complete Phase Three, which is expected to increase our processing capacity to 10,500 ktpa, in the second quarter of 2012. We expect to reach this level of production in October 2012. We expect to invest approximately RMB277.2 million to complete Phase Three of our expansion plan. The following table sets forth expected capital expenditures for Phase Three of our expansion plan:

Estimated Phase Three	Capital Expenditures
	(RMB in millions)
Two open-pit mining pits and mining pit equipment	50.0
No. 4 dry magnetic cobbing system	56.0
No. 4 Processing Facility	85.0
Road infrastructure	29.3
Electrical converting station	15.0
Supporting equipment	16.9
Land rehabilitation	10.0
Tailing Storage Facility	15.0
Total capital expenditures	277.2

In addition to our expansion plan to increase our mining and ore processing capacities, we also intend to develop our gabbro-diabase resources. We expect to spend approximately RMB303.2 million to bring our gabbro-diabase resources to commercial production, of which we have already invested approximately RMB1.7 million as of 31 December 2010. We plan to commence commercial production of quarry stones and crushed stones in July 2011; slabs and powder in November 2011; and commercially produce all our gabbro-diabase products (including carving stones) by the second quarter of 2013. The following table sets forth our expected capital expenditures for developing our gabbro-diabase resources:

Gabbro-Diabase	Capital Expenditures
	(RMB in millions)
Infrastructure construction	90.0
Processing equipment	150.0
Other	63.2
Total capital expenditures	303.2

For additional information regarding Phase One, Phase Two and Phase Three of our expansion plan to increase iron concentrate production capacity and the development of our gabbro-diabase resources, see "Business — Future Plans for Expanding Production Capacity for the Yanjiazhuang Mine."

For the years ending 31 December 2011 and 2012, we estimate our capital expenditures for the Yanjiazhuang Mine will be approximately RMB577.5 million and RMB297.9 million, respectively. We intend to make capital expenditures on our iron concentrate production expansion plans, resources fees of RMB310 million payable to the Department of Land and Resources for the amount of iron ore resources as estimated upon completion of the detailed drilling and survey work in January 2010 and the development of our gabbro-diabase resources at the Yanjiazhuang Mine. During the year ending 31 December 2011, we also expect to spend RMB10 million on capital expenditures on additional exploration work at the Yanjiazhuang Mine in an effort to further expand our resources.

In addition, we expect to spend approximately RMB720.0 million in the years ending 31 December 2012 and 2013 on costs related to the acquisition of exploration rights for the Gangxi Mine and the Shangzhengxi Mine in Hebei Province and other mines yet to be identified by us in Hebei Province. Under a contract signed with the 11th Geological Brigade in February 2010 and further extended for one year in February 2011, we agreed to pay RMB9 million for the exploration rights to both of the mines. We also agreed to reimburse the 11th Geological Brigade for the total amount of exploration fees to be incurred by them as well as pay RMB2/tonne of iron ore reserves to be determined after the completion of exploration work for both mines. We estimate the exploration fees and the amount to be paid for the estimated reserves will be approximately RMB20 million and RMB691 million, respectively. For additional information regarding the Gangxi Mine and the Shangzhengxi Mine, see "Business – Future Plans for Developing Other Mines."

Following the Global Offering, we intend to use funds from the revenue generated from our operations and the estimated proceeds of the Global Offering to finance our estimated capital expenditures for 2011.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of liquidity are to invest in the development of our iron ore mines, service our indebtedness and fund working capital and normal recurring expenses. Prior to 31 December 2010, we had financed our cash requirements through a combination of internal resources, proceeds from the issuance of the Exchangeable Bonds and shareholders' loans. Going forward, we expect to fund our working capital needs with a combination of cash generated from operating activities, the estimated proceeds from the Global Offering and other debt and equity financing.

