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### OVERVIEW

We are a mining company based in Shandong Province, the PRC. We are principally engaged in iron and ilmenite ore exploration, iron ore mining and iron ore processing to produce iron concentrates. We sell our products directly to our major customers who are mainly iron pellets or steel manufacturers located in close proximity to us. According to the CRU Report commissioned by our Company, based on independent data from sources such as Metallurgical Mines' Association of China and the websites of various iron ore producing companies, we are the largest private-owned iron ore producer and one of the fifth largest iron ore producer (including state-owned enterprises) respectively in Shandong Province, the PRC in terms of raw iron ore processed for each of the three years ended 31 December 2010, and we also possess the largest known iron ore reserves in Shandong Province, the PRC according to the CRU Report, which accounted for approximately 47.8% of the total known iron ore reserves of Shandong Province as of 31 December 2010. As set out in the CRU Report, Shandong Province accounted for about 6.0% of the total Chinese iron ore reserves and about 2.1% of iron ore production in China respectively in 2010 while it accounted for about 8.4% of PRC steel output, the second largest shortfall in iron ore supply in the PRC among all provinces. Shandong Province accounted for about 1.4% of iron ore production in the PRC in 2011, and once again faced the second largest shortfall in iron ore supply among all provinces. The amount of iron ore processed by us in 2010 was approximately 2.0 Mt which, according to the CRU Report, represented about 9.0% of the total iron ore processing volume of Shandong Province in 2010.

We possess mining rights in respect of our Yangzhuang Iron Mine, Zhuge Shangyu Ilmenite Mine and Bashan Iron Project, and own the exploration rights over our Yangzhuang Iron Mine, Qinjiazhuang Ilmenite Project, Zhuge Shangyu Ilmenite Mine and Gaozhuang Shangyu Ilmenite Project, all of which are located in Yishui County of Shandong Province, the PRC.

As at the Latest Practicable Date, our Yangzhuang Iron Mine was our only mine in operation. During the Track Record Period, we produced approximately 321.4 Kt, 332.4 Kt and 328.1 Kt of iron concentrates using iron ores mined from our Yangzhuang Iron Mine respectively. We intend to expand the mining capacity of our Yangzhuang Iron Mine from an annual mining capacity of 2.3 Mt of iron ores to 3.5 Mt of iron ores by commencing the expansion plan in the second quarter of 2012 and completing the expansion in the fourth quarter of 2013. We also plan to increase our annual processing capacity from 2.85 Mt of iron ores to 3.56 Mt of iron ores in 2012.

As for our Zhuge Shangyu Ilmenite Mine, we plan to bring it to target annual mining capacity of 2.0 Mt of ilmenite ores in the fourth quarter of 2013, 4.0 Mt of ilmenite ores in the fourth quarter of 2014, and up to an annual mining capacity of about 8.0 Mt of ilmenite ores in the second quarter of 2016. We also plan to construct new titanium and iron ore processing facilities as part of the development plan, to achieve a planned annual processing capacity of 8 Mt of ilmenite ores when the processing lines are in full operation.

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As of November 2011, the total proved and probable reserve of iron ore and ilmenite ore in our mines and project is summarised as follows:

	Yangzhuang Iron Mine	Zhuge Shangyu Ilmenite Mine	Qinjiashuang Ilmenite Project
Ore reserves (Mt)			
– proved	11.00	200.08	45.33
– probable	32.94	346.20 <i>(Note)</i>	41.30
<b>Total ore reserves</b>	<b>43.93</b>	<b>546.29</b>	<b>86.63</b>
Grade of total iron (TFe) (%)			
– proved	24.17	12.78	13.50
– probable	24.72	12.83	13.61
Average grade of total iron (TFe) (%)	24.58	12.81	13.56
Grade of titanium dioxide (TiO <sub>2</sub> ) (%)			
– proved	N/A	5.76	4.52
– probable	N/A	5.65	4.48
Average grade of titanium dioxide (TiO <sub>2</sub> ) (%)	N/A	5.69	4.50

*Note: Out of the total probable reserve, about 256.29 Mt is underground reserve.*

The following table summarises further information about our major mines and projects as of the Latest Practicable Date:

	Reserves figures available			Reserves figures not available
	Yangzhuang Iron Mine	Zhuge Shangyu Ilmenite Mine	Qinjiashuang Ilmenite Project	Gaozhuang Shangyu Ilmenite Project
Exploration rights area (sq. km.)	17.88 <i>(Note 1)</i>	7.30	17.88 <i>(Note 1)</i>	7.66
Time when exploration right was first obtained	September 2002	January 2004	January 2005	April 2008
Validity period of the exploration rights <i>(Note 9)</i>	4 January 2011 – 31 December 2012 (for the Yangzhuang Qinjiashuang Combined Exploration Right)	19 July 2010 – 30 June 2012	4 January 2011 – 31 December 2012 (for the Yangzhuang Qinjiashuang Combined Exploration Right)	22 April 2011 – 31 March 2013
Status of renewal of the exploration right <i>(Note 9)</i>	To be renewed at around 3 to 6 months before expiry	In the process of renewal	To be renewed at around 3 to 6 months before expiry	To be renewed before expiry or to apply for mining right <i>(Note 2)</i>

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	Reserves figures available			Reserves figures not available
	Yangzhuang Iron Mine	Zhuge Shangyu Ilmenite Mine	Qinjiashuang Ilmenite Project	Gaozhuang Shangyu Ilmenite Project
Mining rights area (sq. km.)	3.9093	0.356	No mining permit obtained yet	No mining permit obtained yet
Time when mining right was first obtained	September 2001	May 2008	N/A	N/A
Validity period of the mining rights	20 June 2011 – 20 June 2019	5 May 2010 – 5 May 2015	NA	NA
Approved production scale under current mining right term	2.3 Mt per annum	400,000 cubic metres per annum (or approximately 1.2 Mt per annum)	NA	NA
Status of renewal of the mining rights	To increase the approved annual production scale to 3.5 Mt in 2012 (Note 3)	(Note 4)	NA	NA
Mining method	Underground	Open pit (Note 5)	Open pit	NA
Mine life	13.2 years	36 years	43.3 years	NA
Depletion rate	2.5 Mt (actual) in 2011 2.4 Mt (expected) in 2012 (Note 6)	N/A	N/A	N/A
Total costs incurred (Note 8)	Approximately RMB13.8 million	Approximately RMB11.3 million	Approximately RMB8.5 million	Approximately RMB5.0 million
Current status and plan for the mine or project	Current: In operation Plan: Expand annual mining capacity to 3.5 Mt in 2013 (Note 7)	Current: Not in operation Plan: Develop annual mining and processing capacities to 2.0 Mt in 2013, 4.0 Mt in 2014 and 8.0 Mt in 2016 (Note 7)	Current: Not in operation Plan: Act as mining reserves and no plan to start mining operations yet	Current: Not in operation Plan: Perform further detailed exploration in second half of 2012 and complete by end of 2012
Estimated capital requirements	Approximately RMB212.8 million (Note 7)	Approximately RMB964.3 million (Note 7)	N/A	RMB2.9 million for further detailed exploration
Sources of funding	Net proceeds from the Share Offer, internal resources, bank borrowings and/or other means of equity or debt financing (Note 7)	Net proceeds from the Share Offer, internal resources, bank borrowings and/or other means of equity or debt financing (Note 7)	N/A	RMB2.9 million by internal resources

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*Notes:*

1. *In order to consolidate and integrate mineral resources with a view to developing mineral resources in a more efficient manner, optimizing mineral resource allocation and promoting large-scale operation and centralized management in mining business, the exploration area of our Yangzhuang Iron Mine and Qinjiazhuang Ilmenite Project was requested by relevant government authority to be combined. The exploration permit was granted to us for the Yangzhuang Qinjiazhuang Combined Exploration Right Area for the combined area of our Yangzhuang Mine and Qinjiazhuang Mine, covering a combined area of 17.88 sq.m..*
2. *We expect that exploration works at our Gaozhuang Shangyu Ilmenite Project will be completed in the second half of 2012. However, in the event such exploration works cannot be completed by the expiry of the validity period of the exploration right in March 2013, we plan to renew our exploration permit in accordance with PRC laws and regulations. For details of the renewal plan of the exploration right of Gaozhuang Shangyu Ilmenite Project, please refer to section headed "Business – Our mineral resources and mining rights – Gaozhuang Shangyu Ilmenite Project" to this prospectus.*
3. *We intend to make an application to renew our mining permit of our Yangzhuang Iron Mine to increase the approved production scale from 2.3 Mt to 3.5 Mt in May 2012 and expect to obtain such renewed mining permit by the fourth quarter of 2012.*
4. *We expect to make formal application for renewal of the mining permit to increase the mining area and the approved ore production scale of our Zhuge Shangyu Ilmenite Mine from 400,000 cubic metres per annum to 8.0 Mt per annum in the second quarter of 2012 and it is expected that the new mining permit will be issued by the third quarter of 2012.*
5. *Our Zhuge Shangyu Ilmenite Mine is currently an open-pit mine and we can perform open-pit mining method for mining of ilmenite ores for approximately 36 years from the date of mining commencement, after which it will become an underground mine.*
6. *According to the Report of the Independent Technical Adviser, the depletion rates of our Yangzhuang Iron Mine during the Track Record Period were approximately 2.5 Mt, 2.4 Mt and 2.5 Mt respectively, and the depletion rate for 2012 is expected to be approximately 2.4 Mt.*
7. *For details of our expansion plans on our Yangzhuang Iron Mine and Zhuge Shangyu Ilmenite Mine, please refer to section headed "Business – Business Strategies" to this prospectus.*
8. *Total costs incurred for each of our mines and projects represent all costs and expenditures capitalized and expensed-off through income statement.*
  - (a) (i) *Yangzhuang Iron Mine – In September 2001, we acquired from an iron ore processing plant the processing facility at our Yangzhuang Iron Mine together with the rights to a mining permit with an area of approximately 0.6883 sq. km. in our Yangzhuang Iron Mine at a lump sum consideration of RMB4.6 million and it was not feasible to attribute the standalone value to the mining right. Nevertheless, the mining right so acquired was for open-pit mining at the time of the acquisition and the acquisition cost in respect of such mining right was all amortised off prior to the Track Record Period after the open-pit reserves were completely depleted and we conducted mining activities using solely underground method at our Yangzhuang Iron Mine before the commencement of the Track Record Period.*
  - (ii) *Given the above, as at 31 December 2011, the total costs incurred in respect of Yangzhuang Iron Mine consist of (i) acquisition cost in relation to the iron ore processing plant (see 8(a)(i) above); (ii) total exploration expenditure incurred in the Yangzhuang Qinjiazhuang Combined Exploration Right Area (see Note 1 above) of approximately RMB8.5 million; and (iii) total mining expenditure of approximately RMB0.7 million.*
  - (b) *Qinjiazhuang Ilmenite Project – This exploration permit was obtained by us initially in 2005 through application processes with local government authorities. As at 31 December 2011, total costs incurred consist of total exploration expenditure incurred in the Yangzhuang Qinjiazhuang Combined Exploration Right Area (see Note 1 above) of approximately RMB8.5 million (see 8(a)(ii) above).*
  - (c) *Zhuce Shangyu Ilmenite Mine – This exploration permit was obtained by us initially in 2004 through application processes with local government authorities. As at 31 December 2011, total costs incurred consist of (i) total exploration expenditure incurred of approximately RMB10.8 million; and (ii) relevant application costs of approximately RMB0.5 million for licences.*

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- *Gaozhuang Shangyu Ilmenite Project – We acquired this exploration right in 2008 from an Independent Third Party. As at 31 December 2011, the total costs incurred consist of (i) acquisition cost of approximately RMB4.8 million; (ii) total preliminary exploration expenditure incurred of approximately RMB0.2 million; and (iii) insignificant application costs for licence.*
9. *According to the relevant PRC laws and regulations, (i) the initial validity period of exploration rights cannot exceed 3 years, and could be renewed for a period of not exceeding 2 years each time afterwards; and (ii) the exploration rights must be renewed at least 30 days before expiry.*

We also own the Bashan Iron Project. However, based on the results of the exploration works and studies that have been performed, our Directors consider that the project is not commercially viable based on, among others, the amount of mineral reserves or resources that could be realised and the estimated cost for developing the project, including without limitation the costs and the market price of the mineral resources from the project, and we will not carry out any mining work in the near future, and hence no technical report has been prepared. We shall consider disposal of our Bashan Iron Project in the future if opportunities arise. Only minimal spending has been made on our Bashan Iron Project as there was no initial payment for acquisition of the mining right of our Bashan Iron Mine. Up to 31 December 2011, we have incurred an amount of approximately RMB232,000 for our Bashan Iron Project and all the expenditures incurred for the project has been expensed-off through income statement.

During the Track Record Period, we produced iron concentrates (65% Fe grade). For each of the three years ended 31 December 2011, we derived 100.0%, 89.0% and 68.0% respectively of our revenue from the sale of iron concentrates produced by us. We are also engaged in trading of iron concentrates, iron pellets, coarse iron powder and other iron related products during the Track Record Period. The following table illustrates our revenue generated through sales of iron concentrates produced by us and trading for the three years ended 31 December 2011:

	Year ended 31 December					
	2009		2010		2011	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Production						
– Sales of iron concentrates produced by us	196,447	100.0	432,292	89.0	687,010	68.0
Trading						
– Sales of iron concentrates	–	–	–	–	9,256	0.9
– Sales of iron pellets	–	–	48,074	9.9	50,202	5.0
– Sales of coarse iron powder	–	–	1,650	0.4	262,928	26.0
– Others	–	–	3,436	0.7	856	0.1
	–	–	53,160	11.0	323,242	32.0
Total	<u>196,447</u>	<u>100.0</u>	<u>485,452</u>	<u>100.0</u>	<u>1,010,252</u>	<u>100.0</u>

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Our customers of iron concentrates produced by us are located in Shandong Province in close proximity to us. We have maintained stable relationship with our major customers ranging from approximately 2 years to 8 years. Three of our major customers namely Laiwu Steel, Lunan Mining and Laiwu Mine Construction have been our customers for approximately 2 years, 8 years and 8 years respectively as at the Latest Practicable Date and our total sales to them was approximately RMB80,520,000, RMB311,070,000 and RMB534,060,000 for each of the three years ended 31 December 2011, representing approximately 41.0%, 64.0% and 52.9%, respectively, of our total sales for each of the three years ended 31 December 2011. Laiwu Steel is a subsidiary of Shandong Steel Group, whereas Lunan Mining and Laiwu Mine Construction are associated companies of Shandong Steel Group, a state-owned enterprise ranked the largest steel producer in Shandong Province and the 9th largest steel producer in the world as of 2010 according to the CRU report. Although Laiwu Steel, Lunan Mining and Laiwu Mine Construction are subsidiary or associated companies of Shandong Steel Group, our Directors consider that each of them is a distinctive and independent customer to our Group as so far as they are aware each of them has independent management and independent operations and procurement departments, and would obtain independent quotations from us. Our Directors consider that such large scale of our major customers would help maintain a sufficient and stable demand of our products.

Our geological work is carried out by IGME, our only Independent Third Party Surveying Contractor since 2003, as we do not carry out geological surveying work ourselves since our Directors consider that it would lower our operational costs by engaging an Independent Third Party Contractor instead. Although we engage third party professionals to carry out geological surveying or exploration work, we have a team of in-house engineers who are experienced in geological exploration work who will identify the areas which they consider with exploration opportunities and they will discuss with the exploration professionals to determine, among others, the exact locations of exploration and exploration methods.

Our mining work is carried out by our Independent Third Party Mining Contractors, which has requisite qualifications. The related blasting work that is carried out from time to time when mining work is in progress is carried out by our Independent Third Party Blasting Contractor which has obtained the relevant blasting permits required to carry out such work. We have engaged only one Independent Third Party Blasting Contractor during the Track Record Period because there is only one qualified blasting contractor located at Yishui County. We have entered into ten-year long term cooperation agreement with our Independent Third Party Blasting Contractor and each of our existing two Independent Third Party Mining Contractors respectively with a view to maintaining long-term relationship with them. Our Directors believe that the above outsourcing of mining and blasting work lowers our overall operational costs as we are not required to (i) incur substantial capital expenditure to acquire and maintain mining and blasting facilities, (ii) constantly maintain an in-house team of mining and blasting professionals with the requisite licences or permits to undertake mining and the related blasting work.

In addition to our mining operations, we produce iron concentrates mainly by processing iron ores at our Yangzhuang Processing Facilities which is near to our Yangzhuang Iron Mine.

### COMPETITIVE STRENGTHS

We believe that our success to date and potential for future long-term growth can be attributed to our following strengths:

#### **We have significant reserves and resources of iron and titanium ore**

Our mines and projects have significant iron and titanium ore reserves and resources. According to CRU, we have the largest known iron ore reserves in the Shandong Province, which accounted for approximately 47.8% of the province's total known iron ore reserves as of 2010. We also own approximately 2.9% of the total known iron ore reserves of the PRC according to CRU as of 2010. According to the Report of the Independent Technical Adviser, as of November 2011, the total aggregate proved and probable reserve of ore in our Yangzhuang Iron Mine was approximately 43.93 Mt at an average grade of approximately 24.58% TFe (total iron); the total proved and probable reserve of ore in our Zhuge Shangyu Ilmenite Mine was approximately 546.29 Mt at an average grade of approximately 5.69% TiO<sub>2</sub> and approximately 12.81% TFe (total iron); whereas the total proved and probable reserve of ore in our Qinjiazhuang Ilmenite Project was approximately 86.63 Mt at an average grade of approximately 4.50% TiO<sub>2</sub> and approximately 13.56% TFe (total iron). We will be able to benefit from our significant iron and titanium ore resources and reserves which we believe will allow our production to sustain.

#### **We are well-positioned to benefit from the iron ore supply shortfall in the PRC and in the Shandong Province**

China's iron ore production in 2011 amounted to approximately 1,326.9 Mt, whereas China's iron ore consumption according to CRU during the same period was approximately 2,800 Mt. Therefore, there is a resulting huge supply shortfall of iron ore in the PRC. As a result, China imports a substantial amount of iron ore in order to meet domestic demand. According to CRU, China was the largest iron ore importer in the world in 2011, and Chinese imports of iron ore has increased by 572.2 Mt in the period between 2001 and 2011, an increase of 619.2% and it is forecast to grow at a CAGR of 9.9% per annum to 2015 and reaching 988.3 Mt in 2015. We believe that the domestic supply shortfall nationwide will continue as China will continue to experience nationwide urbanization and industrialization, thus increasing the demand for steel, and ultimately, iron ore. Based on the CRU Report, with an outlook of 6.9% CAGR in China's crude steel production growth up to and until 2015, iron ore product imports are forecast to increase. It is also noteworthy that as expressed in the NPC and CPPCC Sessions 2011, China will invest approximately RMB1.3 trillion on building 10 million units of affordable homes in 2011 and 2012, and a total of 36 million affordable homes will be built from 2011 to 2015. Also, a new railway line will be built from 2011 to 2015 between Golmud in northwestern Qinghai Province and Korla in Xinjiang, and two other railway lines would be built between Golmud and Dunhuang in Gansu Province, and between Golmud and Chengdu in Sichuan Province during the five year period. We believe that the specific plans for construction projects for homes and railways would lead to an increase in the market demand of our products in the coming years.

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According to the CRU Report commissioned by our Company, based on independent market data from sources such as Metallurgical Mines' Association of China and the websites of various iron ore producing companies, we are the largest privately-owned iron ore producer and one of the fifth largest iron ore producer (including state-owned enterprises) in Shandong Province, the PRC in terms of raw iron ore processed for each of the three years ended 31 December 2010, and we also possess the largest known iron ore reserves in Shandong Province, the PRC, which accounted for approximately 47.8% of the total known iron ore reserves in Shandong Province as of 2010. We believe that with our iron ore reserves, exploration opportunities and our location, we are well-positioned to capture the potential business opportunities arising from the growth of China's steel industry and the shortfall in the supply of iron concentrates in China, in particular, in the Shandong Province.

The location of our mines and projects in the Shandong Province permits us to take advantage of the regional imbalance between iron ore supply and demand. According to the CRU Report, Shandong Province accounted for only 2.1% of iron ore production in the PRC in 2010 while it accounted for about 8.4% of Chinese steel output. Shandong Province faces the second largest shortfall in iron ore supply after Hebei Province in the PRC in 2010. Shandong Province accounted for about 1.4% of iron ore production in the PRC in 2011, and once again faced the second largest shortfall in iron ore supply among all provinces. Demand for iron ore by steel manufacturers in Shandong Province has significantly exceeded the supply from iron ore producers in the same region, with an iron ore import requirement of Shandong Province of approximately 77.5 Mt in 2009, according to the CRU Report. According to CRU, Shandong Province has the second highest iron ore import requirement among the other provinces of China in 2009. We therefore enjoy steady demand from local steel producers for our products.

### **Established relationships with reputable state-owned and private steel manufacturers**

We have established stable relationships with a subsidiary and two associated companies of Shandong Steel Group, namely Laiwu Steel, Lunan Mining and Laiwu Mine Construction, which have been our customers for approximately 2 years, 8 years and 8 years respectively as at the Latest Practicable Date. Shandong Steel Group is a state-owned enterprise and is ranked the largest steel producer in the Shandong Province and the 9th largest steel producer in the world as of 2010 according to the CRU report. Our Directors believe that one of the factors for the success of our Group is attributable to its ability to secure and maintain long-term relationships with these reputable customers. During the Track Record Period, these aforesaid three customers collectively accounted for sales amount of our Group of approximately RMB80.5 million, RMB311.1 million and RMB534.1 million respectively, representing approximately 41.0%, 64.0% and 52.9% respectively of our total sales amount.

Leveraging on the strong relationships between us and our customers, our Directors believe that we can obtain stable orders for our products and maintain our scale of production during both market upturns and downturns.



### **We are well-positioned to expand our business to produce titanium concentrates**

According to CRU, demand for titanium concentrates and titanium-related products has grown rapidly in the PRC in recent years, with China being the largest importer of titanium ores and concentrates in 2010. According to the Report of the Independent Technical Adviser, as of November 2011, the total aggregate proved and probable reserve of ore in our Zhuge Shangyu Ilmenite Mine and Qinjiazhuang Ilmenite Project were approximately 546.29 Mt at an average grade of approximately 5.69% TiO<sub>2</sub> and approximately 86.63 Mt at an average grade of approximately 4.50% TiO<sub>2</sub> respectively. Our titanium ore reserves enable us to engage in selling titanium ore products as soon as our mining and titanium ore processing facilities at these ilmenite mine and project are ready for operation.

We plan to develop our Zhuge Shangyu Ilmenite Mine to bring it to target annual mining capacity of ilmenite ore of 2.0 Mt in the fourth quarter of 2013, 4.0 Mt in the fourth quarter of 2014, and 8.0 Mt in the second quarter of 2016. It is expected that mining at our Zhuge Shangyu Ilmenite Mine can be commenced by the fourth quarter of 2013. We also plan to construct new ilmenite ore processing lines within or nearby our Zhuge Shangyu Ilmenite Mine to reach an ore processing capacity of 2.0 Mt of ilmenite ore per annum in the fourth quarter of 2013, 4.0 Mt per annum in the fourth quarter of 2014, and 8.0 Mt per annum in the second quarter of 2016. By constructing new processing facilities, we will be able to extract iron concentrates and titanium concentrates simultaneously from our ore through the separation of iron concentrates and titanium concentrates under a single production process.

The process we intend to adopt for production of titanium concentrates and iron concentrates from ores to be mined at our Zhuge Shangyu Ilmenite Mine is partly different from the process currently adopted at our Processing Facilities. The processes to produce iron concentrates from ores mined at the Yangzhuang Iron Mine mainly involves magnetic separation and the key steps include crushing, dry magnetic separation, grinding, wet magnetic separation and filtering; whilst the processes to be adopted for processing ilmenite ores to produce iron concentrates and titanium concentrates would, apart from magnetic separation, also include other processes such as gravity separation and flotation. Under such process, iron concentrates are produced through magnetic separation while titanium concentrates are produced through (i) gravity separation which minerals are separated based on differences in their density through the use of spiral chutes; and (ii) flotation method where minerals are separated based on differences in their hydrophobicity. We plan to adopt such processing technique in our processing facilities to be constructed at our Zhuge Shangyu Ilmenite Mine in the fourth quarter of 2013 for commercial production in line with our expansion plan. To conduct further testing and trial production for the purpose of fine tuning the processing technique without having to purchase equipments and incur substantial costs, we further collaborated with an independent producer of iron and titanium concentrates to conduct testing and trial production with our processing technique using their processing facilities in 2010. The collaboration mainly involves the running of the relevant processing line by our staff and the other party's staff so that we could apply and fine tune our processing technique through a series of trial production and testing. Our Directors consider that the results of the testing and trial production was satisfactory and we expect that such technique will be adopted for commercial production at our Zhuge Shangyu Ilmenite Mine with appropriate fine-tuning and improvement.

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With our existing titanium ore reserves, the processing facilities to be set up and which are expected to be in commercial operation in the near future, the above processing technique and the satisfactory testing and trial production results, we believe we are well-positioned to develop titanium concentrates products to diversify our product range and broaden our revenue sources.

### **We are in close proximity to our customers**

Our Group's principal exploration and mining assets and processing facilities are located in Shandong Province, the PRC which is in close proximity to our major customers during the Track Record Period. We believe that the close proximity to our customers and potential customers enables our products to be delivered at lower transportation costs compared to products sourced by them from suppliers in other parts of China as well as products imported from other countries, thereby reducing the overall costs of our customers or potential customers.

