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21 June 2011

The Directors
Newton Resources Ltd

Citigroup Global Markets Asia Limited
Macquarie Capital Securities Limited
Rothschild (Hong Kong) Limited

Dear Sirs,

We set out below our report on the financial information of Newton Resources Ltd (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") comprising the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the three years ended 31 December 2008, 2009 and 2010 (the "Relevant Periods"), the consolidated statements of financial position of the Group as at 31 December 2008, 2009 and 2010, and the statements of financial position of the Company as at 31 December 2009 and 2010, together with the notes thereto (the "Financial Information") prepared on the basis of presentation set out in Note 2 of Section II below, for inclusion in the prospectus of the Company dated 21 June 2011 (the "Prospectus") in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands on 25 September 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation"), details of which are further described in the "History, Reorganisation and Corporate Structure – Reorganisation" section in the Prospectus, the Company became the holding company of the subsidiaries now comprising the Group.

As at the date of this report, no statutory financial statements have been prepared for the Company as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

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

Particulars of the subsidiaries of the Company at the date of this report are set out below:

Company name	Place and date of incorporation/ registration	Nominal value of issued and paid-up share/registered paid-up capital	Percentage of equity interests attributable to the Company (%)	Principal activities
Directly held:				
Venca Investments Limited[1] ("Venca") 永佳投資有限公司	British Virgin Islands ("BVI") 4 July 2006	US$1,000	100.0	Investment holding
Indirectly held:				
Jet Bright Limited[2] ("Jet Bright") 仲耀有限公司	Hong Kong 2 November 2009	HK$1,189	100.0	Investment holding
Lincheng Xingye Mineral Resources Co., Ltd[3] ("Xingye Mining") 臨城興業礦產資源有限公司	People's Republic of China ("PRC") 10 May 2006	US$30,000,000	99.0	Mining, ore processing and sale of iron concentrate

Notes:

1. As of the date of this report, no audited financial statements have been prepared since the date of incorporation of Venca as there was no requirement, statutory or otherwise, to issue financial statements. Venca has not carried on any business other than the Reorganisation and the events described in the "History, Reorganisation and Corporate Structure — Reorganisation" section in the Prospectus.

2. As of the date of this report, no audited financial statements have been prepared since the date of incorporation of Jet Bright as Jet Bright has not commenced commercial activities.

3. As of the date of this report, no audited financial statements have been prepared since the date of registration of Xingye Mining.

The English name of the subsidiaries registered in the PRC represents the best efforts made by management of the Company to translate its Chinese name as it does not have official English name.

All companies now comprising the Group have adopted 31 December as their financial year end date. For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated financial statements of the Group (the "Underlying Financial Statements") for the three years ended 31 December 2008, 2009 and 2010 and the statements of financial position of the Company as at 31 December 2009 and 2010 (the "IFRS Financial Statements") in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group as at 31 December 2008, 2009 and 2010 and of the consolidated results and cash flows of the Group for each of the Relevant Periods and of the state of affairs of the Company as at 31 December 2009 and 2010.

I. FINANCIAL INFORMATION

Consolidated statements of comprehensive income

		Year ended 31 December		
		2008	2009	2010
	Notes	RMB'000	RMB'000	RMB'000
Continuing operations				
Revenue	5	–	–	–
Cost of sales		–	–	–
Gross profit		–	–	–
Operating expenses		–	–	–
Administrative expenses		(227)	(2,136)	(7,747)
Other expense		–	–	(95)
Finance (costs)/income	6	–	(27)	4,894
Gain on disposal of a subsidiary	25	–	15	–
Loss before tax from continuing operations	6	(227)	(2,148)	(2,948)
Income tax expense	8	–	–	–
Loss for the year from continuing operations		(227)	(2,148)	(2,948)
Discontinued operation				
Loss for the year from a discontinued operation	9	(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)
Loss per share (RMB)				
– Basic and diluted	10	(367)	(2,202)	(2,918)
Loss per share from continuing operations (RMB)				
– Basic and diluted	10	(223)	(2,117)	(2,918)

Consolidated statements of financial position

		31 December		
		2008	2009	2010
	Notes	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	11	63,245	65,465	351,700
Intangible assets	12	4,601	2,301	2,301
Prepaid land lease payments	13	–	–	3,810
		67,846	67,766	357,811
Current assets				
Prepayments, deposits and other receivables	15	–	10,675	59,380
Due from a related party	16	2	15	–
Inventories	17	150	3,563	1,617
Cash and cash equivalents	18	340	4,043	55,934
		492	18,296	116,931
Current liabilities				
Trade payables		102	891	358
Other payables and accruals	19	1,134	3,786	102,158
Due to immediate holding company	16	–	–	335,974
Due to related parties	16	51,789	43,410	–
		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 liabilities				
Long-term payables	20	1,180	1,180	1,180
Net assets		14,133	36,795	35,072
Equity				
Equity attributable to owners of the parent				
Issued capital	21	–	–	–
Capital reserves	22	15,471	40,366	40,366
Accumulated losses		(1,494)	(3,698)	(6,619)
		13,977	36,668	33,747
Non-controlling interests		156	127	1,325
Total equity		14,133	36,795	35,072