Summary Consolidated Statements of Cash Flows

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents at beginning of year	784	340	4,043
Net cash (used in)/flows from operating activities	(86)	(11,913)	13,570
Net cash used in investing activities	(5,513)	(10,374)	(233,334)
Net cash flows from financing activities	5,155	26,017	273,120
Net (decrease)/increase in cash and cash equivalents	(444)	3,730	53,356
Effect of foreign exchange rate changes	–	(27)	(1,465)
Cash and cash equivalents at end of year	340	4,043	55,934

Operating activities

Net cash generated from operating activities in the year ended 31 December 2010 was approximately RMB13.6 million, primarily as a result of a loss for the year in the amount of RMB2.9 million and adjusted for: (i) an increase in other payables and accruals of RMB6.9 million; (ii) advances from customers of RMB23.7 million for pre-sales of our iron concentrate; (iii) a depreciation charge of RMB145,000 due to the depreciation of our equipment and an amortization charge of RMB287,000 due to the amortization of our land use right; and (iv) a decrease in inventories of RMB1.9 million due to consumption of spare parts and sales of the iron concentrate from trial production; and partly offset by (i) net prepaid land lease payment of RMB4.2 million during 2010 and (ii) an increase in prepayments, deposits and other receivables of RMB6.6 million primarily due to prepayments deposits and deferred listing fees of RMB4.8 million for legal services, accounting services and valuation services.

Net cash used in operating activities in the year ended 31 December 2009 was RMB11.9 million, primarily as a result of a loss for the period in the amount of RMB2.2 million and adjusted for: (i) an increase in prepayments and other receivables of RMB10.7 million primarily due to prepayments related to a lease for an office building in Hong Kong of RMB520,000, deferred listing fees of RMB9.4 million for legal services, accounting services and valuation services; and (ii) an increase in inventories of RMB3.4 million due to the accumulation of spare parts including production materials such as grinding materials during our preparations for commercial production; and partly offset by: (i) an increase in other payables and accruals of RMB3.7 million mainly due to advances from customers for pre-sales of our iron concentrate; (ii) a depreciation charge of RMB462,000 due to the depreciation of our equipment; and (iii) an increase in trade payables of RMB270,000 due to the purchase of production materials.

Net cash used in operating activities in the year ended 31 December 2008 was RMB86,000, primarily as a result of a loss for the year in the amount of RMB371,000 and adjusted for: (i) an increase in inventories of RMB150,000 due to purchases of spare parts used in the production of iron concentrate; and partly offset by (i) a depreciation charge of RMB333,000 due to depreciation of our equipment and (ii) an increase in trade payables of RMB102,000 due to the purchase of production materials.

Investing activities

Net cash used in investing activities in the year ended 31 December 2010 was approximately RMB233.3 million, all of which was used for the construction of our processing facilities.

Net cash used in investing activities in the year ended 31 December 2009 was RMB10.4 million due predominantly to the construction of our processing facilities and also the disposal of Guomu Nangou Mining Ltd.

Net cash used in investing activities in the year ended 31 December 2008 was RMB5.5 million due primarily to purchases of property, plant and equipment amounting to RMB1.6 million, RMB1.3 million for the development of our No. 2 Processing Facility, RMB9,000 for our dry magnetic cobbing system and RMB2.6 million for the construction and improvement of mining infrastructure.

Financing activities

Net cash generated from financing activities was approximately RMB273.1 million in the year ended 31 December 2010. We received net advances from related parties and immediate holding company of RMB299.2 million to provide funding for our capital expenditures.

Net cash generated from financing activities was RMB26.0 million in the year ended 31 December 2009. Our cash inflow from financing activities primarily consisted of proceeds from a capital injection into Venca in the amount of RMB24.9 million, proceeds from a capital injection into Guomu Nangou Mining Ltd. from a minority shareholder in the amount of RMB18,000 and net advances from related parties in the amount of RMB1.1 million.

Net cash generated from financing activities was RMB5.2 million in the year ended 31 December 2008. Our cash inflow from financing activities primarily consisted of advances from related parties in the amount of RMB5.0 million and capital injection into Xingye Mining from minority shareholder in the amount of RMB160,000.