### **Our Directors and senior management possess extensive industry experience**

We have an experienced management team with industry knowledge and expertise in exploration and mining in the PRC. Mr. Li, one of our founders, chairman and executive Director, possess over 20 years experience in iron ore exploration, mining and processing in the Shandong Province, the PRC. Mr. Li has been the Chairman of the Board of the Association of Industry and Commerce of Linyi City, Yishui County, Shandong Province (山東省臨沂市沂水縣工商聯) and he was awarded the "Model Worker of Shandong Province (山東省勞動模範)" in April 2008 by the People's Government of Shandong Province and the "Outstanding Member of the National People's Congress of Linyi City (臨沂市優秀人大代表)" in February 2007 by the Standing Committee of the National People's Congress of Linyi City. Mr. Lang Weiguo, our executive Director, possesses management experiences in the mining industry. He was the chairman of the board of directors of Savoy Resources Corp., a mineral exploration and development company incorporated in the United States from 2004 to 2005.

We believe that our experienced and proactive management team, with the skills, foresight and in-depth industry knowledge, would enable us to capture market opportunities, respond efficiently to various challenges from the changing market conditions and formulate sound business strategies.

### **Our iron ore is acidic in nature which increases the marketability of the ore and its products**

The iron ore in our Yangzhuang Iron Mine is acidic in nature, which enables us to produce acidic iron concentrates. According to the CRU Report, many imported ores are alkaline in nature and unless the acidity of iron ores are balanced in a blast furnace, the alkaline material can damage the interior lining of the blast furnace, reducing refractory lifetime and increasing necessary maintenance and associated costs of iron smelting. The use of acidic iron ore in blast furnace iron smelting therefore helps to balance acidity in blast furnace, avoids damaging the blast furnace, improves utilisation of the blast furnace and reduces the costs of iron smelting.

According to the CRU Report, as Shandong Province is the PRC province with the second largest import requirement in 2009 relying heavily on imported iron ore, especially hematite ores from Australia and Brazil, it is expected that the import of alkaline ore will continue over

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the period from 2011 to 2015. We believe that the continued and substantial use of alkaline iron ore in steel production will result in a stable and continuing demand for acidic iron concentrates by downstream steel producers for maintaining the acidity balance in steel plants which in turn will sustain the demand for our products.

### BUSINESS STRATEGIES

Our mission is to continue to build on our core competence and to become one of the principal integrated iron ore operators in China. We do not have any intention to further diversify our mining activities in countries other than the PRC and Australia. We plan to accomplish our goal through the following business strategies:

#### 1. Expand the mining capacity of our Yangzhuang Iron Mine

Our current mining permit in respect of our Yangzhuang Iron Mine has an approved production scale of 2.3 Mt of iron ore per annum. As at the Latest Practicable Date, the annual ore processing capacity in respect of our Yangzhuang Processing Facilities was approximately 2.85 Mt. We are planning to further increase our annual ore processing capacity by approximately 0.71 Mt per annum to approximately 3.56 Mt per annum in 2012 by further investing not more than RMB1 million to install another set of crushing machines at the new production line at our Third Yangzhuang Processing Facility, details of which, please refer to “Production Process – Ore Processing – The 2011 Processing Facility Expansion” of this section in this prospectus. In order to catch up with and fully utilise our existing ore processing capacity, we plan to increase the mining capacity of our Yangzhuang Iron Mine with details set forth in the below table:

#### Steps to increase the mining capacity of our Yangzhuang Iron Mine

Step	Duration	Investment amount <i>(RMB million)</i>	Mining capacity as at completion of each step <i>(per annum)</i>	Source of funding	Works to be carried out
1	2nd quarter of 2012 – 3rd quarter of 2012	62.4	2.3 Mt	Net proceeds from the Share Offer	Replacement of equipment Expansion of existing shafts and ramps
2	3rd quarter of 2012 – 2nd quarter of 2013	65.4	2.3 Mt	Internal resources, bank borrowing (using our existing banking facilities)	Development of underground mining system Construction of ancillary facilities
3	3rd quarter of 2013 – 4th quarter of 2013	85.0	3.5 Mt	Internal resources, bank borrowing (using our existing banking facilities)	Construction of facilities in preparation of mining
<b>Total investment:</b>		<u>212.8</u>			

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We intend to expand our mining capacity of our Yangzhuang Iron Mine in three consecutive steps commencing from the second quarter of 2012 and completing in the fourth quarter of 2013, to increase the mining capacity in respect of our Yangzhuang Iron Mine by approximately 1.2 Mt of iron ore per annum to a total of about 3.5 Mt of iron ore per annum. The works to be carried out in each step are different. The works involved in step 1 include replacement of equipment and expansion of existing shafts and ramps; step 2 include development of underground mining system and construction of ancillary facilities; and step 3 include construction of facilities in preparation of mining. Details of each of the steps are further described below. Each step should be completed before moving on to the next step and all three steps should be completed in order to increase the annual mining capacity by approximately 1.2 Mt iron ore per annum from 2.3 Mt iron ore per annum to 3.5 Mt iron ore per annum. The total investment amounts required is estimated to be approximately RMB212.8 million, of which step 1 will be financed by the net proceeds from the Share Offer and steps 2 and 3 will be financed by our internal resources and bank borrowings (using our existing banking facilities). As at 29 February 2012, we have unutilised banking facilities of approximately RMB391.3 million.

We intend to make an application to Shandong Provincial Department of Land and Resources (山東省國土資源廳) to renew our mining permit of our Yangzhuang Iron Mine to increase the approved production scale from 2.3 Mt to 3.5 Mt in May 2012 and expect to obtain such renewed mining permit by the fourth quarter of 2012. As confirmed by our PRC Legal Advisers, there is no foreseeable legal impediments for us to obtain the new mining permit under the circumstances that we have submitted all necessary documents in accordance with the PRC laws and regulations and are accepted by Shandong Provincial Department of Land and Resources (山東省國土資源廳).

The first step of our development plan involves replacement of rock-drilling and loading and hauling equipment with those of greater capacity and higher standard of safety, and expansion of the existing shafts and ramps to accommodate the new drilling and loading equipment with greater dimension which is expected to take around 3 months from the second quarter to the third quarter of 2012 and cost approximately RMB62.4 million.

The second step of our development mainly involves development of underground mining system and construction of ancillary facilities such as underground power distribution room, pumping station, equipment maintenance and other appropriate chamber facilities and ventilation system, and downward extension of slope ramps, and is expected to take around 1 year from the third quarter of 2012 to the second quarter of 2013 and cost approximately RMB65.4 million.

The third step of our development mainly involves construction of facilities in preparation of mining such as ore hauling roadways, air shafts and chutes, and downward extension of slope ramps. Upon completion of the third step, which is expected to take around 6 months from the third quarter of 2013 to the fourth quarter of 2014, mining capacity in respect of our Yangzhuang Iron Mine will be increased by approximately 1.2 Mt of iron ore per annum to approximately 3.5 Mt of iron ore per annum. The third step development is expected to cost approximately RMB85.0 million.

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After we have successfully obtained the mining permit with an approved production scale of 3.5 Mt per annum in respect of our Yangzhuang Iron Mine, we intend to increase our mining capacity to over 2.3 Mt of iron ore per annum by performing certain improvement works on the existing mining structures at our Yangzhuang Iron Mine and increasing the number of mining workers of our Independent Third Party Mining Contractors before the three steps as mentioned above are completed.

### 2. Develop the mining and processing facilities of our Zhuge Shangyu Ilmenite Mine

We are preparing for the application for the renewal of the mining permit of our Zhuge Shangyu Ilmenite Mine and have submitted to the MLR certain documents in respect of the application. We expect to make the formal application to renew the mining permit to increase the mining area and the approved production scale of our Zhuge Shangyu Ilmenite Mine from 400,000 cubic metres per annum to 8.0 Mt per annum in the second quarter of 2012 and expect to obtain the new mining permit by the third quarter of 2012. As confirmed by our PRC Legal Advisers, there is no foreseeable legal impediment for us to obtain the new mining permit under the circumstances that we have submitted all necessary documents in accordance with the PRC laws and regulations and such documents have been accepted by the relevant authorities. Our Directors consider that based on our experience of obtaining and renewing our mining permits in the past and that the application procedure is a matter of formality, we are in a position to submit all the necessary documents for submission for application of new mining permits of Yangzhuang Iron Mine and Zhuge Shangyu Ilmenite Mine. A plan to develop the mining and processing facilities of our Zhuge Shangyu Ilmenite Mine was designed and set forth in the below table:

#### Plan to develop mining and processing facilities of our Zhuge Shangyu Ilmenite Mine

Stage	Duration	Development of mining capacity			Development of processing capacity			Investment amount	Total ore processing capacity at the end of each stage	Total investment amount for each stage	Source of funding
		Investment amount	Additional mining capacity	Total mining capacity at the end of each stage	Investment amount	Additional ore processing capacity	Total ore processing capacity at the end of each stage				
		(RMB million)	(per annum) (Mt)	(per annum) (Mt)	(RMB million)	(per annum) (Mt)	(per annum) (Mt)	(RMB million)			
1	2nd quarter of 2012 – 4th quarter of 2013	125.5	2	2	102.7	2	2	228.2	Net proceeds from the Share Offer, internal resources and bank borrowing using our existing banking facilities		
2	1st quarter of 2014 – 4th quarter of 2014	131.7	2	4	107.8	2	4	239.5	Our then internal resources, new bank borrowing to be obtained and/or other means of equity or debt financing		

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Stage	Duration	Development of mining capacity			Development of processing capacity			Source of funding	
		Investment amount	Additional mining capacity	Total mining capacity at the end of each stage	Investment amount	Additional ore processing capacity	Total ore processing capacity at the end of each stage		Total investment amount for each stage
3	1st quarter of 2015 – 2nd quarter of 2016	273.1	4	8	223.5	4	8	496.6	Our then internal resources, new bank borrowing to be obtained and/or other means of equity or debt financing
<b>Total investment</b>		<u>530.3</u>			<u>434.0</u>			<u>964.3</u>	

### *First Stage*

The first stage of our development plan encompasses expansion of both the annual mining and processing capacity of our Zhuge Shangyu Ilmenite Mine to 2 Mt. The first stage development plan is expected to approximately RMB228.2 million which will be financed from the net proceeds from the Share Offer and our internal resources, bank borrowing (using our existing banking facilities). As at 29 February 2012, we have unutilised banking facilities of approximately RMB391.3 million.

### *Mining*

Development of facilities capacity involves obtaining mining license, obtaining land use rights, tendering of equipments, preparation of construction design, pre-construction work (including site leveling, opening up roads and water passes and utilities supply), and equipments installation, testing and trial production. We have commenced preparation work for mining since September 2010 (including, among others, design of mining plans and conducting feasibility study) and it is expected that the annual mining capacity of our Zhuge Shangyu Ilmenite Mine will gradually reach about 2 Mt of ilmenite ores by the fourth quarter of 2013. The first stage of development in respect of increasing in mining capacity is expected to cost approximately RMB125.5 million.

### *Processing*

We also intend to construct two new ilmenite ore processing lines each with a processing capacity of about 1.0 Mt of ilmenite ore per annum within or nearby our Zhuge Shangyu Ilmenite Mine, to bring the processing capacity of our Zhuge Shangyu Ilmenite Mine to about 2.0 Mt of ilmenite ore per annum by the end of the fourth quarter of 2013. The first stage in respect of establishing the processing capacity is expected to cost approximately RMB102.7 million.

### *Second Stage and Third Stage*

Save for the mining permit and land use rights which are expected to be obtained during the first stage of the development plan of our Zhuge Shangyu Ilmenite Mine, works to be carried out in the second and third stages would be similar to that of the first stage. The second stage and the third stage development aim to gradually increase the annual mining and processing capacity of our Zhuge Shangyu Ilmenite Mine to 4 Mt and 8 Mt respectively by the end of each of the second and third stage development.

The second stage development is expected to take less than one year from the first quarter of 2014 to the fourth quarter of 2014 with an estimated cost of approximately RMB239.5 million, of which about RMB131.7 will be used to increase the mining capacity of our Zhuge Shangyu Ilmenite Mine by about 2.0 Mt of ilmenite ore per annum, and about RMB107.8 will be used to increase the processing capacity of our Zhuge Shangyu Ilmenite Mine by about 2.0 Mt of ilmenite ore per annum. By the end of the second stage development, both our mining capacity and processing capacity of our Zhuge Shangyu Ilmenite Mine are expected to reach 4.0 Mt of ilmenite ore per annum. The second stage development will be financed by our then internal resources, new bank borrowings which will be obtained at the time and/or other means of equity or debt financing.

The third stage development is expected to take less than 1.5 years from the first quarter of 2015 to the second quarter of 2016 with an estimated cost of approximately RMB496.6 million, of which about RMB273.1 will be used to further increase the mining capacity of our Zhuge Shangyu Ilmenite Mine by about 4.0 Mt of ilmenite ore per annum, and about RMB223.5 will be used to further increase the processing capacity of our Zhuge Shangyu Ilmenite Mine by about 4.0 Mt of ilmenite ore per annum. By the end of the third stage development, both our mining and processing capacity of our Zhuge Shangyu Ilmenite Mine is expected to reach 8.0 Mt of ilmenite ore per annum. The third stage development will be financed by our then internal resources, new bank borrowings which will be obtained at the time and/or other means of equity or debt financing.

It is expected that after completion of the three stages of the expansion plan of our Zhuge Shangyu Ilmenite Mine, we will be able achieve a mining capacity and production capacity of 8.0 Mt of ilmenite ore per annum.

Our Directors consider that the required investment amounts for the second and third stage development are significant and should be treated vigilantly. Our Directors are of the view that whether the second and third stage development will proceed or the timing for implementing the development plan shall be subject to the then market environment of iron and titanium concentrates and the sufficiency of our funding.

**3. Mixing of iron concentrates produced by us with our tailings or iron concentrates purchased from third parties**

During the Track Record Period, we have conducted the following processing in our Yangzhuang Processing Facilities in order to further utilise our capacity to increase our iron concentrates output for sales:

1. mixing of our 65% iron concentrates with iron concentrates purchased from third parties with an iron content of various grades to produce iron concentrates with an iron content of 65%; and
2. processing and/or grinding of coarse iron powder which we purchased from third parties into iron concentrates with an iron content of various grades and then mixing it with our 65% iron concentrates and/or other iron concentrates purchased from third parties of other grades to produce iron concentrates with an iron content of 65%.

Before the mining capacity of our Yangzhuang Iron Mine is increased, to enable us to better utilise the processing capacity of our Yangzhuang Processing Facilities, we also plan to engage in the following:

1. mixing of our tailings with an iron content of around 20% with iron concentrates of an iron content of 66%-70% processed by us or iron concentrates with an iron content higher than 65% purchased from third parties; and
2. processing raw iron ore purchased from third parties to produce iron concentrates with an iron content of 65%.

We believe that by doing so we will be able to further utilize our Yangzhuang Processing Facilities and increase our iron concentrates outputs for sales to our customers before our mining capacity is increased.

**4. Expand our iron ore and titanium ore reserves**

We plan to expand our mineral reserves which can be accomplished in a number of ways including acquisition of mining rights or exploration rights over mines and new application for exploration rights or mining rights in other mines.

We seek to expand our operations into other parts of Shandong Province, the PRC. We intend to acquire additional exploration rights and mining rights in mines with apparent and substantial mineral resources and mineral reserves or through the acquisition of majority equity interests of the holders of such rights where practicable and desirable.



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We believe that by acquiring other mining rights or exploration rights, we can secure control of more mineral reserves and sustain long term growth. In implementing our acquisition, exploration and development strategies, we will be guided by our executive Directors and senior management, whose industry expertise will facilitate the careful evaluation and selection of potential exploration and acquisition targets to ensure that we exploit mining reserves efficiently to achieve optimal results.

We have not identified any acquisition targets as at the Latest Practicable Date. Should we have decided to acquire any potential targets, we will finance such acquisitions using our internal resources, bank borrowings and/or other means of equity or debt financing.

### **5. Strengthen our customer relationships and broaden our customer base**

We intend to further develop and strengthen business relationships with our existing customers and to broaden our customer base in order to stabilize and grow our revenue. Despite the continuing supply shortage of iron concentrates products in Shandong Province and in the PRC, we believe that strengthening customer relationship may help us better anticipate the timing of their orders or certain specific requests so that we can meet the needs of our customers more effectively.

We also intend to broaden our customer base to minimise our sales risk and over-reliance on a few of our existing customers. Also, as we implement our expansion plan to increase our supply of iron ore and iron concentrates, we plan to foster supplier arrangements with a larger group of customers, for example, by the signing of long term strategic cooperation agreements with potential customers, and we believe this will enable us to reduce marketing costs relating to sales of additional iron ore supplies once we increase our mining and processing capacity while we can also reduce reliance on a few of our major customers.

In addition, we will seek to diversify our customer base as we extend our product coverage to include titanium ore concentrates, for which we expect to commence commercial production in the fourth quarter of 2013. To that end, we have entered into strategic cooperation agreements with a few of our target potential customers of our titanium ore concentrates products. As at the Latest Practicable Date, two of our potential customers of our titanium products were our existing customers. To the best knowledge of our Directors, our potential customers intend to purchase our titanium concentrates for the purpose of manufacturing titanium-iron pellets.

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### PRODUCTS

The following table illustrates our revenue generated through sales of iron concentrates produced by us and trading for the three years ended 31 December 2011:

	Year ended 31 December					
	2009		2010		2011	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Production						
– Sales of iron concentrates produced by us	196,447	100.0	432,292	89.0	687,010	68.0
Trading						
– Sales of iron concentrates	–	–	–	–	9,256	0.9
– Sales of iron pellets	–	–	48,074	9.9	50,202	5.0
– Sales of coarse iron powder	–	–	1,650	0.4	262,928	26.0
– Others	–	–	3,436	0.7	856	0.1
	–	–	53,160	11.0	323,242	32.0
Total	<u>196,447</u>	<u>100.0</u>	<u>485,452</u>	<u>100.0</u>	<u>1,010,252</u>	<u>100.0</u>

### Iron concentrates produced by us

During the Track Record Period, the only product we produced was iron concentrates (65% Fe grade) which is the iron content grading required by our customers. During the Track Record Period, we produced iron concentrates using iron ores from our Yangzhuang Iron Mine. We conduct testing of our iron concentrates regularly and the monthly average grade of iron concentrates produced using iron ore from our Yangzhuang Iron Mine during the Track Record Period was approximately 65% or above. In order to increase our output volume of 65% iron concentrates to meet sales demand and also to utilize our iron concentrates of over 65% efficiently, we engaged in mixing in 2010 and 2011 and produced iron concentrates through the following ways:

- during 2009, we produced iron concentrates using solely iron ores mined from our Yangzhuang Iron Mine; and
- during 2010, we produced iron concentrates (1) using iron ores mined from our Yangzhuang Iron Mine; and (2) by mixing (i) iron concentrates produced by us using iron ores mined from our Yangzhuang Iron Mine; and (ii) iron concentrates sourced from other suppliers with various grades of iron content, to produce iron concentrates with iron content of 65%.

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- during 2011, we produced our iron concentrates (1) using iron ore mined from our Yangzhuang Iron Mine; and (2) by mixing (i) iron concentrates produced by us using iron ores mined from our Yangzhuang Iron Mine; (ii) iron concentrates produced by us using coarse iron powder purchased from other suppliers; and/or (iii) iron concentrates sourced from other suppliers with various grades of iron content, to produce iron concentrates with iron content of 65%.

The weighted average grade of (i) iron concentrates purchased for the purpose of mixing for 2010 and 2011 was approximately 59.1% and 58.7% respectively; and (ii) coarse iron powder purchased for the purpose of mixing in 2011 was approximately 55.1%. Our purchases of iron concentrates and coarse iron powder used in mixing do not indicate that the iron ore produced by our Yangzhuang Iron Mine is unsalable without mixing.

We have identified our suppliers of iron concentrates and coarse iron powder through our sales and purchase department or we are approached by these types of suppliers directly. So far as our Directors are aware, the suppliers of iron concentrates are principally engaged in trading of iron related products or manufacturer of iron concentrates and/or titanium concentrates, which include Hesheng Minerals and Luxing Titanium. Our Directors consider that our main supplier of iron concentrates, namely, Hesheng Minerals, is not our competitor as we target different markets with Hesheng Minerals focusing mainly on smaller size steel manufacturers while our Group focuses on larger scale iron pellet and steel manufacturers. Our suppliers of coarse iron powder for our mixing are not considered as our competitors as (i) coarse iron powder requires further processing which is different from our product of iron concentrates and (ii) as far as our Directors are aware of, they are mainly traders of iron related products while we are iron concentrates producers with our own mines. The terms of the suppliers' agreements for iron concentrates and coarse iron powder generally includes the grade of iron concentrates or coarse iron powder, the amount purchased, the selling price, and the time of delivery of the products which is in general as requested by us. After these agreements are signed, these suppliers are obliged to provide us with their products.

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The following table shows the breakdown of our total production volumes of iron concentrates by types of materials used during the Track Record Period:

	<b>Year ended 31 December</b>					
	<b>2009</b>		<b>2010</b>		<b>2011</b>	
	<i>production</i>		<i>production</i>		<i>production</i>	
	<i>volume</i>	%	<i>volume</i>	%	<i>volume</i>	%
	<i>(Kt)</i>		<i>(Kt)</i>		<i>(Kt)</i>	
Amount of iron concentrates produced from iron ore of our Yangzhuang Iron Mine	321.4	100.0%	332.4	88.7%	328.1	54.0%
Amount of iron concentrates produced from iron concentrates purchased from other suppliers used in the mixing process	–	–	42.2	11.3%	45.0	7.4%
Amount of iron concentrates produced from coarse iron powder purchased from other suppliers	–	–	–	–	234.7	38.6%
<b>Total</b>	<b><u>321.4</u></b>	<b><u>100.0%</u></b>	<b><u>374.6</u></b>	<b><u>100.0%</u></b>	<b><u>607.8</u></b>	<b><u>100.0%</u></b>

During the Track Record Period, we derived approximately 100.0%, 89.0% and 68.0% respectively of our revenue from the sale of iron concentrates produced by us. Please see the “Financial Information” section in this prospectus for our analysis of the costs involved in production of our iron concentrates.

The substantial increase in sales volumes of iron concentrates produced by mixing in 2011 was due to the substantial increasing proportion of iron concentrates produced using coarse iron powder as a result of utilising our increased annual processing capacity of 2.85 Mt in July 2011.

We expect to continue mixing using (i) iron concentrates processed from coarse iron powder in 2012 and 2013 until our mining capacity catches up with our processing capacity towards the end of 2013; and (ii) iron concentrates sourced from other suppliers whenever our customers’ demand exceeds our production volumes of iron concentrates using iron ores from our Yangzhuang Iron Mine and coarse iron powder.

In addition to our iron ore processing, we plan to produce our titanium concentrates through our Zhuge Shangyu Ilmenite Mine, and the mining capacity is expected to gradually reach 2 Mt per annum in the fourth quarter of 2013 in accordance with the first stage of its expansion plan.

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### Trading products

We are also engaged in trading of iron concentrates, iron pellets, coarse iron powder and other iron related products (namely steel grinding balls and steel segments) during the Track Record Period. During the Track Record Period, we sourced iron concentrates, iron pellets, coarse iron powder and other iron related products from suppliers which are located in Shandong Province, the PRC and sold to our customers. Demand for our products was low during 2009 due to the financial crisis beginning from the fourth quarter of 2008 and the prices of iron related products fluctuated significantly on the market, as a result we did not engage in any trading activities in 2009.

As our customers include steel manufacturers which require iron pellets for their production process and iron pellet manufacturers, we have sourced iron pellets from other suppliers for onward sale to these customers in 2010 and 2011 at their requests. In 2011, we also purchased iron concentrates with iron content above 65% from other suppliers for onward sales to our customers, and in addition, for mixing with other grades of iron concentrates to produce iron concentrates with iron contents of 65% as mentioned above.

In view of (i) our approved annual production scale of 2.3 Mt of iron ores; and (ii) the increase in our annual processing capacity to 2.85 Mt of ores by adding a new production line at our Third Yangzhuang Processing Facility which was completed in July 2011 and to utilise such additional capacity, we had been identifying suitable suppliers for production.

In second half of 2011, we successfully identified a suitable trading company in Shandong Province, PRC (“**Shandong Trading Company**”), an Independent Third Party, for procurement of coarse iron powder imported from Australia. Based on public available information, the Shandong Trading Company is principally engaged in importing and reselling of iron related products, with total revenue of approximately RMB3,035 million in 2010 and ranked the 24th and 347th among the 500 largest PRC privately owned trading companies and the 500 largest PRC trading companies respectively in 2010. Upon entering into each purchase contracts with the Shandong Trading Company, we are required to pay 15% of the total purchased amount of coarse iron powder as deposit and fully settle our purchases by bank transfers before the goods arrive at the agreed ports in Shandong Province. Titles of goods are transferred to us upon physical delivery of coarse iron powder at the respective ports and inspection by us.

During the second half of 2011, we purchased approximately 376.0 Kt of coarse iron powder from the Shandong Trading Company, on normal and commercial terms, for approximately RMB272.90 million, representing approximately 60.9% of our total purchase of coarse iron powder in that year, of which approximately 80.7% were onward sold to our customers (which accounted for approximately RMB262.9 million of trading sales of coarse iron powder or 26.0% of our total revenue for the year ended 31 December 2011) after taking into account the satisfactory gross profit margin, while approximately 18.1% were further processed into iron concentrates for sales to our customers, and the remaining approximately 1.2% were kept as inventory as at 31 December 2011 which were subsequently further processed into iron concentrates.

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In addition to the purchase of coarse iron powder from the Shandong Trading Company for processing and trading purposes, we also purchased coarse iron powder from other ten independent suppliers for processing purposes only in 2011, which amounted to 218.5 Kt with a total purchase costs of approximately RMB175.10 million.