Consolidated statements of changes in equity

	Attributable to owners of the parent					
	Issued capital	Capital reserves	Accumulated losses	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 21	Note 22				
At 1 January 2008	–	15,471	(1,127)	14,344	–	14,344
Total comprehensive loss for the year	–	–	(367)	(367)	(4)	(371)
Capital injection (Note 22)	–	–	–	–	160	160
At 31 December 2008 and 1 January 2009	–	15,471	(1,494)	13,977	156	14,133
Total comprehensive loss for the year	–	–	(2,204)	(2,204)	(29)	(2,233)
Capital injection (Note 22)	–	24,895	–	24,895	18	24,913
Disposal of a subsidiary (Note 25)	–	–	–	–	(18)	(18)
At 31 December 2009 and 1 January 2010	–	40,366	(3,698)	36,668	127	36,795
Total comprehensive loss for the year	–	–	(2,921)	(2,921)	(27)	(2,948)
Capital injection (Note 22)	–	–	–	–	1,225	1,225
At 31 December 2010	–	40,366	(6,619)	33,747	1,325	35,072

Consolidated statements of cash flows

	Notes	Year ended 31 December 2008 RMB'000	2009 RMB'000	2010 RMB'000
Cash flows from operating activities				
Loss before tax:				
From continuing operations		(227)	(2,148)	(2,948)
From a discontinued operation		(144)	(85)	–
Adjustments for:				
Depreciation of property, plant and equipment	6, 11	333	462	145
Amortisation of prepaid land lease payment	6	–	–	287
Gain on disposal of a subsidiary	25	–	(15)	–
Net foreign exchange losses/(gains)	6	–	27	(5,014)
Cash flows before working capital changes		(38)	(1,759)	(7,530)
Increase in prepaid land lease payment		–	–	(4,200)
(Increase)/decrease in inventories		(150)	(3,413)	1,946
Increase in advances from customers		–	–	23,664
Increase in prepayments, deposits and other receivables		–	(10,666)	(6,640)
Increase/(decrease) in trade payables		102	270	(533)
Increase in other payables and accruals		–	3,655	6,863
Net cash (used in)/flows from operating activities		(86)	(11,913)	13,570
Cash flows from investing activities				
Purchase of items of property, plant and equipment		(5,513)	(10,366)	(233,334)
Disposal of a subsidiary	25	–	(8)	–
Net cash used in investing activities		(5,513)	(10,374)	(233,334)
Cash flows from financing activities				
Capital injection from equity holders	22	–	24,895	–
Capital injection from non-controlling shareholders		160	18	1,225
Payment of initial public offering expenses		–	–	(27,290)
Advances from related parties, net	24	4,995	1,104	299,185
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 beginning of year		784	340	4,043
Cash and cash equivalents at end of year		340	4,043	55,934
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	18	340	4,043	55,934

Statements of financial position of the Company

	Notes	31 December 2009 RMB'000	31 December 2010 RMB'000
Non-current assets			
Property, plant and equipment		–	53
Interests in subsidiaries	14	–	36,665
		–	36,718
Current assets			
Prepayments, deposits and other receivables	15	9,350	49,305
Due from a subsidiary	16	–	259,670
Cash and cash equivalents		–	210
		9,350	309,185
Current liabilities			
Other payables and accruals		–	13,347
Due to a subsidiary	16	9,596	–
Due to immediate holding company	16	–	298,010
		9,596	311,357
Net current liabilities		(246)	(2,172)
Total assets less current liabilities		(246)	34,546
Net assets		(246)	34,546
Equity			
Issued capital	21	–	–
Capital reserves	21	–	36,665
Accumulated losses		(246)	(2,119)
Total equity		(246)	34,546

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 25 September 2009 under the Companies Law (as amended) of the Cayman Islands under the name of Newton Resources Ltd. The registered office address of the Company is Walker House, 87 Mary Street, George Town, Grand Cayman, KY1-9005, Cayman Islands.

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

Pursuant to the Reorganisation as described in the "History, Reorganisation and Corporate Structure – Reorganisation" section in the Prospectus, the Company became the holding company of the subsidiaries now comprising the Group in March 2010.

As a result of the above Reorganisation but immediately before the proposed listing of the Company's shares on the Main Board of the Stock Exchange (the "Listing"), 60% of the share capital of the Company was owned by Faithful Boom Investments Limited ("Faithful Boom"), a company incorporated in the British Virgin Islands and ultimately controlled by NWS Holdings Limited ("NWS"), a company incorporated in Bermuda and listed on the Stock Exchange in 1997. In the opinion of the Directors, NWS and VMS Investment Group Limited ("VMS", a limited company incorporated in the British Virgin Islands) are the controlling shareholders of the Company ("Controlling Shareholders").

2. BASIS OF PRESENTATION

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

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

As at 31 December 2008, 2009 and 2010, the current liabilities of the Group exceeded its current assets by approximately RMB52,533,000, RMB29,791,000, and RMB321,559,000 respectively. Notwithstanding the net current liabilities position, the Financial Information has been prepared on a going concern basis as the 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.

Basis of preparation

The Financial Information has been prepared in accordance with IFRS which comprise standards and interpretations approved by the IASB, International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee. All IFRS effective for the accounting period commencing from 1 January 2008, 2009 and 2010 together with the relevant transitional provisions, have been adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention and is presented in Renminbi ("RMB") with all values rounded to the nearest thousand (RMB'000) except when otherwise indicated.