CASH FLOW FORECAST REQUIRED UNDER LISTING RULE 18.03(4)

The following cash flow forecast is provided as a requirement under Listing Rule 18.03(4). In preparing the cash flow forecast, several bases and assumptions were made, including that:

(a) there will be no material changes in existing laws and regulations, government policies or political, legal (including changes in legislation or rules), fiscal or economic conditions in China and the places where the Group carries on its business;

(b) there will be no material changes in the bases or rates of taxation or duties in China;

(c) there will be no changes in legislation, regulations or rules in China which may have a material adverse effect on our business;

(d) there will be no material unforeseen capital expenditures or bad debts; and

(e) there will be no material changes in the existing and expected receipt and payment pattern of sales, purchases, land use rights and construction costs and expenses.

	Estimated for the year ending 31 December 2011[1]
	RMB'000
Cash and cash equivalents at beginning of year	55,934
Net cash flows generated from operating activities	133,353
Net cash flows used in investing activities	(692,143)
Net cash flows generated from financing activities.	1,165,194
Net increase in cash and cash equivalents	606,404
Cash and cash equivalents at end of year	662,338

(1) Estimated figures above are prepared by our Directors and are unaudited. The estimated cash flows assume the application of the estimated net proceeds from the Global Offering calculated at an Offer Price of HK$1.75 per Offer Share. Actual results may vary from the estimates provided.

WORKING CAPITAL

Taking into account the financial resources available to us, including revenue generated from our operations and the estimated proceeds from the Global Offering, and in the absence of unforeseen circumstances, our Directors are of the opinion that we have sufficient working capital to meet 125% of our present requirements, that is, at least the next 12 months from the date of this Prospectus.

ANALYSIS OF VARIOUS ITEMS FROM THE STATEMENTS OF FINANCIAL POSITION

The following tables set forth various items from our statements of financial position at the end of 2008, 2009 and 2010.

Intangible Assets

	Mining rights [1]	Exploration rights[2]	Total
	RMB'000	RMB'000	RMB'000
Net Book Value:			
At 1 January 2008	2,300	2,301	4,601
At 31 December 2008	2,300	2,301	4,601
At 31 December 2009	2,301	–	2,301
At 31 December 2010	2,301	–	2,301

(1) Mining rights represent rights for the mining of iron ore reserves in the Yanjiazhuang Mine and Guomu Nangou Mine, which are both located in Lincheng County, Hebei Province, China.

(2) Exploration rights represent the exploration rights of Yanjiazhuang Mine acquired by Xingye Mining in the year ended 31 December 2006. The exploration rights were reclassified as mining rights in May 2009 when we obtained the mining permit for Yanjiazhuang Mine from the local government.

In May 2009, we obtained a mining permit for the Yanjiazhuang Mine for a term of eight years, which will expire in July 2017. As a result, we reclassified the exploration rights of Yanjiazhuang Mine to mining rights on our consolidated statements of financial information. The estimated useful life of the mining rights is based on the unexpired period of the mining rights. During the Track Record Period, we did not accrue amortization as the Yanjiazhuang Mine had not yet commenced commercial production.

On 29 August 2005, we purchased the mining rights to Guomu Nangou Mine for a cash consideration of RMB2.3 million. On 12 November 2009, we completed the disposal of our interest in Guomu Nangou Mining Ltd., which included the mining rights to Guomu Nangou Mine.

Inventories

Our inventories consisted of spare parts and others as we had not yet commenced production. The following table sets forth the details of our inventories as of each of the dates indicated:

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
At cost:			
Spare costs and consumables	150	1,301	1,378
Iron ore	–	341	–
Iron concentrate	–	1,921	239
	150	3,563	1,617

Prepayments, deposits and other receivables

Our prepayments and other receivables mainly represent deposits to third parties and advances to employees. The following table sets forth the details of our prepayments and other receivables as of each of the dates indicated:

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Deferred initial public offering expenses(1)	–	9,350	48,042
Deposits	–	520	1,643
Advance to employees	–	772	382
Advances to suppliers	–	–	3,263
VAT receivables	–	–	5,388
Prepaid land lease payment	–	–	103
Others	–	33	559
	–	10,675	59,380

(1) Deferred listing fees represents legal and other professional fees relating to our proposed Listing, that were deferred on the assumption that the Listing will be solely made up of new shares, and will be deducted from equity when we complete the Listing.