In 2011, we onward sold coarse iron powder sourced from the Shandong Trading Company to 8 customers (one of whom being Hesheng Minerals), which are Independent Third Parties located in Shandong, Anhui and Jiangsu provinces and Shanghai respectively. To the best knowledge of our Directors, six of these trading customers, including Hesheng Minerals, are engaged in the business of manufacturing of iron related products, one is engaged in trading of iron related products and the remaining one is engaged in both manufacturing of iron related products and trading business. We enter into sales contracts with such trading customers and save for Hesheng Minerals, all of them shall pay us a minimum deposit of 30% of the purchase price and fully settle the sales amount before delivery. We granted to Hesheng Minerals a credit period of three months and allow it to settle its purchases by bank transfer or banks acceptance notes given, among others, that Hesheng Minerals has been our customer for a number of years with good credit history. Coarse iron powder was collected by our trading customers from the ports with the titles transferred to them after their inspection. Our trading customers will arrange for delivery of the coarse iron powder to their required destinations themselves with the delivery expenses borne by them. In 2011, our largest customer for coarse iron powder is Hesheng Minerals with an aggregated sales amount of approximately RMB138.7 million, representing approximately 52.8% of our trading revenue of coarse iron powder.

To the best knowledge of our Directors, the Shandong Trading Company sold coarse iron powder to us, rather than to other smaller customers (including directly to our trading customers), as (i) we are a sizeable and reputable mining company in Shandong Province; and (ii) we purchased large quantities of coarse iron powder in bulk with adequate financial resources to settle each purchase by cash. In particular, during 2011, our average purchase amount of coarse iron powder from the Shandong Trading Company was approximately 75.2 Kt per transaction; whereas the average purchase amount of coarse iron powder by our trading customers from us was approximately 23.3 Kt per transaction. Furthermore, to the best of our Directors' knowledge, we were able to generate profit from trading of coarse iron powder as (i) we were able to identify the Shandong Trading Company as a reliable supplier of quality coarse iron powder; (ii) we were financially able to purchase a significant amount of coarse iron powder in bulk from the Shandong Trading Company; and (iii) we were able to solicit our trading customers and satisfy their demand for coarse iron powder, while due to their size and financial capability as well as the lack of business relationship with the Shandong Trading Company, our customers might not be able to purchase directly from the Shandong Trading Company.

In 2011, we purchased various grades of coarse iron powder for a total purchase amount of approximately 594.5 Kt at an aggregated purchase cost of approximately RMB448.0 million, of which (i) approximately 286.4 Kt was used for processing into iron concentrates; (ii) approximately 303.5 Kt was used for trading and (iii) approximately 4.6 Kt was kept as inventory as at 31 December 2011 which was subsequently further processed into iron

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concentrates. In 2011, we purchased coarse iron powder from 11 suppliers, including the Shandong Trading Company, all being Independent Third Parties, and our largest supplier of coarse iron powder is the Shandong Trading Company.

During the Track Record Period, we derived approximately nil, 11.0% and 32.0% respectively of our revenue from trading of iron concentrates, iron pellets, coarse iron powder and other iron related products.

Our Directors consider that it is not our long-term strategy to actively participate in trading business as our main focus is still to expand our mining and processing capacities of our iron and ilmenite mines and/or projects. For details of our business strategies, please refer to the paragraph headed “Business Strategies” in this section. Going forward, should opportunities arise, it is our intention to continue our trading activities as long as such business activities provide us with a satisfactory gross profit margin of around 10%.

### OUR MINERAL RESOURCES AND MINING RIGHTS

#### Overview

We possess mining rights in respect of our Yangzhuang Iron Mine, Zhuge Shangyu Ilmenite Mine and Bashan Iron Project, and own the exploration rights over our Yangzhuang Iron Mine, Qinjiazhuang Ilmenite Project, Zhuge Shangyu Ilmenite Mine and Gaozhuang Shangyu Ilmenite Project, all of which are located in Yishui County of Shandong Province, the PRC. As at the Latest Practicable Date, our Yangzhuang Iron Mine was our only mine in operation. The mining capacity of our Zhuge Shangyu Ilmenite Mine is expected to gradually reach 2 Mt per annum in the fourth quarter of 2013 in accordance with the first stage of its expansion plan. According to CRU, we have the largest known iron ore reserves in Shandong Province, which accounted for approximately 47.8% of the province’s total known iron ore reserves as of 2010. We also own approximately 2.9% of the total known iron ore reserves of the PRC according to CRU as of 2010.

As of November 2011, the total proved and probable reserve of iron ore and ilmenite ore in our mines and project is summarised as follows:

	<b>Yangzhuang Iron Mine</b>	<b>Zhuge Shangyu Ilmenite Mine</b>	<b>Qinjiazhuang Ilmenite Project</b>
Ore reserves (Mt)			
– proved	11.00	200.08	45.33
– probable	32.94	346.20 <sup>(Note)</sup>	41.30
<b>Total ore reserves</b>	<b>43.93</b>	<b>546.29</b>	<b>86.63</b>

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	<b>Yangzhuang Iron Mine</b>	<b>Zhuge Shangyu Ilmenite Mine</b>	<b>Qinjiashuang Ilmenite Project</b>
Grade of total iron (TFe) (%)			
– proved	24.17	12.78	13.50
– probable	24.72	12.83	13.61
Average grade of total iron (TFe) (%)	24.58	12.81	13.56
Grade of titanium dioxide (TiO <sub>2</sub> ) (%)			
– proved	N/A	5.76	4.52
– probable	N/A	5.65	4.48
Average grade of titanium dioxide (TiO <sub>2</sub> ) (%)	N/A	5.69	4.50

*Note:*

*Out of the total probable reserve, about 256.29 Mt is underground reserve.*

Please refer to the section headed “Business – Overview” on page 159 of this prospectus for a summary of the information about our mines and projects.

For technical details of the geology of our mines and project, please refer to the section headed “Geology of the tenement area” of the Report of the Independent Technical Adviser in Appendix IV to this prospectus.

No material changes have occurred in our mineral resources since the effective date of the Report of the Independent Technical Adviser in Appendix IV to this prospectus.

### **Yangzhuang Iron Mine**

Our Yangzhuang Iron Mine is located 4 km north-west of Yangzhuang village, Yishui County, Shandong Province, the PRC. The project area is located in the uplifted Gongdanshan (汞丹山) horst part of the Luxi anticline in the Yishui fracture belt.

We have engaged our Independent Third Party Mining Contractors to carry out our mining operations at our Yangzhuang Iron Mine. Ore from our Yangzhuang Iron Mine is processed at our Yangzhuang Processing Facilities which is located at close proximity to our mine.



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The table below sets out a summary of the total cash operating costs and cash operating costs per unit of iron ores from our Yangzhuang Iron Mine which is extracted from the Report of the Independent Technical Adviser:

Cost Item	Units	HISTORICAL COSTS			ESTIMATED FUTURE COSTS		
		2009	2010	2011	2012	2013	Each year from 2014 to the end of mining life
<b>PRODUCTION COSTS</b>							
Total mining volume	tonnes'000	2,033	1,972	2,074	2,300	2,300	3,500
<b>MINING COSTS</b>							
Workforce employment	RMB'000	43,520	50,062	54,184	58,615	58,615	81,552
Product marketing and transport	RMB'000	14,155	18,604	17,800	19,255	19,255	26,790
Fuel, electricity, water and other services	RMB'000	6,459	9,222	5,355	5,793	5,793	8,060
Non-income taxes, royalties and other governmental charges	RMB'000	12,199	11,832	12,443	18,400	18,400	28,000
<b>Unit mining costs per tonne of ore mined</b>	RMB/tonne	37.54	45.50	43.29	44.38	44.38	41.26
<b>Total mining costs</b>	RMB'000	<b>76,333</b>	<b>89,721</b>	<b>89,782</b>	<b>102,064</b>	<b>102,064</b>	<b>144,402</b>
<b>PROCESSING COSTS</b>							
Total processing volume	tonnes'000	1,976	2,041	2,040	2,300	2,300	3,500
Workforce employment	RMB'000	8,608	10,443	15,410	16,671	16,671	23,194
Consumables	RMB'000	11,187	11,586	17,691	19,138	19,138	26,627
Fuel, electricity, water and other services	RMB'000	29,220	34,965	32,023	35,515	35,515	54,045
On and off-site administration	RMB'000	3,062	3,295	6,266	6,778	6,778	9,430
Transportation of workforce	RMB'000	0	0	0	0	0	0
Contingency allowances	RMB'000	0	0	0	0	0	0
Product marketing and transport	RMB'000	0	5,878	7,741	8,374	8,374	11,651
Non-income taxes, royalties and other governmental charges	RMB'000	200	250	400	444	444	675
<b>Unit processing costs per tonne of ore processed</b>	RMB/tonne	26.46	32.54	38.99	37.79	37.79	35.89
<b>Total processing costs</b>	RMB'000	<b>52,278</b>	<b>66,418</b>	<b>79,531</b>	<b>86,920</b>	<b>86,920</b>	<b>125,623</b>
<b>Total Mining and Processing Cost</b>	RMB'000	<b>128,611</b>	<b>156,138</b>	<b>169,313</b>	<b>188,984</b>	<b>188,984</b>	<b>270,025</b>
<b>MANAGEMENT EXPENSES</b>							
Environmental protection and monitoring	RMB'000	270	218	218	236	236	329
On and off-site administration	RMB'000	15,414	21,993	22,003	23,803	23,803	33,117
Product marketing and transport	RMB'000	4,434	4,381	9,451	10,224	10,224	14,224
Non-income taxes, royalties and other governmental charges	RMB'000	2,380	5,907	7,296	8,092	8,092	12,314
Other Expenses	RMB'000	0	0	0	0	0	0
<b>Total management expenses</b>	RMB'000	22,498	32,499	38,968	42,355	42,355	59,984
<b>Total Cash Operating Expenses</b>	RMB'000	151,109	188,637	208,281	231,339	231,339	330,008
Depreciation and Amortisation	RMB'000	14,587	14,336	17,851	19,798	19,798	30,127
<b>Total Production Cost</b>	RMB'000	<b>165,696</b>	<b>202,973</b>	<b>226,132</b>	<b>251,136</b>	<b>251,136</b>	<b>360,135</b>

*Note 1: During the Track Record Period, we have processed iron ores from Yangzhuang Iron Mine of approximately 1.98 Mt, 2.04 Mt and 2.04 Mt respectively of which approximately 321.4 Kt, 332.4 Kt, and 328.1 Kt of iron concentrates with iron content of 65% were produced respectively, representing iron ore to iron concentrates conversion ratio of approximately 6.2, 6.1 and 6.2 respectively during the same periods.*

*Note 2: Future operating costs have been estimated on the following basis:*

- *The total volume processed changes from 2.3 Mt per year to 3.5 Mt per year by 2014 following completion of the scheduled expansion of mining and processing facilities.*
- *The total volume processed remains fixed at 3.5 Mt per year from 2014 to the end of mine life (approximately 13 years, based on current reserves).*

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- *Mining costs have been projected from recent historical costs, with costs forecast to increase at a rate proportional to 75% of capacity increase.*
- *Mining royalties were calculated on the basis of RMB6 per tonne of ore mined prior to 2012, and RMB8 per tonne of ore mined thereafter.*
- *Estimated processing costs are based on recent costs, with “fuel, electricity, water and other services” and “non-income taxes, royalties and other governmental charges”, increasing directly proportionally to the increase in capacity, and other costs including “workforce employment”, “consumables”, “on and off site administration” and “product marketing and transport” forecast to increase at a rate proportional to 75% of the increase of processed ore.*
- *Contingency allowances are zero.*
- *Management expenses including estimated environmental protection and monitoring costs, on and off site administration, and production marketing and transport are based on recent costs, with costs forecast to increase at a rate proportional to 75% of capacity increase.*
- *Management expenses including non-income taxes, royalties and other governmental charges, and depreciation and amortization are based on recent costs, and are forecast to increase proportionally with tonnes processed.*
- *Costs are on a current cash basis and are not adjusted for inflation.*

For particulars regarding our expansion plan on our Yangzhuang Iron Mine, please refer to section headed “Business – Business Strategies” to this prospectus.

### **Zhughe Shangyu Ilmenite Mine**

Our Zhughe Shangyu Ilmenite Mine is located in Zhughe Town (諸葛鎮), Yishui County, Shandong Province, the PRC. For particulars regarding our development plan on our Zhughe Shangyu Ilmenite Mine, please refer to section headed “Business – Business Strategies” to this prospectus.

### **Qinjiazhuang Ilmenite Project**

Our Qinjiazhuang Ilmenite Project is located close to Qinjiazhuang village near Yangzhuang town in Yishui County, Shandong Province, the PRC. In January 2011, an exploration permit was renewed for the Yangzhuang Qinjiazhuang Combined Exploration Right Area of 17.88 sq. km. for a term from 4 January 2011 to 31 December 2012 and this area covers our Yangzhuang Iron Mine of 6.25 sq. km. and our Qinjiazhuang Ilmenite Project of 11.63 sq. km.. The estimated mine life of our Qinjiazhuang Ilmenite Project is 43.3 years.

We have engaged our Independent Third Party Surveying Contractor to carry out exploration work in our Qinjiazhuang Ilmenite Project and the work was completed in 2010. Having taken into consideration our available resources and the significant amount of planned capital expenditures to be applied to our Yangzhuang Iron Mine and Zhughe Shangyu Ilmenite Mine, our Directors will focus our financial and operational resources on the development of our Yangzhuang Iron Mine and Zhughe Shangyu Ilmenite Mine rather than to develop our Qinjiazhuang Ilmenite Project as at the Latest Practicable Date. Accordingly, we did not have any plan to carry out mining work or other expansion plan for our Qinjiazhuang Ilmenite

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Project as at the Latest Practicable Date. Our Directors will consider applying for mining rights and commence any development work for our Qinjiazhuang Ilmenite Project at around 2016 (which is the time when the development of our Zhuge Shangyu Ilmenite Mine is expected to be completed) subject to, among others, our then available resources and market demands for iron and titanium concentrates.

### **Gaozhuang Shangyu Ilmenite Project**

Our Gaozhuang Shangyu Ilmenite Project is located in Yishui County and Yinan County of Shandong Province, the PRC. Our Gaozhuang Shangyu Ilmenite Project has an exploration rights area of approximately 7.66 sq. km., with the exploration term expiring in March 2013.

As at the Latest Practicable Date, we had conducted preliminary exploration work on our Gaozhuang Shangyu Ilmenite Project which includes basic surveying work. We have engaged our Independent Third Party Surveying Contractor to perform further work and it is expected that such work would be completed and the relevant report would be available by the end of 2012. As at the Latest Practicable Date, our Independent Third Party Surveying Contractor was conducting further preliminary exploration, preparation and design work and is expected to commence field exploration work in about third quarter of 2012, which will include, among others, preparation for exploration, geological mapping, topographic survey, geophysical exploration, trenching, drilling, laboratory testing, field exploration and preparation of detailed investigation report. Upon issuance of the detailed investigation report by our Independent Third Party Surveying Contractor, our Directors shall then decide if the project is commercially viable based on a number of factors including, among others, the amount of reserves or resources which could potentially be realised, the cost of development of the particular project and the cost in extracting useful mineral resources, and the market price of mineral resources. As at the Latest Practicable Date, our preliminary exploration work did not provide us with sufficient data and information for compilation of a competent person report in accordance with Chapter 18 of the Listing Rules, hence such report has not been prepared. If our Directors consider that our Gaozhuang Shangyu Ilmenite Project is commercially viable based on the above factors after further exploration, we shall then proceed for application of a mining license, and we undertake to the Stock Exchange to prepare a competent person report in accordance with Chapter 18 of the Listing Rules accordingly and inform our Shareholders of the full details of such report.

As confirmed by our Directors, the total exploration expenditures to be incurred in respect of the planned exploration work for Gaozhuang Shangyu Ilmenite Project will exceed the minimum exploration input as required by relevant PRC laws and regulations. The consideration for acquisition of our Gaozhuang Shangyu Ilmenite Project, which amounted to RMB4,750,000, have been recorded as intangible assets in the Accountants' Report as set out in Appendix I to this prospectus. All other incidental expenses were insignificant and charged to profit and loss accounts during the Track Record Period.

### **Bashan Iron Project**

Our Bashan Iron Project is located in Yishui County of Shandong Province, the PRC.

As for our Bashan Iron Project, based on the results of the exploration works and studies that have been performed, our Directors consider that the project is not commercially viable based on, among others, the amount of mineral reserves or resources that could be realised and the estimated cost for developing the project, including without limitation the costs and the market price of the mineral resources from the project, and we will not carry out any mining work in the near future, and hence no competent person report has been prepared. We shall consider disposal of our Bashan Iron Project in the future if opportunities arise. Only minimal spending has been made on our Bashan Iron Project as there was no initial payment for acquisition of the mining right of our Bashan Iron Project. Up to 31 December 2011, we have incurred an amount of approximately RMB232,000 for our Bashan Iron Project and all the expenditures incurred for the project has been expensed-off through income statement.

### **Mining Contracting**

For our Yangzhuang Iron Mine, because the ore is located at underground, we employ the underground mining method. For our Zhuge Shangyu Ilmenite Mine, it is currently an open-pit mine and we will perform open-pit mining method for mining of ilmenite ores for approximately 36 years from the date of mining commencement, after which it will become an underground mine.

At our Yangzhuang Iron Mine, we engage Independent Third Party Mining Contractors to carry out the mining work for us. We have been engaging two Independent Third Party Mining Contractors throughout the Track Record Period as our Directors considered that the Independent Third Party Mining Contractors which we engaged provides quality services. We are responsible for planning and overseeing the technical aspects of the mining operations, such as the planning and design of the mine pits, the designing of the mining plans and operational safety, and directing and supervising the mining operations. We also oversee quality control and assurance programs to determine the quality of iron ore extracted from our mines by way of, among other matters, monitoring the mining loss rate and granularity of ore extracted, and to guide the operation of our Independent Third Party Mining Contractors. Mr. Gao Zefu, our Deputy Production Head and head of Yangzhuang Iron Mine, who had over 20 years of experience in mining supervision, is responsible for overseeing the work of our Independent Third Party Mining Contractors. Other operational components, such as drilling, stripping, ore extraction work, maintenance of mining equipments and facilities, are carried out by our Independent Third Party Mining Contractors. For details of our third party contracting, please refer to the paragraph headed “Independent Third Party Contractors” in this section.

As for blasting work that is carried out from time to time when mining work is in progress, we currently employ one Independent Third Party Blasting Contractor at our Yangzhuang Iron Mine to carry out such work for us, as there is only one qualified blasting contractor available at Yishui County. As advised by our PRC Legal Advisers, our Independent

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Third Party Blasting Contractor has obtained the blasting permits under the relevant PRC laws and regulations required to carry out blasting work for us at our Yangzhuang Iron Mine. Also, as advised by the PRC Legal Advisers, the blasting technicians employed by our Independent Third Party Blasting Contractor has obtained the relevant qualifications to perform blasting work.

### **Mining rights, exploration permits and safety production permits**

The PRC laws and regulations governing magnetite and ilmenite ore mining activities including the Mineral Resources Law of the PRC (《中華人民共和國礦產資源法》), Implementing Rules on the Mineral Resources Law of the PRC (《中華人民共和國礦產資源法實施細則》), Regulations on Work Safety License (《安全生產許可證條例》) and Implementing Rules on the Work Safety License of Non-coal Mines (《非煤礦山企業安全生產許可證實施辦法》) require mining enterprises to obtain, among other things, a mining permit for each mine and a safety production permit for each company. The safety production permit can only be obtained after the mining permit is granted. For details of the applicable laws and regulations, please refer to the “Regulatory Overview” section in this prospectus.

### ***Mining rights and renewal of mining rights***

We must pay mining right fees, mining right utilisation fees and relevant taxes. At the time we acquired our Yangzhuang Iron Mine from Yishui Iron Ore Processing Plant, the relevant mining permit for the mine has already been issued. Through the acquisition of the mine, the legal title of the relevant mining permit had been legally and effectively vested in us. As advised by the PRC Legal Advisers, when we obtained the mining permit for our Zhuge Shangyu Ilmenite Mine in May 2008 and our Bashan Iron Project in May 2008 respectively, we have fully paid the right utilisation fees and relevant taxes.

Under PRC laws, if residual reserves remain after the expiry of the term of a mining permit, the holder of the mining permit may apply for renewal of the mining permit for an additional term. If any of our mines have residual reserves remaining upon the expiration of the term of our existing mining permit, we will apply for a renewal of such permit(s). In 2011, we successfully renewed the mining permit for our Yangzhuang Iron Mine for a term of 8 years until June 2019. In addition, we intend to apply for renewal our mining permit of our Yangzhuang Iron Mine for increasing the approved production scale from 2.3 Mt to 3.5 Mt in May 2012 and expect to obtain such renewed mining permit by the fourth quarter of 2012. We expect to make the formal application for the renewal of the mining permit of our Zhuge Shangyu Ilmenite Mine in the second quarter of 2012 to increase its mining area and the approved production scale from 400,000 cubic metres per annum to 8.0 Mt per annum and it is expected that the new mining permit will be issued by the third quarter of 2012.

Based on our past experience in successfully renewing our mining permits, our Directors believe, and our PRC Legal Advisers confirmed that on condition that we submit all required application materials and such materials are accepted by the MLR, that there should not be any major obstacles for us to renew our mining permits in future.

***Exploration permits***

We currently have exploration permits for our Yangzhuang Iron Mine, Zhuge Shangyu Ilmenite Mine, Qinjiazhuang Ilmenite Project and Gaozhuang Shangyu Ilmenite Project. In January 2011, we obtained an exploration permit from the Shandong Provincial Department of Land and Resources (山東省國土資源廳) for a term from 4 January 2011 to 31 December 2012 for the Yangzhuang Qinjiazhuang Combined Exploration Right Area of 17.88 sq. km. covering an area of 6.25 sq. km. of our Yangzhuang Iron Mine and an area of 11.63 sq. km. of our Qinjiazhuang Ilmenite Project, pursuant to which our exploration right at Yangzhuang Iron Mine and exploration right at Qinjiazhuang Ilmenite Project has combined.

For our Zhuge Shangyu Ilmenite Mine, the exploration permit covers an exploration area of 7.30 sq. km. and will expire on 30 June 2012.

For our Gaozhuang Shangyu Ilmenite Project, the exploration permit covers an exploration area of 7.66 sq. km. and will expire in March 2013.

Pursuant to Mineral Resources Law 《礦產資源法》, Regulations for Transferring Exploration Rights and Mining Rights 《探礦權採礦權轉讓管理辦法》, and as advised by our PRC Legal Advisers, we have a right of priority to the grant of the relevant mining permits for the areas covered by the exploration permit(s). Hence, our Directors believe that it is unlikely that we will encounter any major obstacles when we apply for mining permits for our mines or projects which we have already obtained exploration permits after completion of the relevant exploration work.

***Safety production permits***

As advised by our PRC Legal Advisers, our Yangzhuang Iron Mine has obtained the requisite safety production permits under the relevant laws and regulations required to carry out its mining operations. Our Yangzhuang Iron Mine has obtained its safety production permit for our underground iron ore mining on 9 July 2011 which shall be valid for a term of three years. The safety production permit for the operation of our Yangzhuang tailing facilities was expired on 18 October 2011, and we have applied for a renewal of the validity period of permit before its expiry. We obtained written confirmation from the Yishui County Branch of the State Administration of Work Safety (沂水縣安全生產監督管理局) dated 15 November 2011 confirming that Shandong Ishine is permitted to operate its tailing facilities during the period between the expiry of the previous safety production permit for our Yangzhuang tailing facilities and the issue of the renewed permit, and it would not penalize us for operating the tailing facilities during the above period. Based on our past experience of successfully renewing our safety production permits and we have been in compliance with the relevant PRC laws and regulations applicable to our Yangzhuang Iron Mine, our Directors believe that it is unlikely that we will encounter any major obstacles in the renewal of our safety production permit in the future. As advised by our PRC Legal Advisers, there should not be any substantive legal impediment for us to renew the validity period of our safety production permit for operation of our tailing facilities.

***Explosive storage/Blasting permits***

We obtained the permit for use of explosives (民用爆破物品使用資格證) issued by Linyi Public Security Bureau (臨沂市公安局) under the relevant laws and regulations required for the use of explosives. As advised by our PRC Legal Advisers, we have obtained the permit for use of explosives (民用爆破物品使用資格證) under the relevant laws and regulations required for the use and possession of explosives, which expired on 8 July 2011. As advised by our PRC Legal Advisers, after the expiry of our permit for use of explosives, we need not renew the permit for use of explosives any longer as the permit requirement is replaced with a record filing requirement under which a record regarding application for permission to use explosives in mining operations has to be filed with the Linyi Public Security Bureau (臨沂市公安局). We obtained a written confirmation dated 7 November 2011 from the Linyi Public Security Bureau (臨沂市公安局), the competent explosive and blasting approving authority, which confirmed that we have filed a record regarding application for permission to use explosives in mining operations with the Linyi Public Security Bureau (臨沂市公安局). As advised by our PRC Legal Advisers, we have complied with the relevant record filing requirements with the relevant government authority regarding the use of explosives in mining operations in accordance with the applicable laws and regulations of the PRC.

As advised by our PRC Legal Advisers, our Independent Third Party Blasting Contractor has obtained the blasting qualification certificate and blasting permits under the relevant PRC laws and regulations required to carry out their blasting work at our Yangzhuang Iron Mine. Our Independent Third Party Blasting Contractor has obtained its blasting operation entity permit (爆破工程施工資格證書) on 17 August 2006 issued by the Linyi Public Security Bureau (臨沂市公安局), which is subject to annual review by the relevant issuing authority. Also, as advised by our PRC Legal Advisers, the blasting technicians employed by our Independent Third Party Blasting Contractor had obtained the relevant safety qualification certificate issued by the local Public Security Bureau of the PRC to perform blasting operations.