3.1 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSS

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

IFRS 1 Amendment	Amendment to IFRS 1 First-time Adoption of IFRSs – Limited Exemption from Comparatives IFRS 7 Disclosures for First-time Adopters[1]
IFRS 7 Amendments	Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets[2]
IFRS 9	Financial Instruments[3]
IAS 24 (Revised)	Related Party Disclosures[4]
IAS 32 Amendment	Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues[5]
IFRIC 14 Amendments	Amendments to IFRIC-Int 14 Prepayments of a Minimum Funding Requirement[4]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[1]
Improvements to IFRSs (May 2010)	Amendments to a number of IFRSs

1 Effective for annual periods beginning on or after 1 July 2010

2 Effective for annual periods beginning on or after 1 July 2011

3 Effective for annual periods beginning on or after 1 January 2013

4 Effective for annual periods beginning on or after 1 January 2011

5 Effective for annual periods beginning on or after 1 February 2010

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results and financial position.

The amendment to IFRS 1 was issued in February 2010 and shall be applied for financial years beginning on or after 1 July 2010. The amendment to IFRS 1 provides first-time adopters to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with IFRSs that are included in Amendments to IFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments. As the Group is not a first-time adopter of IFRSs, the amendment will not have any financial impact on the Group.

The HKFRS 7 Amendments introduce more extensive quantitative and qualitative disclosure requirements regarding transfer transactions of financial assets (e.g., securitisations), including information for understanding the possible effects of any risks that may remain with the entity that transferred the assets. The Company expects to adopt the amendments from 1 January 2012 and comparative disclosures are not required for any period beginning before that date.

IFRS 9 was issued in November 2009 and shall be applied for financial years beginning on or after 1 January 2013. IFRS 9 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39

Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

IAS 24 (Revised) was issued in November 2009 and shall be applied for financial years beginning on or after 1 January 2011. IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt IAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government related entities.

The amendment to IAS 32 was issued in October 2009 and shall be applied for financial years beginning on or after 1 February 2010. The amendment to IAS 32 revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the IAS 32 Amendment from 1 January 2011. As the Group currently has no such rights, options or warrants in issue, the amendment is unlikely to have any financial impact on the Group.

The amendments to IFRIC 14 were issued in December 2009 and shall be applied for financial years beginning on or after 1 January 2011. The amendments to IFRIC 14 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 for 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. The Group expects to adopt the IFRIC 14 Amendments from 1 January 2011. As the Group has no defined benefit scheme, the amendments will not have any financial impact on the Group.

IFRIC 19 was issued in December 2009 and shall be applied for financial years beginning on or after 1 July 2010. It addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with IAS 39 Financial Instruments: Recognition and Measurement and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

Improvements to IFRSs

Improvements to IFRSs issued in May 2010 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

Non-controlling interests

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Group's subsidiaries. An acquisition of non-controlling 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.

Impairment of non-financial assets other than goodwill

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

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 consolidated statement of comprehensive income in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously 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 consolidated statement of comprehensive income in the period in which it arises.

Related parties

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

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

(b) the party is an associate;

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

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

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

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

Property, plant and equipment and depreciation

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

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

Motor vehicles, fixtures and others	5 years
Machinery	10-15 years

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of these assets.

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment 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 represents items of property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. When a mine construction project moves into the production stage, the capitalisation of certain mine construction costs ceases and costs are either regarded as part of the costs of inventories or expensed, except for costs which qualify for capitalisation relating to mining asset additions or improvements, or mineable reserve development. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Stripping costs

Stripping costs incurred in the development of a mine before production commences are capitalised in property, plant and equipment as part of the cost of constructing the mine, and subsequently amortised over the estimated useful life of the mine using the UOP method.

Stripping costs incurred during the production phase are variable production costs that are included in the costs of inventories 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 capitalised in 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.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are 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.

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 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 is included, in the first instance, in exploration rights and assets and are transferred to mining rights when it can be reasonably ascertained that an exploration property is capable of commercial production.

Exploration and evaluation costs include 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.

Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to the consolidated statement of comprehensive income as incurred, unless the Directors conclude that a future economic benefit is more likely to be realised than not. When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to mining infrastructure or mining right and 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.

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 consolidate statement of comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

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

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are 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. During the Relevant Periods, the Group only held loans and other receivables.

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 cash equivalents, trade receivables and other receivables.

Loans and receivables

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

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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; and a discounted cash flow analysis.

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.

Assets carried at amortised cost

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

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

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

Derecognition of financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred substantially all the risks 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. 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.

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

Financial liabilities at amortised cost

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

Gains and losses are recognised in the consolidated statements of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

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 statements of comprehensive income.

Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated statements of comprehensive income, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal groups constituting the discontinued operation.

Comparative information for prior periods is represented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

The classification, measurement and presentation requirements above are also applied to non-current assets that are held for distribution, or distributed to shareholders acting in their capacity as shareholders.

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

For the purpose of the consolidated statements 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.

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 statements of comprehensive income. The asset is depreciated using the UOP method over its expected life and the liability is accreted to the projected expenditure date. Additional disturbances or changes in estimates (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities) will be recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur at the appropriate discount rate.

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the end of 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.

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. Conversely, previously unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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.

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 is it 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 consolidated statement of comprehensive income by way of a reduced depreciation charge.