The table below sets forth the ageing analysis of prepayments, deposits and other receivables as of each of the dates indicated:

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within one year	–	10,675	50,030
In the second year	–	–	9,350
	–	10,675	59,380

Other payables and accruals

Other payables and accruals mainly consist of the amounts due to suppliers or contractors and advances from customers. The following table sets forth the details of other payables and accruals as of each of the statements of financial position dates:

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Property, plant and equipment suppliers or contractors	144	1,235	38,660
Payables for initial public offering expenses	–	–	11,402
Other payables	168	506	5,877
Payroll and welfare payable	390	791	3,502
Compensation to farmers[(1)]	340	300	18,282
Other taxes payable	92	954	764
Advance from customers	–	–	23,671
	1,134	3,786	102,158

(1) Compensation to farmers represents cash compensation to local farmers or local village committees in connection with the construction and exploration of the Yanjiazhuang Mine.

Current Assets and Current Liabilities

The table below sets forth the breakdown of our current assets and current liabilities as of the dates indicated:

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current assets			
Cash and cash equivalents	340	4,043	55,934
Prepayments, deposits and other receivables	–	10,675	59,380
Due from related parties	2	15	–
Inventories	150	3,563	1,617
Account receivables	–	–	–
	492	18,296	116,931

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current liabilities			
Trade payables	102	891	358
Other payables and accruals	1,134	3,786	102,158
Due to immediate holding company	–	–	335,974
Due to related parties	51,789	43,410	–
	53,025	48,087	438,490
Net current liabilities	(52,533)	(29,791)	(321,559)

Net current liabilities

Our net current liabilities were approximately RMB52.5 million, RMB29.8 million and RMB321.6 million as of 31 December 2008, 2009 and 2010, respectively. Our net current liabilities were primarily due to the Group requiring financing from its related parties or shareholders to fund its mine development and construction during the Track Record Periods. Net current liabilities decreased from approximately RMB52.5 million as of 31 December 2008 to approximately RMB29.8 million as of 31 December 2009 primarily due to a capital injection by the shareholders. Net current liabilities increased to approximately RMB321.6 million as of 31 December 2010 primarily as a result of significant development and construction work performed during the period that was funded by advances from related parties.

For further information on "Prepayments, deposits and other receivables", "Other payables and accruals" and "Balances with related parties", please refer to such sections in this "Financial Information".

As of 30 April 2011, our unaudited net current liabilities were RMB399.0 million, which mainly consisted of cash and cash equivalents of RMB123.6 million, amounts due to Faithful Boom, the immediate holding company, of RMB266.2 million and bank loans of RMB280.2 million. Please see "Relationship with out Controlling Shareholders and Connected transactions — Independence of Management, Financing & Operation."

RELATED PARTY TRANSACTIONS

During the Track Record Period, we engaged in certain transactions with our subsidiaries or Directors. The related party transactions during the Track Record Period are also set out in Note 24 of the Accountants' Report attached as Appendix I to this Prospectus. The amounts due to Faithful Boom, the immediate holding company, will be repaid or waived in full upon Listing.

Payments made by the related parties on our behalf mainly represent shareholders' loans used to fund our operations, as set out in greater detail in "Relationship with our Controlling Shareholders and Connected Transactions — Independence of Management, Financing & Operation".

Balances with related parties

The following table sets forth balances with related parties as of the dates indicated:

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Due from a related party			
Wang Jiangping	2	15	–

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Due to immediate holding company:			
Faithful Boom	–	–	335,974
Due to related parties[(1)]:			
Zhao Haofu[(2)]	–	23,773	–
Liu Hui	13,625	9,595	–
Chen Zhiqing	13,642	10,042	–
Zhao Yinhe[(2)]	24,522	–	–
	51,789	43,410	–

(1) Balances with related parties were all unsecured, non-interest bearing and had no fixed repayment terms.

(2) On 26 August 2009, Zhao Yinhe and Zhao Haofu entered into an agreement, whereby Zhao Yinhe transferred his interest in the amount due to him by the Group prior to 30 July 2009, in an aggregate amount of RMB24.6 million, to Zhao Haofu.