**Exploration licences in Australia**

Ishine International, our indirect non-wholly owned subsidiary, is a limited liability company incorporated in Western Australia on 18 September 2009 and its shares are listed on ASX. Ishine International is principally engaged in the business of exploration of mineral resources. Our Directors consider that Ishine International is a long term investment of our Group and has no short term impact of our Group's performance since it has no relationship with our Group's existing principal business in Shandong Province. The assets of Ishine International are immaterial to our Group's total assets.

As at the Latest Practicable Date, Ishine International owns 11 granted exploration licences located in Western Australia and 7 granted exploration licences located in South Australia. It has made 12 exploration licence applications in Western Australia, 3 exploration licence applications in South Australia and 1 application for an exploration permit for minerals in Queensland and does not own any mining licence. The potential mineralisation covered by Ishine International's projects includes nickel, copper-gold, iron ore, lead, zinc, etc..

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In addition, Ishine International has a 49% beneficial interest in three granted exploration licences in Queensland, with the right to acquire up to a 70% interest in these licences in relation to joint venture projects with Kabiri Resources Pty Ltd (“**Kabiri**”). Kabiri is a proprietary company limited by shares incorporated in Australia in 2006 and is principally engaged in mineral exploration in Queensland, Australia. To the best knowledge of our Directors, Kabiri held 7 granted Exploration Permits for Minerals (“**EPM**”) and 1 application for EPM, among which 3 tenements related to our joint venture project with Kabiri. As at the Latest Practicable Date, Kabiri held 5,000,000 share options of Ishine International which are exercisable at AUD\$0.20 each on or before 31 December 2015. The joint shareholders of a controlling shareholder of Kabiri, each an Independent Third Party, jointly held 75,000 share options of Ishine International (as trustee for the said controlling shareholder of Kabiri) exercisable at AUD\$0.20 each on or before 29 March 2013, and were past joint shareholders of Ishine International in respect of 100,000 shares (as trustee for the said controlling shareholder of Kabiri). Assuming that no further shares have been issued by Ishine International and no exercise of other outstanding options as at the Latest Practicable Date, if Kabiri fully exercises the aforesaid 5,075,000 share options, the new 5,075,000 shares issued under the share options will constitute 5.49% of the issue share capital as enlarged by the issue of such new shares. Save as disclosed above, Kabiri does not have any other past or present relationship with our Group, the Controlling Shareholders and our Directors. The details of the joint venture projects are set out in the paragraph below.

As at the Latest Practicable Date, geological surveying work and exploration has been carried out in respect of three tenements, all of which were joint venture projects with Kabiri:

1. a single granted tenement with EPM 15723 situated approximately 100 km north of Cloncurry in northwest Queensland, which is a joint venture with Kabiri to allow Ishine International to earn up to a 70% undivided interest from the project area. As at the Latest Practicable Date, Ishine International has earned a 49% undivided interest in the project. In late 2010, drilling was carried out which revealed strongly anomalous copper mineralization, partly coincident with, but not limited to, the molybdenum mineralization. Assays for molybdenum and copper are highlighted with intersections with grades up to 0.52% molybdenum and significant zones of anomalous copper with grades up to 0.14% within a broad zone of strongly silica and potassic altered rocks containing sulphide mineralization. Ishine International considers that the five significant gravity/magnetic anomalies within the tenement have a distinct possibility to be related to sulphide mineralization, therefore, Ishine International has lodged a new application EPM 19142 in March 2011 for additional exploration tenement immediately to the south of EPM 15723; and
2. tenements with EPM No. 15986 and 15933 situated approximately 115 km north-northwest of Mount Isa in northwest Queensland, which is a joint venture with Kabiri earning up to a 70% interest. As at the Latest Practicable Date, Ishine International had earned a 49% undivided interest in the project. This project occurs on the western succession of the Mount Isa Inlier and is considered prospective for copper. In the past one and a half years, an airborne survey was conducted which



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identified high to low order anomalies, and a drilling program was undertaken in late 2010 targeting six anomalous areas. The results revealed a broad, highly anomalous copper zone. Ishine International plans to continue drilling to further delineate the anomalous zones and to test a number of other targets.

Initially, exploration works in respect of the above three tenements were carried out by Ishine International internally. When IGME joined the project, IGME helped on the exploration work and the exploration was done together while our Group took the lead in the exploration process. No other third party was involved in the exploration work. The rest of the Australia tenements held by us are at the stage of preliminary assessments and appraisals leading to target generation including reconnaissance field investigations, literature reviews of previous exploration activity by previous explorers, regional geological review and target generating geochemical programs. It is currently expected that exploration will be carried out by third parties under our supervision as and when appropriate after the aforesaid assessments and appraisals.

Ishine International has also entered into two agreements and a heads of agreement with IGME, pursuant to which Ishine International has granted to IGME the opportunity to acquire up to a 51% interest in two project areas in Western Australia (exploration license No. E80/4450 and E70/3880) at a consideration of AUD\$3,800,000 (or approximately RMB26.4 million) on each of the tenement over 2 years, and up to a 51% interest in our joint venture with Kabiri referred to in (2) above at a consideration of AUD\$1,700,000 (or approximately RMB11.8 million) on the project over 2 years. IGME is a PRC state-owned geological exploration unit and provides services such as engineering surveying, hydrological engineering, mineral geology and drilling. Its headquarters are located in Rizhao City, Shandong Province, the PRC, and is equipped with a number of Grade "A" exploration qualifications. Based on a confirmation by IGME dated 5 April 2012, IGME was established in 1975, and had over 300 staff with over 130 professional technical personnel. IGME is our Independent Third Party Surveying Contractor and it also provides surveying service to our Group in Australia. The granting of IGME the right to acquire interest in the Australian joint ventures was to obtain surveying services from IGME and to secure follow-up funds required for future project development in Australia. Save as disclosed above and being an Independent Third Party Surveying Contractor, IGME does not have any past or present relationship with our Group, the Controlling Shareholders and our Directors.

In respect of the joint venture projects with Kabiri, our Group shall gain interest in tenements owned by Kabiri by investing into the exploration projects. On the other hand, we shall receive a certain amount of investment from IGME into our exploration projects in some of our tenements, and in return we shall transfer a certain portion of our interest in some of our tenements to IGME. As at the Latest Practicable Date, our plan is to continue to carry out geological surveying and exploration in respect of the three tenements which are joint venture projects with Kabiri.

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As at the Latest Practicable Date, Ishine International continued to focus on expanding its exploration portfolio by acquiring tenements and continues to explore its current projects. The involvement of IGME in Ishine International's exploration projects with Kabiri enhances its technical and financial resources required to fast track the exploration and mineral resource of this project. More importantly, IGME's participation has paved a way for securing the follow-up funds required for future project development.

In addition, during the Track Record Period, Ishine International was involved in a joint venture project with Strategic Energy Resources Ltd and Strategic Nickel Pty Ltd (the "**SER Group**") of which Ishine International had the right to acquire a 70% interest in one granted exploration licence and three granted prospecting licenses in Western Australia. However, the joint venture with the SER Group was subsequently terminated on 28 November 2011 given that our Group considered that the prospects of the tenements are limited.

As at the Latest Practicable Date, we considered that the future business direction of our Group in Australia might include the following: (a) carrying out mining activities if exploration on our tenements leads to favourable results; (b) selling our tenement rights for a profit if we do not intend to carry out mining activities on our tenements after our exploration activities; and (c) cooperating with other parties to develop our mining tenements adopting a model similar to our joint venture projects referred to above. Our Directors consider that our source of funding for our business operations in Australia will be from equity financing through issuance of new shares of Ishine International or by debt financing by Ishine International.

As at the Latest Practicable Date, save as the above joint venture projects with Kabiri, we have only commenced preliminary assessments and appraisals leading to target generation including reconnaissance field investigations, literature reviews of previous exploration activity by previous explorers, regional geological review and target generating geochemical programs on the 18 other tenements which we owned exploration licences. Also, Ishine International is in the process of applying for exploration licences for certain tenements and no work has been carried on any such tenements under application. Depending on the results of the initial planning work and the allocation of resources, we would map out a more concrete timetable for exploration work to be carried out in respect of our tenements in Australia. Given that all of our tenements are still at a preliminary stage of assessment and appraisals or are only at preliminary stage of surveying and exploration, no resources and reserves estimates can be performed, no technical report has been prepared in respect of our projects in Australia.

As at 31 December 2011, our Group incurred a cost or capital expenditure (capitalised and expensed-off through income statement) in relation to the tenements in Australia of approximately RMB17.8 million on the Australia tenements. As the tenements held by Ishine International were still in exploration phases, estimated capital expenditure requirements are not applicable. As at 31 December 2011, the total committed expenditures of our Australia tenements amounted to approximately RMB24.8 million, representing geological surveying and exploration commitment by Ishine International in respect of the joint venture projects on the tenements in 2012 to 2016, among which approximately RMB5.3 million was attributable to the joint venture projects with Kabiri. As at 31 December 2011, the total consideration of

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obtaining our Australia tenements amounted to RMB8.4 million, of which RMB7.9 million was attributable to costs pursuant to the joint venture arrangements with Kabiri, which was reached pursuant to arm's length negotiation between Ishine International and Kabiri. The remaining part of the consideration comprised of costs incurred for the application of the exploration rights of the tenements.

The following tables are summaries of Ishine International's tenements in Australia:

### *Western Australian Tenements*

Key: E denotes Exploration Licence

In Western Australia, block is a unit of measurement of area denoting one minute of latitude by one minute of longitude

Tenement	Registered holder/applicant	Grant date	Expiry date	Area size and locality	Current status and plan	Status of renewal of tenement (if expiring within 1 year)	Target minerals
E38/2635	Ishine International	8 March 2012	7 March 2017	2 Blocks Laverton Shire	(Note 3)	NA	Nickel
E38/2435	Ishine International	21 January 2011	20 January 2016	22 Blocks Laverton Shire	(Note 3)	NA	Nickel
E70/3880 (Note 1)	Ishine International	28 March 2011	27 March 2016	70 Blocks Narembeen Shire	(Note 3)	NA	Gold
E77/1786	Ishine International	22 March 2011	21 March 2016	70 Blocks Merredin, Narembeen and Yilgarn Shires	(Note 3)	NA	Iron
E80/4448	Ishine International	06 October 2011	05 October 2016	154 Blocks Halls Creek Shire	(Note 3)	NA	Nickel, Copper, Silver, Gold
E80/4450 (Note 2)	Ishine International	06 October 2011	05 October 2016	41 Blocks Halls Creek Shire	(Note 3)	NA	Gold
E37/1074	Ishine International	14 September 2011	13 September 2016	4 Blocks Leonora Shire	(Note 3)	NA	Nickel, Gold
E37/1073	Ishine International	21 July 2011	20 July 2016	33 Blocks Laverton and Leonora Shires	(Note 3)	NA	Nickel
E69/2812	Ishine International	01 September 2011	31 August 2016	140 Blocks Ngaanyatjarraku Shire	(Note 3)	NA	Copper, Nickel
E80/4478	Ishine International	10 October 2011	09 October 2016	39 Blocks Halls Creek Shire	(Note 3)	NA	Gold
E38/2601	Ishine International	02 September 2011	01 September 2016	5 Blocks Laverton Shire	(Note 3)	NA	Nickel, Gold

*Note 1: Joint venture agreement dated 17 November 2010 between Ishine International and IGME pursuant to which IGME has the opportunity to earn up to a 51% interest in E70/3880 which has been applied for by Ishine International in the Narembeen region of Western Australia.*

*Note 2: Joint venture agreement dated 17 November 2010 between Ishine International and IGME pursuant to which IGME has the opportunity to earn up to a 51% interest in E80/4450 which has been applied for by Ishine International in the Halls Creek region, Western Australia.*

*Note 3: At the stage of preliminary assessments and appraisals leading to target generation including reconnaissance field investigations, literature reviews of previous exploration activity by previous explorers, regional geological review and target generating geochemical programs.*

*Note 4: The exploration licences were obtained by applications for exploration licences with relevant government authority.*

*Note 5: As at the Latest Practicable Date, Ishine International had made 12 exploration licence applications in Western Australia.*

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### *South Australian Tenements*

Key: EC denotes exploration licence

<b>Tenement</b>	<b>Registered holder/applicant</b>	<b>Grant date</b>	<b>Expiry date</b>	<b>Area size and locality</b>	<b>Current status and plan</b>	<b>Status of renewal of tenement (if expiring within 1 year)</b>	<b>Commodity</b>
EL4829	Ishine International	20 January 2012	19 January 2013	736 km <sup>2</sup> Ooldea Range Area	<i>(Note 1)</i>	License will be renewed in 2012 subject to ongoing assessment of the potential of the tenement	Base Metals
EL4830	Ishine International	20 January 2012	19 January 2013	309 km <sup>2</sup> Mulga Well Area	<i>(Note 1)</i>	License will be renewed in 2012 subject to ongoing assessment of the potential of the tenement	Gold, Copper, Uranium
EL4831	Ishine International	20 January 2012	19 January 2013	992 km <sup>2</sup> Mulgaria Area	<i>(Note 1)</i>	License will be renewed in 2012 subject to ongoing assessment of the potential of the tenement	Uranium
EL4832	Ishine International	20 January 2012	19 January 2013	218 km <sup>2</sup> Willouran Ranges Area	<i>(Note 1)</i>	License will be renewed in 2012 subject to ongoing assessment of the potential of the tenement	Uranium
EL4833	Ishine International	20 January 2012	19 January 2013	969 km <sup>2</sup> Finniss Springs Area	<i>(Note 1)</i>	License will be renewed in 2012 subject to ongoing assessment of the potential of the tenement	Uranium
EL4834	Ishine International	20 January 2012	19 January 2013	690 km <sup>2</sup> Darkoo Hill Area	<i>(Note 1)</i>	License will be renewed in 2012 subject to ongoing assessment of the potential of the tenement	Uranium
EL4835	Ishine International	20 January 2012	19 January 2013	753 km <sup>2</sup> Durinna Hill Area	<i>(Note 1)</i>	License will be renewed in 2012 subject to ongoing assessment of the potential of the tenement	Uranium

*Note 1: At the stage of preliminary assessments and appraisals leading to target generation including reconnaissance field investigations, literature reviews of previous exploration activity by previous explorers, regional geological review and target generating geochemical programs.*

*Note 2: The exploration licences were obtained by applications for exploration licences with relevant government authority.*

*Note 3: As at the Latest Practicable Date, Ishine International has made 3 exploration licence applications in South Australia.*

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### Queensland Tenements

Key: EPM denotes exploration permit for minerals

In Queensland, sub-block is a unit of measurement of area denoting one minute of latitude by one minute of longitude

Tenement	Registered holder/ applicant	Grant date	Expiry date	Area size and locality	Current status and plan	Status of renewal of tenement (if expiring within 1 year)	Commodity
EPM 15986 (Note 1) (Note 2)	Kabiri (Ishine International owns 49% shares)	15 January 2008	14 January 2013	19 Sub-blocks Mount Isa – North West of Cloncurry	Continue to carry out geological surveying work and exploration	License will be renewed in 2012	All minerals other than coal
EPM 15933 (Note 1) (Note 2)	Kabiri (Ishine International owns 49% shares)	11 March 2008	10 March 2013	13 Sub-blocks Mount Isa – North West of Cloncurry	Continue to carry out geological surveying work and exploration	License will be renewed in 2012	All minerals other than coal
EPM 15723 (Note 3)	Kabiri (Ishine International owns 49% shares)	22 April 2008	21 April 2013	37 Sub-blocks Mount Isa – North West of Cloncurry	Continue to carry out geological surveying work and exploration	NA	All minerals other than coal

*Note 1: Heads of agreement (Watson Project) dated 9 October 2009 between Ishine International and Kabiri, a proprietary company limited by shares incorporated in Western Australia, pursuant to which Ishine International has the right to earn up to a 70% interest in EPM 15933 and EPM 15986 were entered into, and the parties have agreed to form a joint venture in relation to those EPMs. Ishine International has earned a 49% undivided interest in the EPMs.*

*Note 2: Ishine International has also entered into a heads of agreement with IGME in respect of the Mount Watson Project in North West Queensland (EPM 15933 and EPM 15986). Pursuant to this agreement, IGME has the opportunity to earn up to a 51% interest in the project.*

*Note 3: Heads of agreement dated 9 October 2009 between Ishine International and Kabiri. Pursuant to the heads of agreement, Ishine International has a right to earn up to a 70% interest in EPM 15723 and the parties have agreed to form a joint venture in relation to the EPM. Ishine International has earned a 49% undivided interest in the EPM.*

*Note 4: As at the Latest Practicable Date, Ishine International has made 1 application for an exploration permit for minerals in Queensland.*

Our Group is subject to foreign exchange risk as one of our subsidiaries Ishine International operates its business in Australia and its functional currency is AUD, and as our Group's presentational currency is RMB, depreciation in AUD against RMB might have an adverse effect to our assets denominated in AUD. However, as (i) the total assets of Ishine International accounted for only approximately 2.8% of the total assets of our Group as at 31 December 2011, and (ii) there is no profit and loss impact on our Group as exchange gain or loss arising from fluctuation of AUD against RMB in relation to the investment in Ishine International will be adjusted through equity, we consider such adverse effect, if any would be immaterial, and hence we consider not necessary to use any foreign exchange financial instruments to hedge such potential foreign exchange risk. Historically, we have not used any foreign exchange financial instruments to hedge potential foreign exchange risk.

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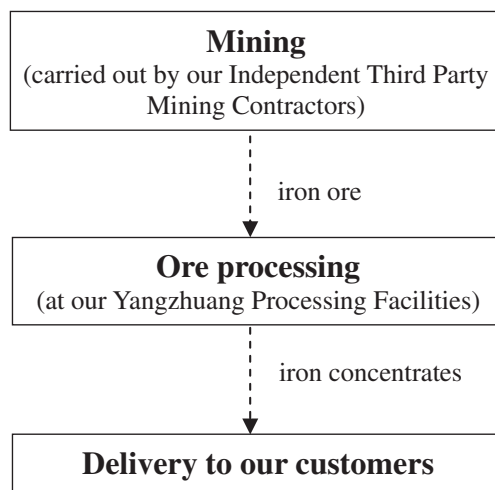
## BUSINESS

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### OUR PRODUCTION OPERATIONS AND FACILITIES

#### Overview

We are primarily engaged in the business of iron ore exploration and mining and processing iron ore to produce iron concentrates. The chart below summarises the production processes of our iron ore concentrates.



#### Production Process

Our iron concentrates production involves two main processes: mining and ore processing.

#### *Mining*

As at the Latest Practicable Date, our mining operation is carried out underground at our Yangzhuang Iron Mine and the approved production scale of our Yangzhuang Iron Mine was 2.3 Mt per annum. The ore output from mining at our Yangzhuang Iron Mine for each of the three years ended 31 December 2011 was approximately 2.03 Mt, 1.97 Mt and 2.07 Mt respectively. We follow standard mining procedures in accordance with the general practice in the iron ore industry. After we complete the initial exploration activities, we conduct drilling, sampling and analysis to identify and determine the location and characteristics of the underlying ore. Based on the initial analysis, we typically outline a mining plan setting forth the planned mining and production operations, including the technical aspects such as the planning and design of the pits, processing facilities, and operational safety as well as connecting roadways and other supporting infrastructural needs. In accordance with the relevant PRC regulations, prior to the obtaining of the mining permit, we engage a professional mine design company with the requisite qualification prescribed by the PRC government to carry out the mine construction design and prepare a development and utilization proposal (開發利用方案) which will be submitted to the PRC government for approval.

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Underground mining methods are adopted at our Yangzhuang Iron Mine, by short-hole shrinkage stoping method (filling after mining), under which the ore blocks are arranged along the strike of the orebody. The mining preparation and cutting works for such mining method consists mainly of construction of the roadway, lower ventilation rise, chamber air connection, sub-level air connection, ore removal air connection, ore-pass, accessway for the mining equipment such as the underground electric locomotive for ore transport, and the returning air and filling connection. For stoping work, the short-hole shrinkage method is mainly composed of four processes, namely rock drilling, ore blasting, ore extraction and filling. The rock drilling process involves the use of a short-hole drill, while blasting involves the use of explosives. The ore extraction process includes two steps. Firstly, before the ore in the chamber is stoped, after each blast, one third of the caving ore is drawn. After the blasting is finished, a larger amount of caving ore is drawn. The ore is removed by a motor-driven underground electric locomotive which transports the caving ore from the bottom of the stope. For the filling, all mined out stopes will be filled with tailings or a combination of waste rock and tailings.

The main mining equipment that we use for our mining operations such as ore removal equipment, rock-excavating and mucking equipment and rock-drilling equipment are provided by our Independent Third Party Mining Contractors. After the above mining operations, the iron ore will be transported to our Yangzhuang Processing Facilities, which is situated at close proximity to our Yangzhuang Iron Mine.

In order to reduce the amount of dust inside our mines during the mining operations, water is used to suppress the dust in our mines. This would reduce impacts on the environment and human health, and would allow our staff and our Independent Third Party Contractors to work in a safer environment. Water for use in mining operation is available from inside the mine.

We outsource our mining works to our Independent Third Party Mining Contractors. Our outsourced mining work includes drilling, stripping, maintenance of mining equipments and facilities, and transportation of the ore from the mine to our Yangzhuang Processing Facilities. We also retain operational control over the work carried out by our Independent Third Party Mining Contractors and undertake quality control and assurance programs to determine the grade of iron ore extracted from our mines by way of, among other matters, monitoring the mining loss rate, ore dilution rate (採礦損失率與礦石貧化率) and granularity of ore extracted. Our employees supervise and direct the mining and stripping operations undertaken by our Independent Third Party Mining Contractors. Our Independent Third Party Mining Contractors are also required to operate and produce iron ore in accordance with our mining plans and we review the iron ore production volume monthly.

As for blasting work that is carried out from time to time when mining work is in progress, we employ one Independent Third Party Blasting Contractor at our Yangzhuang Iron Mine to carry out such work for us under our supervision. The explosives for blasting operations are kept and provided to our Independent Third Party Blasting Contractor by us.

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We have a safety supervision team comprising a committee of staff from our safety and environmental protection department responsible for supervision of safety at our mine. The safety supervision team would patrol around our mining areas 24 hours per day in shifts for safety supervision, including supervision of our explosives for blasting operations. Mr. Zhang Qiang, deputy head of our Yangzhuang Iron Mine, who had over 5 years of experience in mining, processing and safety supervision, is responsible for monitoring our mine safety.

For information regarding our mining contractors, please refer to the paragraph headed “Independent Third Party Contractors” in this section.

### *Iron Ore Processing*

Our iron ore processing are carried out at our Yangzhuang Processing Facilities. During the Track Record Period, iron ore processing were carried out at our Second Yangzhuang Processing Facility and Third Yangzhuang Processing Facility. As part of the 2011 Processing Facility Expansion, in January 2011, we commenced expansion of our Third Yangzhuang Processing Facility by setting up a new iron concentrates production line at our Third Yangzhuang Processing Facility, which brings an additional planned ore processing capacity of 0.71 Mt per annum following completion of the installation of the new production line in July 2011.

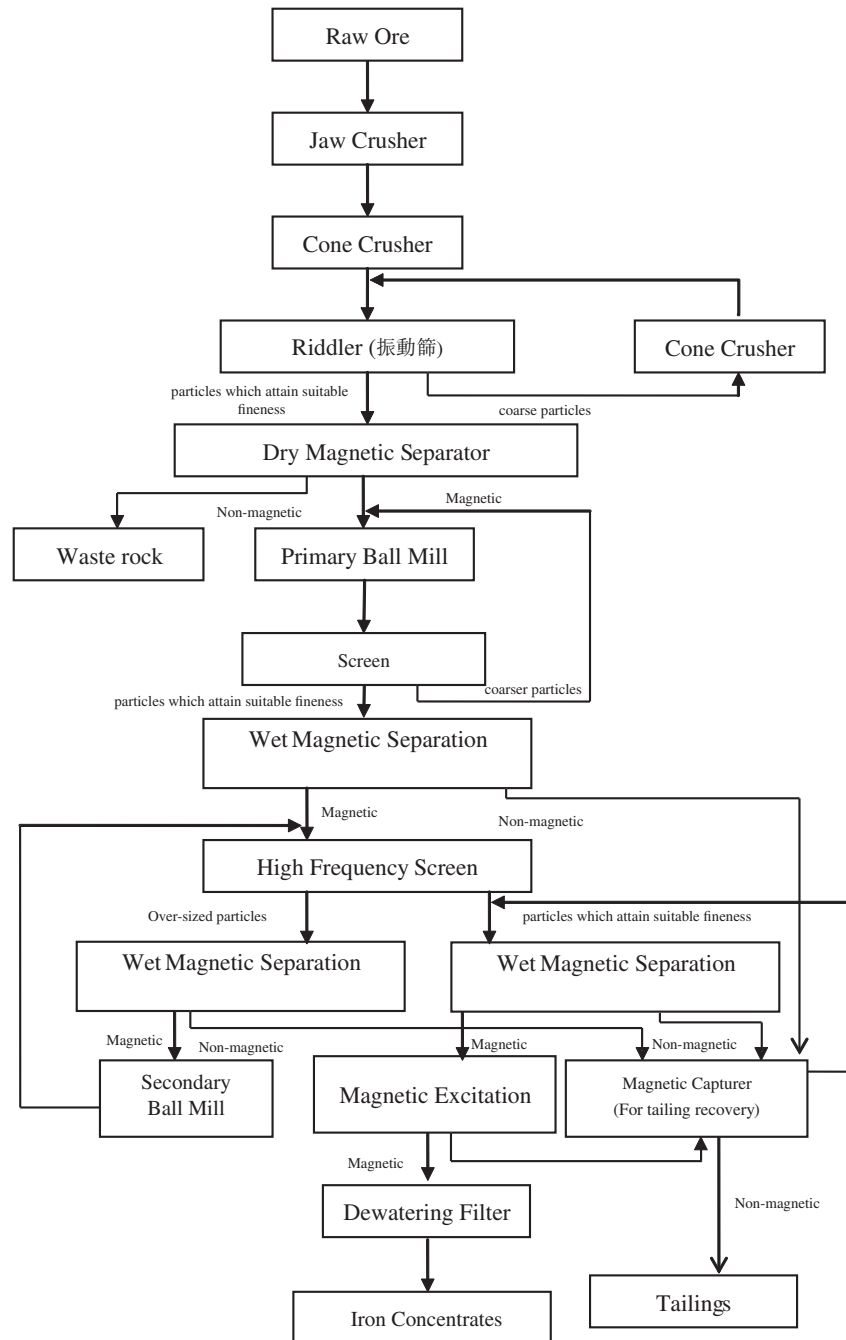
The main purpose of iron ore processing is to refine the iron ores mined from our Yangzhuang Iron Mine which have an average grading (iron content) of 24.58% in order to produce iron concentrates with iron content of 65% as required by our customers. During the Track Record Period, the actual amount of iron ores processed by us were approximately 1.98 Mt, 2.04 Mt and 2.04 Mt respectively and approximately 321.4 Kt, 332.4 Kt and 328.1 Kt of iron concentrates with iron content of 65% were produced respectively from such amounts of iron ores during the same periods, representing conversion rates of processing of approximately 6.2, 6.1 and 6.2 tonnes of iron ores from our Yangzhuang Iron Mine respectively to produce 1 tonne of iron concentrates with iron content of 65%. The volume of iron concentrates produced by us was lower than the amount of iron ores processed as there is on average 24.58% of iron content contained in each tonne of iron ores and certain amount of such iron content was lost during the refinement process. Moreover, during such process, waste rocks were also removed from the iron ores. Based on management’s experience and assuming that the conversion rate for the year ended 31 December 2011 for processing approximately 6.2 tonnes of iron ores from our Yangzhuang Iron Mine to produce 1 tonne of iron concentrates with iron content of 65% prevails in the future, it is expected that by processing approximately 2.85 Mt of iron ores from Yangzhuang Iron Mine, representing our current processing capacity, approximately 0.46 Mt of iron concentrates with 65% iron content can be produced.