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.

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 statements of comprehensive income in the period in which they are incurred.

Foreign currencies

The Financial Information is presented in RMB, which is the presentation currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the 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 Group's employer contributions vest fully with the employees when contributed into the Mandatory Provident Fund retirement benefit scheme ("MPF Scheme") in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 20% of its payroll costs 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.

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.

3.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Financial Information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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, critical judgment in applying the Group's accounting policies which have a significant effect on the Financial Information are discussed below:

(a) Useful lives of property, plant and equipment

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

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

The Group assesses each cash-generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. The carrying value of the property, plant and equipment, including mining infrastructure, is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. Estimating the value in use requires the Group to estimate future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of property plant and equipment at 31 December 2008, 2009 and 2010 were RMB63,245,000, RMB65,465,000, and RMB351,700,000 respectively.

(c) Mine reserves

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

(d) Production start date

The Group assesses the stage of each mine under construction to determine when a mine moves into the production stage being when the mine is substantially complete and ready for its intended use. The criteria used to assess the start date are determined based on the unique nature of each mine construction project, such as the complexity of a plant and its location. The Group considers various relevant criteria to assess when the production phases is considered to commence and all related amounts are reclassified from "Construction in progress" to the appropriate category of "Property, plant and equipment". Some of the criteria used will include, but are not limited to, the following:

- Level of capital expenditure incurred compared to the original construction cost estimates
- Completion of a reasonable period of testing of the mine plant and equipment
- Ability to produce metal in saleable form (within specifications)
- Ability to sustain ongoing production of metal

When a mine development/construction project moves into the production stage, the capitalisation of certain mine development/construction costs ceases and costs are either regarded as forming part of the costs of inventories or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. It is also at this point that depreciation/amortisation commences.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services. No revenue or contribution to profit during the Relevant Periods was derived in the Group as the Group is currently in its development stage.

During the year ended 31 December 2009, the Group disposed its interest in the mining right of Lincheng County Shiwopu Guomu Nangou Iron Ore Mine (臨城縣石窩鋪果木南溝鐵礦, "Guomu Nangou Mine"), and upon completion of the disposal, the Group's results is made up of only one continuing segment, Lincheng Yanjiazhuang Iron Ore Mine (臨城閆家莊鐵礦, "Yanjiazhuang Mine"). For details of the disposal, please refer to Notes 9 and 25.

Further, as the principal assets employed by the Group are located in Hebei Province, the PRC. Accordingly, no segment analysis by business or geographical is provided.

5. REVENUE AND OTHER INCOME

Revenue represents the net invoiced value of goods sold, net of trade discounts and returns and various types of government surcharges, where applicable. As the Group has not commenced commercial production, there were no revenue, trade discounts or returns during the Relevant Periods.

6. LOSS BEFORE TAX FROM CONTINUING OPERATIONS

The Group's loss before tax from continuing operations is arrived at after charging/(crediting):

		Year ended 31 December		
		2008	2009	2010
	Notes	RMB'000	RMB'000	RMB'000
Minimum lease payments under operating leases for office tenancy		–	217	2,168
Staff costs				
– Wages and salaries		–	446	3,281
Depreciation	11	227	383	145
Amortisation of prepaid land lease payments	13	–	–	287
Gain on disposal of a subsidiary	25	–	(15)	–
Finance costs/(income)				
– Interest expenses, net		–	–	120
– Exchange losses/(gains), net		–	27	(5,014)

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of directors, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Fees	–	–	–
Other emoluments:			
Salaries, allowances and benefits in kind	–	–	1,021
Pension scheme contributions	–	–	–
	–	–	1,021

(a) *Independent non-executive directors*

The independent non-executive directors during the Relevant Periods were Mr. Sun Yongxu, Mr. Wang Xiaoxing and Mr. Choy Sze Chung Jojo until July 2010 and on 15 December 2010, Mr. Tsui King Fai and Mr. Lee Kwan Hung were appointed as independent non-executive directors.

There were no emoluments payable to the independent non-executive directors during the years ended 31 December 2008, 2009, and 2010.

(b) *Executive directors*

Executive directors of the Company did not receive any fees or emoluments in respect of their services rendered to the Company during the years ended 31 December 2008 and 2009. Details of the executive directors' remuneration during the year ended 31 December 2010 are as follow:

Year ended 31 December 2010	Salaries, allowance and benefits in kind	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000
Yao Zanxun	442	–	442
Li Yuelin	300	–	300
Lin Zeshun	96	–	96
Liu Yongxin	96	–	96
Jing Zhiqing	87	–	87
	1,021	–	1,021

Notes: Mr. Li Yuelin, Mr. Lin Zeshun and Mr. Liu Yongxin were appointed as executive directors of the Company on 9 April 2010. Mr. Yao Zanxun and Mr. Jing Zhiqing were appointed as executive directors of the Company on 13 December 2010.

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

(c) Five highest paid employees

The five highest paid employees during year ended 31 December 2010 include two executive directors (two years ended 31 December 2008 and 2009: Nil), details of whose remuneration are set out in Note 7(b) above.

Details of the remuneration of the three non-director highest paid employees (two years ended 31 December 2008 and 2009: five) during 31 December 2010 are as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	88	143	974
Pension scheme contributions	16	17	–
	104	160	974

The remuneration of the above non-director, highest paid individuals in each of the Relevant Periods was below HK$1,000,000.