CONTRACTUAL OBLIGATIONS, CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Operating Lease Arrangements

As of 31 December 2010, we had contractual obligations consisting of non-cancellable operating leases for our properties, including leases for our offices in Hong Kong. The table below sets forth details of our lease payments as of the dates indicated:

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within one year	–	1,739	1,681
In the second to fifth years, inclusive	–	3,189	1,401
	–	4,928	3,082

Capital Commitments

The table below sets forth details of our capital commitments as of the dates indicated:

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Contracted for, but not provided for:			
In respect of plant and machinery	–	23,430	202,667
Authorized, but not contracted for:			
In respect of plant and machinery	–	456,570	51,111
Total	–	480,000	253,778

The significant increase in our capital commitments during the Track Record Period was due to the new equipment and machinery contracts that we entered into in 2009 and 2010 and the proposed capital expenditures of RMB480.0 million for our expansion plan approved by our Board during 2009. As of 31 December 2009 and 2010, the estimated total contract value for plant and machinery related capital commitments were RMB23.4 million and RMB202.7 million, respectively. In addition, our Board approved our planned expenditures for Phase One, Phase Two and Phase Three of our expansion plan for RMB240.1 million, RMB380.0 million and RMB277.2 million, respectively. For additional information regarding our expansion plan, see "Business – Future Plans for Expanding Production Capacity for the Yanjiazhuang Mine."

Contingent Liabilities

We have certain contingent liabilities as a result of the transfer of Venca's 99% equity interest in Xingye Mining to Jet Bright that was completed in July 2010. According to PRC tax rules, unless the equity transfer qualifies for special tax treatment, we may be required to pay tax on the capital gain. In December 2010, the Group submitted an application to the relevant tax bureaus for confirmation that the above-mentioned transfers qualifies for special tax treatment. We are in the process of confirming with the relevant tax bureaus that the equity transfer qualifies for special tax treatment. As we believe that the transfer qualifies for special tax treatment and there shall be no PRC income tax arising from the transfer, we have not made a tax provision for these contingent liabilities.

Other Liabilities

Except as disclosed above and other than intra-group liabilities, which have been disregarded for these purposes, we did not have any outstanding loan capital, bank overdrafts, liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities outstanding as of 31 December 2010.

CAPITAL EXPENDITURES

We incurred capital expenditures for the construction, development, technology upgrade of the Yanjiazhuang Mine and our production facilities during the Track Record Period. The table below sets forth details of our capital expenditures for the periods indicated:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	3,298	12,526	286,672

The following table sets forth details of our actual capital expenditures up to 31 December 2010 and budgeted capital expenditure for each year from 2011 through 2013 per phase and for gabbro-diabase, mine acquisition and resource fees.

	31 December 2010	2011	2012	2013	Total by phase
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Phase One	207,100	26,900	6,100	0	240,100
Phase Two	84,600	272,800	22,400	200	380,000
Phase Three	3,200	107,900	152,800	13,300	277,200
Gabbro-diabase	1,700	169,900	116,600	15,000	303,200
Acquisition of Mines	0	40,000	3,000	717,000	760,000
Resource Fee/mining right	2,300	75,000	100,000	135,000	312,300
Yearly Total	**298,900**	**692,500**	**400,900**	**880,500**	**2,272,800**

The capital expenditures incurred in the year ended 31 December 2010 were mainly related to the completion of Phase One of our three-phase expansion plan.

Based on the existing business plan of the Company which may change depending on various factors, including but not limited to, the overall economic environment, market demand for our products and any business strategies adopted by the Company to respond to changes in market conditions, we expect our budgeted capital expenditures to be approximately RMB692.5 million in 2011 and RMB400.9 million in 2012.

INDEBTEDNESS

As of the Indebtedness Date, we owed RMB280.2 million (equivalent to approximately HK$335 million) in short-term bank loans.

As of the Indebtedness Date, other than amounts due to Faithful Boom, the immediate holding company, in the amount of RMB266.2 million (equivalent to US$41.0 million), amounts due under the Standard Chartered Loan Agreement referred to below in the amount of RMB196.6 million (equivalent to HK$235 million) and amounts due under the Chong Hing Bank Loan Agreement referred to below in the amount of RMB83.6 million (equivalent to HK$100 million), and apart from intra-group liabilities, we did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or material undisclosed contingent liabilities. We do not have any current plans to raise any material external debt financing after Listing. However, our current plans are subject to change based on market conditions, our business plan, our results of operations, the actions of our competitors and the government, as well as other factors.