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*Second Yangzhuang Processing Facility and Third Yangzhuang Processing Facility (prior to the setting up of new production line in 2011)*

We produce iron concentrates through processes which includes crushing, dry magnetic separation, grinding, wet magnetic separation and filtering. The diagram below illustrates the major steps of our ore processing at our Second Yangzhuang Processing Facility and Third Yangzhuang Processing Facility (prior to the setting up of our new production line in 2011):



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The main phases of our ore processing operations are:

**Crushing.** The raw ore is first subject to two stages of crushing; primary crushing in a jaw crusher then secondary crushing in a cone crusher to attain a suitable fineness.

**Dry magnetic separation.** The crushed ore passes through a riddler to separate the coarse particles from the fine particles. Coarse particles are returned to the crushing circuit for crushing while fine particles are sent to the fine ore bin and separated into magnetic pre-concentrate and non-magnetic waste rock through dry magnetic separation.

**Pulverization.** The fine ore is fed into the ball mills for pulverization before passing through a screen before wet magnetic separation. The grinded ore is then filtered by a screen whereby ore with suitable fineness are discharged for wet magnetic separation and the rest is sent back for grinding with ball mills.

**Wet magnetic separation and concentrates dewatering.** After the initial pulverization stage, wet magnetic separation is used to concentrate the ore. The magnetic fraction is passed through a high frequency screen before the second stage of wet magnetic separation while non-magnetic material is sent to the tailings circuit. The second stage of wet magnetic separation involves the oversize and undersize fractions separated by the high frequency screen. The concentrates is then subject to magnetic excitation to raise the iron content in the concentrates. Upon completion of magnetic excitation, iron concentrates are dried in a filter. After the dewatering process, the final product, iron concentrates, can be transported, distributed and sold.

**Treatment of tailings.** At the end of our ore processing, tailings and non-magnetic waste rocks are generated. We use our tailings for constructing roads, filling holes and gaps in mines and reclaiming land which is suitable for planting and crop growing purposes. Moreover, the non-magnetic iron ore deposits within tailings and non-magnetic waste rocks can, upon further pulverization by pulverization mills, be mixed with iron concentrates with higher iron content to produce iron concentrates of iron content of 65%. We plan to produce iron concentrates using our non-magnetic tailings in the future. Please refer to the paragraph headed “Business – Business strategies – Mixing of iron concentrates produced by us with our tailings or iron concentrates purchased from third parties” and the paragraph below headed “The 2011 Processing Facility Expansion” for details. Our tailings can also be used in the production of cement, and therefore can be sold to cement factory. We also plan to sell our tailings to cement factory in the future.

### ***Coarse iron powder processing***

Iron concentrates can also be produced by processing coarse iron powder. If the coarse iron powder is magnetic in nature, depending on the size of the powder, it may be processed by going through either all major processing steps as those in our Second Yangzhuang Processing Facility and Third Yangzhuang Facility; or if the powder is of suitable fineness, it may go through only certain processing steps namely, pulverisation and wet magnetic separation and concentrates dewatering.

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For the year ended 31 December 2011, we produced iron concentrates from processing magnetic coarse powder purchased from other suppliers in our Yangzhuang Processing Facilities. Since July 2011, with the expansion of our Third Yangzhuang Processing Facility, we have also utilised the new production line of our Third Yangzhuang Processing Facility to produce iron concentrates by processing magnetic coarse powder purchased from other suppliers.

If the coarse iron powder is non-magnetic, it can be processed by crushing and pulverisation. With the completion of our Dry Grinding Workshop, we commenced processing non-magnetic coarse iron powder in April 2011.

### *The 2011 Processing Facility Expansion*

#### *Setting up of new iron concentrates production line*

As part of the 2011 Processing Facility Expansion, in January 2011, we commenced expansion of our Third Yangzhuang Processing Facility by setting up one new iron concentrates production line at our Third Yangzhuang Processing Facility, which brings an additional planned ore processing capacity of approximately 0.71 Mt per annum following completion of installation of the new production lines in July 2011. Following completion of the installation of the new production line at our Third Yangzhuang Processing Facility in July 2011, the planned annual ore processing capacity of our Group increased from approximately 2.14 Mt to approximately 2.85 Mt. We are planning to further increase our ore processing capacity by approximately 0.71 Mt per annum to approximately 3.56 Mt per annum in 2012 by further investing not more than RMB1 million to install another set of crushing machines at the abovementioned new production line at our Third Yangzhuang Processing Facility. Such future increase in processing capacity will be fully utilised when the mining capacity of our Yangzhuang Iron Mine is increased to approximately 3.5 Mt of iron ore per annum which is expected to be in the fourth quarter of 2013. Please refer to the paragraph headed “Business – Business strategies – Expand the mining capacity of our Yangzhuang Iron Mine” for details.

#### *Setting up of the Dry Grinding Workshop*

As part of the 2011 Processing Facility Expansion, in March 2011, we commenced setting up our Dry Grinding Workshop for processing non-magnetic coarse iron powder we purchased from other suppliers or from our tailings. Such workshop involves a jaw crusher and two pulverizing mills, which breaks down coarse iron powder or tailings into iron concentrates of iron content below 65% by pulverization. Iron concentrates produced in this way are then mixed with iron concentrates sourced from other suppliers with various grades of iron contents to produce iron concentrates with iron content of 65% for sale to our customers. The new Dry Grinding Workshop brings a planned processing capacity of approximately 180 Kt per annum.

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**Processing Capacity**

As at the Latest Practicable Date, the aggregate annual ore processing capacity of our Yangzhuang Processing Facilities was approximately 2.85 Mt (after the setting up of the new production line in July 2011). The main equipment used for our processing operations includes jaw crusher, cone crusher, riddler, ball mill, screener, magnetic separator and filter. Processing facilities would be inspected from time to time, and maintenance of the equipment at the Yangzhuang Processing Facilities would be performed any time where appropriate.

The following table summarises the ore processing capacity, actual ore processing volume and utilisation rates of our Yangzhuang Processing Facilities during the Track Record Period:

	<b>For the year ended 31 December 2009</b>	<b>For the year ended 31 December 2010</b>	<b>For the 6 months ended 30 June 2011</b>	<b>For the 6 months ended 31 December 2011</b>
<b>Operating processing facilities</b>	Second Yangzhuang Processing Facility and Third Yangzhuang Processing Facility (prior to the setting up of new production line in 2011)			
<b>Approximate ore processing capacity per annum (Mt)</b> <i>(Note 1)</i>	2.14	2.14	2.14	2.85
<b>Actual ore processing volume (Mt)</b> <i>(Note 2)</i>	1.98	2.04	0.95	1.09
<b>Approximate utilisation rate (%)</b> <i>(Note 3)</i>	92.52	95.33	88.79 <i>(Note 4)</i>	76.49 <i>(Note 5)</i>

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*Notes:*

1. *Ore processing capacity figures represent the processing capacity of iron ore which are estimates based on a number of factors including equipment capacity, equipment operating hours and the grade of the ore used.*
2. *Such ore includes (i) iron ore from our Yangzhuang Iron Mine and (ii) magnetic coarse iron powder purchased from other suppliers.*
3. *The utilisation rate is calculated based on the total actual volume of ore processed for a given year/period over the annual ore processing capacity of iron ore for such year/period. The annual ore processing capacity for our First Yangzhuang Processing Facility, our Second Yangzhuang Processing Facility and our Third Yangzhuang Processing Facility is derived on the basis that the crushing machines of the production lines would operate 18 hours a day and 330 days per year.*
4. *Based on a monthly ore processing capacity of approximately 178 Kt (being the annual ore processing capacity of 2.14 Mt divided by 12 months and multiplied by the number of months during the period).*
5. *Based on a monthly ore processing capacity of approximately 238 Kt (being the annual ore processing capacity of 2.85 Mt divided by 12 months and multiplied by the number of months during the period).*

The following table sets out the processing capacity, actual processing volume and utilisation rate of our Dry Grinding Workshop from April 2011 up to 31 December 2011:

	<b>From April 2011 up to 31 December 2011</b>
Approximate processing capacity during the period (Kt) <i>(Notes 1 and 3)</i>	135
Actual processing volume (Kt)	41
Approximate utilisation rate (%) <i>(Note 2)</i>	30.37% <i>(Note 3)</i>

*Notes:*

1. *Processing capacity figures represent the processing capacity of coarse iron powder or tailing which are estimates based on a number of factors including equipment capacity and equipment operating hours.*
2. *The utilisation rate is calculated based on the total actual volume of non-magnetic coarse iron powder processed for a given period over the processing capacity for such period. The annual ore processing capacity for our Dry Grinding Workshop is derived on the basis that the pulverization mills would operate 24 hours a day and 288 days per year.*
3. *Based on a monthly processing capacity of approximately 15 Kt (being the annual processing capacity of 180 Kt divided by 12 months and multiplied by the number of months during the period).*

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### INDEPENDENT THIRD PARTY CONTRACTORS

We engage Independent Third Party contractors to carry out geological surveying and exploration, mining and the related blasting work for us. Our Directors believe that the outsourcing arrangements will lower our overall operational costs while maintaining our profitability as we are not required to maintain an in-house team of exploration professionals while exploration work is carried out only periodically when we make new discoveries of geological anomalies; and we can also avoid incurring substantial expenditure to acquire and maintain mining facilities or to maintain an in-house team of mining professionals with the requisite licences or permits to undertake mining and the related blasting work.

#### *Our Independent Third Party contractors*

The following table sets out information about our major Independent Third Party contractors as at the Latest Practicable Date:

Name of Independent Third Party contractor	Type of Independent Third Party contractor	Major role of Independent Third Party contractor
IGME	Independent Third Party Surveying Contractor	To carry out geological surveying and exploration work for us
Wenzhou Jian Feng Mining Engineering Co. Ltd.* (溫州建峰礦山工程有限公司) ("Wenzhou Jianfeng") (Note)	Independent Third Party Mining Contractor	To mine and extract iron ore at our Yangzhuang Iron Mine and to transport ore from our mine to our processing facilities
A mining contractor we engaged during the Track Record Period (溫州興安礦山建設有限公司) ("Previous Mining Contractor")	Independent Third Party Mining Contractor	To mine and extract iron ore at our Yangzhuang Iron Mine and to transport ore from our mine to our processing facilities
Zhejiang Tiancheng Construction Engineering Co. Ltd.* (浙江天城建設工程有限公司) ("Zhejiang Tiancheng") (Note)	Independent Third Party Mining Contractor	To mine and extract iron ore at our Yangzhuang Iron Mine and to transport ore from our mine to our processing facilities
Shandong Tianbao Blasting Co. Ltd.* (山東天寶爆破有限公司)	Independent Third Party Blasting Contractor	To carry out blasting operations in connection with mining operations at our Yangzhuang Iron Mine for us

*Note: We terminated our cooperation with Previous Mining Contractor in July 2011 and engaged Zhejiang Tiancheng in October 2011 to replace Previous Mining Contractor. Having considered the longer history of operation and higher capacity in terms of manpower of Zhejiang Tiancheng compared to Previous Mining Contractor, and having regard to our Group's plan in expanding our mining capacity and processing volume in the near future, we consider that Zhejiang Tiancheng would be better equipped to serve our needs.*

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The following table sets out information about contracting fees to our major Independent Third Party contractors incurred during the Track Record Period:

Type of Independent Third Party contractor	Approximate contracting fees paid for the year ended	% to total cost of sales of our Group	Approximate contracting fees paid for the year ended	% to total cost of sales of our Group	Approximate contracting fees paid for the year ended	% to total cost of sales of our Group
	31 December 2009		31 December 2010		31 December 2011	
Independent Third Party Surveying Contractor	RMB8.0 million	6.4%	RMB2.5 million	0.9%	RMB1.9 million	0.3%
Independent Third Party Mining Contractors	RMB72.6 million	58.2%	RMB86.4 million	30.7%	RMB79.2 million	10.8%
Independent Third Party Blasting Contractor	RMB0.4 million	0.3%	RMB0.6 million	0.2%	RMB0.3 million	0.0%

We obtain quotes from third parties and make a selection of our Independent Third Party contractors based on, among other factors, price, qualification, skill and experience. Our Independent Third Party Mining Contractors and Independent Third Party Blasting Contractor are supervised by our production management department and safety and environmental protection department. Our in-house engineers oversee the work of our Independent Third Party Surveying Contractor. For details of the measures adopted by us for monitoring the performance of external contractors and ensuring that the external contractors comply with our Group's policies and the relevant PRC laws and regulations, please refer to the sections headed "Business – Geological surveying and exploration", "Business – Mining contractor" and "Business – Environmental protection" of this prospectus.

### *Long term contracts with our Independent Third Party contractors*

Because a significant part of our operations rely on the services of our Independent Third Party contractors, a stable relationship with them and their satisfactory performance are crucial to our business. We believe the performance of our contractors has been satisfactory and we did not have any major disputes with them during the Track Record Period that would have resulted in a material adverse effect on our business, financial condition or results of operations. In addition, our Directors confirm that historically our operations have not been suspended or delayed by any improper act of our contractors during the Track Record Period.

We entered into ten-year long term cooperation agreement with our Independent Third Party Blasting Contractor on 1 October 2011 and each of our existing Independent Third Party Mining Contractors, namely Wenzhou Jianfeng and Zhejiang Tiancheng, on 22 November 2011 and 13 October 2011 respectively with a view to maintaining long-term relationship with them. Pursuant to such ten-year long term cooperation agreement, each Independent Third Party contractors agreed that when our Group requested for their services, they shall unconditionally and use reasonable commercial effort to provide relevant contracting services to our Group within ten years from the date of signing of such agreement (i.e. up to 2021) at market price on terms set out in the master agreement to be entered into between the parties annually. Our

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Group is not restricted to engage other contractors under the long-term cooperation agreements. The long term cooperation agreements will automatically be renewed at expiry for another term of ten years upon serving a written notice by us at least 30 days prior to the expiry. The long term cooperation agreements may be terminated by parties thereto by mutual agreements. In the event of breach of the long term cooperation agreements by these Independent Third Party contractors, our Directors may consider to take the necessary legal actions against them. Based on the scale of operation and number of staff of the Independent Third Party contractors, and having regard to our past experience of dealing with the Independent Third Party contractors, our Directors consider that the Independent Third Party contractors have sufficient capacity and manpower to meet our expansion plans. Nonetheless, we cannot assure you that our contractors will comply with our quality, safety, environmental and other operating standards and those standards required by the relevant PRC laws and regulations, and we may be liable to third parties for losses or damages caused by our contractors. Please refer to “Risk Factors – Risks Relating to Our Business and Industry – We rely on Independent Third Party contractors for the majority of our operations” section in this prospectus.

There are other geological surveying and exploration and mining contractors readily available in the region that can provide similar services. We have preliminarily selected three other independent third party mining contractors in the event that our Independent Third Party Mining Contractors or any of them could not perform satisfactorily for our operations. For the Independent Third Party Blasting Contractor, there is only one qualified blasting contractor in the Yishui County. If our Independent Third Party Blasting Contractor could not perform satisfactorily for our operations or if it ceases to provide services to our Group, we plan to engage blasting contractors outside Yishui County within Shandong Province, the PRC. We nevertheless may not be able to retain these contractors or obtain replacements for our current contractors on terms that are equal or favourable. Please refer to “Risk Factors – Risks Relating to Our Business and Industry – We rely on Independent Third Party contractors for the majority of our operations” section in this prospectus.

### ***Geological surveying and exploration***

We focus on, and will continue to focus on, mining and ore processing and we engage only in supervision of exploration. We do not carry out geological surveying work ourselves. Such work is performed by our Independent Third Party Surveying Contractor, IGME, by their geological surveying and exploration team. We engage Independent Third Party Surveying Contractor with requisite qualifications to carry out exploration work.

Although we engage Independent Third Party Surveying Contractor to carry out geological surveying or exploration work, we have a team of experienced in-house engineers who are experienced in geological exploration work who will identify the areas which they consider with exploration opportunities and will discuss with Independent Third Party Surveying Contractor to determine the exact locations of exploration, decide the exploration methods, and assess further exploration plans in any given exploration location. They are responsible for overseeing the work of Independent Third Party Surveying Contractor as well



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as handling application for and renewal of relevant exploration permits and mining permits. We adopt various measures to supervise the work of Independent Third Party Surveying Contractor, for instance, our in-house engineers review the mine exploration design, we oversee the on-site exploration work of Independent Third Party Surveying Contractor and conduct on-site inspection to ensure that work is conducted in accordance with the mine exploration design and operation is in compliance with relevant laws and regulations. By adopting the above measures, we believe we are able to closely monitor the performance of Independent Third Party Surveying Contractor and ensure that it complies with our Group's policies and the relevant PRC laws and regulations.

Our Directors believe that the above outsourcing arrangements lower our operational costs by eliminating the need to constantly maintain an in-house team of exploration professionals while exploration work is carried out only periodically when we make new discoveries of geological anomalies.

We currently employ one Independent Third Party Surveying Contractor namely, IGME. IGME has entered into certain agreements with Ishine International pursuant to which Ishine International has granted to IGME the opportunity to acquire certain interests in four of its exploration projects in Australia, particulars of which are set out in "Business – Our mineral resources and mining rights – Exploration licences in Australia" section in this prospectus. Other than that and being our Independent Surveying Contractor, IGME is an Independent Third Party. Under its contract with us, our Independent Third Party Surveying Contractor is responsible for work such as geological surveying, geophysical surveying, core drilling, pump testing, rock and mineral testing, geological recording and sampling and issuing exploration reports, whereas our Group is responsible for pre-feasibility study as well as overseeing the work of our Independent Third Party Surveying Contractor. In our contract with our Independent Third Party Surveying Contractor, the fees payable to them are estimated based on the amount of workload expected to be involved, which varies depending on a number of factors including but not limited to the size of the area for surveying, the amount of sampling or testing required to be conducted, the geological structure of the ore and type of landscape. During the Track Record Period, our exploration expenditure (comprising fees paid to Independent Third Party Surveying Contractor) amounted to approximately RMB8.0 million, RMB2.5 million and RMB1.9 million respectively.

### ***Mining contractor***

As at the Latest Practicable Date, we engaged two Independent Third Party Mining Contractors at our Yangzhuang Iron Mine namely, Wenzhou Jianfeng and Zhejiang Tiancheng. During the Track Record Period, we also engaged Previous Mining Contractor as one of our Independent Third Party Mining Contractors from January 2010 to July 2011. For each of the two years ended 31 December 2011, our service fees paid to Previous Mining Contractor amounted to approximately RMB16.5 million and RMB7.2 million respectively, representing approximately 19.1% and 9.1% of our total fees paid to our Independent Third Party Mining Contractors during the respective years. Each of Wenzhou Jianfeng, Previous Mining Contractor and Zhejiang Tiancheng is experienced in mining engineering and construction.

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According to information available from the websites of Wenzhou Jianfeng, the history of Wenzhou Jianfeng could be traced back to 1969. Within over forty years of operation, Wenzhou Jianfeng has contracted more than 4,000 projects in various areas. It has been awarded level II qualification of contracting national mine construction project (國家礦山工程施工總承包二級), and it has more than 300 project departments, 2,800 employees and over 5,000 sets of instruments. According to the website of Previous Mining Contractor, Previous Mining Contractor was founded in 2005. It also possess level II qualification of contracting national mine construction project (國家礦山工程施工總承包二級). Previous Mining Contractor has over 100 project departments, over 1,000 employees, and over 1,000 sets of operation instruments. Its main projects cover various areas, including metallurgy projects, coal mine projects, non-ferrous projects, tunnel projects and tailings projects. Based on information available from the website of Zhejiang Tiancheng, Zhejiang Tiancheng was established in 1993, and has attained level II qualification of mine shaft construction project national contracting (礦山井巷工程施工國家總承包二級) in 2009, and has over 2,000 employees.

In our annual contracts with our Independent Third Party Mining Contractors, the fees payable to them include, among others, excavating fee, loading fee, transporting fee and fees for building roadways and tunnels within the mine. Excavating fee, loading fee and transporting fee is calculated based on the weight of the iron ore extracted multiplied by a fixed rate per tonne, and fees for building roadways and tunnels within the mine is calculated based on the length of the roadways, tunnels, etc. to be built multiplied by a fixed rate depending on the types of the subject matter to be built.

Such fees are determined through an arm's length negotiation taking into the account, among others, factors including operating costs of our Independent Third Party Mining Contractor; market rate of fees charged by other mining contractors; and geological structure of the ore.

During the Track Record Period and as at the Latest Practicable Date, our Independent Third Party Mining Contractors were responsible for the iron ore extraction operations at our Yangzhuang Iron Mine. Our Independent Third Party Mining Contractors carry out work such as drilling, stripping, ore extraction work, maintenance of mining equipments and facilities and the transportation of the ore from our Yangzhuang Iron Mine to our Yangzhuang Processing Facilities. In addition, under their contracts with us, our Independent Third Party Mining Contractors are liable to us for any accidents arising from the mining operations.

We are responsible for planning and overseeing the technical aspects of our mining operations, such as the planning and designing of the pits, designing mining plans and operational safety and directing and supervising the mining operations. We also retain operational control over the work carried out by our Independent Third Party Mining Contractors and undertake quality control and assurance programs to determine the grade of iron ore extracted from our mines by way of, among other matters, monitoring the mining loss rate, ore dilution rate (採礦損失率與礦石貧化率) and granularity of ore extracted. Our employees supervise and direct the mining and stripping operations undertaken by our Independent Third Party Mining Contractors. We monitor the performance of our Independent

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Third Party Mining Contractors by the following measures. Before commencement of work by our Independent Third Party Mining Contractors, we draw up mining operation notices setting out the particulars of mining work, quality requirements and important matters to note and require our Independent Third Party Mining Contractors to conduct mining work strictly in accordance with such notices and impose fines or penalties for non-compliance or for operating without such notices. We also require our Independent Third Party Mining Contractors to timely report any issue encountered (such as material changes in ore body) so that we may take prompt action in our supervision. We require our Independent Third Party Mining Contractors to report the status of their work three times each month; we also require our Independent Third Party Mining Contractors to submit to us (i) monthly mining production plan for the next month, and (ii) a daily mining production plan, so that we are provided with up to date information regarding the progress of work and can fine-tune our mining plan accordingly. The project managers of our Independent Third Party Mining Contractors are required to attend all relevant conferences organized by us. Mr. Gao Zefu, our Deputy Production Head and head of Yangzhuang Iron Mine, who had over 20 years of experience in mining supervision, is responsible for overseeing the work of our Independent Third Party Mining Contractors. Our Independent Third Party Mining Contractors are also required to operate and produce iron ore in accordance with our mining plans and we review the iron ore production volume on a monthly basis.

We also supervise the work safety at our mines by adopting safety guidelines for our Independent Third Party Mining Contractors and our employees to follow, for example, we require our Independent Third Party Mining Contractors to set up production safety requirements in various aspects such as requiring that each mining subcontractor to appoint a safety manager with requisite safety management qualification certificate, requiring each Independent Third Party Mining Contractors to set up internal guidelines and systems for inspection, conferences, education and training, facilities management and maintenance, and investigation and management of safety risks in order to enhance safety management. We require our Independent Third Party Mining Contractors to submit to us by end of each month the list of workers and their work schedule for the next month, and each worker entering or exiting a mine is required to complete registration procedures for better on-site safety management purpose. The project managers of our Independent Third Party Mining Contractors are required to attend safety production conferences organized by us. We monitor their compliance with the safety guidelines and requirements and impose fines or penalties for non-compliance. We have a safety supervision team comprising a committee of staff from our safety and environmental protection department responsible for supervision of safety at our mine. The safety supervision team would patrol around our mining areas 24 hours per day in shifts for safety supervision, including supervision of our explosives for blasting operations used in mining.