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

8. INCOME TAX EXPENSE

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

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

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

During the years ended 31 December 2009 and 2010, a PRC subsidiary of the Company, Xingye Mining has undergone trial production and in accordance with the instruction of the local tax authority, it has paid 25% of CIT based on rates of 11% and 12% in 2009 and 2010, respectively of its deemed trial production revenue. As the related mining assets were not ready to commence commercial production, the net income/expense from trial production was offset/added to the related construction in progress.

The major components of income tax expense from continuing operations for the Relevant Periods are as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current – Mainland China			
CIT payable for the year	–	–	–
Adjustments in respect of current income tax of previous years	–	–	–
	–	–	–
Deferred tax movement	–	–	–
Total tax charge for the year	–	–	–

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

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Loss before tax from continuing operations	(227)	(2,148)	(2,948)
Tax at applicable statutory tax rates of 25% for 2008, 2009 and 2010 in the PRC	(57)	(537)	(737)
Expenses not deductible for tax	57	537	737
Total tax charge for the year	–	–	–

Neither the Group nor the Company had significant unrecognised deferred tax assets as at the end of each of the three years ended 31 December 2008, 2009 and 2010.

9. DISCONTINUED OPERATION

On 9 November 2009, Xingye Mining entered into an agreement with an individual, Wang Zhixiong, to sell its 99% equity interests in Lincheng County Guomu Nangou Iron Ore Limited ("Guomu Nangou" 臨城縣果木南溝鐵礦有限公司) for a consideration of RMB1. The Directors believe that the disposal of Guomu Nangou allows a better use of funds and resources available to the Group. The disposal was completed on 12 November 2009.

The results of Guomu Nangou for the Relevant Periods were presented below:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Revenue	–	–	–
Cost of sales	–	–	–
Gross profit	–	–	–
Administrative expenses	(144)	(85)	–
Other expense	–	–	–
Loss before tax from a discontinued operation	(144)	(85)	–
Income tax	–	–	–
Loss for the year from a discontinued operation	(144)	(85)	–

The net cash flows incurred by Guomu Nangou during the Relevant Periods were as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Operating activities	(3)	(100)	–
Investing activities	–	–	–
Financing activities	–	–	–
Net cash outflow	(3)	(100)	–
Loss per share from the discontinued operation (RMB)	(144)	(85)	–

10. LOSS PER SHARE

The calculation of basic loss per share for the Relevant Periods is based on the loss attributable to owners of the parent for each of the Relevant Periods and on the assumption that 1,001 shares, representing the number of shares of the Company as at 31 December 2010, but excluding any shares to be issued pursuant to the public offering, had been in issue throughout the Relevant Periods. No adjustment has been made to the basic loss per share amounts presented for any of the Relevant Periods as no diluting events occurred during the Relevant Periods.

11. PROPERTY, PLANT AND EQUIPMENT

Group

	Motor vehicles, fixtures and others	Machinery	Mining infra-structure	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At 1 January 2008	117	2,132	10,124	48,168	60,541
Additions	5	1,560	–	1,733	3,298
Transfer in/(out)	–	–	12,776	(12,776)	–
At 31 December 2008 and 1 January 2009	122	3,692	22,900	37,125	63,839
Additions	327	15	–	12,184	12,526
Disposal of a subsidiary	(102)	(447)	(8,722)	(900)	(10,171)
At 31 December 2009 and 1 January 2010	347	3,260	14,178	48,409	66,194
Additions	2,210	1,597	84	282,781	286,672
At 31 December 2010	2,557	4,857	14,262	331,190	352,866
Accumulated depreciation:					
At 1 January 2008	12	249	–	–	261
Provided for the year	23	310	–	–	333
At 31 December 2008 and 1 January 2009	35	559	–	–	594
Provided for the year	26	436	–	–	462
Disposal of a subsidiary	(44)	(283)	–	–	(327)
At 31 December 2009 and 1 January 2010	17	712	–	–	729
Provided for the year	106	273	58	–	437
At 31 December 2010	123	985	58	–	1,166
Net book value:					
At 1 January 2008	105	1,883	10,124	48,168	60,280
At 31 December 2008	87	3,133	22,900	37,125	63,245
At 31 December 2009	330	2,548	14,178	48,409	65,465
At 31 December 2010	2,434	3,872	14,204	331,190	351,700

Included in the depreciation for the year were depreciation charges related to a discontinued operation of RMB106,000, RMB79,000 and nil for the years ended 31 December 2008, 2009 and 2010 respectively.

During the year ended 31 December 2010, depreciation charges of RMB292,000 (two years ended 31 December 2008 and 2009: Nil) were included in the construction cost.

12. INTANGIBLE ASSETS

Group

	Mining rights[1]	Exploration rights[2]	Total
	RMB'000	RMB'000	RMB'000
Cost:			
At 1 January 2008, 31 December 2008 and 1 January 2009	2,300	2,301	4,601
Disposal of a subsidiary (Note 25)	(2,300)	–	(2,300)
Transfer in/(out)	2,301	(2,301)	–
At 31 December 2009, 1 January 2010 and 31 December 2010	2,301	–	2,301
Accumulated amortisation:			
At 1 January 2008, 31 December 2008, 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	–	–	–
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

Notes:

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

The Yanjiazhuang Mine is operated by Xingye Mining. In May 2009, the local government granted the Yanjiazhuang Mine mining permit to Xingye Mining for a term of eight years to July 2017. As a result, the Group has reclassified the exploration rights of Yanjiazhuang Mine as mining rights. The estimated useful life of the mining rights is based on its unexpired period. No amortisation was accrued as the mine had not yet commenced commercial production as at 31 December 2010.