Bank and Other Borrowings

We did not have any bank borrowings as of 31 December 2008, 2009 and 2010.

We entered into a loan agreement dated 11 February 2011 with Standard Chartered Bank (Hong Kong) Limited (the "Standard Chartered Loan Agreement") relating to a HK$235 million loan facility. Interest is payable at a rate of HIBOR plus 1.8% per annum. We drew down fully on the Standard Chartered loan facility in April of 2011. The proceeds of the drawdown were used to repay a portion of the shareholders' loans then outstanding. Pursuant to the Standard Chartered Loan Agreement, NWS has executed a guarantee for HK$235 million, plus interest and charges, which they can replace with a letter of comfort upon the successful listing of the Company on the Stock Exchange. This is a revolving loan which we expect to repay in one year from the drawdown date. Pursuant to the Standard Chartered Loan Agreement, the Company undertakes to procure that all its obligations related to the Loan Agreement will at all times rank at least *pari passu* in terms of security and support (including third party) with all its other present and future obligations and undertakes to comply with certain notification provisions. Standard Chartered Bank has the overriding right at any time to require immediate payment and/or cash collateralisation of any sums that the Company actually or contingently owes to it under the Loan Agreement.

On 18 February 2011, we entered into a loan agreement with Chong Hing Bank Limited (the "Chong Hing Bank Loan Agreement") relating to a HK$100 million banking facility (the "Chong Hing Facility"). We drew down fully on the Chong Hing Facility in March of 2011. The proceeds of the Chong Hing Facility were also applied to repay a portion of the then outstanding shareholders' loans. NWS has provided a guarantee for the HK$100 million, which will be released on the Listing Date of the Company. The interest to be paid on this loan is 1% per annum above HIBOR, or another rate as Chong Hing Bank Limited may determine from time to time and as agreed upon by the Company on the date of the drawing. We expect to repay this loan facility in the first quarter of 2012. Chong Hing Bank Limited retains the overriding right at any time to require immediate repayment.

On 17 June 2011, we received an offer letter from Chong Hing Bank for an additional banking facility of HK$150 million. The final terms and conditions of the additional banking facility are subject to the bank's approval and agreement by the parties. We intend to draw down this banking facility in full prior to the Listing Date and to use the proceeds of this banking facility, equivalent to RMB124.5 million, to make further repayment on the outstanding shareholders' loans, as set out in greater detail in "Relationship with our Controlling Shareholders and Connected Transactions — Independence of Management, Financing & Operation".

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to various types of market risks in the ordinary course of our business, including fluctuations in interest rates, changes in the selling prices for our products and movements in commodities prices. We manage our exposure to these and other market risks through regular operating and financial activities.

Commodity price risk

The market prices for iron and steel have a significant effect on our results of operation. The fluctuations in prices may be influenced by factors and events that are beyond our control.

Credit risk

Substantially all of our cash and cash equivalents are held in major financial institutions located in China (including in Hong Kong), which our management believes are of high credit quality. We have policies that limit the amount of credit exposure to any financial institutions.

However, disruptions in the worldwide financial markets and other macroeconomic challenges currently affecting the PRC economy and the global economic outlook could adversely affect our customers and suppliers in a number of ways, which could adversely affect us. The slowdown in the growth of the PRC economy, and any attendant effects on the levels of consumer and commercial spending may cause customers to reduce, modify, delay or cancel plans to purchase our products, and may cause suppliers to reduce their sales to us or change terms of sales. If our customers' cash flow or operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, they may not be able to pay, or may delay payment of, receivables owed to us. Likewise, for similar reasons, suppliers may restrict credit or impose different payment terms. Any inability of our customers to pay us for products or demands by suppliers for different payment terms may have an adverse impact on our management's cash flow forecasts and assessment of the impairment of trade receivables. As of the Latest Practicable Date, we had not experienced any material adverse change to our business operations or our cash flows as a result of the recent disruptions in global economic conditions, nor have we been subject to any bankruptcy filings or defaults on the part of our major suppliers.