By adopting the above measures, we believe we are able to monitor the performance of our Independent Third Party Mining Contractors and ensure that they comply with our Group's policies and the relevant PRC laws and regulations. Based on our contract with our Independent Third Party Mining Contractors, we pay our Independent Third Party Mining Contractors every one month based on work progress and amount of iron ore extracted.

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As advised by our PRC Legal Advisers, our Independent Third Party Mining Contractors are required to have a business licence, safety production permit and construction enterprise certificate to carry out mining contracting work. We have received copies of the current business licence, safety production permit and construction enterprise certificate of our Independent Third Party Mining Contractors. Based on these documents and as advised by our PRC Legal Advisers, we are satisfied that our Independent Third Party Mining Contractors have all the licenses, permits and certificates required to carry out mining contracting work under the mining contract.

During the Track Record Period, our service fees paid to Independent Third Party Mining Contractors amounted to approximately, RMB72.6 million, RMB86.4 million and RMB79.2 million respectively.

### ***Blasting contractor***

We employ one Independent Third Party Blasting Contractor at our Yangzhuang Iron Mine, namely 山東天寶爆破有限公司 (Shandong Tianbao Blasting Co. Ltd.\*). We entered into the blasting service subcontracting contract with our Independent Third Party Blasting Contractor on 15 February 2012 for a period valid until 31 December 2014. Under such contract, our Independent Third Party Blasting Contractor is responsible for, among others, drawing up the blasting plans and, upon our approval of such plan, implementing the blasting plan under our supervision. During the Track Record Period, our service fees paid to Independent Third Party Blasting Contractor amounted to approximately, RMB0.40 million, RMB0.60 million and RMB0.3 million respectively. On 1 October 2011 we entered into a ten-year long term cooperation agreement (“**New Blasting Agreement**”) with our Independent Third Party Blasting Contractor which was intended to be a strategic cooperation agreement whereby the Independent Third Party Blasting Contractor agreed to use its reasonable commercial effort to provide blasting services to our Group with the ten-year term at market price and on other terms as set out in the master agreement to be entered into between the parties annually.

As advised by our PRC Legal Advisers, the New Blasting Agreement is legally valid and binding and our Independent Third Party Blasting Contractor has obtained the blasting permits under the relevant laws and regulations required to carry out their blasting operations at the Yangzhuang Iron Mine. Our Independent Third Party Blasting Contractor has obtained its blasting operation entity permit on 17 August 2006, for an infinite term, which needs to be reviewed annually by the relevant issuing authority. Also, as advised by our PRC Legal Advisers, the blasting technicians employed by our Independent Third Party Blasting Contractor had obtained the relevant safety qualification certificate issued by the local Public Security Bureau of the PRC to perform blasting operations.

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### UTILITIES AND RAW MATERIALS

#### Coarse iron powder

We use coarse iron powder as a raw material for producing iron concentrates when the volume of iron ore extracted from our Yangzhuang Iron Mine is insufficient for our production to meet our customers' demand for iron concentrates. Our consumption of coarse iron powder for our processing into iron concentrates for the three years ended 31 December 2009, 2010 and 2011 was nil, nil and approximately 286.4 Kt respectively. For the three years ended 31 December 2009, 2010 and 2011, costs related to such coarse iron powder amounted to approximately nil, nil and RMB224.8 million, respectively, representing 0%, 0% and approximately 30.6% of our total costs of sales for these periods.

During the Track Record Period, we also traded coarse iron powder. Our trading volume of coarse iron powder for the three years ended 31 December 2009, 2010 and 2011 was nil, approximately 2.1 Kt and 303.5 Kt respectively, with costs related to such coarse iron powder amounted to nil, approximately RMB1.7 million and RMB230.8 million, respectively, representing 0%, approximately 0.6% and 31.4% of our total costs of sales for these periods.

Our suppliers of coarse iron powder during the Track Record Period were Independent Third Parties, and so far as our Directors are aware, they are principally engaged in trading of iron related products. During the Track Record Period, we did not experience any shortages or interruptions in our coarse iron powder supply.

#### Iron concentrates

We also use iron concentrates with various grades of iron contents sourced from other suppliers as a raw material for mixing to produce our iron concentrates. Our consumption of iron concentrates for the three years ended 31 December 2009, 2010 and 2011 was approximately 0 Kt, 42.2 Kt and 50.1 Kt respectively. For each of the three years ended 31 December 2009, 2010 and 2011, costs related to such iron concentrates amounted to approximately nil, RMB36.5 million and RMB46.3 million, respectively, representing approximately 0%, 13.0% and 6.3% of our total costs of sales for these periods. Our suppliers of iron concentrates during the Track Record Period were Independent Third Parties, and so far as our Directors are aware, they are principally engaged in trading of iron related products or manufacturer of iron concentrates and/or titanium concentrates, which include Hesheng Minerals and Luxing Titanium. During the Track Record Period, we did not experience any shortages or interruptions in our iron concentrates supply.

#### Electricity and water

We utilize electricity and water in our operation. We have secured electricity supply from the local electric company, being an Independent Third Party, at market rates to our Yangzhuang Processing Facilities. For the three years ended 31 December 2009, 2010 and 2011, our electricity expenditure was approximately RMB18.8 million, RMB22.6 million and

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RMB24.0 million, respectively, representing approximately 15.1%, 8.0% and 3.3% of our total costs of sales for the corresponding periods. During the Track Record Period, we did not experience any interruptions arising from sudden shortages or suspensions of electricity supplies that had a material adverse effect on our business, financial condition or results of operations. As we purchased electricity from the only legal electricity supplier of Shandong Province, we do not have any alternative supplier for electricity.

Water for use at our Yangzhuang Processing Facilities is from our water recycling system (which includes a water reservoir which water was originally sourced from another water reservoir owned by 高家樓子村 (Gaojialouzi Village\*) (“**Gaojialouzi Village Reservoir**”) a number of years ago before the Track Record Period and replenished by rainwater from time to time over the years), and also from the Gaojialouzi Village Reservoir operated by an individual, being a PRC citizen and a villager of 高家樓子村 (Gaojialouzi Village\*). In June 2010, we entered into agreement with such individual, being an Independent Third Party, for provision of water to us, as a contingent water supply, for our use at an annual fee of RMB5,000 (as compensation fee for obtaining water from the Gaojialouzi Village Reservoir) and also a monthly management fee of RMB1,000 (as service fee for the individual’s provision of management services and for ensuring water supply) until the termination of usage of water by us. During the Track Record Period, we only used water from our water recycling system and did not use water from the Gaojialouzi Village Reservoir. The annual capacity of our water recycling system is approximately 10 million cubic meters. During the Track Record Period, we consumed approximately 320,000 cubic meters, 400,000 cubic meters and 400,000 cubic meters of water respectively from our water recycling system. We do not use water from local water supply company as our Directors consider that it is more expensive for us to do so than obtaining water from our water recycling system.

As advised by our PRC Legal Advisers, according to the relevant PRC laws and regulations, entities and individuals accessing to water resources shall (i) apply for water use licence (取水許可證) and (ii) pay a water resource fee to the relevant government department. We were granted from relevant authority the water use licence (取水許可證) permitting us to draw water from surface and underground of the north of Qinjiazhuang Village at an annual limit of 120 million cubic meters expiring in December 2013. As advised by our PRC Legal Advisers, according to the relevant PRC laws and regulations, the water use licence allows our Group to access water resources from rivers, lakes, and underground. However, the right of use granted under the water use licence is not exclusive, and if the exercise of such rights to access to water resources involves third parties, our Group still requires assistance from relevant third parties to provide access to water resources, which is the reason for entering into the agreement with the individual above who operates the Gaojialouzi Village Reservoir. As advised by our PRC Legal Advisers, the agreement entered into between our Group and the individual operating the Gaojialouzi Village Reservoir was valid, legally binding and in accordance with the laws of the PRC. Based on a confirmation dated 5 January 2012 provided by 高家樓子村村民委員會 (Gaojialouzi Village Committee\*) confirming that the village has subcontracted the individual to operate the Gaojialouzi Village Reservoir, our PRC Legal Advisers were of the view that the village was the legal owner of the Gaojialouzi Village Reservoir and has right of control over the Gaojialouzi Village Reservoir, that the relationship between the individual

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and the village constitute subcontracting relationship, that the village committee had the authority to enter into the above subcontracting arrangement in respect of the operation of the Gaojialouzi Village Reservoir on behalf of the village with the individual, that the individual has the legal right to access the Gaojialouzi Village Reservoir based on his subcontracting arrangement with the village, and that such subcontracting arrangement is in accordance with the laws of the PRC. To the best knowledge of our Directors, the village committee is aware that the individual has entered into an agreement with us for the provision of water. As advised by our PRC Legal Advisers, if in the event the individual cannot renew its subcontracting agreement with the village committee, the village committee has the legal capacity to enter into agreement with us for the provision of water directly.

We also made payment of water resource fee to the relevant government department calculated based on RMB0.25 per cubic meter as a consideration for water we consumed from our water recycling system as stipulated by Yishui County Commodities Price Bureau (沂水縣物價局). Pursuant to the relevant PRC laws and regulations, we are obligated to pay the water resource fee pursuant to the relevant notice issued by the Yishui County Commodities Price Bureau (沂水縣物價局) in 2002, despite the water is sourced from our own water recycling system. During the Track Record Period, we consumed approximately 320,000 cubic meters, 400,000 cubic meters and 400,000 cubic meters of water respectively from our water recycling system, and the water resource fee charged was approximately RMB80,000, RMB100,000, RMB100,000, respectively. During the Track Record Period, our total water expenditure (which includes payments of annual fee and annual management fee to the individual and water resource fee to relevant government department) amounted to approximately RMB80,000, RMB112,000 and RMB117,000 respectively, representing approximately 0.06%, 0.04% and 0.01% of our total cost of sales for the corresponding periods. For reference purpose, the market price of water charged by local water supply company for industrial use as stipulated by Yishui County Commodities Price Bureau (沂水縣物價局) is RMB3.2 per cubic meter. For illustrative purpose, if water we consumed during the Track Record Period had been charged at the price of RMB3.2 per cubic meter, our utility expenses would have been increased by approximately RMB1.0 million, RMB1.2 million and RMB1.2 million respectively during the Track Record Period, representing approximately 0.8%, 0.4% and 0.16% of our total cost of sales respectively for the corresponding periods, which has insignificant financial impact on our Group during the Track Record Period.

During the Track Record Period, our Group's business had not been interrupted from any shortage of water supply. For alternative water supply, we may also (i) use water from the Gaojialouzi Village Reservoir operated by the individual above, (ii) exploit groundwater resources with insignificant costs, which is legal for us to do so as we have obtained the water use licence, and (iii) obtain water from other nearby water suppliers at market prices. As advised by our PRC Legal Advisers, to exploit groundwater resources it is necessary to obtain water use licence, which has been obtained by our Group in respect of surface and underground water and hence we do not need to obtain further licence or permit for exploiting underground water. If our Group decides to exploit underground water, we plan to engage qualified hydraulic engineers who are Independent Third Parties to conduct the exploitation work.

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### MAJOR SUPPLIERS

Our suppliers include all our contractors, as well as suppliers of materials such as coarse iron powder, steel grinding balls, iron concentrates, iron pellets and other production-related materials and materials which we trade. For the three years ended 31 December 2009, 2010 and 2011, our five largest suppliers of materials together accounted for approximately 87.0%, 75.1% and 66.9% of our total purchases, respectively. Our purchases from the single largest supplier of materials accounted for approximately 58.2%, 29.3% and 37.7% of our total purchases for the three years ended 31 December 2009, 2010 and 2011 respectively. Our suppliers are mainly based in Shandong Province. Amounts payable to our suppliers are mainly determined in RMB, we usually pay our suppliers, including our suppliers of coarse iron powder (other than the Shandong Trading Company), by bank transfer or bank's acceptance notes which are guaranteed by their issuing banks with maturity periods ranging from 3 to 6 months. In general, we are given a credit period of 30 days to 90 days by our suppliers.

In 2011, we also purchased coarse iron powder from the Shandong Trading Company, being our single largest supplier in that year. For details of our purchases from the Shandong Trading Company, please refer to the section headed "Business – Products – Trading products" to this prospectus. The Shandong Trading Company requests us to pay a deposit of 15% of the total purchased amount of coarse iron powder and fully settle our purchases before delivery by bank transfer.

We choose our suppliers of materials based on a number of factors including their size, reputation, delivery time, track record, pricing and quality of their products and payment terms. For those suppliers that satisfy our requirements, we will include them as one of our approved suppliers. Our production staff will give us feedbacks on the materials supplied from time to time and we will also review the performance of our suppliers from time to time and we will not obtain supplies from those suppliers that do not meet our requirements. For the criteria for choosing our Independent Third Party contractors, please refer to the paragraph headed "Independent Third Party Contractors" in this section.

We had maintained a good relationship with our suppliers and did not have any disputes with any of them during the Track Record Period.

None of our Directors, their respective associates or any Shareholders owning more than 5.0% of the issued Shares had any interest in any of our five largest suppliers during the Track Record Period.

### INVENTORY AND QUALITY CONTROL

Our inventories consist of raw materials, finished goods and spare parts and others. Raw materials include iron ores and other raw materials which mainly consist of coarse iron powder to be processed into iron concentrates. We believe we maintain strict control over our inventory. Our products are measured and inspected by our production management department. We keep daily inventory records of our iron concentrates processed, stored and



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delivered, and carry out monthly inventory assessment. We also manage the level of inventory according to the inflow and outflow of various materials. We generally conduct monthly inspections of the condition of our inventory and promptly report any inventory shortage or overage.

We believe maintaining high product quality is a key to our success. Our customers will usually determine the specification and quality standard of the product they source from us and our products are also required to meet the specifications and standards required by our customers. Our iron ore concentrates products are measured and inspected by the laboratory team of our production management department which is responsible for ensuring our finished products meet our quality control standards.

We also monitor our various production processes closely. We will from time to time take samples of the iron concentrates produced from our Yangzhuang Processing Facilities for examination at our laboratories and also before the products are released and/or transported to our customers. We would conduct a quality check on our iron concentrates to ensure that the iron content meets the required standard of 65% and that it meets the standards stipulated by our customers.

We have also implemented various measures in compliance with the environmental protection standards and to minimize the impact and risk of our operations on the environment. For example, we have installed wastewater recycling systems in our processing facilities and tailing ponds. We also use wet drilling procedures to reduce the amount of dust generated by our mining and drilling activities. Please refer to the paragraph headed “Environmental Protection” in this section for further details regarding our environmental projects.

### SALES AND CUSTOMERS

During the Track Record Period, all of our products were sold in the PRC and primarily to customers located in Shandong Province. Our sales team is responsible for processing our customers’ orders for our products, collecting marketing information and developing and maintaining client relationships and performing after sales services. The sales of our products to our customers are made pursuant to individual sales contracts entered into with them, which will specify, among others, the product specifications, quantity, price, payment and delivery terms.

For the three years ended 31 December 2011, we have 7, 10, and 16 customers respectively. For each of the three years ended 31 December 2011, sales to our top five largest customers amounted to approximately RMB193.3 million, RMB478.5 million and RMB789.4 million respectively, which accounted for approximately 98.4%, 98.5% and 78.1%, respectively, of our total revenue for the three years ended 31 December 2011. Sales to our largest customer during the period amounted to approximately RMB80.5 million, RMB161.7 million and RMB274.0 million respectively, representing approximately 41.0%, 33.3% and 27.1% of our total revenue for these periods.

None of our Directors, their respective associates or, so far as our Directors are aware, the existing shareholders of our Company had any interest in any of the top five largest customers of our Group during the Track Record Period.

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### Customers

#### *Customers for iron concentrates produced by us*

During the Track Record Period, our major customers of iron concentrates produced by us are steel or iron pellets manufacturers. With our principal exploration and mining assets and processing facilities located in Shandong Province, we are in close proximity to our major customers of iron concentrates produced by us.

For each of the three years ended 31 December 2011, sales of iron concentrates produced by us amounted to approximately RMB196.4 million, RMB432.3 million and RMB687.0 million respectively, which accounted for approximately 100.0%, 89.0% and 68.0%, respectively, of our total revenue for the three years ended 31 December 2011.

In general, we grant a credit period of 90 days to our customers for iron concentrates produced by us. During the Track Record Period, our sales were generally settled by bank's acceptance notes. These bank's acceptance notes, in general, have a maturity period of 6 months. However, we can request the issuing banks of these bank's acceptance notes to settle prior to their maturity periods at a discount, the magnitude of the discount depends on the length of time between the settlement date and the maturity date and the prevailing interest rate. Our Directors consider that these bank's acceptance notes does not have any credit risk to our Group as (i) these bank's acceptance notes are guaranteed by their issuing banks; and (ii) these bank's acceptance notes can be settled for cash by their issuing banks at any time.

#### *Customers for trading of coarse iron powder, iron pellets and other iron related products*

During the Track Record Period, we have engaged in the trading of iron concentrates, coarse iron powder, iron pellets and other iron related products. In general, our trading customers are the same as our customers of iron concentrates produced by us. In 2011, we have new customers for our trading of coarse iron powder business which are engaged in trading and/or manufacturing of iron related products.

For each of the three years ended 31 December 2011, our trading revenue amounted to nil, RMB53.2 million and RMB323.2 million respectively, which accounted for nil, approximately 11.0% and 32.0%, respectively, of our total revenue for the three years ended 31 December 2011. The sharp increase in trading revenue in 2011 was mainly due to the sharp increase in trading of coarse iron powder from approximately RMB1.7 million in 2010 to approximately RMB262.9 million in 2011. For details of such trading of coarse iron powder in 2011, please refer to the section headed "Business – Products – Trading products" to this prospectus.

In general, we grant a credit period of 90 days to our trading customers. However, as a result of (i) our supplier of coarse iron powder for trading requests us to pay a deposit of 15% of the total purchased amount and fully settle our purchases before delivery by bank transfer in 2011; (ii) each of our sales transactions of coarse iron powder involves a large sum in 2011; and (iii) our trading customers of coarse iron powder are new customers to us in 2011, save for

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Hesheng Minerals, we request our trading customers of iron coarse powder to pay a minimum deposit of 30% of the purchase amount and to fully settle their purchases upon delivery by bank transfer. We grant a credit period of 90 days to Hesheng Minerals for purchases of coarse iron powder and allow it to settle its purchases by bank transfer or banks acceptance notes given, among others, that Hesheng Minerals has been our customer for a number of years with good credit history.

### *Laiwu Steel, Lunan Mining and Laiwu Mine Construction*

Our customers of iron concentrates produced by us are located in Shandong Province. We have maintained stable relationship with our major customers ranging from approximately 2 years to 8 years, of which, three of our major customers namely Laiwu Steel, Lunan Mining and Laiwu Mine Construction have been our customers for approximately 2 years, 8 years and 8 years respectively as at the Latest Practicable Date. Laiwu Steel is a subsidiary of Shandong Steel Group, whereas Lunan Mining and Laiwu Mine Construction are associated companies of Shandong Steel Group, a state-owned enterprise and was ranked the largest steel producer in the Shandong Province and the 9th largest steel producer in the world as of 2010 according to the CRU report. Our Directors consider that such large scale of our major customers would help maintain a sufficient and stable demand of our products.

The following table shows certain background information of and our sales to Laiwu Steel, Lunan Mining and Laiwu Mine Construction during the Track Record Period:

	Principal business	Background information Length of relationship with us (year(s))	Sales during Track Record Period					
			Year ended 31 December					
			2009		2010		2011	
			RMB' million	% to our total sales	RMB' million	% to our total sales	RMB' million	% to our total sales
Laiwu Steel	Manufacture and sale of iron and steel	2	-	-	91.9	18.9%	185.6	18.4%
Lunan Mining	Manufacture of iron pellets and iron concentrates	8	-	-	73.0	15.0%	74.5	7.4%
Laiwu Mine Construction	Manufacture of iron pellets	8	80.5	41.0%	146.2	30.1%	274.0	27.1%
<b>Total:</b>			<b>80.5</b>	<b>41.0%</b>	<b>311.1</b>	<b>64.0%</b>	<b>534.1</b>	<b>52.9%</b>

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Although Laiwu Steel is a subsidiary of Shandong Steel Group and Lunan Mining and Laiwu Mine Construction are associated companies of Shandong Steel Group, so far as our Directors are aware, each of them is a different individual entity with independent management and has independent operations and procurement departments, and would obtain independent quotations from us. Accordingly, our Directors consider that each of Laiwu Steel, Lunan Mining and Laiwu Mine Construction is distinctive and independent customer to our Group.

During the Track Record Period, Lunan Mining was one of our major suppliers as well as one of our major customers and is an Independent Third Party. To the best of our Directors' knowledge, Lunan Mining is principally engaged in the production and sale of iron concentrates and iron pellets.

The following table shows details of our sales to and purchases from Lunan Mining during the Track Record Period:

Year	Our sales to Lunan Mining			Our purchases from Lunan Mining		
	Products sold	Sales amount (RMB' million)	% to total sales	Purchased product	Purchases amount (RMB' million)	% to total purchases
2009	-	-	-	-	-	-
2010	Iron concentrates	73.0	15.0%	Iron pellets	42.9	18.0%
2011	Iron concentrates	74.5	7.4%	Iron pellets	30.4	4.2%

In 2010 and 2011, we sold iron concentrates to Lunan Mining. To the best of our Directors' knowledge, Lunan Mining purchased iron concentrates from us for use in its production of iron pellets for sales to its customers.

In 2010 and 2011, we purchased iron pellets from Lunan Mining for trading purpose to meet our customers' demands.

### ***Hesheng Minerals***

Another of our customer, namely Hesheng Minerals, was also our major supplier during the Track Record Period and is an Independent Third Party. To the best of our Directors' knowledge, Hesheng Minerals is principally engaged in the production and sale of iron concentrates but does not possess its own mine, and accordingly, Hesheng Minerals purchases (i) iron ores and coarse iron powder from other suppliers for processing into iron concentrates; and/or (ii) iron concentrates from other suppliers for mixing with other iron concentrates to produce iron concentrates products for sales to its customers.

We did not engage or involve Hesheng Minerals for any tolling operations during the Track Record Period. Although both Hesheng Minerals and our Group manufacture and sell iron concentrates, we consider that competition between Hesheng Minerals and us is minimal and insignificant as we target different markets with Hesheng Minerals focusing mainly on smaller sized steel producer while our Group focuses on larger-scale iron pellets and steel producers.

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To the best knowledge of our Directors, during the Track Record Period until April 2011, Hesheng Minerals were wholly-owned by two Independent Third Parties. In April 2011, Mr. G.H. Li became a shareholder of Hesheng Minerals and since then the equity interests in Hesheng Minerals was held as to approximately 46.7% by Mr. G.H. Li, and the remaining approximately 53.3% by the same two Independent Third Parties, one of which was our minor customer in 2010 with sales of iron concentrates amounted to approximately RMB685,000 representing approximately 0.1% of our total sales in 2010. To our Directors' best knowledge, save as disclosed above, the shareholders of Hesheng Minerals did not have any relationship and business activities with our Group, the Controlling Shareholders, and our Directors during the Track Record Period.

The following table shows details of our sales to and purchases from Hesheng Minerals during the Track Record Period:

Year	Our sales to Hesheng Minerals			Our purchases from Hesheng Minerals		
	Products sold	Sales amount (RMB'million)	% to total sales	Purchased product	Purchases amount (RMB'million)	% to total purchases
2009	Iron concentrates produced by us	27.8	14.2%	-	-	-
2010	Steel grinding balls	1.0	0.2%	Iron concentrates	27.8	11.7%
	Coarse iron powder	1.7	0.3%			
	Other iron related products (all for trading activities)	1.3	0.3%			
2011	Iron concentrates produced by us	43.3	4.3%	Iron concentrates	6.6	0.9%
	Iron concentrates (for trading activities)	9.3	0.9%	Steel grinding balls	0.4	0.1%
	Coarse iron powder (for trading activities)	138.7	13.7%			
	Other iron related products (for trading activities)	0.8	0.1%			

In 2009, 2010 and 2011, we sold iron concentrates, steel grinding balls, coarse iron powder and other iron-related products to Hesheng Minerals. To the best of our Directors' knowledge, Hesheng Minerals purchased from us (i) iron concentrates with iron content of 65% for mixing with other iron concentrates to produce iron concentrates products for sales to its customers; (ii) steel grinding balls to replace worn out steel grinding balls of its production facilities; and/or (iii) coarse iron powder for further processing into iron concentrates for sales to its customers.

In 2010 and 2011, we purchased (i) iron concentrates with various grades of iron contents for mixing with other iron concentrates to produce iron concentrates with iron contents of 65% for sales to our customers; and/or (ii) steel grinding balls to replace worn out steel grinding balls of our production facilities.

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During the Track Record Period, we sold and purchased similar goods namely, steel grinding balls and iron concentrates to and from Hesheng Minerals, the reasons of which were set out below:

1. For the year ended 31 December 2009, we sold iron concentrates with iron content of 65% produced by us to Hesheng Minerals as part of our principal business. To the best knowledge of our Directors, these products were used by Hesheng Minerals for mixing with other iron concentrates to produce iron concentrates products for sales to its customers. During the year, we did not make any purchases from Hesheng Minerals.
2. For the year ended 31 December 2010, we sold steel grinding balls of approximately RMB1.0 million to Hesheng Minerals, representing approximately 0.2% of our total sales amount in 2010. Our Directors believe that both Hesheng Minerals and us may need such materials for production from time to time and therefore both Hesheng Minerals and us may keep certain stocks for such materials from time to time; and our Group was in close proximity to Hesheng Minerals; therefore Hesheng Minerals might acquire such materials from us if it was temporarily out of stock of such materials and vice versa.