On 29 August 2005, the mining rights to Guomu Nangou Mine were purchased at a cash consideration of RMB2,300,000. In November 2009, the Group disposed of its interest in Guomu Nangou, which included the mining rights to Guomu Nangou Mine. Please refer to Note 25 for further details.

(2) Exploration rights represent the exploration rights of the 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 the mining permit of the Yanjiazhuang Mine was granted to Xingye Mining by the local government.

13. PREPAID LAND LEASE PAYMENTS

Group and Company

		31 December		
		2008	2009	2010
	Notes	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January:		–	–	–
Additions		–	–	4,200
Recognised during the year	6	–	–	(287)
Carrying amount at 31 December		–	–	3,913
Current portion included in prepayments, deposits and other receivables	15	–	–	(103)
Non-current portion		–	–	3,810

The balance represented the prepayments for the use rights of two parcels of land leased from the PRC government with lease terms of 40 years and the land use right certificates expiring in September 2049.

The Group had paid the land premium in accordance with the notices from the local Land Resources Bureau. Upon payment of the final instalment in December 2010, the Group is no longer required to make further instalment payment.

14. INTERESTS IN SUBSIDIARIES

Company

	31 December	
	2009	2010
	RMB'000	RMB'000
Unlisted investments, cost:		
Venca	–	36,665

On 15 January 2010, the Company acquired the entire issued share capital of Venca, from the immediate holding company, Faithful Boom, by issuing 1,000 ordinary shares to Faithful Boom.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

		31 December		
		2008	2009	2010
	Notes	RMB'000	RMB'000	RMB'000
Deferred initial public offering expenses		–	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 payments	13	–	–	103
Others		–	33	559
		–	10,675	59,380

Company

	31 December	
	2009	2010
	RMB'000	RMB'000
Deferred initial public offering expenses	9,350	48,042
Deposits	–	727
Others	–	536
	9,350	49,305

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

Deferred initial public offering expenses represent legal and other professional fees relating to the Listing, which will be deducted from equity when the Company completes the Listing.

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

16. BALANCES WITH RELATED PARTIES

Group

		31 December		
		2008	2009	2010
	Notes	RMB'000	RMB'000	RMB'000
Due from a related party:				
Wang Jiangping	(a)	2	15	–

	Notes	31 December 2008 RMB'000	2009 RMB'000	2010 RMB'000
Due to the immediate holding company:				
Faithful Boom		–	–	335,974
Due to related parties:				
Zhao Haofu	(b)	–	23,773	
Liu Hui	(c)	13,625	9,595	–
Chen Zhiqing	(d)	13,642	10,042	–
Zhao Yinhe	(e)	24,522	–	–
		51,789	43,410	–

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 RMB24,572,000, to Zhao Haofu.

Balances with related parties were all unsecured, non-interest-bearing and the amounts due to the immediate holding company as at 31 December 2010 will be repaid or waived in full upon Listing.

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

Company

	31 December 2009 RMB'000	2010 RMB'000
Due from a subsidiary:		
Venca	–	259,670
Due to a subsidiary:		
Venca	9,596	–
Due to the immediate holding company		
Faithful Boom	–	298,010

Notes:

(a) Non-controlling shareholder of Guomu Nangou, a former subsidiary company

(b) Then shareholder and director of the Company until 12 July 2010

(c) Then shareholder of the Company until 21 September 2010

(d) Then shareholder

(e) Then director of the Company and Xingye Mining

17. INVENTORIES

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

As at 31 December 2008, 2009 and 2010, all inventories were stated at cost.

18. CASH AND CASH EQUIVALENTS

	31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cash on hand	340	1,016	12
Cash at banks	–	3,027	55,922
Cash and cash equivalents	340	4,043	55,934

The Group's cash and bank balances are denominated in RMB at the end of each of the three years ended 31 December 2008, 2009 and 2010, except for the following:

	RMB equivalent 31 December 2009	RMB equivalent 31 December 2010
	RMB'000	RMB'000
Cash and bank balances denominated in:		
US$	–	51,962
HK$	2,968	240
	2,968	52,202

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

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

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

19. OTHER PAYABLES AND ACCRUALS

Group

	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
Other taxes payable	92	954	764
Payroll and welfare payable	390	791	3,502
Compensation to farmers	340	300	18,282
Advances from customers	–	–	23,671
	1,134	3,786	102,158

Advances from customers represented cash deposits placed by potential customers for sales of iron concentrate upon commencement of production.

20. LONG-TERM PAYABLES

Long-term payables represent compensation payables to farmers from 2015 to 2025.

21. ISSUED CAPITAL

	31 December	
	2009	2010
	HK$	HK$
Authorised:		
10,000,000,000 ordinary shares of HK$0.1 each	1,000,000,000	1,000,000,000
Issued and fully paid:		
1,001 ordinary shares of HK$0.1 each (2009: 1 ordinary share of HK$0.1 each)	0.1	100

On 15 January 2010, the Company entered into agreement with Faithful Boom to acquire its 100% equity interest in Venca, by issuance of 1,000 ordinary shares to Faithful Boom and upon completion of the transfer, Faithful Boom became the immediate holding company of the Company.