As we have not yet engaged in commercial production, no credit sales were made to customers during the Track Record Period.

Interest rate risk

Our exposure to market risk for changes in interest rates relates primarily to fluctuations in interest rates on any future potential bank borrowings. Higher interest rates may adversely affect our revenue, profit from operations and net profit. We have not historically been exposed nor do we anticipate being exposed to material risks due to changes in interest rates on debt denominated in Renminbi, although our future interest income and interest disbursements may fluctuate in line with changes in interest rates on debt denominated in Renminbi.

Foreign exchange risk

Substantially all of our future revenue and expenses are denominated in Renminbi. The Renminbi is not freely convertible into other currencies and conversion of the Renminbi into foreign currencies is subject to foreign exchange control rules and regulations promulgated by the PRC Government. In July 2005, the PRC Government introduced a managed floating exchange rate system to allow the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the Renminbi appreciated by approximately 2% against the U.S. dollar. The PRC Government has since made, and may in the future make, further adjustments to the exchange rate system. When the Renminbi appreciates, the value of foreign currency denominated assets will decline against the Renminbi.

We use Renminbi as the reporting currency for our financial statements. Each of our entities determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. All transactions in currencies other than the respective functional currency during the year are recorded at the exchange rates prevailing on the respective relevant dates of such transactions. Monetary assets and liabilities existing at the statements of financial position date denominated in currencies other than the respective functional currency are re-measured at the exchange rates prevailing on such date. Exchange differences are recorded in our consolidated statements of comprehensive income. Fluctuations in exchange rates may also affect our statements of financial position. For example, to the extent that we need to convert HK dollars received in the Global Offering into Renminbi for our operations, the appreciation of the Renminbi against the HK dollar would have an adverse effect on Renminbi amount that we receive from the conversion. Conversely, if we decide to convert Renminbi into HK dollars for the purpose of making payments for dividends on our ordinary shares or for other business purposes, appreciation of the HK dollar against Renminbi would have a negative effect on the HK dollar amount available to us.

We do not believe that we currently have any significant direct foreign currency exchange rate risk and have not hedged exposures denominated in foreign currencies or any other derivative financial instruments.

Liquidity risk

Our liquidity is primarily dependent on our ability to maintain sufficient cash inflows from our operations to meet any debt obligations as they become due, and our ability to obtain external financing to meet our committed future capital expenditures. In addition, the ongoing liquidity crisis could affect our ability to obtain new financing at rates that are favorable to us. We believe we are taking all necessary measures to maintain sufficient liquidity reserves to support the sustainability and growth of our business in the current circumstances and to repay any outstanding borrowings when they fall due.

PROFIT FORECAST(1)(2)(3)

Our Directors believe that, on the bases and assumptions set out in Appendix III to this Prospectus and in the absence of unforeseen circumstances, our estimated consolidated profit attributable to owners of the parent of the Company for the six months ending 30 June 2011 is expected to be approximately RMB9.6 million (equivalent to approximately HK$11.5 million).

Note:

(1) The bases and assumptions on which the above profit forecast for the six months ending 30 June 2011 have been prepared are summarized in part (A) of Appendix III of this Prospectus.

(2) Our Directors have prepared the forecast of the consolidated profit attributable to owners of the parent for the six months ending 30 June 2011 based on the unaudited management accounts of the Group for the four months ended 30 April 2011 and the forecast of the consolidated results of the remaining two months ending 30 June 2011.

(3) Our Directors forecast that the average selling price of iron ore concentrate per tonne (net of value-added tax and other surtaxes) will not be less than RMB1,120 per tonne throughout the forecast period in May and June 2011. Assuming that the average iron ore concentrate price in May and June 2011 varies 10% and 20% above or below the base case iron ore concentrate price, the corresponding forecast consolidated net profit attributable to owners of the parent for the six months ending 30 June 2011 will increase or decrease by approximately RMB333,000 and RMB665,000, respectively.