For the year ended 31 December 2010, in order to meet our customers' demand in excess of our own processing capacity, we purchased iron concentrates with various grades of iron content of approximately RMB27.8 million from Hesheng Minerals for mixing purpose to produce iron concentrates for sales to our customers as part of our normal business operations. As disclosed in the section headed "Financial information" of this prospectus, our purchase of iron concentrates for mixing amounted to approximately RMB41.1 million for the year ended 31 December 2010.

During the year, we did not purchase any products from Hesheng Minerals which were similar to the products we sold to it during the same period.

3. For the year ended 31 December 2011, we purchased steel grinding balls of approximately RMB0.4 million from Hesheng Minerals, representing approximately 0.1% of our total purchase amount for the year ended 31 December 2011 because of the reasons as stated in paragraph 2 above.

For the year ended 31 December 2011, we sold iron concentrates with iron content of 65% produced by us to Hesheng Minerals amounted to approximately RMB43.3 million as part of our principal business and we also sold iron concentrates with iron content above 65% of approximately RMB9.3 million as part of our trading business which were purchased by us for onward sales to Hesheng Minerals. To the best knowledge of our Directors, these products were used by Hesheng Minerals for mixing with other iron concentrates to produce iron concentrates products for sales to its customers.

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For the year ended 31 December 2011, we purchased iron concentrates with various grades of iron content of approximately RMB6.6 million from Hesheng Minerals for mixing purpose as mentioned above as part of our normal business operations. Such iron concentrates purchased by us from Hesheng Minerals were different from the iron concentrates with iron content of 65% sold by us to it as mentioned in the preceding paragraph as their iron content and/or other specifications were not the same as our iron concentrates products for sales and they would be mixed with other iron concentrates before they could be sold to our customers. As disclosed in the section headed “Financial information” of this prospectus, our purchase of iron concentrates for mixing amounted to approximately RMB44.0 million for the year ended 31 December 2011.

Our Directors are of the view that the transactions between our Group and Hesheng Minerals during the Track Record Period were entered into on normal commercial terms given (i) Hesheng Minerals is an Independent Third Party; (ii) the transactions entered into with Hesheng Minerals were negotiated on arm’s length basis between our Group, and Hesheng Minerals; and (iii) the transactions entered into with Hesheng Minerals were comparable as a whole to those of our Group’s other customers and suppliers after taking into account the specifications of the products involved and payment terms for the transactions. The Sole Sponsor concurs with our Directors’ view that the transactions between our Group and Hesheng Minerals during the Track Record Period were entered into on normal commercial terms.

As at 31 December 2011, Hesheng Minerals had on itself and together with Mr. Li and another Independent Third Party provided a joint guarantee in relation to our bank loan of RMB55 million and RMB40 million respectively. For the two years ended 31 December 2010, we advanced approximately RMB80 million and RMB5 million to Hesheng Minerals which were subsequently settled in 2010 respectively. For the year ended 31 December 2011, we advanced approximately RMB20 million from Hesheng Minerals which was settled during the same period. To the best of our Directors’ knowledge, the reasons for such advances from and to Hesheng Minerals and guarantee provided by Hesheng Minerals were because Hesheng Minerals has been both of our customers and suppliers during the Track Record Period and we had good relationship with Hesheng Minerals. There were no benefits or considerations given and received by our Group for the advances from and to Hesheng Minerals respectively, and all such advances were unsecured, interest-free, and repayable on demand. As at the Latest Practicable Date, there was no outstanding amounts due from Hesheng Minerals to us or due to Hesheng Minerals from us and the related banks have undertaken that the guarantees provided by Hesheng Minerals will be released and replaced by the corporate guarantee of our Company upon Listing. We have no intention to make advance to and from third parties after Listing. In 2011, Hesheng Minerals also acquired from our Group the entire issued share capital of Ausrich and Thailand Chang Sheng. For further details of such acquisitions and the background of Hesheng Minerals, please refer to the section headed “History and development – Reorganisation”.

### **沂水融金球團有限公司 (*Yishui Rongjin Iron Pellets Co., Ltd.*) (“*Yishui Rongjin*”)**

Another of our customer, namely Yishui Rongjin, was also one of our major suppliers during the Track Record Period and is an Independent Third Party. To the best of our Directors’ knowledge, Yishui Rongjin is principally engaged in the production and sale of iron pellets and steel grinding balls.

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The following table shows details of our sales to and purchases from Yishui Rongjin during the Track Record Period:

Year	Our sales to Yishui Rongjin			Our purchases from Yishui Rongjin		
	Products sold	Sales amount (RMB'million)	% to total sales	Purchased product	Purchases amount (RMB'million)	% to total purchases
2009	Iron concentrates	9.7	4.9%	Steel grinding balls	4.2	3.5%
2010	-	-	-	Mainly steel grinding balls	1.2	0.5%
2011	Iron concentrates	16.2	1.7%	Iron pellets	13.3	1.8%
				Steel grinding balls	5.8	0.8%

In 2009 and 2011, we sold iron concentrates to Yishui Rongjin. To the best of our Directors' knowledge, Yishui Rongjin purchased iron concentrates from us for use in its production of iron pellets for sales to its customers.

During the Track Record Period, we purchased iron pellets and steel grinding balls from Yishui Rongjin. We purchased from Yishui Rongjin (i) steel grinding balls to replace worn out steel grinding balls of our production facilities and (ii) iron pellets for trading purpose to meet our customers' demands.

### ***Luxing Titanium***

Another of our customer, namely Luxing Titanium, was also one of our suppliers during the Track Record Period and is an Independent Third Party. To the best of our Directors' knowledge, Luxing Titanium is principally engaged in the manufacture and sale of iron concentrates and titanium concentrates.

The following table shows details of our sales to and purchases from Luxing Titanium during the Track Record Period:

Year	Our sales to Luxing Titanium			Our purchases from Luxing Titanium		
	Products sold	Sales amount (RMB'million)	% to total sales	Purchased product	Purchases amount (RMB'million)	% to total purchases
2009	-	-	-	-	-	-
2010	Steel grinding balls	1.1	0.2%	Iron concentrates	10.0	4.2%
2011	-	-	-	-	-	-

In 2010, we sold steel grinding balls to Luxing Titanium. To the best of our Directors' knowledge, Luxing Titanium purchased steel grinding balls from us to replace worn out steel grinding balls of its production facilities.



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In 2010, we purchased lower grade iron concentrates from Luxing Titanium for mixing with other iron concentrates to produce iron concentrates with iron content of 65% for sales to our customer.

For other relationship and transactions between Luxing Titanium and us, please refer to the paragraph headed “Financial Information – Indebtedness” of this prospectus.

Save as disclosed above, there were no other overlapping suppliers and customers of our Group during the Track Record Period.

### **Logistics arrangement**

Some of our customers collect our products directly from our Yangzhuang Processing Facilities. For those customers who require our products to be delivered to their designated destinations, we use logistics service providers to deliver our products by trucks to them and we will recoup the costs associated with the transport of our products to them by adding these costs to the contracted sales price. The only selling price difference between sales to customers who collect products directly from our Group’s facilities and sales to those who require delivery of products to their designated destinations is the extra transportation costs incurred. We have maintained relationship with the logistics service providers ranging from approximately 1 year to 4 years. During the Track Record Period, our service fees paid to the logistics service providers amounted to approximately RMB4.4 million, RMB4.4 million and RMB9.5 million respectively, representing approximately 98.8%, 95.2% and 97.9% of our total selling and distribution costs for the corresponding periods. Our Directors believe that the above outsourcing of logistics work lowers our overall operational costs as we are not required to incur substantial capital expenditure to acquire and maintain transportation facilities, and maintain an in-house team of logistics personnel. Due to general trend of inflation and the expected expansion of our production volume and sales volume in future, we expect that our transportation costs are likely to increase in future, yet we expect the resultant impact on our Group’s operation and financial performance will not be significant as the costs are eventually borne by our customers.

### **COMPETITION**

According to the CRU Report commissioned by our Company, based on independent market data from sources such as Metallurgical Mines’ Association of China and the websites of various iron ore producing companies, we are the largest private-owned iron ore producer and one of the fifth largest iron ore producer (including state-owned enterprises) in Shandong Province, the PRC in terms of raw iron ore processed for each of the three years ended 31 December 2010, and we also possess the largest known iron ore reserves in Shandong Province, the PRC, which accounted for approximately 47.8% of the total known iron ore reserves in Shandong Province, the PRC as of 2010.

A number of factors affect the markets in which we sell our iron concentrates. Iron concentrates market in the PRC depends primarily on the consumption patterns of the steel industry in the PRC as well as the availability, location, and cost of transportation and price of competing iron ore sources, including imported iron ore.

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We believe that although there may be competition among iron ore producers globally and in the Shandong market, we have a competitive advantage over our competitors mainly because of (i) the location of our mines and projects in Shandong Province permits us to take advantage of the regional imbalance between iron ore supply and demand; (ii) our mines and projects have significant reserves and resources of iron and titanium ore; (iii) our established relationships with reputable state-owned steel producers; (iv) we are in close proximity with our customers thereby reducing the overall transportation costs of our customers; (v) our Directors and senior management possess extensive industry experience, with Mr. Li possessing over 20 years of operating experience in the iron ore exploration, mining and processing in Shandong Province, the PRC; and (vi) our iron ore is acidic in nature which increases the marketability of the ore and its products. For further details, please refer to “Competitive strengths” of this section of the prospectus.

### REGULATORY COMPLIANCE ISSUES

The PRC laws and regulations governing magnetite and ilmenite ore mining activities, including the Mineral Resources Law of the PRC (《中華人民共和國礦產資源法》), Implementing Rules on the Mineral Resources Law of the PRC (《中華人民共和國礦產資源法實施細則》), Regulations on Work Safety License (《安全生產許可證條例》) and Implementing Rules on the Work Safety License of Non-coal Mines (《非煤礦礦山企業安全生產許可證實施辦法》), require mining operators such as ourselves to obtain business licenses, mining permits and safety production permits before commencing mining operations. For details of the PRC laws and regulations applicable to us, please refer to the section headed “Regulatory overview” in this prospectus. As advised by our PRC Legal Advisers, we have obtained the necessary business licenses, mining permits and safety production permits. Please refer to the paragraph headed “Real properties” in this section for information relating to our land use rights.

In addition to the permits and approvals necessary for our production of iron ore concentrates, we will apply for any licenses, permits and approvals that may be required to implement our expansion plan to attain the expected mining and ore processing capacity with respect to our iron ore resources. Based on the advice of our PRC Legal Advisers, we believe there are no foreseeable legal impediments for us to obtain such requisite permits, licences and approvals as and when required in a timely manner.

Our PRC Legal Advisers advised that Shandong Ishine has been duly established and validly existed under applicable PRC laws and regulations, and save as disclosed in the sections headed “Risk factors – Non-compliance with PRC employee social welfare contribution regulations could lead to the imposition of fines or penalties” and “Business – Employees – Social insurance and housing provident fund contributions” of this prospectus, its operation has complied, in all material respects, with all relevant PRC laws and regulations.

As advised by our Australian legal advisers to our Company, (i) the incorporation of Ishine International was in compliance with all applicable Australian laws and regulations; (ii) the listing of Ishine International on ASX was in compliance with the listing rules of ASX and

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other applicable Australian laws and regulations; and (iii) Ishine International has obtained the relevant approvals, permits and licenses necessary to carry out its operation and its operation has complied with all relevant Australian laws and regulations in all material respects. As advised by our PRC Legal Advisers, at the time of incorporation of Ishine International, Shandong Ishine did not apply for approval from the relevant PRC authorities on its foreign investment in Ishine International. Such non-compliance was due to, at the time of incorporation of Ishine International, Shandong Ishine was not familiar with relevant PRC laws and regulations and was not aware of its obligation regarding application for approval on the foreign investment. Shandong Ishine had made the required applications subsequently. On 2 April 2011, the Commerce Bureau of Shandong Province (山東省商務廳) approved Shandong Ishine's incorporation of Ishine International. On 10 May 2011, the Commerce Bureau of Shandong Province (山東省商務廳) granted the certificate for enterprise's foreign investment (企業境外投資證書) to Shandong Ishine. Shandong Ishine had also completed the foreign exchange registration with Shandong Branch of The State Administration of Foreign Exchange (國家外匯管理局山東省分局). As advised by our PRC Legal Advisers, (i) Shandong Ishine's foreign investment in Ishine International, including the incorporation of Ishine International, has obtained all necessary approvals and permits under PRC laws and regulations, and was in compliance with all applicable PRC laws and regulations; and (ii) our Group and Mr. Li would not be subject to any penalty and/ or fine for Shandong Ishine's delay for application for approval on foreign investment in Ishine International as detailed above.

As advised by our Australian legal advisers, the Listing is not subject to any approval or consent from any Australian regulators and/ or the shareholders of Ishine International.

Our Board understands its responsibility towards the corporate governance of our Group, including but not limited to reviewing and monitoring our Group's policies and practices on compliance with legal and regulatory requirements. Internal reporting procedures have been adopted for each member of our Group which among other matters, specify a designated person who is a director, the general manager or chief executive of the member of our Group to timely report any material decision to be made by the member of our Group to our Board with the designated person's view after seeking appropriate legal advice, if applicable. All the material decisions of each member of our Group shall be made after obtaining the approval of our Board. Whenever it is considered reasonable and necessary, our Board will seek appropriate legal advice, including but not limited to the advice as to the PRC laws and regulations when considering the decision to be made by any member of our Group.

## INSURANCE

Except as disclosed in the section headed "Risk Factors – Risks Relating to Our Business and Industry – Non-compliance with PRC employee social welfare contribution regulations could lead to the imposition of fines or penalties" in this prospectus, we make contributions to social insurance for our employees including insurance for retirement, unemployment, maternity, medical and workplace injury, as required by the relevant PRC laws and regulations.

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As at the Latest Practicable Date, we maintain the required PRC employee social benefits insurance and insurance for our transport vehicles. During the Track Record Period, we did not make any claims under our insurance policies that had a material adverse effect on our business, financial condition or results of operations.

We face comparatively lower levels of safety risk. We engage our Independent Third Party Mining Contractors to carry out all of the mining operations at our mines. Under the contracts with our Independent Third Party Mining Contractors, our Independent Third Party Mining Contractors are liable to us for any accidents arising from the mining operations. As advised by our PRC Legal Advisers, according to the relevant PRC laws and regulations, if harm is caused to another person in underground excavation activity, our Group may assume tortious liability unless the harm is caused intentionally by the victim or by force majeure. However, as advised by our PRC Legal Advisers, our Group still has the right to recover from the Independent Third Party Mining Contractors according to the contractual terms. During the Track Record Period, we did not experience any business interruptions or losses or damages to our facilities that had a material adverse effect on our business, financial condition or results of operations. After taking into account the costs of insurance and the risks involved, our Directors believe that our insurance coverage was sufficient to protect our interests during the Track Record Period. Therefore, consistent with what we believe to be customary practice in the PRC, we do not maintain any fire, earthquake, liability or other property insurance with respect to our properties, equipment or inventories, with the exception of insurance coverage for our vehicles. We also do not maintain any business interruption insurance or third party liability insurance against claims for property damage, personal injury and environmental liabilities other than third party liability insurance for our vehicles.

As at the Latest Practicable Date, Ishine International maintained, among others, directors and officers liability insurance, working directors personal accident insurance, public and products liability insurance and workers compensation insurance. As advised by our Australian legal advisers, it is mandatory for Ishine International to maintain workers compensation insurance for its employees. As advised by our Australian legal advisers, Ishine International has complied with all mandatory insurance requirements for its operation under applicable Australian laws and regulations. As Ishine International did not own any real property or vehicle, there was no need for it to maintain any property or vehicle insurance. Further, as Ishine International is at the stage of preliminary exploration or geological surveying and exploration planning only which does not involve material assets or significant risks with respect of its exploration, mining and other operations, our Directors are of the view that it is acceptable for Ishine International not to maintain fire, earthquake, liability or other property insurance, or any business interruption insurance or third party insurance against claims for property damage, personal injury and environmental liabilities save for those mentioned above. Our Directors will further review the needs to take out additional insurance coverage depending on the exploration results and stage of development of Ishine International's business operations.

### OCCUPATIONAL HEALTH AND SAFETY

With respect to matters relating to occupational health and safety, we are subject to, among other PRC laws and regulations, the PRC Production Safety Law (《中華人民共和國安全生產法》), the PRC Labor Law, the PRC Labor Contract Law and the PRC Law on the Prevention and Treatment of Occupational Diseases (《職業病防治法》).

The PRC Production Safety Law requires us to maintain safe working conditions as provided in the PRC Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. We are also required to provide production safety training to our employees. The design, manufacture, installation, use, inspection and maintenance of our equipment are required to conform with the applicable national or industrial standards.

The PRC Labor Law and the PRC Labor Contract Law require us to establish a system for labor safety and sanitation, to abide by applicable rules and standards and to educate our employees on such rules and standards. We are also required to provide our employees with labor safety and sanitation conditions that meet the standards set forth in relevant regulations and to provide regular health examinations for our employees engaged in hazardous activities.

Pursuant to the PRC Law on the Prevention and Treatment of Occupational Disease (職業病防治法), we are required to (1) establish and perfect the responsibility system of occupational disease prevention and treatment, strengthen the administration and improve the level of occupational disease prevention and treatment, and bear responsibility for the harm of occupational diseases engendered therefrom, (2) purchase social insurance for industrial injury, (3) adopt effective protective facilities against occupational diseases, and provide protective articles to the laborers for personal use against occupational diseases, (4) set up alarm equipment, allocate on-spot emergency treatment articles, washing equipment, emergency safety exits and safety zones for poisonous and harmful work places where acute occupational injuries are likely to take place and (5) inform the employees, according to the facts, of the potential harm of occupational disease as well as the consequences thereof and the protective measures and treatment against occupational diseases when signing a labor contract with employees.

As at the Latest Practicable Date, no material accidents involving any personal injury or property damage had been reported to our management during the Track Record Period and we have not been subject to any claims arising from any material accidents involving personal injury or property damage during the Track Record Period that have a material adverse effect on our business, financial condition or results of operations. As at the Latest Practicable Date, we have adequate insurance coverage for our employees in accordance with the PRC laws and regulations and are in compliance with the relevant PRC laws and regulations pertaining to occupation health and safety.

### ENVIRONMENTAL PROTECTION

Our operations are subject to a variety of PRC environmental laws and regulations, as well as local environmental regulations promulgated by local authorities on environmental protection. These laws and regulations govern a broad range of environmental matters, such as mining control, land rehabilitation, air emissions, noise control, discharge of wastewater and pollutants, waste disposal and radioactive element disposal control.

The PRC government is moving towards more stringent adoption and enforcement of environmental laws and regulations, which could have a material adverse effect on our financial condition and results of operations. Please refer to “Risk Factors – Risks Relating to Our Business – Our business operations may be affected by current or future safety and environmental regulations” in this prospectus for further details.

Our operations generate, among other things, wastewater, solid waste, dust and noise pollution. Our mining and processing activities may also result in land disturbance and land contamination caused by waste rock and tailings.

We received written confirmation from the Administration of Environmental Protection of Yishui County (“沂水縣環境保護局”) that as of 1 October 2011, Shandong Ishine, our operating PRC subsidiary, had been in compliance with the relevant environmental laws and regulations since its establishment and had never been penalised by the authority. Based on the above written confirmation issued by the Administration of Environmental Protection of Yishui County, our PRC Legal Advisers are of the opinion that we have complied with the relevant laws and administrative regulations pertaining to environmental protection. As at the Latest Practicable Date, we were not subject to any environmental claims, lawsuits, penalties or administrative sanctions. We believe that we have complied with all relevant PRC laws and regulations regarding environmental protection during the Track Record Period.

We are committed to follow environmentally responsible practices and have adopted, among others, the below measures to minimize the impact and risk of our operations on the environment:

1. Installation of wastewater recycling systems in our processing facilities and tailing ponds;
2. Development of dry tailings discharge technique which increased the safety of our tailing ponds and thus allow water to be recycled from our tailing ponds;
3. Using wet drilling procedures to reduce the amount of dust generated by our mining and drilling activities;
4. Adoption of ash and dust collection and treatment measures at our production process;
5. Monitoring of our noise level by the installation of a sound proof material at our Yangzhuang Processing Facilities;

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6. Using waste rocks from mining for refilling mined areas, building transport roadways and dams of tailing ponds; and
7. Using tailings for reclaiming land which is suitable for planting and crop growing purposes.

During the Track Record Period, our expenditure in respect of compliance with applicable environmental protection requirements was approximately RMB0.27 million, RMB0.22 million and RMB0.22 million respectively. It is expected that we will incur approximately RMB0.2 million on compliance with applicable environmental protection requirements for the year ending 31 December 2012.

As a result of our continuing efforts in environmental protection and in minimizing the impact of our operations on the environment, in March 2011, our Yangzhuang Iron Mine was announced by MLR to be one of the 37 units which were selected by the MLR as the first batch of “國家級綠色礦山試點單位” (State Green Mining Pilot Units\*) among 365 mines in the PRC. Among the 37 awarded units, only 5 of them were ferrous metals mines and our Yangzhuang Iron Mine was one of them. Our Directors consider that the award was recognition of our achievement in the conservation ecology and natural resources in our mining and processing operation as well as the production safety and environmental friendly policies adopted by us.

As at the Latest Practicable Date, we were not aware of any impact of non-governmental organisation on the sustainability of our Group's business.

### **Land rehabilitation**

Land rehabilitation typically involves the removal of equipment, machinery and other physical remnants of mining, the restoration of land features in mined areas, and contouring, covering and revegetation of waste rock piles and other disturbed areas. In accordance with the relevant PRC laws and regulations, we have adopted land rehabilitation program at our Yangzhuang Iron Mine where land rehabilitation is required and desirable. The tailing facilities at our Yangzhuang Iron Mine, while it was under service, had caused disturbance to the vegetation around the tailing facilities as well as soil erosion. To rehabilitate and conserve the area, we took measures for ecological protection and soil conservation during the period when the tailing facilities was under service, and afterwards we reclaimed the area with waste rocks and tailing into farmland, revegetate the area in order to avoid soil erosion and form a new ecosystem.

**REAL PROPERTIES****Our lands and buildings**

As at the Latest Practicable Date, we held and occupied 4 parcels of land located at Qinjiazhuang Village, Yangzhuang Town, Yishui County, Linyi City, Shandong Province, the PRC with a total site area of approximately 28,426 sq. m. with 9 buildings, 2 processing facilities (being our Second Yangzhuang Processing Facility and the Third Yangzhuang Processing Facility) and 13 temporary buildings (including our First Yangzhuang Processing Facility) erected thereon. Pursuant to 4 collectively-owned land use rights certificates all dated 4 August 2008 issued by Land Resources Bureau of Yishui County, Shandong Province, the land use rights of the 4 parcels of land (“**Four Parcels of Construction Lands**”), which are all collectively-owned land for construction land use, were leased from 楊莊鎮秦家莊村農民集體 (Yangzhuang Town Qinjiazhuang Village rural collective economic entity\*) to our Group for a term expiring on 29 December 2036 for construction use. As advised by our PRC Legal Advisers, the land use rights of the Four Parcels of Construction Lands legally obtained by us are legally valid as (i) the land use rights of the Four Parcels of Construction Lands were granted by the Land Resources Bureau of Yishui County, Shandong Province, being a competent authority for issuing the 4 collectively-owned land use rights certificates pursuant to the relevant laws and regulations; and (ii) we have entered into relevant transfer agreements with 秦家莊村民委員會 (Qinjiazhuang Village Committee\*) which were approved by 山東省沂水縣人民政府 (Yishui County People’s Government, Shandong Province\*) and we have paid the consideration for the transfers. Further, as advised by our PRC Legal Advisers, (i) there is no need to change the nature of the Four Parcels of Construction Lands from collectively-owned to State-owned before Four Parcels of Construction Lands were leased to Shandong Ishine; (ii) the rights of our Group to use, occupy, transfer, lease, mortgage or otherwise dispose of the Four Parcels of Construction Lands (together with the buildings thereon) are legal, valid and enforceable; and (iii) there is no need to change the nature of the Four Parcels of Construction Lands from collectively-owned to State-owned before our Group transfers, leases, mortgages or otherwise disposes of the Four Parcels of Construction Lands to third parties.

As at the Latest Practicable Date, we held two building ownership certificates for the nine buildings mentioned above, which mainly include office buildings, dormitories, canteen and other ancillary buildings with total gross floor area of approximately 3,176.28 sq. m..

As at the Latest Practicable Date, we held two processing facilities, namely our Second Yangzhuang Processing Facility and our Third Yangzhuang Processing Facility with total gross floor area of approximately 47,000 sq.m., which were constructed by simple shelter structures. On 1 October 2011, 沂水縣房地產管理辦公室 (Yishui County Real Property Management Office\*) issued a confirmation letter to us, confirming that (i) our Second Yangzhuang Processing Facility and our Third Yangzhuang Processing Facility were classified as structures, therefore it was not necessary to obtain rights registration, construction permit and building rights certificate in view of them being simple shelter structures; and (ii) we will not be penalized (including requirement to demolish or penalty charges) for not obtaining such rights registration, construction permit and building rights certificate.



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On 15 November 2011, 沂水縣住房和城鄉建設局 (Yishui County Bureau of Housing and Urban Rural Construction), being the local competent authority responsible for the land and construction planning and management, issued a confirmation letter, confirming that (i) we have already obtained the 《村鎮規劃選址意見書》 (“Comments on Village Planning and Location Selection”) from 沂水縣住房和城鄉建設局 (Yishui County Bureau of Housing and Urban Rural Construction) in respect of our Second Yangzhuang Processing Facility and our Third Yangzhuang Processing Facility; other than that, there is no need to obtain any other permit from the relevant authority, and (ii) we will not be penalized (including requirement to demolish or penalty charges) for construction of the two processing facilities.