A summary of the transactions during the period with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued capital	Capital Reserves	Total
		RMB'000	RMB'000	RMB'000
At 25 September 2009 (incorporation date)	–	–	–	–
Share issued	1	–	–	–
At 31 December 2009 and 1 January 2010	1	–	–	–
Shares issued	1,000	–	36,665	36,665
At 31 December 2010	1,001	–	36,665	36,665

22. CAPITAL RESERVE

Group

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Beginning of the year	15,471	15,471	40,366
Capital injection	–	24,895	–
End of the year	15,471	40,366	40,366

The capital reserve of the Group represents the paid-in capital of the subsidiaries now comprising the Group, after eliminating intra-group investments. These capital injections were made by the equity holders of the Group to Venca, which are treated as contributions from the equity holders of the Company in the Financial Information. The contributions were settled in cash.

23. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments at the end of each of the three years ended 31 December 2008, 2009 and 2010:

Group

	31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
– Plant and machinery	–	23,430	202,667
Authorised, but not contracted for:			
– Plant and machinery	–	456,570	51,111
	–	480,000	253,778

(b) Operating lease arrangements

As lessee

The Group leases certain of its office premises under operating lease arrangements, with leases negotiated for a three years' term, at which time all terms will be renegotiated.

At the end of each of the three years ended 31 December 2008, 2009 and 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group

	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

24. RELATED PARTY TRANSACTIONS

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

(i) Related party transactions

Group

		Year ended 31 December		
		2008	2009	2010
Name of related party	Notes	RMB'000	RMB'000	RMB'000
Payments made by the related parties on behalf of the Group:				
Zhao Haofu	(a)	–	3,906	–
Liu Hui	(b)	2,115	3,774	–
Chen Zhiqing	(c)	2,280	994	–
Zhao Yinhe	(d)	600	50	–
Net advance from immediate holding company:				
Faithful Boom		–	–	335,974
Leasing of office premises from:				
New World Tower Company Limited		–	–	2,047

Company

		Year ended 31 December	
		2009	2010
Name of related party	Notes	RMB'000	RMB'000
Advance to a subsidiary company:			
Venca		–	259,670
Payments made by a subsidiary company on behalf of the Company:			
Venca		9,596	–
Net advance from an immediate holding company:			
Faithful Boom		–	298,010
Leasing of office premises from:			
New World Tower Company Limited		–	2,047

In July 2010, the Company was acquired by our Controlling Shareholders and the leasing of office premises from New World Tower Company Limited (a related company of NWS) is now regarded as a related party transaction.

The directors of the Company are of the opinion that above transactions with related parties were conducted in the usual course of business and the transactions were made on terms agreed among the parties.

Notes:

(a) Then shareholder and director of the Company until 12 July 2010

(b) Then shareholder of the Company until 21 September 2010

(c) Then shareholder

(d) Then director of the Company and Xingye Mining

(ii) Pledges relating to the Exchangeable Bonds

On 17 January 2010, Faithful Boom Investments Limited ("Faithful Boom", the Bond Issuer and the immediate holding company of the Company as part of the Reorganisation), the immediate holding company of the Company, Zhao Haofu, Chen Zhiqing and Liu Hui (together with Zhao Haofu and Chen Zhiqing, as the Guarantors), entered into a subscription agreement (the "Subscription Agreement") with 8W APO Holdings Ltd., China Gate Worldwide Limited and Long Tree Investment Limited (together, as the Bondholders) to issue secured exchangeable bonds (the "Exchangeable Bonds") exchangeable into shares of Newton Resources Ltd, at an amount of US$60,000,000. The Company is not obliged to issue any new shares in connection with the exchange of the Exchangeable Bonds.

On 15 June 2010, the Bondholders transferred their respective Exchangeable Bond holdings to Pioneer Vast Limited ("Pioneer Vast") and Star Valiant Limited ("Star Valiant"), and upon completion of the transfer, Pioneer Vast and Star Valiant, each holds US$9,000,000 and US$51,000,000 of the Exchange Bond. Pioneer Vast and Star Valiant are related companies to the Company as they are controlled by our Controlling Shareholders, NWS and VMS, respectively. All terms and obligations of the Exchangeable Bonds remain unchanged.

All obligations imposed on the Company in connection with the issuance of the Exchangeable Bonds shall terminate, including without limitation, the redemption amount owing by Faithful Boom to Pioneer Vast and Star Valiant, upon the successful listing of the Company's shares.

(b) Outstanding balances with related parties

Details of the Group's balances with its related parties at the end of each of the three years ended 31 December 2008, 2009 and 2010 together with the outstanding balances due from/to related parties are disclosed in Note 16.

25. DISPOSAL OF A SUBSIDIARY

Guomu Nangou, a private enterprise established on 21 June 2004, then known as Guomu Nangou Mining Co. (臨城縣石窩鋪果木南溝鐵礦), was transformed as a limited liability company on 19 February 2009. No audited financial statements were issued for the private company as there was no requirement, statutory or otherwise, to issue financial statements.