DIVIDEND POLICY

After completion of the Global Offering, our shareholders will be entitled to receive any dividends we declare. The payment and amount of any dividend will be at the discretion of the Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, interests of our shareholders, taxation conditions, statutory restrictions, and other factors that our Board deems relevant. The payment of any dividends will also be subject to the Companies Law and our constitutional documents, which indicate that payment of dividends out of our share premium account is possible on the condition that we are able to pay our debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

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

We currently intend to retain most, if not all, of our available funds and future earnings to operate and expand our business, primarily through acquisitions. The Board will review the dividend policy on an annual basis. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars.

DISTRIBUTABLE RESERVES

As of 31 December 2010, we had no distributable reserves for distribution to the shareholders.

PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interests as of 31 March 2011. The text of the letter, summary of valuation and the summary valuation certificates are set out in Appendix IV to this Prospectus.

PROPERTY VALUE RECONCILIATION

Particulars of our property interests are set out in Appendix IV to this Prospectus. Jones Lang LaSalle Sallmanns Limited has valued our property interests as of 31 March 2011. A summary of values and valuation certificates issued by Jones Lang LaSalle Sallmanns Limited is included in Appendix IV to this Prospectus.

The table below sets forth the reconciliation of aggregate amounts of land use right and structures from our audited consolidated financial statements as of 31 December 2010 to the unaudited net book value of our property interests as of 31 March 2011:

	RMB'000
Net book value of our property interests as of 31 December 2010 [(1)]	10,432
Additions	–
Depreciation	(44)
Disposals	–
Net book value as of 31 March 2011	10,388
Valuation surplus as of 31 March 2011	2,117
Valuation as of 31 March 2011 per Appendix IV – Property Valuation	12,505

(1) Property interests as of 31 December 2010 with net book value of RMB6,519,000 were included in "property, plant and equipment – construction in progress" and with net book value of RMB3,913,000 were included in "prepaid land lease payments" within our financial information. See Notes 11 and 13 of Section II of the Accountants' Report included as Appendix I to this Prospectus.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of our unaudited pro forma adjusted net tangible assets which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 December 2010. The unaudited pro forma net tangible assets have been prepared for illustrative purposes only and because of their hypothetical nature, they may not give a true picture of our financial position had the Global Offering been completed as of 31 December 2010 or any future dates.

	Audited consolidated net tangible assets attributable to owners of the parent as at 31 December 2010(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets(3)	Unaudited pro forma adjusted net tangible assets per Share(4)	
	RMB'000	RMB'000	RMB'000	(RMB)	(HK$)
Based on Offer Price of HK$1.75 per Share	31,446	1,013,433	1,044,879	0.26	0.31
Based on Offer Price of HK$2.35 per Share	31,446	1,393,905	1,425,351	0.36	0.43

(1) As of 31 December 2010, our audited consolidated net tangible assets attributable to our equity holders was equal to equity attributable to our equity holders less the intangible assets.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$1.75 and HK$2.35, respectively, per Offer Share, after deduction of underwriting fees and estimated expenses payable by us in connection with the Global Offering.

(3) The unaudited pro forma adjusted net tangible assets have not taken into consideration capital injections subsequent to 31 December 2010 and before Global Offering.

(4) The unaudited pro forma adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in Appendix II — Unaudited Pro Forma Adjusted Net Tangible Assets to this Prospectus and on the basis of 4,000,000,000 Shares in issue at the respective Offer Price of HK$1.75 and HK$2.35 per Share immediately following completion of the Global Offering and Capitalization Issue, without taking into account any options which have been granted under the Pre-IPO Share Option Scheme and which may be granted under the Share Option Scheme.

DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

Except as otherwise disclosed in this Prospectus, we confirm that, as of the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.

CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

As of the date of this Prospectus, our Directors and the Joint Sponsors confirm that there has been no material adverse change in our financial or trading position or prospects since 31 December 2010, the date of our latest audited financial statements.

Our Directors confirm that they have performed sufficient due diligence on us to ensure that, up to the date of this Prospectus, there has been no material adverse change in our financial or trading position or prospects since 31 December 2010, and there is no event since 31 December 2010 which would materially affect the information shown in the Accountants' Report, the text of which is set out in Appendix I to this Prospectus.