Our PRC Legal Advisers are of the view that (i) relevant procedures have been completed for the construction of our Second Yangzhuang Processing Facility and our Third Yangzhuang Processing Facility, and (ii) the construction is in compliance with the relevant PRC laws and regulations.

As at the Latest Practicable Date, we occupied 13 temporary buildings (including our First Yangzhuang Processing Facility) with a total gross area of approximately 2,604 sq. m. at an aggregate net book value of approximately RMB1,063,000 as at 31 December 2011. As regard to such temporary buildings, our First Yangzhuang Processing Facility was used for storage purposes; while the remaining 12 temporary buildings were used for ancillary purposes, including, among others, pump station, power distribution rooms, testing laboratory and other ancillary buildings.

As at the Latest Practicable Date, we have not obtained the temporary construction works planning permits (臨時建設工程規劃許可証) in respect of the abovementioned 13 temporary buildings (including our First Yangzhuang Processing Facility), applications of which have been submitted to the 沂水縣住房和城鄉建設局 (Yishui County Bureau of Housing and Urban Rural Construction\*). When we first acquired our First Yangzhuang Processing Facility from an Independent Third Party, the First Yangzhuang Processing Facility did not come with a temporary construction works planning permit. As we construct the rest of the 12 buildings, we inadvertently omitted to apply for temporary construction works planning permits in respect of such buildings as we were unaware of such law requirements at the relevant time and the relevant regulatory authorities of the PRC government did not take any actions against us or require us to make such applications.

On 15 November 2011, 沂水縣住房和城鄉建設局 (Yishui County Bureau of Housing and Urban Rural Construction\*) issued a confirmation letter confirming that (i) our application for the temporary construction works planning permit have been accepted, (ii) we will not be penalised for occupying or be requested to demolish the temporary buildings, (iii) approval of the permit and any future renewal of the permit will be granted if all relevant application documents are complete, (iv) the term of the permit is 2 years, and (v) such confirmation is valid and irrevocable throughout the validity period of our collectively-owned land use rights certificates. To the best knowledge of our Directors, it is expected that we will obtain such permits in the third quarter of 2012.

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Our PRC Legal Advisers has advised us that (i) 沂水縣住房和城鄉建設局 (Yishui County Bureau of Housing and Urban Rural Construction\*) is the competent authority to issue the confirmation and such confirmation has legal effect, (ii) 沂水縣住房和城鄉建設局 (Yishui County Bureau of Housing and Urban Rural Construction\*) has an obligation to grant approval of the permit and any future renewal of the permit to us in accordance to the confirmation, (iii) there is no legal impediment to obtain the temporary construction works planning permit or renewal of such, and (iv) in accordance with the confirmation of Shandong Ishine and reasonable inspections by our PRC Legal Advisers, no notice or order which might have an adverse effect on our rights to use the temporary buildings was issued.

We plan to renew the term of the temporary construction works planning permit every two years, if necessary. However, in the event that the temporary construction works planning permits cannot be obtained, and we are required to demolish the temporary buildings, we could relocate some of the functions (including storage, laboratory room, reception room, guard room and duty room) to our office buildings, our Second Yangzhuang Processing Facility and our Third Yangzhuang Processing Facility, for those functions not possible to be relocated (including pump room, power distribution room, etc.), we will relocate them to new simple shelter structures to be constructed by us. It is estimated that the time and costs required for demolishing the temporary buildings and relocation of those functions conducted in these buildings are approximately 1 month and approximately RMB0.5 million, and our Directors consider that such time and costs taken are not material to our Group.

As (i) we believe and our PRC Legal Advisers have confirmed that there will not be any legal impediments for us in obtaining and renewing the temporary construction works planning permits; (ii) we have obtained confirmations from the competent authority that we will not be penalised for occupying or request us to demolish such temporary buildings and that they have accepted our applications for the temporary construction works planning permits; and (iii) our contingent relocation plan as mentioned above does not take us material time and costs to be implemented, we do not expect the lack of the relevant temporary construction works planning permits to materially adversely affect our business operations and financial performance.

### **Our leased lands**

Our mining operations at our Yangzhuang Iron Mine is carried out on 10 parcels of collectively-owned lands with an aggregate area of 398,068.6 sq. m. in Yishui County, Shandong Province (“**Ten Parcels of Wild Lands**”) classified as wild land (荒草地) on a short-term leased basis which cover areas for the surface entrances to our Yangzhuang Iron Mine. As at the Latest Practicable Date, we had not constructed any buildings or structures on the Ten Parcels of Wild Lands. Pursuant to the relevant PRC Land Administration Law and regulations, (1) a party may use collectively-owned land classified as wild land (荒草地) on a short-term leased basis for not more than two years if (i) it has been granted short-term land use rights by the competent governmental authority; and (ii) it has entered into land use agreements with the relevant rural collective economic entity or village committee; and (2) the party can re-apply for approval of the short-term land use rights after expiry of the two-years period. Accordingly, as advised by our PRC Legal Advisers, such short-term land use rights can be renewed for a term of not more than two years upon each expiry. In other words, the Ten Parcels of Wild Lands can be used on a continuous basis by renewal of land use rights in every two years.

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As advised by our PRC Legal Advisers, pursuant to the relevant laws and regulations, it is not possible to obtain long-term land use rights for collectively-owned lands classified as wild lands (荒草地); whereas it is possible to obtain long-term land use rights for collectively-owned lands classified as construction lands which is similar to that of our Four Parcels of Construction Lands. As further advised by our PRC Legal Advisers, wild land (荒草地) is defined as being difficult to develop and not allowed by PRC laws to construct any buildings and structures thereon, hence have little economic value to them. In addition, we understand that it is not uncommon for mining companies to carry out mining operations on collectively-owned lands under short-term leased basis. Also, as advised by our PRC Legal Advisers, the use of the Ten Parcels of Wild Lands on a short-term leased basis by our Group currently comply with the relevant laws and regulations in the PRC. Given that (i) we have obtained the short-term land use rights and the Confirmation from the Land Resource Bureau of Yishui County (definition and details as below); and (ii) we have entered into land-use framework agreements and specific land-use agreements with the owners of the collectively-owned lands in respect of the Ten Parcels of Wild Lands and as advised by our PRC Legal Advisers that there shall not be any material legal impediment for our Group to renew these agreements (details as below), we consider that the lack of the long-term land use rights would not affect our mining operation at our Yangzhuang Iron Mine.

### *Short-term land use rights granted by competent government authority*

Pursuant to the Approval Regarding the Short-term Land Use Rights of Shandong Ishine at Yangzhuang Iron Mine (關於同意山東興盛礦業有限責任公司楊莊鐵礦臨時用地的批覆) issued by the Land Resources Bureau of Yishui County, Shandong Province, we have been granted short-term land use rights to the Ten Parcels of Wild Lands for a term of two years.

The table below summarises the approvals to our current short-term land use rights in respect of our Yangzhuang Iron Mine:

<b>Holder of short-term land use rights</b>	<b>Date of issue</b>	<b>Term</b>	<b>Location</b>	<b>Area (sq. m.)</b>	<b>Type of land</b>
Shandong Ishine	31 August 2011	2 years	a parcel of land at Gongdanshan Village (汞丹山村), Yishui County, Linyi City, Shandong Province	2,000.0	Collectively-owned land

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Holder of short-term land use rights	Date of issue	Term	Location	Area (sq. m.)	Type of land
Shandong Ishine	31 August 2011	2 years	a parcel of land at Gaojialouzi Village (高家樓子村), Yishui County, Linyi City, Shandong Province	2,666.7	Collectively-owned land
Shandong Ishine	31 August 2011	2 years	six parcels of land at Qinjiazhuang Village (秦家莊村), Yishui County, Linyi City, Shandong Province	306,934.8	Collectively-owned land
Shandong Ishine	31 August 2011	2 years	two parcels of land at Shuiniu Village (水牛村), Yishui County, Linyi City, Shandong Province	86,467.1	Collectively-owned land
<i>Total:</i>				<b>398,068.6</b>	

We have obtained a written confirmation (“**Confirmation**”) from the Land Resources Bureau of Yishui County, Shandong Province dated 1 October 2011 for the purpose and to the effect that it undertakes to approve our application for renewal of existing short-term land use rights in respect of our Yangzhuang Iron Mine and any new short-term land use rights to any areas covered by mining and exploration permits legally owned by us (including the areas covered by the proposed application of the mining permit of our Zhuge Shangyu Ilmenite Mine) in accordance with the laws of the PRC and Article 57 of the Land Administration Law upon completion of all the formalities on our part for the terms until the expiry of the validity periods of the mining permit of our Yangzhuang Iron Mine and the relevant exploration permits respectively.

### *Land use agreements with village committees*

In addition to the abovementioned short-term land use rights to the Ten Parcels of Wild Lands at our Yangzhuang Iron Mine, we have entered into land-use framework agreements and specific land-use agreements with the owners of the collectively-owned lands, as represented by the relevant village committees which have the right to manage the lands used in our mining operations.

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Pursuant to the land-use framework agreements, the owners of the collectively-owned lands have principally agreed to authorize us to use and occupy the land for our mining operations for a term expiring on the expiry of (i) the validity period of our relevant mining or exploration right or (ii) the renewal thereof, in consideration for a land-use fee to be paid by us at RMB7.5 per sq. m. of land per annum and subject to a maximum increase biennial of 50% of the increase in consumer price index of China of the previous year, the amount of which shall be determined under the specific land-use agreements. Neither party shall terminate the specific land-use framework agreement in advance without the other party's consent. Pursuant to the land-use framework agreements, we are authorised to apply to the Land Resources Bureau of Yishui County, Shandong Province for short-term land use right on other parcels of lands at our Yangzhuang Iron Mine, and the parties shall further enter into the specific land-use agreements to agree on, among other matters, the term of use and the land-use fee amount.

Under the specific land-use agreements, the owners of the collectively-owned land have authorised us to use and occupy the land for our mining operations for two years from the date of signing of such agreements, being 31 August 2011, with a right of first refusal and renewable with one month written notice at our request, in consideration for an annual land-use fee of RMB7.5 per sq. m. of land (or an aggregate of approximately RMB3.0 million per annum for the Ten Parcels of Wild Lands). Under the specific land-use agreements, our Group may upon serving of one month's written notice terminate the specific land-use agreement anytime before the expiry of the term of the agreement. Pursuant to the specific land-use agreements, the owners of the collectively-owned land shall grant to us exclusive right of use of land and shall not use or sub-let such land without our written consent.

Our PRC Legal Advisers advised that the land-use framework agreements and the specific land-use agreements are legally valid and binding and enforceable under the PRC laws and regulations, and there shall not be any material legal impediment for our Group to renewing the specific land-use agreements.

*No foreseeable material obstacle to the continual use of our leased lands*

- From legal perspective:

As advised by our PRC Legal Advisers,

- (i) pursuant to Article 30 of the Implementation Rules for the Mineral Resources Law of the PRC, we, as holders of valid mining permit of our Yangzhuang Iron Mine, have the legal right to obtain the land use rights with respect to the Ten Parcels of Wild Lands for our mining operations;
- (ii) pursuant to the Confirmation, Yishui Land Resources Bureau has undertaken to approve our application for renewal of the short-term land use rights to the Ten Parcels of Wild Lands until the expiry of the mining permit of our Yangzhuang Iron Mine; and
- (iii) the land-use framework agreements and the specific land-use agreements are legally valid and binding and enforceable under the PRC laws and regulations.

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In view of the above, our PRC Legal Advisers advised that there shall not be any material legal impediment for our Group to renew the short-term land use rights and the specific land use agreements on similar terms for the Ten Parcels of Wild Lands.

- From commercial perspective:

Commercially, we consider that there is no material foreseeable obstacle for our continual use of the Ten Parcels of Wild Lands as:

- (i) as confirmed by the relevant village committees, we have commenced leasing lands from the owners of the collectively-owned lands for our mining operations from as early as 2003 and have since maintained good relationships with them without any disputes;
- (ii) the Ten Parcels of Wild Lands are classified as wild lands (荒草地), and as advised by our PRC Legal Advisers, wild land (荒草地) is defined as being difficult to develop and not allowed by PRC laws to construct any buildings and structures thereon, hence have little economic value to owners of the collectively-owned lands;
- (iii) as confirmed by the relevant village committees, the owners of the Ten Parcels of Wild Lands voluntarily leased the Ten Parcels of Wild Lands to us in return for receiving rental fees from us; and
- (iv) as confirmed by the relevant village committees, other than leasing the Ten Parcels of Wild Lands to us for our mining operations for rental fees, such lands have no other use by them.

In view of the above, we consider that there is no material foreseeable obstacle for us to renew the specific land-use agreements on similar terms and to continue to use the Ten Parcels of Wild Lands for our mining operations in our Yangzhuang Iron Mine. Moreover, as confirmed by our PRC Legal Advisers, in the event that the village committees refuse to renew the specific land-use agreements in breach of the land-use framework agreements, or refuse to lease to us the Ten Parcels of Wild Lands in breach of the specific land-use agreements and the land-use framework agreement, there shall not be any impact on the mining rights and exploration rights already obtained by us or any application for renewal of such mining rights or exploration rights.

### *Contingency plans for failure in the renewal of short-term land use rights and specific land-use agreements*

As mentioned above, we do not foresee any material obstacles to renewing relevant short-term land use rights and specific land-use agreements for the use of the Ten Parcels of Wild Lands which are necessary for our mining operation. In the worst case scenario (which we, however, believe is very remote) that we are unable to renew all relevant short-term land use rights or specific land-use agreements and are denied complete access to our Yangzhuang

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Iron Mine, we may not be able to continue our mining operations and our business operation and financial performance may be substantially affected. For the related risks, please refer to the section headed “Risk Factors – Risks Relating to our Business and Industry – Our operations may be interrupted if we are denied access to our mines” in this prospectus.

If the Yishui County Land Resources Bureau rejects to renew the short-term land use rights for the Ten Parcels of Wild Lands and/or the owners of the collectively-owned lands breach the land-use framework agreements and reject to renew the specific land-use agreements with us for our continual use of the Ten Parcels of Wild Lands, we can take the following actions:

- Action 1 – To utilise alternative parcels of land as surface entrances to our Yangzhuang Iron Mine

Our Yangzhuang Iron Mine is divided into two sections, the Northern section and the Southern section. The Northern section has four surface entrances covered by lands owned by Qinjiazhuang Village (秦家莊村), Gaojialouzi Village (高家樓子村) and Shuiniu Village (水牛村); whereas the Southern section has other four surface entrances covered by lands owned by Qinjiazhuang Village (秦家莊村) and Gongdanshan Village (汞丹山村).

As at the Latest Practicable Date, we have entered into land-use framework agreements and specific land-use agreements with four different owners of collectively-owned lands. In the event that renewal of certain parcel(s) of land is denied by the one or more (but not all) owners of collectively-owned lands, we may still be able to utilize the surface entrances located on the other parcels of land without incurring additional costs which renewals have not been denied for entering into the Northern section, the Southern section or both sections of our Yangzhuang Iron Mine to continue our mining operations depending on which owners of the collectively-owned lands denied our renewals.

Our Directors consider that Action 1 is feasible as we have designed and implemented the inter-connectivity of our surface entrances to our Yangzhuang Iron Mine; and such inter-connectivity was assessed by an independent architectural design company confirming that all the entrances in the Northern section are inter-connected and all the entrances in the Southern section of our Yangzhuang Iron Mine are inter-connected.

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- Action 2 – To take legal actions against Yishui County Land Resources Bureau and/or the owners of the collectively-owned lands.

As advised by our PRC Legal Advisers, pursuant to Article 30 of the Implementation Rules for the Mineral Resources Law of the PRC and the Confirmation, in case we are denied renewal of the short-term land use rights for the Ten Parcels of Wild Lands, we have the legal rights to apply for reconsideration by the Yishui County Land Resources Bureau and/or higher level of Land Resources Bureaus for the grant of renewal of the short-term land use rights for the Ten Parcels of Wild Lands. As further advised by our PRC Legal Advisers, pursuant to Article 110 of Contract Law of the PRC, in the case that the owners of the collectively-owned land refuse to renew the specific land-use agreements with us, we have the legal rights to bring action to courts for specific performance of the renewal under the same terms of the land-use framework agreements and specific land-use agreements. As advised by our PRC Legal Advisers, based on their past experiences and assuming the legal action is heard only in the first trial and no appeal is made against the judgement made by the court in the first trial, the estimated time and litigation expenses required are approximately 4 months and less than RMB0.2 million, which may vary depending on actual situation.

As advised by our PRC Legal Advisers, based on the above, they are of the view that Action 2 is legally feasible subject to the result of the reconsideration by the relevant Land Resources Bureau and/or the decision and judgment of the court. Accordingly, our Directors consider that Action 2 is feasible subject to the same conditions aforementioned.

### **Our leased property**

We also leased a property with a gross floor area of approximately 301 sq. m. in West Perth, Australia and occupied for office purposes.

### **Applications for our future short-term land use rights**

In the event that we commence mining or exploration in areas covered by new mining or exploration permits obtained by us or areas covered by existing mining or exploration permits, we need to obtain new short-term land use rights in respect of these new mining or exploration areas. On 1 October 2011, we have received confirmation from Land Resources Bureau of Yishui County, Shandong Province confirming us that it undertakes to approve our application for any new short-term land use rights to any areas covered by mining and exploration permits legally owned by us. Having considered the above, we do not foresee any obstacles in the application for any new short-term land use rights to areas covered by our mining and exploration permits (including areas covered by our Yangzhuang Iron Mine, Zhuge Shangyu Ilmenite Mine and Qinjiashuang Ilmenite Project).



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Furthermore, we have entered into land-use framework agreements with the owners, as represented by the relevant village committee who has the right to manage the lands covered by the whole areas under the mining and exploration permits of our Yangzhuang Iron Mine, Zhuge Shangyu Ilmenite Mine and Qinjiazhuang Ilmenite Project pursuant to which the owners of the collectively-owned land have principally agreed to authorize us to use and occupy such lands for our mining and exploration operations for a term expiring on the expiry of the validity period of our relevant mining and exploration rights or the renewal thereof. Having considered the above, we do not foresee any obstacles in obtaining the leases for these lands.

Mr. Li and Hongfa Holdings, our Controlling Shareholders, have undertaken that they would indemnify us for all costs and damages as a result of or otherwise arising from, whether directly or indirectly, or in connection with the penalty or the order for demolition imposed by any competent authority on any member of our Group regarding the properties or buildings owned, used or occupied by us on or before the date on which the Share Offer becomes unconditional which have defective titles or are regarded as temporary structures and hence proper title registration cannot be effected except that provision, reserve or allowance has been made for such liabilities in the audited consolidated accounts of our Company for the Track Record Period.

Please refer to the valuation report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an Independent Third Party property valuer, as set out in Appendix III to this prospectus for further details.

## INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we have made four applications for trademark registration in Hong Kong. Pursuant to a trademark license agreement entered into between Mr. Li and Shandong Ishine dated 14 February 2012 (the “**Trademark License Agreement**”), Mr. Li agreed to grant a license to Shandong Ishine to use the registered trademark  on an exclusive, sole and royalty-free basis for a term of 10 years commencing from the date of signing of the Trademark License Agreement. According to the Trademark License Agreement, Shandong Ishine has options to acquire the registered trademark  and all the relevant rights attached thereto from Mr. Li at any time during the term of the Trademark License Agreement for a nominal consideration of RMB10.00 for the registered trademark. Please refer to “Statutory and General Information – Further Information About the Business – Intellectual Property Rights – Trademark”.

As of the Latest Practicable Date, we were not involved in any disputes or litigation relating to the infringement of intellectual property rights, nor are we aware of any such claims either pending or threatened.

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### EMPLOYEES

As of 31 December 2011, we had a total of 406 employees. Substantially all of our employees are based in the PRC. The following table shows a breakdown of our employees by functions:

#### Function

Management	8
Human Resources	4
Audit Compliance	4
Finance and administration	24
Operations	
Production operations	21
Yangzhuang Processing Facilities	281
Engineering	18
Safety and environmental protection	12
Geological resources	18
Sales and purchase	11
Business administration	5
<b>Total</b>	<b>406</b>

#### Social insurance and housing provident fund contributions

In accordance with relevant PRC laws and regulations, we are required to contribute to a number of employee social welfare schemes in respect of our employees, including employees hired on a temporary basis. Such schemes include pension insurance, medical insurance, unemployment insurance, birth insurance, work-related injury insurance (together “**social insurance**”) and housing provident fund contributions. Shandong Ishine, as a PRC entity, is obliged by the PRC laws and regulations to make contributions to the social insurance and housing provident funds.

During the Track Record Period, Shandong Ishine had only made social insurance and housing provident fund contributions for some of its employees as a number of employees:

1. declined to make payment of social insurance and housing provident fund contributions as they consider that such payment might reduce their disposable income;
2. whose social insurance and housing provident fund registration were still filed with their original employer and have not been transferred to our Group, requested our Group to make contributions to social insurance and housing provident fund in form of salary so that they may arrange for such contributions to be made through their respective original employers (“**Reason 2**”);

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3. whose social insurance and housing provident fund registration files were kept with their local social insurance authority and housing provident fund administration center respectively and have not been transferred to our Group, requested our Group to make contributions to social insurance and housing provident fund in form of salary so that they may personally arrange for such contributions to be made with their local social insurance authority and housing provident fund administration center respectively (“Reason 3”);
4. who joined our Group in the middle of the year were unable to complete the necessary social security and housing provident fund registration and our Group therefore did not make contributions for the relevant year; and
5. resigned from our Group before we have completed the social insurance registration procedures for them.

We estimate that the aggregate unpaid amount by our Group to the social insurance authority for the years ended 31 December 2009, 2010 and 2011 would be approximately RMB1,072,000, RMB773,000 and nil respectively, and the aggregate unpaid amount by our Group to the housing provident fund authority for the years ended 31 December 2009, 2010 and 2011 would be approximately RMB133,000, RMB227,000 and nil respectively. We have made provisions in the aforesaid amounts in our Group’s consolidated accounts for the two years ended 31 December 2010.

As far as we are aware, no administrative actions have been taken against us since our establishment of Shandong Ishine. During the Track Record Period, save for the outstanding social insurance fund contribution in respect of a total of 26 employees (3 of whom have resigned from our Group prior to the Latest Practicable Date), whose contributions to social insurance could not be made by us because of Reason (2) as to 19 employees and Reason (3) as to 7 employees, we have made contributions to the social insurance and the housing provident funds for all our employees from 1 January 2011 onwards and will continue to make full payments in the future in compliance with the relevant PRC laws. We have made contributions to social insurance to the above 26 employees in the form of salary paid to them with a view that they would make contributions to the relevant social insurance payment. As at the Latest Practicable Date, the social insurance registration files of the remaining 23 employees have not been transferred to our Group yet. We undertake to settle the outstanding social insurance fund contribution from 1 January 2011 onwards in respect of such employees once their social insurance registration files are transferred to our Group.

We have obtained a written confirmation dated 1 October 2011 from the Bureau of Labour and Social Security of Yishui County, Shandong Province (山東省沂水縣人事勞動和社會保障局), the competent social insurance authority, which confirmed that Shandong Ishine had duly contributed social insurance for its employees since its incorporation without any record of being sanctioned, the cases of non-payment of contributions by some of its employees were due to personal reason or personal situation which the relevant authority recognised not to constitute non-compliance on the part of Shandong Ishine, the basis of social insurance contribution complied with the requirements of the local PRC regulations, and that the relevant authority would not require or arrange for any payment of any outstanding amount from Shandong Ishine.

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Further, Shandong Ishine obtained a written confirmation from the Administration of Housing Provident Fund of Linyi City (臨沂市住房公積金管理中心), the competent housing provident fund authority, on 1 October 2011, which confirmed that it would not penalise Shandong Ishine for not having made housing provident fund contributions in respect of its employees, that it would not require Shandong Ishine to make payments for any of such outstanding housing provident fund contributions, and that Shandong Ishine did not have any record of being sanctioned by it. On the basis that the above confirmations were issued by competent social insurance and housing provident fund authorities, our PRC Legal Advisers are of the view that the risk of Shandong Ishine being required to contribute unpaid amounts or imposed fines by the relevant authorities is relatively low. Taking into account the advice from our PRC Legal Advisers above, our Directors consider that the financial impact to our Group is minimal.

As at the Latest Practicable Date, we are not aware of any employee complaints regarding payment of the social insurance or housing provident fund contributions, and have not received any relevant legal documentation from a labor disputes arbitration committee or the People's Court relating to disputes about payment of these insurance. However, we cannot assure you that there are no such claims or that such claims will not be brought against us in the future, and that we will not be required to pay such insurances or any related damages in the future.

Mr. Li and Hongfa Holdings, our Controlling Shareholders, have undertaken that they would indemnify us for all costs and damages as a result of or otherwise arising from or in connection with the failure of our Group to make the employee social insurance and housing provident fund contributions in accordance with the relevant rules and regulations of the PRC during the period from the date of establishment of Shandong Ishine to the date on which the Share Offer becomes unconditional except that provision, reserve or allowance has been made for such liabilities in the audited consolidated accounts of our Company for the Track Record Period.

### LEGAL PROCEEDINGS

As at the Latest Practicable Date, we were not a party to any legal or administrative proceedings pending or, to our knowledge, threatened against us or any of our Directors that could have a material adverse effect on our business or operations. Our Directors are not aware of any claims or proceedings in relation to exploration rights contemplated by government authorities or third parties which would materially and adversely affect our business.