On 9 November 2009, Xingye Mining entered into an agreement with an individual, Wang Zhixiong, to sell its 99% equity interests in Guomu Nangou for a consideration of RMB1. The disposal was completed on 12 November 2009.

	Year ended 31 December 2009
	RMB'000
Net assets disposed of:	
Property, plant and equipment	9,844
Intangible assets	2,300
Cash and bank balances	8
Due from related parties	1,867
Other payables and accruals	(199)
Due to related parties	(13,817)
Non-controlling interests	(18)
Gain on disposal of a subsidiary	(15)
Satisfied by:	
Cash	RMB 1

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	Year ended 31 December 2009
	RMB'000
Cash consideration	–
Cash and bank balances disposed of	(8)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(8)

26. FINANCIAL ASSETS HIERARCHY

As at 31 December 2008, 2009 and 2010, the Company did not hold any financial instruments measured at fair value.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The financial assets of the Group mainly include cash and bank balances, 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, and amounts due to related parties.

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 policies seek to ensure that adequate resources are available to manage the above risks and to maximise value for its shareholders. The board regularly reviews these risks and they are summarised below.

Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through advances from related parties.

The maturity profile of the Group's financial liabilities at the end of each of the three years ended 31 December 2008, 2009 and 2010, based on the contractual payments, was as follows:

Group

	31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade payable			
Less than 1 year	102	891	358

	31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Other payables and accruals			
Less than 1 year	1,134	3,786	102,158

	31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Long-term payables			
Over 5 years	1,180	1,180	1,180

Interest rate risk

Other than cash and cash equivalents, the Group has no significant interest-bearing assets and liabilities. As a result, the Group's income, expenses and cash flows are substantially independent of changes in market interest rates.

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents and other receivables included in the consolidated statements of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets.

Bank deposits are placed in banks with a creditable rating. Management does not expect any losses from non-performance by these banks.

As the Group is primarily in its development stage, no credit sales are made to customers by the Group.

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

During the Relevant Periods, as the Group was primarily in its development stage, it has no concentration of credit risk with any single counterparty.

Foreign currency risk

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB, as such, the Group has not hedged its foreign exchange rate risk.

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 approximate to their fair values due to the short term to maturity at the end of each of the three years ended 31 December 2008, 2009 and 2010.

Capital management

The Group's objectives for managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company's directors review the capital structure on a regular basis. During the start-up stage of the Group, the equity holders of the Company contributed capital based on the needs of these entities. The dividend policy will be established when the Group starts to generate revenues from its activities. Management will regularly review the capital structure.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratio 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 Relevant Periods.

28. CONTINGENT LIABILITIES

On 9 March 2010, Venca entered into an agreement with Jet Bright, its wholly owned subsidiary, to transfer its entire 99% equity interest in Xingye Mining to Jet Bright. This equity transfer was approved by the Lincheng Commerce Bureau on 9 March 2010 and was registered with the Xingtai Administration for Industry and Commerce on 15 July 2010.

According to the PRC tax rules, such equity transfer is liable to PRC income tax upon completion unless certain criteria as laid down in Article 5 of the Ministry of Finance/State Administration of Taxation Circular of Caishui [2009] No.59 titled "Circular on Certain Questions Regarding Corporate Income Tax Treatments for Business Reorganisation of Enterprises" (關於企業重組業務企業所得稅處理若干問題的通知) (hereinafter referred to as the "Circular No.59") are fulfilled and the transaction qualifies for special tax treatment as stipulated in the above PRC Circular. Pursuant to the State Administration of Taxation Circular of Guoshuihan [2009] No.698 titled "Circular on Strengthening the Corporate Income Tax Administration on Non-Resident Enterprise's Gain on Equity Transfer" (關於加強非居民企業股權轉讓所得企業所得稅管理的通知), the qualification of special tax restructuring treatment of a non-resident enterprise needs to be assessed and recognized by provincial tax authority.

In December 2010, the Group submitted an application to the relevant tax bureaus for confirmation that the above-mentioned transfer qualifies for special tax treatment. As the Directors believe that the above-mentioned transfer meet the criteria laid down in Article 5 of Circular No.59 and that the transfer qualifies for special tax treatment, there shall have no PRC income tax arising from the transfer and hence, no tax provision has been made in this regard.

29. SUBSEQUENT EVENTS

(a) For the purpose to recognise the contribution of certain employees, executives or officers of the Group and those qualifying employees of the Controlling Shareholders made or may have made to the growth of the Group and/or the listing of shares on the stock exchange, under a pre-IPO share option scheme, the Company granted options to subscribe at an exercise price equivalent to the Listing offer price for an aggregate of 133,300,000 shares in the Company ("Pre-IPO Share Option Scheme"). The principal terms of the Pre-IPO Share Option Scheme were approved by resolutions in writing of all the shareholders passed on 25 January 2011.

(b) In February 2011, the Company entered into two separate loan agreements with two banks for banking facilities amounting to HK$335 million (equivalent to RMB280.2 million) in aggregate. Under the terms of these loan agreements, the banks have the overriding right at any time to require immediate payment from the Company of the amounts it owes to the banks.

These bank loans were drawn down in March and April 2011, respectively, and then applied to repay part of the outstanding amounts due to the immediate holding company.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group and the Company in respect of any period subsequent to 31 December 2010.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong