This section should be read in conjunction with our audited consolidated financial statements, including the notes thereto, for the three years ended 31 December 2009, 2010 and 2011 as set out in the Accountant's Report in Appendix I to this prospectus. All applicable new and revised Hong Kong financial reporting standards coming into full effect during the Track Record Period and related to our Group have been applied during the Track Record Period. The financial information of our Group has been prepared in accordance with the historical cost convention other than certain assets and liabilities which, if applicable, have been measured at the fair value.

The following discussions and analyses contain certain forward-looking statements that involve risks and uncertainties. These statements are based on our experience and opinions on historical trends, the current status and contemplated future development and other assumptions and analyses made by us as they deem applicable to the situation. However, whether the actual result and development are in line with our expectation and forecast depends on risks and uncertainties which are beyond our control. For additional information on these risks and uncertainties, please refer to the section headed "Risk Factors" of this prospectus.

OVERVIEW

We are principally engaged in iron and ilmenite ore exploration, iron ore mining and iron ore processing, and production and sale of iron concentrates through our operating entity in Shandong Province, the PRC. As of November 2011, the total proved and probable iron ore reserves of our Yangzhuang Iron Mine were approximately 43.9 Mt, and the total proved and probable ore reserves of our Zhuge Shangyu Ilmenite Mine and Qinjiazhuang Ilmenite Project were approximately 546.3 Mt and 86.6 Mt.

Our revenue for the three years ended 31 December 2009, 2010 and 2011 were approximately RMB196.4 million, RMB485.5 million and RMB1,010.3 million respectively. The sale of iron concentrates produced by our processing plants represented approximately 100.0%, 89.0% and 68.0% of our Group's total revenue for each of the three years ended 31 December 2011. The remaining revenue were derived from trading of iron concentrates, coarse iron powder, iron pellets and other iron related products. The principal customers of iron concentrates produced by us are mainly iron pellets or steel producers in Shandong Province, the PRC. In addition to those customers of iron concentrates produced by us, we also sold our trading goods to other customers engaged in trading and manufacturing of iron related products in the PRC.

Our revenue increased dramatically by 147.1% in the year ended 31 December 2010 as compared to the year ended 31 December 2009 mainly due to (1) the average selling price of iron concentrates produced by us increased significantly from RMB714.3 per tonne to RMB1,026.6 per tonne as a result of the recovery of China's economy in 2010 from the global financial crisis, (2) increase in the amount sold of iron concentrates produced by us as our Directors strategically reduced the sales of iron concentrates produced by us in 2009 in view of the decline in average selling price and in the expectation that price would pick up in 2010, and (3) commencement of trading of iron pellets and other iron related products during 2010. Revenue for the year ended 31 December 2011 increased by 108.1% as compared to the year ended 31 December 2010. This was mainly due to (1) increase in average selling price of iron concentrates produced by us from RMB1,026.6 per tonne in 2010 to RMB1,184.5 per tonne in 2011, (2) increase in the amount sold of iron concentrates produced by us as we purchased more coarse iron powder to process into iron concentrates with iron content of 65% in order to fulfill our customers' demand, and (3) substantial increase in revenue derived from trading activities by 508.1% in 2011.

RESULTS OF OPERATIONS

The following tables set out our consolidated statements of comprehensive income, summary consolidated statements of financial positions and summary consolidated statements of cash flows:

Consolidated statements of comprehensive income

Set out below is a summary of our audited consolidated results for each of the three years ended 31 December 2009, 2010 and 2011:

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Revenues	196,447	485,452	1,010,252
Cost of sales	(124,722)	(281,063)	(734,056)
Gross profit	71,725	204,389	276,196
Selling and distribution costs	(4,487)	(4,602)	(9,649)
Administrative expenses	(19,381)	(31,732)	(41,462)
Other (losses)/gain, net	(125)	(2,502)	3,016
Profit from operations	47,732	165,553	228,101
Finance income	1,621	1,156	2,425
Finance costs	(9,945)	(23,733)	(50,888)
Finance costs, net	(8,324)	(22,577)	(48,463)
Share of loss of an associate	–	(851)	(1,606)
Profit before income tax	39,408	142,125	178,032
Income tax expense	(10,679)	(39,563)	(48,042)
Profit for the year	28,729	102,562	129,990
Other comprehensive income			
Change in value on available-for-sale financial assets	–	–	(1,064)
Currency translation differences	(734)	3,230	(1,409)
Total comprehensive income for the year	27,995	105,792	127,517
Total comprehensive income attributable to:			
Equity holders of our Company	28,679	109,468	130,416
Non-controlling interests	(684)	(3,676)	(2,899)
	27,995	105,792	127,517
Earnings per share attributable to the equity holders of the Company (Expressed in RMB per share)			
Basic and diluted	26.27	96.53	118.93
Dividends	–	100,000	80,000

Summary consolidated statements of financial position

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
ASSETS			
Non-current assets	107,662	157,441	229,349
Current assets	651,442	804,805	866,005
Total assets	759,104	962,246	1,095,354
Non-current liabilities	162,210	214,990	173,167
Current liabilities	233,162	425,011	484,294
Total liabilities	395,372	640,001	657,461
Total equity	363,732	322,245	437,893

Summary consolidated statements of cash flows

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Net cash used in operating activities	(21,193)	(152,910)	(150,820)
Net cash generated from/(used in) investing activities	(224,145)	22,167	165,998
Net cash generated from financing activities	281,548	50,251	148,184
Net increase/(decrease) in cash and cash equivalents	36,210	(80,492)	163,362
Cash and cash equivalents, at beginning of the year	86,826	122,539	39,903
Effect of foreign exchange rate changes	(497)	(2,144)	(679)
Cash and cash equivalents at end of the year	122,539	39,903	202,586

BASIS OF PRESENTATION

Our financial information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). Our Company is an investment holding company. Our Group are principally engaged in iron and ilmenite ore exploration, iron ore mining, iron ore processing to produce iron concentrates.

Prior to the incorporation of our Company and the completion of the Reorganisation, Shandong Ishine and its subsidiaries and associates are engaged in (i) iron ore mining, iron ore processing, sales of iron concentrate in the PRC and exploration of metal reserves in Australia ("**Listing Businesses**"), and (ii) other businesses that are not within and have never been part of the Listing Businesses ("**Excluded Businesses**"). The entities that conduct the Excluded Businesses are:

Name of subsidiary/ associates	Place of incorporation	Percentage of shareholding	Principal operation
Ausrich	Australia	100%	Holding of certain investment property in Australia
Thailand Chang Sheng	Thailand	49%	Construction and operation of an iron ore processing plant in Thailand
Shengrong Small Loans	The PRC	20%	Finance and loan business

In preparation for the listing of our Company's Shares on the Main Board of the Stock Exchange, our Group underwent certain transactions to transfer the Listing Business to our Company and to dispose of the Excluded Businesses.

As the Reorganisation effected the separation of the Excluded Businesses from the iron ore mining and processing, sales of iron concentrates and metal reserve exploration businesses, the Financial Information is presented using predecessor cost accounting in a manner similar to the uniting of interests method.

The consolidated financial statements of our Group have been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. The consolidated statements of comprehensive income, consolidated cash flow statements and consolidated statements of changes in equity of our Group for each of the years ended 31 December 2009, 2010 and 2011 have been prepared using the financial information of the companies engaged in the Listing Businesses, under the common control of our Controlling Shareholders and now comprising our Group as if the current group structure had been in existence throughout each of the years ended 31 December 2009, 2010 and 2011, or since the respective dates of incorporation/establishment of the companies, or since the date when the companies first came under the control of our Controlling Shareholders, whichever is a shorter period. The consolidated balance sheets of our Group as at 31 December 2009, 2010 and 2011 have been prepared to present the assets and liabilities of the companies now comprising our Group, as if the current group structure had been in existence as at these dates. The net assets and results of our Group were consolidated using the existing book values from our Controlling Shareholders' perspective.

The financial information of the Excluded Businesses is not included in the Financial Information, because (i) such businesses had historically been managed by separate management teams different from that of the Listing Businesses; (ii) such businesses were dissimilar from the Listing Businesses in terms of business risks and rewards, customer bases and content and had not formed part of our Group pursuant to the Reorganisation; and (iii) such businesses had limited shared facilities and few inter or intra company transactions with the Listing Businesses.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our business performance and financial condition have been affected by a number of important factors which we believe will continue to affect our financial condition and results of operations in the future. Our results are primarily affected by the following factors:

PRC economic growth and overall demand for our product

Iron has diverse industrial uses and their demand depends on, among others, the state of the global economy, stability of international trade and the demand from the steel industry. In recent years, China has become an important market and its influence on the global iron industry has been increasing. According to the CRU Report, China has been a net importer of iron ore. Chinese imports increased by 619.2% during the period between 2001 and 2011, and the import requirement is forecasted to grow by a CAGR of 9.9% up to 2015. Moreover, Shandong Province recorded the second largest domestic shortfall in iron ore supply amount to the total domestic iron ore demand amount in China in 2011 according to CRU. The shortfall in the domestic supply of iron ore, especially in Shandong Province where all our customers are located presents huge market opportunities for our iron concentrates. Details of the iron ore market are set out in the section headed "Industry Overview" of this prospectus.

Price of products

The unit price of our iron concentrates is mainly based on the iron content contained in our iron concentrates. During the Track Record Period, we produced iron concentrates containing 65% iron content. Such content grade was requested by our customers in order to meet their manufacturing process requirements. Fluctuation in the price of iron concentrates is influenced by a number of factors, including but not limited to the global, PRC and Shandong supply of and demand for iron ore products and the prosperity of the Shandong steel industry.

According to the CRU Report, the selling price of iron concentrates produced by us is similar to the market price of 65% iron content concentrates in Shandong Province. Our Directors believe that this is due to all of our existing and potential customers are located in Shandong Province, and the selling price of our products is generally influenced by market prices in Shandong Province.

Average selling prices of iron concentrates produced by us during the Track Record Period are illustrated in the table below:

Year	**Average selling price per tonne of our iron concentrates**	**Percentage increase (decrease) from previous year**
	(RMB)	*(%)*
2009	714.3	N/A
2010	1,026.6	43.7
2011	1,184.5	15.4

The average selling price of iron concentrates began to pick up in the first quarter of 2010 and continued such trend to the end of the Track Record Period as a result of the recovery of the global economy and the stimulus plans implemented by the PRC government which raised the demand for steel in the PRC.

The quarterly average selling price of iron concentrates produced by us from 1 January 2009 to 31 December 2011 are set out as follows:

Average selling price per tonne *(RMB)*											
First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
2009				**2010**				**2011**			
730	617	723	717	877	1,069	1,005	1,112	1,242	1,201	1,233	1,085

According to the CRU Report, demand for iron ore in the PRC has been exceeding the domestic supply of iron ore, and the import requirement is expected to enlarge further out to 2015. Moreover, Shandong Province recorded the second largest domestic shortfall in total iron ore supply amount to the total domestic iron ore demand amount in China in 2011 according to CRU. These factors will contribute to continuing increase in selling price for our iron concentrates in the future.

We believe that we will benefit from the increased demand for steel created by the PRC government stimulus plan and the continued shortfall in domestic supply of iron ore in Shandong Province. Nevertheless, in the event that the demand for iron ore products in the PRC and Shandong Province decreases, the market price will decrease and that may have a material adverse effect on our business, financial condition and results of operations. See the section headed "Risk Factors – Risks Relating to Our Business and Industry – Our business depends on the economic growth of the PRC, the performance of the PRC iron and steel industries and the growth of the PRC titanium and titanium-related industries" of this prospectus.

Sales volume

The following table shows the fluctuations of the sales volume of iron concentrates during the Track Record Period:

	Year ended 31 December		
	2009	**2010**	**2011**
	(Kt)	*(Kt)*	*(Kt)*
Sales volume:			
• Sales of iron concentrates produced by us *(Note 1)*			
– Sales volume of iron concentrates produced by iron ores from our Yangzhuang Iron Mine (Kt)	275.0	378.9	328.1
– Sales volume of iron concentrates produced by mixing (Kt)	–	42.2	251.9
	275.0	421.1	580.0
• Sales of iron concentrates purchased for trading purpose *(Note 2)*	–	–	9.1

Notes:

1. *During the Track Record Period, the only product which we produced was iron concentrates (65% iron content). During the Track Record Period, we produced our iron concentrates through the following ways:*

   – *during 2009, we produced iron concentrates using solely iron ores mined from our Yangzhuang Iron Mine;*

   – *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%; and*

– *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%.*

2. *Sales of iron concentrates purchased from Independent Third Parties represent iron concentrates directly purchased from Independent Third Parties for on-sale to our customers.*

The sales volume of iron concentrates produced by us fluctuated moderately during the Track Record Period. The sales volume of our iron concentrates increased by approximately 53.1% from approximately 275.0 Kt for the year ended 31 December 2009 to approximately 421.1 Kt for the year ended 31 December 2010. The sales volume increased by approximately 37.7% from approximately 421.1 Kt for the year ended 31 December 2010 to approximately 580.0 Kt tonnes for the year ended 31 December 2011. Our Directors consider the fluctuation in the sales volume of our iron concentrates from 2008 to 2011 was consistent with the market general demand for iron and steel products in the PRC as explained above.

We recorded trading volume of iron concentrates of approximately nil, nil, and 9.1 Kt respectively during the Track Record Period. We purchased iron concentrates directly from Independent Third Parties for on-sale to our customers for the year ended 31 December 2011 in order to fulfill our customers' excess demand during these periods over our production volume.

The sales volume of our products is generally dependent upon our mineral reserves, processing capacity and the demand for our products. We expect that the main driver of our revenue growth in the future will be the expansion of mining capacity from our current Yangzhuang Iron Mine, the commencement of production of our Zhuge Shangyu Ilmenite Mine, and the expansion of our processing capacity.

Our mineral reserves and processing capacity

In accordance with the CRU Report, we have the largest known iron ore reserves in Shandong Province and 2.9% of the total known iron ore reserves in the PRC. Such large amount of iron ore reserves offers us huge opportunities in future expansion and development. As only one of our iron ore mines and projects was in operation as at the Latest Practicable Date, our future growth will largely be dependent on our capital investment plan to increase our mining and processing capacity. For details of our expansion and construction plan, please see sections headed "Business – Business Strategies" and "Future Plans and Use of Proceeds" of this prospectus.

Cost of sales

The following table sets forth the breakdown of our cost of sales for the periods indicated:

	Year ended 31 December					
	2009		2010		2011	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Cost of sales from production activities						
– Payment to Mining Contractors	57,676	46.2%	68,666	24.4%	71,983	9.8%
– Payment to Blasting Contractor	6,862	5.5%	8,322	3.0%	5,624	0.8%
– Purchase of coarse iron powder	–	–	–	–	228,254	31.1%
– Purchase of iron concentrates	–	–	41,112	14.6%	44,001	6.0%
– Cost of other raw materials	18,398	14.8%	16,624	5.9%	24,024	3.3%
– Power and utilities	18,832	15.1%	22,563	8.0%	23,953	3.3%
– Employee benefits	8,608	6.9%	10,443	3.7%	16,354	2.1%
– Resources tax and sales tax surcharges *(Note 1)*	14,240	11.4%	16,806	6.0%	17,050	2.3%
– Depreciation and amortisation	12,632	10.1%	11,770	4.2%	13,819	1.9%
– Repairs and maintenance	3,172	2.5%	7,366	2.6%	5,130	0.7%
– Tenement and exploration expenses	1,058	0.8%	490	0.2%	792	0.1%
– Other expenses	2,205	1.9%	8,933	3.2%	12,212	1.7%
Subtotal	143,683	115.2%	213,095	75.8%	463,196	63.1%
Inventory movement *(Note 2)*	(18,961)	(15.2%)	13,673	4.9%	(21,628)	(2.9%)
Total cost of sales from production activities	124,722	100.0%	226,768	80.7%	441,568	60.2%
Cost of sale from trading activities						
– Trading of iron concentrates	–	–	–	–	9,166	1.2%
– Trading of coarse iron powder	–	–	1,669	0.6%	230,753	31.4%
– Trading of iron pellets	–	–	42,417	15.1%	48,605	6.6%
– Trading of other iron related products	–	–	3,344	1.2%	861	0.2%
Total cost of sales from trading activities	–	–	47,430	16.9%	289,385	39.4%
Exploration costs incurred by Ishine International	–	–	6,865	2.4%	3,103	0.4%
Total cost of sales	124,722	100.0%	281,063	100.0%	734,056	100%

Notes:

1. *Resources tax and sales tax surcharges consist of both resources tax and urban construction and education surcharges, of which resources tax is fully attributable to production activities while urban construction and education surcharges could not be accurately attributable to production and trading activities, hence are allocated pro rata as to revenue earned from production activity, and each of the trading activities. Urban construction and education surcharges allocated to each of the trading activities were included in cost of sales of each such activity.*

2. *Inventory movement represents aggregate cost of finished goods (excluding trading goods), iron ores, and other raw materials (explosives and detonators) as of the beginning of the year less aggregate cost of finished goods (excluding trading goods), iron ores, and other raw materials (explosives and detonators) at the end of the year.*

Payment to Independent Third Party Mining Contractors represents fees paid for iron ore mining services provided and was calculated based on the volume of iron ore mined and unit mining service fee. Payment to Independent Third Party Mining Contractors increased by 19.1% from 2009 to 2010 as fees charged by our Independent Third Party Mining Contractors increased during 2010. Payment to Independent Third Party Mining Contractors increased mildly for 2011 as compared to 2010 which was consistent with the increase in iron ore mined from approximately 2.0 Mt during the year ended 31 December 2010 to approximately 2.1 Mt during the year ended 31 December 2011.

Payment to Independent Third Party Blasting Contractor represents fees paid for explosives and detonators used during the mining process purchased from it and the blasting service fees paid to it. Payment to Independent Third Party Blasting Contractor increased significantly by 21.3% during 2010 as compared to 2009 though the volume of iron ore mined during both 2009 and 2010 was approximately 2.0 Mt. This was due to that more mining infrastructure work that required use of blasting services but generated little iron ore was done during 2010 than during 2009. Such type of work was substantially reduced during 2011, therefore, payment to Independent Third Party Blasting Contractor decreased by 32.4% though volume of iron ore mined increased from 2010 to 2011.

We purchased and used a significant amount of coarse iron powder of approximately RMB224.8 million, or approximately 286.4 Kt during 2011 to produce iron concentrates, which was further mixed with those iron concentrates produced from iron ore mined from our Yangzhuang Iron Mine and iron concentrates sourced from other suppliers with various grades of iron content to produced iron concentrates with iron content of 65%. Such significant increase in 2011 was contributed by our increased capacity in processing coarse iron powder as represented by (1) installation of Dry Grinding Workshop in March 2011 which had a planned processing capacity of approximately 0.18 Mt per annum and was used to process non-magnetic coarse iron powder, and (2) the increase of ore processing capacity of our Third Yangzhuang Processing Facility by approximately 0.71 Mt following the 2011 Processing Facility Expansion. We used the excess capacity of our Third Yangzhuang Processing Facility to process magnetic coarse iron powder.

Cost of other raw materials mainly consisted of cost of spare parts of machineries used in our processing activities, other raw materials, and diesel used by our Independent Third Party Mining Contractors and us in transporting our iron ores. Cost of other raw materials declined by 9.6% during 2010 as compared to 2009 as we supplied a fixed quantity of diesel to our Independent Third Party Mining Contractors for free during 2009 but charged for actual quantity of diesel used by them at a fixed price during 2010, and the amount charged and received was offset with our purchase costs. Cost of other raw materials increased for the year ended 31 December 2011 as compared to the year ended 31 December 2010 as more spare parts were purchased as a result of the 2011 Processing Facility Expansion and the average purchase price of diesel increased during 2011.

We consumed a substantial amount of electricity in our operations and purchased electricity from the local electric company at market prices. This represents 15.1%, 8.0%, and 3.3% of the total cost of sales for each of the three years ended 31 December 2009, 2010 and 2011 respectively. Any changes in prices of electricity and coal which is the major raw material for generating electricity in the future will continue to impact on our cost of sales, and will adversely affect our results of operations to the extent such price increases cannot be transferred to our customers.

Cost of sales from trading activities accounted for nil, 16.9% and 39.4% of total cost of sales for the three years ended 31 December 2009, 2010 and 2011 respectively. Goods that have been traded included iron concentrates, coarse iron powder, iron pellets, and other iron related products. These goods have been sold to customers who purchased iron concentrates produced by us in order to meet their excess demand for iron concentrates over our production volume and to provide other iron related products upon their requests during the Track Record Period. We conducted trading activities in coarse iron powder with a significant volume during 2011 where we purchased coarse iron powder at total cost of sales of approximately RMB230.8 million and resold it to companies engaged in trading and/or manufacturing of iron related products for a profit.

Financial performance and position of Ishine International

Ishine International, our indirect non-wholly owned subsidiary, was incorporated on 18 September 2009, and is principally engaged in the business of the exploration of mineral resources in Australia. A summary of the financial performance and position of Ishine International is detailed below:

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Revenues	–	–	–
Cost of sales	–	(6,865)	(3,103)
Gross loss	–	(6,865)	(3,103)
Selling and distribution costs	–	–	–
Administrative expenses	(1,455)	(6,854)	(6,635)
Other (losses)/gain, net	–	(417)	4,440
Loss from operations	(1,455)	(14,136)	(5,298)
Finance income	–	–	35
Finance costs	–	(2)	–
Finance costs, net	–	(2)	35
Share of loss of an associate	–	(851)	(1,606)
Loss before income tax	(1,455)	(14,989)	(6,869)
Income tax expense	–	–	–
Loss for the year/period	(1,455)	(14,989)	(6,869)

	As at 31 December		
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	651	864	640
Intangible assets	7,509	8,253	7,859
Investment in an associate	–	4,062	–
Available-for-sale financial assets	–	–	4,256
Other financial assets	–	1,268	561
	8,160	14,447	13,316
Current assets			
Prepayments and other receivables	170	563	288
Cash and cash equivalents	37,807	20,383	16,947
	37,977	20,946	17,235
Total assets	46,137	35,393	30,551
Non-current liabilities	–	–	–
Current liabilities			
Accruals and other payables	1,995	1,549	5,672
Total liabilities	1,995	1,549	5,672
Total equity	44,142	33,844	24,879

Net loss of Ishine International increased from approximately RMB1.5 million in 2009 to approximately RMB15.0 million in 2010 by approximately RMB13.5 million mainly due to that Ishine International was established in September 2009 and operated for three months in 2009 during which period only limited start-up works were done. The increase in net loss was mainly contributed by (1) increase in cost of sales by approximately RMB6.9 million which mainly represented exploration expenses incurred, (2) increase in administrative expenses by approximately RMB5.4 million which mainly consisted of (i) increase in employee benefits by approximately RMB2.8 million as Ishine International employed its CEO and geologists during 2010 and paid employee benefits for twelve months for 2010 as compared to three months for 2009, (ii) increase in professional fees of approximately RMB0.6 million which consisted of mainly audit and financial advisory fees, and (iii) increase of other expenses of approximately RMB2.0 million such as rental fees and office expenses, (3) increase in share of loss of Athena

Resources Limited ("**Athena**"), an associate of Ishine International acquired in 2010 by approximately RMB0.9 million, and (4) other loss of approximately RMB0.7 million from fair value change of options of Athena's shares acquired concurrently with the acquisition of shares in Athena.

Net loss of Ishine International decreased by approximately RMB8.1 million in 2011 as compared to 2010, the decrease was mainly due to (1) other gain of approximately RMB4.4 million recorded in 2011 which mainly comprised (i) revaluation gain arising on reclassification of investment in Athena from associate to available-for-sale financial assets of approximately RMB3.1 million, (ii) contribution of approximately RMB2.0 million received for selling part of the interests in one of Ishine International's tenement projects, and offset by loss arising on investment in options of Athena's shares of approximately RMB0.7 million, and (2) decrease in cost of sales by approximately RMB3.8 million as we invested in our exploration projects less aggressively in 2011 as compared to 2010.

Property, plant and equipment mainly represented office equipment and furniture.

Intangible assets mainly represented our investment made in the joint venture exploration projects with Kabiri Resources Pty Ltd ("**Kabiri**"). The balance increased from 31 December 2009 to 31 December 2010 due to appreciation of AUD, Ishine International's functional currency against RMB, our Group's presentational currency. The balance decreased from 31 December 2010 to 31 December 2011 as a result of depreciation of AUD against RMB.

Investment in associates represented our investment in Athena, a company listed on the ASX (ASX code: AHN) and engaged in exploration of mineral resources. The balance decreased to nil as at 31 December 2011 as such investment was reclassified from an associate to available-for-sale financial assets during the second half of 2011 due to that (1) Ishine International's interest in Athena was diluted from 12.7%, as at 16 April 2010, the date of investment, to 7.8% as at 31 December 2011, and (2) Ishine International's representative had resigned from the board of Athena as a director. As a result, our Group no longer has significant influence over Athena. After the reclassification, investment in Athena is accounted at the market value of the shares of Athena as at the reporting date.

Other financial assets represented our investment in options of Athena's shares acquired concurrently with the acquisition of shares in Athena. Such assets were valued at each balance sheet date with movement in fair value recorded in the profit or loss.

The balance of cash and cash equivalents decreased throughout the Track Record Period as we paid out cash for various operational and investing purposes including payment for employees' salaries and benefits, payment for professional fees, payment for the joint venture projects with Kabiri, investment in shares and options of shares of Athena, and etc, while Ishine International did not generate any cash inflow from revenue during the same periods.

PRC taxes

Our primary business activities are conducted through our operating entity in the PRC, being Shandong Ishine, and thus, we are subject to PRC taxes, including but not limited to corporate income tax, value-added tax, resources tax, and etc. Any change in the PRC tax system will have impacts on our Group's profitability and financial position. During the Track Record Period, Shandong Ishine was subject to a corporate income tax rate of 25% and did not receive any PRC preferential tax treatment.

Australian taxes

Our other major subsidiary, being Ishine International, is primarily engaged in the business of the exploration of mineral resources and did not generate any taxable profit during the Track Record Period and was therefore not subject to any corporate income tax. Should Ishine International commence to generate any taxable profit, it would be subject to a corporate income tax of 30%. During the Track Record Period, Ishine International did not receive any preferential tax treatment.

Mineral Resource Rent Tax

On 19 March 2012, the Australian Federal Senate passed the Minerals Resource Rent Tax Bill 2011. The minerals resource rent tax ("**MRRT**") will apply at a rate of 30% on the taxable profit of existing and new iron ore and coal projects in Australia from 1 July 2012. Although the MMRT rate imposed will be 30%, this rate will be reduced for all companies by an extraction factor, such that the effective rate will be 22.5%. If a miner's total assessable mining profit from all its projects comes to less than AUD$75 million in a year, there is a low-profit offset that reduces the miner's liability to nil which will phase out between annual assessable mining profit of AUD$75 million and AUD$125 million. Further, a miner's MRRT liability for a mining project interest may be reduced by mining royalties, paid to the Australian Commonwealth, States and Territories, that relate to one or more other mining project interests.

As all of our Australian tenements are still at the preliminary stage of either assessment and appraisal or survey and exploration, our Australian tenements will not be subject to the MRRT at the moment. However, when mining operations in respect of our Australian tenements commence, we may be subject to the MRRT and, accordingly, our overall exposure to Australian tax may increase, which may have an impact on our Group's profitability and financial position. In addition, any new investment projects that we invest in, in the future, will not have to pay any tax until they have made enough profit to pay off upfront investment.

CRITICAL ACCOUNTING POLICIES

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

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of our Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within our Group.

Our Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the below specific criteria have been met:

(i) for sales of goods, when the goods have been delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the goods.

(ii) for interest income, on a time-proportion basis using the effective interest method.

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. Our Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Property, plant and equipment

Property, plant and equipment, which consist of buildings and structures, mining infrastructures, motor vehicles, equipment and others, are stated at historical cost, less accumulated depreciation and impairment losses. Other than mining infrastructures, depreciation of each asset is calculated using the straight-line method to allocate its cost less its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

	Estimated useful life
Buildings and structures	15 years
Motor vehicles, equipment and others	3-10 years

Mining infrastructures (including the main and auxiliary mine shafts and underground tunnels) are depreciated using the units of production method based on proved iron ore reserves in the depletion base. The proved and probable reserve of the mines and projects, assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses. Mining right includes the cost of acquiring mining licenses, costs transferred from exploration right and exploration and evaluation assets upon determination that an exploration property is capable of commercial production. The mining right is amortised using the units of production method based on iron ore reserves as the depletion base.

Exploration rights

Exploration rights are stated at cost less impairment loss. Exploration right includes costs incurred in acquiring exploration right and exploration tenement, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Exploration and evaluation assets

Exploration and evaluation expenditures comprise costs which are directly attributable to: researching and analysing existing exploration data; conducting geological studies, exploratory drilling and sampling; examining and testing extraction and treatment methods; and compiling pre-feasibility studies.

During the initial stage of a project, exploration and evaluation expenditures are expensed as incurred. Expenditure on a project after it has reached a stage at which there is a high degree of confidence in its viability is capitalised as exploration and evaluation assets if the project proceeds. If a project does not prove viable, all irrecoverable expenditures associated with the project are expensed in the consolidated statements of comprehensive income.

Exploration and evaluation assets are stated at cost less accumulated impairment losses. As the assets are not available for use, they are not depreciated. All capitalised exploration and evaluation expenditures are monitored for the indicators of impairment listed below:

i. the period for which our Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

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

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

iv. sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation assets are unlikely to be recovered in full from successful development or by sale.

When one or more of above indicators are triggered, impairment assessment is performed for each area of interest (which is define as each exploration license or tenement) in conjunction with our Group of operating assets (representing a cash-generating unit ("CGU") to which the exploration is attributed. Exploration areas at which reserves have been discovered but that require major capital expenditure before production can begin are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is underway or planned. If any impairment occurred, the impairment loss is charged to the consolidated statements of comprehensive income.

Exploration and evaluation assets are recorded at cost, less impairment charges. If the exploration and evaluation assets are sold or abandoned, the cost and the related accumulated impairment losses will be charged to the consolidated statements of comprehensive income in the period in which the sale or abandonment occurred.

Exploration and evaluation assets are transferred to mining right from the commencement of mining activities and are amortised based on unit of production basis.

Impairment provisions on accounts receivables, other receivables and inventory

We regularly review our Group's ability to collect all amounts due according to the original terms of the receivables. A provision for impairment of receivables is established when there is objective evidence that our Group will not be able to collect the full amount of the receivables. Inventories of our Group are stated at the lower of cost and net realisable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Provision for close down, restoration and environmental costs

Mining activities may result in land subsidence, which could lead to losses to the residents of the mining areas. Pursuant to the relevant PRC regulations, our Group is required to make compensation payments to the residents for their losses resulting from land subsidence, or to restore the mining areas back to certain acceptance conditions.

Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or result of operations of our Group. The PRC government, however, has moved and may move further towards the adoption of more stringent environment standards. Environmental liabilities are subject to considerable uncertainty which affect our Group's ability to estimate the ultimate cost to remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to, iron ore mines and land development areas, whether operation, closed or sold, (ii) the extent of required cleanup efforts, (iii) varying costs of alternative remediation strategies, (iv) changes in environmental remediation requirements, and (v) the identification of new remediation sites.

The provision for close down, restoration and environmental cleanup costs has been determined by management based on best estimate of future expenditures by discounting the expected expenditures to their net present value. In so far as the effect of the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associate costs may be subject to revision in the future. The amounts provided in relation to close down, restoration and environmental cleanup costs are reviewed at least annually based upon the facts and circumstances available at the time and provisions are updated accordingly.

Income tax

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

Current tax

We are incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law and the Cayman Islands currently levy no taxes on corporations based upon profits. Our PRC operating subsidiaries are subject to PRC enterprise income tax. As matters relating to PRC enterprise income tax are not usually confirmed by the relevant local tax authorities at the time when the financial statements are prepared, objective estimates based on currently enacted tax laws, regulations and other related policies are required in determining the provision of PRC enterprise income tax to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the income tax expenses and tax provisions in the period in which the differences realise.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial information. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax is provided on temporary differences arising on investments in associates, except where the timing of the reversal of the temporary difference is controlled by our Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Investment in associate and other financial assets

We have invested in Athena, which is a company listed on ASX (ASX code: AHN). As part of the subscription agreement between Ishine International and Athena, our Group also owns certain options to subscribe shares of Athena. Such options are classified as other financial assets of our Group. The fair value of our Group's investment in Athena and the options are regularly reviewed by our Directors and reflected in the financial statements in accordance with our Group's accounting policies. During the second half of 2011, Athena ceased to be our associate and the investment of which was reclassified to available-for-sale financial assets. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Share-based payments

Our Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees and other service provider as consideration for equity instruments (options) of our Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

i. including any market performance conditions (e.g. an entity's share price);

ii. excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

iii. including the impact of any non-vesting conditions (e.g. requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statements of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, our Group issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with our consolidated financial information included in the Accountant's Report and notes thereto set out in Appendix I to this prospectus.

Description of selected Consolidated Statement of Comprehensive Income Line Items

Revenue

Revenue was generated from the sale of our products to external customers net of value added tax as well as from our trading activities. Our revenue from sale of our products is affected by our total sales volume which in turn is subject to our mining and processing capacity and market conditions. The following table sets forth a breakdown of our Group's turnover by segments for the periods indicated.

	Year ended 31 December					
	2009		2010		2011	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Production						
– Sales of iron concentrates *(Note 1)*						
• from iron ore of Yangzhuang Iron Mine	196,447	100%	388,945	80.0%	388,662	38.5%
• from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder	–	–	43,347	9.0%	298,348	29.5%
	196,447	100%	432,292	89.0%	687,010	68.0%
Trading						
– Sales of iron concentrates *(Note 2)*	–	–	–	–	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	196,447	100.0%	485,452	100.0%	1,010,252	100.0%

Notes:

1. *During the Track Record Period, the only product which we produced was iron concentrates (65% iron grade). During the Track Record Period, we produced our iron concentrates through the following ways:*

   – *during 2009, we produced iron concentrates using solely iron ores mined from our Yangzhuang Iron Mine;*

– *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%; and*

– *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%.*

2. *Sales of iron concentrates purchased from Independent Third Parties represent iron concentrates directly purchased from Independent Third Parties for on-sale to our customers.*

Our revenue from sale of iron concentrates produced by us represents 100.0%, 89.0% and 68.0% of our Group's total turnover for each of the three years ended 31 December 2009, 2010 and 2011 respectively. We also sourced iron concentrates, coarse iron powder, iron pellets, and other iron related products for on sale to our trading customers.

Our revenue increased from approximately RMB196.4 million in 2009 to approximately RMB485.5 million in 2010 by 147.1%. This was due to that both average selling price and sales volume of iron concentrates produced by us have increased from RMB714.3 per tonne and approximately 275.0 Kt respectively in 2009 to RMB1,026.6 per tonne and approximately 421.0 Kt respectively in 2010 with the recovery of economy in 2010 from the global financial crisis. The increase in revenue was also contributed by commencement of our trading activities in 2010 of approximately RMB53.2 million. Revenue for 2011 surged by approximately RMB524.8 million, or 108.1% as compared to 2010 mainly due to the increase in sales of iron concentrates produced by us by approximately RMB254.7 million, or 58.9%, and increase in turnover from trading activities by approximately RMB270.0 million, or 508.1%, as compared to 2010. The increase in revenue from sales of iron concentrates produced by us was mainly due to (1) the increase of average selling price from RMB1,026.6 per tonne for 2010 to RMB1,184.5 per tonne for 2011, and (2) the increase of sales volume by approximately 158.9 Kt as we commenced processing coarse iron powder purchased from our suppliers for mixing with the iron concentrates produced from iron ore of Yangzhuang Iron Mine in order to utilise the increased processing capacity of our Yangzhuang Processing Facilities as a result of the 2011 Processing Facility Expansion.

Cost of sales

The following table sets forth a breakdown of our Group's cost of sales by segments for the periods indicated.

	Year ended 31 December					
	2009		**2010**		**2011**	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Production						
– Sales of iron concentrates	124,722	100.0%	226,768	80.7%	441,568	60.2%
Trading	–	–	47,430	16.9%	289,385	39.4%
Exploration costs incurred by Ishine International	–	–	6,865	2.4%	3,103	0.4%
Total	124,722	100.0	281,063	100.0%	734,056	100.0%

Cost of sales was mainly incurred during our production of iron concentrates and from purchase of iron related products for trading purpose. For the cost of sales incurred during production activities, it mainly consisted of mining contracting fees, blasting contracting fees, cost of other raw materials, power and utilities expenses, employee benefits, depreciation and amortisation, and other overhead costs. For a breakdown and description of the components of cost of sales, please see "Factors Affecting Results of Operations and Financial Condition – Cost of sales" in this section.

Mining contracting fees paid to our Independent Third Party Mining Contractors constituted a significant portion of our cost of sales during the Track Record Period as we relied on our Independent Third Party Mining Contractors in excavating iron ores from our Yangzhuang Iron Mine during the Track Record Period. We only engaged one Independent Third Party Mining Contractor in 2009, and engaged an additional Independent Third Party Mining Contractor in 2010 in order to diversify the over-reliance on one single Independent Third Party Mining Contractor and in view of the future increase in the scale of our mining operation.

Cost of sales surged significantly by approximately RMB156.3 million or 125.4% in 2010, of which increase in sales of iron concentrates produced by us, commencement of our trading activities, and exploration activities conducted by Ishine International contributed approximately RMB102.0 million, approximately RMB47.4 million and approximately RMB6.9 million of the increase in cost of sales respectively as compared to 2009. Cost of sales increased by approximately RMB453.0 million, or 161.2% in 2011, of which increase in sales of iron concentrates produced by us and increase in sales from our trading activities contributed approximately RMB214.8 million and approximately RMB242.0 million of increase in cost of sales respectively as compared to 2010.

Gross profit

The following tables set forth breakdowns of our Group's gross profit and gross profit margin by segments for the periods indicated. Gross profit margin is calculated as gross profit divided by revenue.

Gross profit	**Year ended 31 December**					
	2009		**2010**		**2011**	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Production						
– Sales of iron concentrates						
• from iron ore of Yangzhuang Iron Mine	71,725	100%	199,167	97.5%	204,031	73.9%
• from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder	–	–	6,357	3.1%	41,411	15.0%
	71,725	100%	205,524	100.6%	245,442	88.9%
Trading						
– Sales of iron concentrates	–	–	–	–	91	–
– Sales of iron pellets	–	–	5,657	2.8	1,597	0.6
– Sales of coarse iron powder	–	–	(18)	–	32,175	11.6
– Others	–	–	91	–	(6)	–
	–	–	5,730	2.8	33,857	12.2
Exploration costs incurred by Ishine International	–	–	(6,865)	(3.4)%	(3,103)	(1.1%)
Total gross profit	71,725	100.0%	204,389	100.0%	276,196	100.0%

Gross profit/(loss) margin	Year ended 31 December 2009	2010	2011
Production			
– Sales of iron concentrates	36.5%	47.5%	35.7%
Trading			
– Sales of iron concentrates	N/A	N/A	1.0%
– Sales of iron pellets	N/A	11.8%	3.2%
– Sales of coarse iron powder	N/A	(1.2)%	12.2%
– Others	N/A	2.7%	(0.7)%
	N/A	10.8%	10.5%
Overall gross profit margin *(Note)*	36.5%	42.1%	27.3%

Note: This overall gross profit/(loss) margin includes the effect of the exploration costs incurred by Ishine International.

Fluctuation of gross profit margin of production activities

Gross profit margin of iron concentrates produced by us increased by 11.0% from 2009 to 2010 as the average selling price of iron concentrates produced by us increased from RMB714.3 per tonne in 2009 to RMB1,026.6 per tonne in 2010 by 43.7%. Such increase was offset by increase of average cost of sales of iron concentrates produced by us from RMB453.5 per tonne in 2009 to RMB538.5 per tonne in 2010 by 18.7%. This was partly due to increase in average cost of sales per tonne of iron concentrates produced using ores from our Yangzhuang Iron Mine (and no mixing) from approximately RMB453.5 in 2009 to approximately RMB500.9 in 2010, which was mainly as a result of (i) increase in payment to mining contractors by 19.1% as fees charged by them increased; and (ii) increase in power and utilities expenses by 19.8% as unit price of electricity increased and more construction work in Yangzhuang Processing Facilities was done which increased the amount of electricity consumed. Such increase in cost of sales was also due to 10.0% of the sales volume of iron concentrates produced by us was produced by mixing iron concentrates of various grades of iron concentrates purchased from other suppliers at average unit cost of iron concentrates produced of approximately RMB876.5, which was higher than our unit cost of producing iron concentrates using ores from our Yangzhuang Iron Mine.

Gross profit margin of iron concentrates produced by us declined by 11.8% to 35.7% in 2011 though the average selling price of iron concentrates produced by us increased from RMB1,026.6 per tonne in 2010 to RMB1,184.5 per tonne in 2011 by 15.4%, as the average cost of sales of iron concentrates produced by us increased from RMB538.5 per tonne in 2010 to RMB761.3 per tonne in 2011 by 41.4%. This was partly due to increase in average cost of sales per tonne of iron concentrates produced using ores from our Yangzhuang Iron Mine (and no mixing) from approximately RMB500.9 in 2010 to approximately RMB562.7 in 2011, as a result of (i) increase in cost of other raw materials by 44.5% as more spare parts were purchased as a result of the 2011 Processing Facility Expansion and the average purchase price of fuel increased in 2011; and (ii) increase in employee benefits by 56.6% due to increase in salaries in 2011. Such increase in cost of sales was also due to 43.4% of the sales volume of iron concentrates produced by us was produced by mixing various grades of iron concentrates purchased from other suppliers and iron concentrates produced from processing coarse iron powder sourced from other suppliers, and the average unit cost of iron concentrates produced by mixing amounted to approximately RMB1,020.0, which was higher than unit cost of producing iron concentrates using ores from our Yangzhuang Iron Mine.

A further breakdown of the gross profit margin of iron concentrates produced using iron ore of our Yangzhuang Iron Mine, and the gross profit margin of iron concentrates produced from iron concentrates purchased from other suppliers and coarse iron powder purchased from other suppliers is detailed below, showing that the gross profit margin of iron concentrates produced by us has been dragged down by mixing iron concentrates purchased and/or produced from coarse iron powder purchased from other suppliers:

	Year ended 31 December		
	2009	**2010**	**2011**
	Gross profit margin (%)	*Gross profit margin (%)*	*Gross profit margin (%)*
Iron concentrates produced from iron ore of our Yangzhuang Iron Mine	36.5%	51.3%	52.5%
Iron concentrates produced from mixing iron concentrates purchased from other suppliers and/or iron concentrates produced from coarse iron powder purchased from other suppliers	–	14.7%	13.9%
Gross profit margin of iron concentrates produced by us	36.5%	47.5%	35.7%

Fluctuation of gross profit margin of trading activities

The gross profit margin of our trading activities remained stable at 10.5% in 2011 as compared with that of 2010 at 10.8% while the gross profit margin of individual trading goods fluctuated.

Gross profit/(loss) margin of trading of coarse iron powder increased from (1.2)% in 2010 to 12.2% in 2011 as the coarse iron powder originally purchased in 2010 were intended to be used for production of iron concentrates, however the iron ores mined from our Yangzhuang Iron Mine were actually sufficient to fully utilise our then processing capacity, accordingly, such coarse iron powder were subsequently sold with an intention to cover our original purchase costs. To the best of our Directors' knowledge, we were able to generate high gross profit margin in 2011 from trading of coarse iron powder as (i) we were able to identify 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 supplier; and (iii) we were able to solicit our trading customers and satisfy their demand for coarse iron powder. Gross profit margin of trading of iron pellets decreased from 11.8% in 2010 to 3.2% in 2011 as a result of market fluctuation.

We recorded gross loss margin for trading of others of 0.7% in 2011 as a result of steel segments were purchased in 2011 with the original intention to produce steel grinding balls for use in our processing facilities but subsequently we purchased sufficient steel grinding balls from other suppliers for our production. Accordingly, we sold all such steel segments at the original purchase price. After taking into account the sales tax allocated to such trading activities, the gross profit margin turned negative.

Fluctuation of overall gross profit margin

Overall gross profit margin rose by 5.6% during 2010 as gross profit margin of production activities increased during 2010, offset by commencement of trading activities which generated lower gross profit margin. The increase was also offset by the exploration costs incurred by Ishine International of approximately RMB6.9 million in 2010. Overall gross profit margin significantly dropped by 14.8% during 2011 as compared to that of the last corresponding period mainly due to that (1) decrease in gross profit margins of production activities, and (2) revenue derived from trading activities represented a larger percentage out of total revenue which generated much lower gross profit margin as compared to production activities.

Selling and distribution costs

Our selling and distribution costs primarily consist of transportation costs for the delivery of our products to our major customers. The following table sets forth the breakdown of our selling and distribution costs for the periods indicated:

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Transportation costs	4,434	4,380	9,451
Other expenses	53	222	198
Total	4,487	4,602	9,649

All transportation costs were incurred by us on behalf of our customers to deliver our products to their sites and were added to the contracted sales price with no mark-ups.

Administrative expenses

Administrative expenses mainly constitute employee benefits, depreciation and amortisation, professional fees, travelling expenses, entertainment expenses and other expenses. The following table presents the breakdown of our administrative expenses for the periods indicated:

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Power and utilities	35	73	186
Employee benefits	5,030	9,513	7,908
Sales tax and other surcharges	101	209	457
Depreciation and amortisation	1,968	2,749	5,572
Professional fees	127	1,859	11,371
Travelling expenses	1,571	4,475	2,908
Entertainment expenses	2,367	2,415	1,617
Vehicle fees	1,345	1,768	2,170
Office fees	603	700	366
Other expenses	6,234	7,971	8,907
Total	19,381	31,732	41,462

Employee benefits mainly represented salaries and social insurance expenses incurred by us for our employees during the Track Record Period. Depreciation and amortisation consisted mainly of depreciation of our office premises, motor vehicles and other equipments for administrative purposes. Professional fees mainly included fees paid to various professionals for audit, financial advisory, legal and other professional services. Travelling expenses were incurred by our employees for domestic or foreign business related visits, and entertainment expenses were mainly incurred in providing accommodation and caterings for our clients.

Other (losses)/gain, net

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Other (losses)/gain, net	(125)	(2,502)	3,016

Other (losses)/gain mainly represented gain or loss that are not related to our normal business activities, such as (losses)/gain from disposal of fixed assets, gain arising from reclassification of investment, farm-in contribution on tenement projects, (losses)/gain on financial assets, donation, government grant, and others.

During the Track Record Period, our Group received only one government grant (企業對外經濟技術合作專項資金) amounted to RMB1.25 million in December 2010 from the Finance Bureau of Linyi City, Shandong Province, the PRC due to investment in Ausrich in September 2009.

In 2005, the Ministry of Finance issued "Foreign Economic and Technical Cooperation Fund Management Approach" (《對外經濟技術合作專項資金管理辦法》) ("**Approach**"). Any Chinese enterprise could apply to the local Bureau of Finance for a grant if it satisfies the conditions stipulated in the Approach, including; (i) having obtained the written approval from the relevant PRC governmental departments for developing foreign economic cooperation business; and (ii) the investment amount by the Chinese party for an overseas investment project shall not be lower than US$1 million (or equivalent currencies). We have satisfied all necessary conditions for obtaining the government grants and there are no further conditions attached to the government grant after it was obtained.

According to this regulation, the grant should be made to an enterprise which has foreign investment approved by the authorities and the grant should be used to subsidise the pre-investment expenses, such as commercial and legal consultation fee, translation service fee and project bidding expenses, etc.

In 2010, the aforesaid grant was given to Shandong Ishine by the Finance Bureau of Linyi City under Lin Cai Qi Zhi [2010] No.50 (臨財企指 [2010] No.50), and the Finance Bureau of Shandong Province under Lu Cai Qi Zhi [2010] No.86 (魯財企指 [2010] No.86) in December 2010.

Finance costs, net

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Finance costs, net	(8,324)	(22,577)	(48,463)

Our net finance costs mainly represented interest expense on bank loans, and on discount of bank's acceptance notes of our Group during the Track Record Period, offset by interest income of bank deposits. The increase in finance costs during the Track Record Period was due to the increase in our bank borrowings during the Track Record Period and the discount of bank acceptance notes to convert into cash before maturity during 2011 to finance our operations.

It is estimated that approximately RMB16.1 million and RMB11.4 million of the finance costs in 2010 and 2011 respectively represented the additional finance costs incurred from bank borrowings to finance our operations which might not had incurred if we did not provide any loans to Mr. Li during the same periods. The additional finance cost is calculated based on the outstanding daily balance of the loans made to Mr. Li and the respectively effective daily interest rates in 2010 and 2011. As mentioned below, Mr. Li has fully settled all his outstanding loans due to us in 2011. We have no intention to make any loan to him in the future. Further details in relation to the loans made to Mr. Li are set out in the paragraph headed "Notes receivables" in this section.

Income tax expense

	Year ended 31 December		
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Income tax expense	(10,679)	(39,563)	(48,042)

Income tax expense consisted of provisions for current and deferred income tax expense. Overall, our effective tax rates for the years ended 31 December 2009, 2010 and 2011 were 27.1%, 27.8% and 27.0%, respectively.

Cayman Island profit tax

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law and the Cayman Islands currently levy no taxes on corporations based upon profits.

BVI profit tax

The subsidiary of our Company incorporated in the BVI under the BVI Business Companies Act 2004 of the British Virgin Islands is exempted from payment of BVI income tax.

Hong Kong profit tax

Hong Kong profits tax has not been provided for the subsidiaries of our Company in Hong Kong as there is no estimated assessable profit arising in or derived from Hong Kong during the Track Record Period.

PRC tax

Corporate income tax ("CIT") in the PRC is calculated based on the statutory profit of our subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC corporate income tax laws and regulations (the "PRC CIT Laws"), the tax rate for, Shandong Ishine, was 25% from 1 January 2008.

Pursuant to PRC CIT Law, 10% withholding income tax will be levied on dividends distribution from our Group's PRC subsidiary to our Hong Kong incorporated intermediate parent companies. If these Hong Kong incorporated intermediate parent companies fall within qualified investors as defined by the PRC CIT Laws, a treaty rate of 5% will apply. Ishine Mining and SMI will be subject to a 5% withholding tax rate imposed by the local tax bureau in accordance with the PRC CIT Laws. As at 31 December 2011, Shandong Ishine, the subsidiary of our Group incorporated in PRC, with total retained earnings amounted to approximately RMB184.0 million will be subject to this withholding tax. Our Group did not recognize the related deferred tax liabilities of approximately RMB9.2 million as at 31 December 2011, as our Directors had confirmed that retained earnings up to 31 December 2011 of Shandong Ishine will not be distributed in the future.

Australia corporate income tax

Australia corporate income tax rate is 30%. Australia corporation income tax has not been provided for our subsidiary in Australia as there is no estimated assessable profit arising in or derived from Australia during the Track Record Period.

RESULTS OF OPERATIONS

The results of the operations of our Group during the Track Record Period are summarised as follows, which are derived from the Accountant's Report attached as Appendix I to this prospectus:

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Revenues	196,447	485,452	1,010,252
Cost of sales	(124,722)	(281,063)	(734,056)
Gross profit	71,725	204,389	276,196
Selling and distribution costs	(4,487)	(4,602)	(9,649)
Administrative expenses	(19,381)	(31,732)	(41,462)
Other (losses)/gain, net	(125)	(2,502)	3,016
Profit from operations	47,732	165,553	228,101
Finance income	1,621	1,156	2,425
Finance costs	(9,945)	(23,733)	(50,888)
Finance costs, net	(8,324)	(22,577)	(48,463)
Share of loss of an associate	–	(851)	(1,606)
Profit before income tax	39,408	142,125	178,032
Income tax expense	(10,679)	(39,563)	(48,042)
Profit for the year	28,729	102,562	129,990

	Year ended 31 December		
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Other comprehensive income			
Change in value on available-for-sale financial assets	–	–	(1,064)
Currency translation differences	(734)	3,230	(1,409)
Total comprehensive income for the year	27,995	105,792	127,517
Total comprehensive income attributable to:			
Equity holders of our Company	28,679	109,468	130,416
Non-controlling interests	(684)	(3,676)	(2,899)
	27,995	105,792	127,517
Earnings per share attributable to the equity holders of the Company (expressed in RMB per share)			
Basic and diluted	26.27	96.53	118.93
Dividends	–	100,000	80,000

Year ended 31 December 2011 compared to year ended 31 December 2010

Revenue

Revenue increased by approximately 108.1% from approximately RMB485.5 million for the year ended 31 December 2010 to approximately RMB1,010.3 million for the year ended 31 December 2011. Such increase was mainly contributed by increase of sales of iron concentrates produced by us by approximately RMB254.7 million and increase of sales in trading activities of approximately RMB270.0 million. Increase in sales of iron concentrates produced by us was mainly due to increase in average selling price of iron concentrates produced by us from RMB1,026.6 per tonne for the year ended 31 December 2010 to RMB1,184.5 per tonne for the year ended 31 December 2011 and increase in sales volume from 421.1 Kt for the year ended 31 December 2010 to 580.0 Kt for the year ended 31 December 2011. During the year ended 31 December 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%. During the year ended 31 December 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%. This was done in response to our client's excess demand over our processing volume.

Increase of revenue from trading activities was mainly attributable to increase of sales of coarse iron powder of approximately RMB261.3 million, and increase of sales of iron concentrates of approximately RMB9.3 million. The substantial trading amount of coarse iron powder during 2011 was all sourced from a sizeable trading companies in Shandong province. For details of the transactions, please refer to the section headed "Business – Products – Trading products" and "Business – Major suppliers" of this prospectus.

Cost of sales

Cost of sales increased by approximately 161.1% from approximately RMB281.1 million for the year ended 31 December 2010 to approximately RMB734.1 million for the year ended 31 December 2011. Such increase was mainly contributed by increase of cost of sales of iron concentrates produced by us by approximately RMB214.8 million and increase of cost of sales in trading activities of approximately RMB242.0 million. The increase in cost of sales was consistent with the increase in revenue as explained above.

Gross profit

As a result of the foregoing, our gross profit increased by 35.1%, or approximately RMB71.8 million, from RMB204.4 million for the year ended 31 December 2010 to approximately RMB276.2 million for the year ended 31 December 2011.

Selling and distribution costs

Selling and distribution costs increased significantly by 109.7% from approximately RMB4.6 million for the year ended 31 December 2010 to approximately RMB9.6 million for the year ended 31 December 2011. This was primarily due to that we delivered more of our products to clients' sites during 2011 upon their requests than during 2010. Such transportation costs were incurred by us on behalf of our customers and were added to the contracted sales price.

Administrative expenses

Administrative expenses increased from approximately RMB31.7 million for the year ended 31 December 2010 to approximately RMB41.5 million for the year ended 31 December 2011. This increase was mainly due to the increase in professional fees of approximately RMB9.5 million which mainly represented fees paid to various professionals for audit, financial advisory, legal and other professional services provided to our Group for preparation of Listing.

Other (losses)/gain, net

We incurred other gain of approximately RMB3.0 million for the year ended 31 December 2011 as compared to other loss of approximately RMB2.5 million for the year ended 31 December 2010 which was mainly contributed by (1) revaluation gain arising on reclassification of investment in Athena from associate to available-for-sale financial assets of approximately RMB3.1 million, (2) contribution of approximately RMB2.0 million received for selling part of the interests in one of Ishine International's tenement projects, and offset by (i) loss arising from investment in options of Athena's shares of approximately RMB0.7 million, and (ii) loss from disposal of fixed assets of approximately RMB1.5 million.

Finance costs, net

Net finance costs more than doubled from approximately RMB22.6 million for the year ended 31 December 2010 to approximately RMB48.5 million for the year ended 31 December 2011. This was mainly due to (1) the increase in interest expense of bank borrowings of approximately RMB16.0 million as a result of increase in total bank borrowings from RMB408.0 million as at 31 December 2010 to RMB517.6 million as at 31 December 2011 and increase in weighted average effective interest rate of our bank loans from 5.58% as at 31 December 2010 to 7.00% as at 31 December 2011, and (2) increase in interest expense on discount of our notes receivables of approximately RMB10.1 million as approximately RMB346.3 million of bank acceptance notes were converted into cash before maturity in 2011.

Profit before income tax and income tax expense

Profit before income tax increased from approximately RMB142.1 million for the year ended 31 December 2010 to approximately RMB178.0 million for the year ended 31 December 2011 by approximately RMB35.9 million or 25.3%, which was mainly due to our increase in gross profit by approximately RMB71.8 million, offset by increase in administrative expenses and finance costs. Income tax expense increased by 21.4% from the year ended 31 December 2010 to the year ended 31 December 2011 which was consistent with the increase in profit before income tax by 25.3%.

Total comprehensive income

As a result of the foregoing, our total comprehensive income increased by 20.5%, or approximately RMB21.7 million, from approximately RMB105.8 million for the year ended 31 December 2010 to approximately RMB127.5 million for the year ended 31 December 2011.

Non-controlling interests

Non-controlling interests reported total comprehensive loss of approximately RMB2.9 million for the year ended 31 December 2011 as compared to total comprehensive loss of approximately RMB3.7 million for the year ended 31 December 2010, representing non-controlling shareholders' share of the loss incurred in our Australia subsidiary, Ishine International.

Dividends

Dividends of RMB80 million were declared for the year ended 31 December 2011 (year ended 31 December 2010: RMB100 million) as an appropriation of retained earnings to the shareholders.

Year ended 31 December 2010 compared to the year ended 31 December 2009

Revenue

Revenue increased by approximately RMB289.0 million, or 147.1% from approximately RMB196.4 million for the year ended 31 December 2009 to approximately RMB485.5 million for the year ended 31 December 2010. This increase in revenue was primarily due to increase in sales of iron concentrates produced by us of approximately RMB235.8 million and increase in revenue generated from trading activities of approximately RMB53.2 million. The increase in sales of iron concentrates produced by us was mainly due to increases in both prices and sales volume of our products during 2010. The average selling price of iron concentrates produced by us increased from approximately RMB714.3 per tonne for the year ended 31 December 2009 to approximately RMB1,026.6 per tonne for the year ended 31 December 2010. The sales volume of iron concentrates produced by us increased from approximately 275,000 tonnes for the year ended 31 December 2009 to approximately 421,100 tonnes for the year ended 31 December 2010. This represented an increase of approximately 43.7% and 53.1% in average selling price and sales volume, respectively. No revenue was generated from trading activities for the year 2009. As a result of the increase in customers' demand driven by the improved economic environment after recovery from the financial crisis in 2009, our trading activities resumed in 2010.

Cost of sales

Our cost of sales increased by 125.4% or RMB156.3 million during the above mentioned period. The increase in cost of sales was primarily due to the increase in our sales volume as well as the resumption of our trading activities.

Gross profit

As a result of the foregoing, our gross profit increased by 185.0%, or RMB132.7 million, from RMB71.7 million in 2009 to RMB204.4 million in 2010.

Selling and distribution costs

Our selling and distribution costs increased marginally by 2.6%, or RMB0.1 million, as the transportation costs which constituted the major component of our selling and distribution costs remained stable. This was due to that nearly all additional sales of iron concentrates during 2010 were transported by our customers to their sites.

Administrative expenses

Our administrative expenses increased by approximately 63.4% from approximately RMB19.4 million for the year ended 31 December 2009 to approximately RMB31.7 million for the year ended 31 December 2010 by approximately RMB12.3 million. This increase in administrative expenses was primarily due to increase in employee benefits of approximately RMB4.5 million as a result of increase in salaries of employees in Shandong Ishine, and that Ishine International was established in September 2009 and incurred much less employee benefits expenses as compared to 2010, increase in professional fees of approximately RMB1.7 million, increase in depreciation and amortisation of approximately RMB0.8 million, and increase in travelling expenses of approximately RMB2.9 million which was mainly incurred by directors for business trips to Ishine International in Australia.

Other losses, net

Other loss increased significantly from RMB0.1 million in 2009 to approximately RMB2.5 million in 2010 which was mainly contributed by losses from disposal of property, plant and equipment of approximately RMB2.2 million and losses from changes in fair value of financial assets held by Ishine International of approximately RMB0.7 million. The financial assets represent options of the shares in Athena, acquired concurrently by our Group upon the acquisition of Athena as an associate. Ishine International acquired two tranches of options of Athena's shares on 15 April 2010 with details disclosed below:

	Acquisition date of options	Number of options	Strike price	Time to expiry	Volatility	Fair value upon acquisition
			(AUD)	*(days)*		*(AUD)*
Tranche 1	**15 April 2010**	**4,150,000**	**0.08**	**746**	**100%**	**214,140**
Tranche 2	**15 April 2010**	**8,903,735**	**0.08**	**669**	**100%**	**83,102**

Ishine International recorded losses on such financial assets due to (1) the write off of Tranche 2 options as at 31 December 2010 as Ishine International forfeited the right to exercise Tranche 2 option package which resulted into a loss of approximately RMB0.6 million, and (2) decrease in fair value of Tranche 1 options of approximately RMB0.2 million which mainly resulted from decrease of expected term of the options.

Finance costs, net

Net finance costs increased by 171.2% or approximately RMB14.3 million, from approximately RMB8.3 million in 2009 to approximately RMB22.6 million in 2010. This was primarily due to 1) the increase in the total amount of bank borrowings from RMB290 million as at 31 December 2009 to RMB408 million as at 31 December 2010, and 2) the increase in weighted average effective interest rates of our bank loans from 5.53% as at 31 December 2009 to 5.58% as at 31 December 2010.

Profit before income tax and income tax expense

Profit before income tax increased from approximately RMB39.4 million for the year ended 31 December 2009 to approximately RMB142.1 million for the year ended 31 December 2010 by approximately RMB102.7 million or 260.7%, which was mainly due to our increase in gross profit by approximately RMB132.7 million, offset by increase in administrative expenses and finance costs. Income tax expense increased by 270.0%, or RMB28.9 million, from RMB10.7 million in 2009 to RMB39.6 million in 2010, which was mainly due to our significant increase in the profit before tax by 260.7%.

Total comprehensive income

As a result of the foregoing, our total comprehensive income increased by 277.9%, or RMB77.8 million, from RMB28.0 million in 2009 to RMB105.8 million in 2010.

Non-controlling interests

Non-controlling interests reported total comprehensive loss of approximately RMB3.7 million in 2010 compared with loss of RMB0.7 million in 2009, representing non-controlling shareholders' share of the loss incurred in our Australia subsidiary, Ishine International.

Dividends

Dividends of RMB100 million were declared in 2010 (2009: nil) as an appropriation of retained earnings to the shareholders.

Related party transactions

The related party transactions during the Track Record Period are set out in Note 38 to the Accountant's Report attached as Appendix I to this prospectus.

ANALYSIS OF VARIOUS CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

Property, plant and equipment

	Buildings and structures	Mining infrastructures	Motor vehicles equipment and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2009					
Cost	16,936	53,904	47,786	2,241	120,867
Accumulated depreciation	(2,767)	(22,380)	(18,476)	–	(43,623)
Net book value	14,169	31,524	29,310	2,241	77,244
At 31 December 2010					
Cost	36,576	59,079	57,913	7,704	161,272
Accumulated depreciation	(4,206)	(13,538)	(22,996)	–	(40,740)
Net book value	32,370	45,541	34,917	7,704	120,532
At 31 December 2011					
Cost	86,287	46,755	97,273	3,327	233,642
Accumulated depreciation	(10,343)	(1,848)	(28,928)	–	(41,119)
Net book value	75,944	44,907	68,345	3,327	192,523

Our property, plant and equipment consist of buildings and structures, mining infrastructures, motor vehicles equipment and others, and construction in progress. As of 31 December 2009, 2010 and 2011, our property, plant and equipment amounted to approximately, RMB77.2 million, RMB120.5 million and RMB192.5 million respectively.

The increase in property, plant and equipment from 31 December 2009 to 31 December 2011 was mainly driven by increase in building and structures, mining infrastructures, and motor vehicles equipment and others, which was a result of our expansion of mining and processing capacity of iron ores.

Intangible Assets

	Mining rights	Exploration right	Exploration and evaluation assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009				
Cost	–	4,750	4,327	9,077
Accumulated amortisation	–	–	–	–
Net book amount	–	4,750	4,327	9,077
At 31 December 2009				
Cost	–	12,259	12,459	24,718
Accumulated amortisation	–	–	–	–
Net book amount	–	12,259	12,459	24,718
At 31 December 2010				
Cost	–	13,003	14,971	27,974
Accumulated amortisation	–	–	–	–
Net book amount	–	13,003	14,971	27,974
At 31 December 2011				
Cost	4,327	12,609	12,313	29,249
Accumulated amortisation	(30)	–	–	(30)
Net book amount	4,297	12,609	12,313	29,219

As disclosed in Note 3(f) to the Accountant's Report set out in Appendix I to this prospectus, mining rights include the cost of acquiring mining licenses, costs transferred from exploration right and exploration and evaluation assets upon determination that an exploration property is capable of commercial production; exploration rights include costs incurred in acquiring exploration right and exploration tenement, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects, and exploration and evaluation assets comprising costs which are directly attributable to researching and analysing existing exploration data, conducting geological studies, exploratory drilling and sampling, examining and testing extraction and treatment methods, and compiling pre-feasibility studies which are capitalized after reaching a stage at which there is a high degree of confidence in their viabilities. Exploration and evaluation assets that are capitalized will be transferred to mining right from the commencement of mining activities and will be amortised based on unit of production basis.

Our intangible assets mainly consist of mining rights, exploration rights and exploration and evaluation expenditure assets. As of 31 December 2009, 2010 and 2011, our intangible assets were approximately RMB24.7 million, RMB28.0 million and RMB29.2 million respectively. Exploration rights acquired by us from Independent Third Parties were classified into exploration rights while exploration expenditures on mines and projects of which we have obtained exploration licences were capitalised under deferred exploration and evaluation expenditure assets.

The balance of intangible assets as at 31 December 2009 increased by approximately RMB15.6 million as compared to 1 January 2009, which was primarily contributed by acquisition of tenements in Australia by Ishine International of approximately RMB7.5 million and expenditure incurred in exploration of Zhuge Shangyu Ilmenite Mine of approximately RMB8.1 million.

The balance of intangible assets as at 31 December 2010 increased by approximately RMB3.3 million as compared to 31 December 2009, which was mainly due to expenditure incurred in exploration of Zhuge Shangyu Ilmenite Mine of approximately RMB2.5 million.

The balance of intangible assets as at 31 December 2011 further increased by approximately RMB1.2 million as compared to 31 December 2010 which was mainly due to (1) expenditure incurred in exploration areas of Zhuge Shangyu Ilmenite Mine, Qinjiazhuang Ilmenite Project and Yangzhuang Iron Mine which are not yet in production of approximately RMB1.7 million, and (2) foreign exchange loss of approximately RMB0.4 million on the exploration rights related to Australia tenements resulted from depreciation of AUD against RMB. Approximately RMB4.3 million of deferred exploration and evaluation assets were transferred to mining rights during 2011 as certain exploration area of Yangzhuang Iron Mine was put into production in 2011 and the corresponding exploration and evaluation assets was transferred to mining rights. The mining rights are stated at cost less accumulated amortization and impairment losses.

As at 31 December 2011, Shandong Ishine held three mining rights for Yangzhuang Iron Mine, Zhuge Shangyu Ilmenite Mine and Bashan Iron Project respectively in the PRC, and only approximately RMB4.3 million of mining rights in relation to Yangzhuang Iron Mine had been included in our Group's intangible assets as at 31 December 2011 and during the Track Record Period because:

1) 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 RMB4.62 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. The underground mining right was applied from the local government authorities with immaterial application fees and were expensed-off through income statement. Approximately RMB4.3 million of deferred exploration and evaluation assets were transferred to mining rights during 2011 as certain exploration area of Yangzhuang Iron Mine was put into production in 2011 and the corresponding exploration and evaluation assets was transferred to mining rights; and

2) mining rights for both Zhuge Shangyu Ilmenite Mine and Bashan Iron Project were obtained in 2008 by Shandong Ishine through application processes with local government authorities after certain amount of exploration works were conducted. The total application fees for such mining rights were immaterial and were expensed-off through income statement.

As at 31 December 2011, the balance of our Group's intangible assets did not include any expenditure incurred in relation to the Bashan Iron Project as only immaterial initial payment for application of such mining right was incurred and all related exploration costs have been expensed-off during the Track Record Period as the Bashan Iron Project was assessed to be non-commercially viable based on the results of the exploration works and feasibility studies.

As at 31 December 2011, the balance of our Group's intangible assets consisted of (1) mining rights of Yangzhuang Iron Mine of approximately RMB4.3 million, (2) exploration right of Gaozhuang Shangyu Ilmenite Project of approximately RMB4.8 million, (3) cost of joint venture project with Kabiri of approximately RMB7.9 million, (4) deferred exploration and evaluation expenditure assets mainly in relation to Zhuge Shangyu Ilmenite Mine of approximately RMB11.1 million, and (5) deferred exploration and evaluation expenditure assets in relation to our Yangzhuang Iron Mine and the Qinjiazhuang Ilmenite Project of approximately RMB1.2 million.

Investment in an associate

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Beginning balance of the year	–	–	4,062
Acquisition of an associate (listed)	–	4,720	–
Effect of foreign exchange rate changes	–	193	191
Share of loss of an associate	–	(851)	(1,606)
Gain on fair value revaluation upon transfer to available-for-sale financial assets	–	–	3,103
Transfer to available-for-sale financial assets	–	–	(5,750)
Ending balance of the year	–	4,062	–
Market value of the listed associate	–	5,028	–

In realising our goal of fast tracking potential iron production projects and finding prominent base metal project in the Mid West region of Western Australia, on 16 April 2010, our subsidiary, Ishine International has invested approximately 12.7% interests in Athena, a company principally engaged in mineral exploration and is listed on ASX (ASX Code: AHN) in Australia. According to Athena's company website, Athena is a Western Australian based exploration company and its major assets is a 100% interest in the Byro project where it is exploring mainly for iron ore, copper, nickel and platinum group elements. For the year ended 31 December 2010, we recorded loss of approximately RMB0.9 million as our share of the loss incurred by Athena. Investment in Athena was reclassified from an associate to available-for-sale financial assets as at 1 July 2011 due to that (1) Ishine International's interest in Athena was diluted from 12.7% as at 16 April 2010 to 7.8% as at 31 December 2011, and (2) Ishine International's representative had resigned from the board of Athena as a director. As a result, our Group no longer has significant influence over Athena.

Available-for-sale financial assets

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Beginning balance of the year	–	–	–
Transfer from investment in an associate	–	–	5,750
Effect of foreign exchange rate changes	–	–	(430)
Loss from revaluation	–	–	(1,064)
Ending balance of the year	–	–	4,256

Available-for-sale financial assets represented our investment in shares of Athena reclassified from associate during 2011. Immediately after the reclassification, investment in Athena was accounted at the market value of the shares of Athena as at the date of the revaluation with gains recorded through profit or loss. Such investment was subsequently accounted at fair value with reference to the market price of Athena.

Other financial assets

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Athena Options	–	1,268	561

Our other financial assets represent 4,150,000 options of Athena's shares acquired concurrently by our subsidiary, Ishine International upon its investment in Athena. The fair value of these options as at the date of acquisition amounted to AUD0.3 million (or approximately RMB1.9 million).

Inventories

Our inventories consisted of raw materials, finished goods and spare parts and others. Raw materials included iron ores and other raw materials which mainly consist of coarse iron powder to be processed into iron concentrates. The following table sets forth our balances of inventory as of each of the statement of financial position dates:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials			
– Iron ores	3,210	3,329	3,140
– Other raw materials	876	1,384	4,749
Finished goods	17,550	9,238	22,708
Spare parts and others	1,076	1,931	3,483
	22,712	15,882	34,080

	Year ended 31 December		
	2009	**2010**	**2011**
Inventories turnover days	38	25	12

Note: Inventories turnover days for the relevant year are calculated by dividing the average of the opening and closing balances of inventories for the relevant year by cost of sales and then multiplied by the number of days in the relevant year.

The balance of inventories as at 31 December 2009 is relatively high as compared to that as at 31 December 2010 due to a higher balance of finished goods. This was mainly because we strategically reduced the amount of iron concentrates sold during 2009 in view of the sharp decline in the selling price of iron concentrates as a result of the global financial crisis beginning from the fourth quarter of 2008. Inventory level as at 31 December 2010 decreased by approximately RMB6.8 million. This was mainly due to the decrease of finished goods by approximately RMB8.3 million as we sold more iron concentrates than produced during 2010 as the economy recovered during 2010 and the selling price of iron concentrates picked up. Inventory balance increased significantly to approximately RMB34.1 million as at 31 December 2011 which was mainly due to (1) increase in other raw materials of approximately RMB3.4 million which was mainly contributed by increase in inventory of coarse iron powder of approximately RMB3.4 million as at 31 December 2011 as compared to 31 December 2010, as we commenced to produce iron concentrates from coarse iron powder purchased from Independent Third Parties suppliers and mixed them with iron concentrates produced from iron ores of our Yangzhuang Iron Mine and iron concentrates sourced from Independent Third Parties suppliers to produce iron concentrates with iron content of 65% in order to meet the excess demand from our customers, and (2) increase in finished goods by approximately RMB13.5 million, or by 145.8% as our total sales for the year ended 31 December 2011 increased by approximately RMB524.8 million, or by 108.1% as compared to the year ended 31 December 2010. Approximately RMB27.8 million of the inventory balance as at 31 December 2011, representing 81.7% of the total outstanding inventory balance as at such date have been utilized or sold as at 29 February 2012.

During the Track Record Period, our inventory turnover days decreased steadily. During 2009, in view of the sharp decline in average selling price of iron concentrates, our Directors strategically reduced the amount of iron concentrates sold hence we piled up inventories of iron concentrates as at 31 December 2009 which pushed upwards the inventory turnover days. During 2010, as the economy recovered and average selling price of iron concentrates produced by us picked up, we managed to decrease the inventory turnover days from 38 days in 2009 to 25 days in 2010 by increasing our sales and reducing the ending inventories. During 2011, our inventory turnover days further decreased as we conducted trading activities at a significant larger volume, contributing cost of sales amounted to approximately RMB289.4 million as compared to 2010 while recording no trading goods inventory as at the beginning and ending of the year 2011. As a result, the inventory turnover days decreased from 25 days for 2010 to 12 days in 2011.

Accounts receivables

Our Group's sales are generally made on credit terms of 90 days, and accounts receivables were settled by either bank transfer or bank acceptance notes with maturity within 6 months. To our Directors' knowledge, as some of our major customers are state-owned enterprises, they generally made payments more slowly than non state-owned companies. Ageing analysis of account receivables as at 31 December 2009, 2010 and 2011 is as follows:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Accounts receivable			
– Less than 3 months	84,748	101,047	195,864
– 3 months to 6 months	–	40	3,399
– 6 months to 1 year	6,044	1,058	535
– 1 year and above	3,585	–	–
	94,377	102,145	199,798

As at 31 December 2009, 2010 and 2011, accounts receivables of approximately RMB9.6 million, RMB1.1 million, and RMB3.9 million respectively, were past due but not impaired. These related to a number of customers for whom there was no recent history of default.

	Year ended 31 December		
	2009	**2010**	**2011**
Accounts receivables turnover days	193	74	55

Note: Accounts receivables turnover days represent turnover days with respect to accounts receivables from our customers. Accounts receivables turnover days for the relevant year are calculated by dividing the average of the opening and closing balances of accounts receivables for the relevant year by revenue and then multiplied by the number of days in the relevant year.

Our accounts receivables turnover days during the Track Record Period were generally within our maximum credit terms of 90 days, except for in 2009, when we recorded approximately 87.2% of our revenue in the third and fourth quarter of the year hence distorted upwards the ending balance of accounts receivables. Accounts receivables turnover days further decreased from 74 days in 2010 to 55 days in 2011 as revenue generated from trading of coarse iron powder by us increased significantly by approximately RMB261.3 million during 2011 where we granted no credit period to most of our customers and received 100% payment upon delivery, which in terms reduced our accounts receivables turnover days for 2011. From 2010 and throughout to the end of the Track Record Period, we managed to control accounts receivables turnover days within our credit period.

Approximately RMB42.9 million of the accounts receivables as at 31 December 2011, representing 21.5% of the total outstanding balance as at such date, have been settled up on 29 February 2012.

Notes receivables

Notes receivables are bank acceptance notes from various banks mainly provided by our customers as settlement of accounts receivables.

During the Track Record Period, majority of our sales were settled by bank acceptance notes which have a maturity period of 6 months. However, we can request the issuing banks of these bank 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 acceptance notes do not have any credit risk to our Group and are very liquid as (i) these bank acceptance notes are guaranteed by their issuing banks; and (ii) these bank acceptance notes can be settled for cash by their issuing banks at any time.

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Notes receivables			
– within 6 months	287,218	202,500	327,150

The balance of notes receivables as at 31 December 2009 was approximately RMB287.2 million, which was higher than that as at 31 December 2010 by approximately RMB84.7 million and exceeded the revenue recorded for the year ended 31 December 2009 of approximately RMB196.4 million. This was mainly due to that approximately RMB109.5 million of the balance of notes receivables as at 31 December 2009 represented a refund of prepayment for an acquisition of mining rights received by us in the second half of 2009 as such acquisition did not proceed, while the remaining balance of notes receivables of approximately RMB177.7 million mainly represented settlements by our customers for accounts receivables related to sales in the second half of 2009.

Notes receivables decreased by approximately RMB84.7 million from approximately RMB287.2 million as at 31 December 2009 to RMB202.5 million as at 31 December 2010 as though approximately RMB478.3 million bank acceptance notes were received from our customers during 2010 as approximately RMB212.6 million were settled for cash and approximately RMB350.6 million were advanced to Mr. Li. So far as our Directors understand, this amount advanced to Mr. Li, being one of our Controlling Shareholders, was partly for his personal investments in other business which does not have any relationship with our Group's business, and partly for his other personal use. The source of funding of the advancement to Mr. Li was from our internal resources and such advancement was repaid to us after Mr. Li's personal use. Such advancement to Mr. Li was unsecured, interest-free and repayable on demand. The balance increased to approximately RMB327.2 million by 61.6% as at 31 December 2011 mainly as a result of the increase in sales of iron concentrates produced by us by 58.9%.

The bank acceptance notes were advanced to Mr. Li without endorsement to Mr. Li by Shandong Ishine. As advised by our PRC Legal Advisers, so long as a bank acceptance note is not specified to be "non-transferable", it is transferable. As the bank acceptance notes transferred to Mr. Li were not stipulated to be "non-transferable", they can be transferred to other parties in accordance with the laws of the PRC. Our PRC Legal Advisers further advised that, even without endorsement to Mr. Li by Shandong Ishine, Shandong Ishine is still entitled to transfer such notes to Mr. Li. Further, as (i) all the loans had been repaid by Mr. Li, (ii) no dispute has arisen in the course of transfer or settlement of such notes, and (iii) that no loss to any party had been caused by the absence of endorsement, our PRC Legal Advisers advised that (i) there is no foreseeable risk that our Group will be liable for any administrative responsibilities, (ii) the absence of endorsement did not affect the ordinary use of such bank's acceptance notes, and (iii) the use of the unendorsed bank's acceptance notes did not result in any negative impact on our Group.

Approximately RMB166.2 million of the notes receivables as at 31 December 2011, representing 50.8% of the total outstanding notes receivables balance as at such date, have been converted into cash up to 29 February 2012.

Prepayments and other receivables

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Advance to suppliers	925	6,370	91,269
Amount due from Ausrich	–	43,000	–
Amount due from Mr. Li	–	350,550	–
Land restoration deposit	1,500	1,732	4,425
Advance to employees	4,867	2,250	113
Loans to third parties	81,142	1,351	–
Other taxes recoverable	957	–	–
Deferred initial public offering fee	–	–	3,510
Others	2,055	4,522	3,074
	91,446	409,775	102,391

Our prepayments and other receivables mainly represent amount due from employees, suppliers, and related and third parties. The amounts due from related and third parties were unsecured, interest-free and repayable on demand. Such third parties were Independent Third Parties to our Group at the relevant time when the loans were provided, save and except that an amount of RMB100,000 was advanced by our Group to Mr. Li's sister in 2010 which was fully paid in 2011. The reasons to make other loans to third parties include that (i) the loan to Hesheng Minerals of RMB80.0 million during 2009 was because Hesheng Minerals has been both of our customers and suppliers during the Track Record Period and we have good relationship with Hesheng Minerals, further details of which are set out in the section headed "Business – Sales and Customers – Customers – Hesheng Minerals", (ii) the loan to another third party company during 2009 was because Mr. Li had good relationship with the controlling shareholder of that company; and (iii) the loans to other various third party individuals were mainly because (1) we paid construction and training fees to some of these individuals who provided construction and training services to us before they billed us, and (2) some of these individuals were friends of Mr. Li. There were no benefits or considerations received by our Group for any of the loans made to third parties during the Track Record Period and all such loans are unsecured, interest-free and repayable on demand. The source of funding of such loans was from our internal resources. All loans to third parties were settled as at the Latest Practicable Date and our Directors have no intention to advance any such loan in the future. As advised by our PRC Legal Advisers, the loans to third parties mentioned above were not in compliance with the relevant PRC laws and regulations. However, as the loans are interest-free, our Group will not be subject to any penalties under PRC laws and regulations since the relevant PRC laws and regulations only impose a fine of one to five times the interest income of the relevant loans.

The balance increased from approximately RMB91.5 million as at 31 December 2009 to RMB409.8 million as at 31 December 2010. This was mainly due to the loan amounted to approximately RMB350.6 million made to Mr. Li in form of bank's acceptance notes for his personal use during 2010 and increase in amount due from Ausrich of approximately RMB43.0 million during 2010, representing prepayment for purchase of iron concentrates proposed to be conducted through Ausrich from Thailand. Our Directors considered that it is to the benefits of our Group to purchase iron concentrates from Thailand as (1) we intended to purchase cheaper iron concentrates from Thailand than from Shandong Province, and (2) it provided an alternative source of supply of iron concentrates other than local purchases. Such purchases were subsequently cancelled with prepayment fully returned in 2011 due to, among others, the political instability in Thailand in 2010 which made the supplier failed to deliver iron concentrates to us. We did not incur any loss as a result of such cancellations as the prepayments made by us were fully returned. We made purchases of iron concentrates with high grade iron contents from an oversea supplier, which is an Independent Third Party, during the first half of 2011 of approximately RMB9.9 million, which represented approximately 4.1% of our total purchases during the period. Save for such purchases, we did not make any purchases from overseas during the Track Record Period. Such increase was offset by decrease in loans to third parties of approximately RMB79.8 million as Hesheng Minerals repaid the loan in RMB80 million to us.

The balance decreased to approximately RMB102.4 million as at 31 December 2011 which was mainly due to (1) decrease in amount due from Ausrich by approximately RMB43.0 million as the related prepayments were returned to us, (2) decrease in amount due from Mr. Li as Mr. Li fully repaid the loan of approximately RMB350.6 million to our Company during 2011, offset by (1) increase in advance to suppliers of approximately RMB84.9 million, being the prepayment to suppliers for coarse iron powder and iron concentrates and (2) increase in deferred initial public offering fee of approximately RMB3.5 million, representing the portion of professional fees paid in preparation of initial public offering to be deducted directly from shareholders' equity upon Listing. As at the Latest Practicable Date, Mr. Li repaid all the amount due to our Group and our Directors have no intention to make any loan to him in the future.

Accounts payables

Our accounts payables consisted of fees paid to our Independent Third Party Mining Contractors, Independent Third Party Transportation Contractors and various other suppliers. They are non-interest-bearing and are normally settled within 60 days.

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Accounts payable	21,496	42,024	63,280

The increase in accounts payables during the Track Record Period was a result of expansion of our production activities during the same period. A breakdown of accounts payables is set forth in the below table:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Transportation fees payable	2,748	1,234	2,599
Mining service fees payable	15,587	13,660	16,823
Construction work service fees payable	734	5,915	9,508
Raw materials and equipment payables and others	2,427	21,215	34,350
	21,496	42,024	63,280

Increase in accounts payables from approximately RMB21.5 million as at 31 December 2009 to RMB42.0 million as at 31 December 2010 was mainly due to increase in construction work service fees payable of approximately RMB5.2 million and increase in raw materials and equipment payables and others of approximately RMB18.8 million as we resumed trading activities and commenced mixing our iron concentrates with iron concentrates with different grades purchased from suppliers outside to produce iron concentrates with iron content of 65%. Accounts payables increased to approximately RMB63.3 million as at 31 December 2011 mainly due to (1) increase in construction work service fees payable of approximately RMB3.6 million, and (2) significant increase in raw materials and equipment payables and others of approximately RMB13.1 million as we purchased more coarse iron powder for processing into iron concentrates in 2011 as compared to 2010. Approximately RMB38.3 million of the accounts payables as at 31 December 2011, representing 60.5% of the total outstanding accounts payables balance as at such date, have been settled by us up to 29 February 2012.

	Year ended 31 December		
	2009	**2010**	**2011**
Accounts payables turnover day	43	41	26

Note: Accounts payables turnover days represent turnover days with respect to payables to our suppliers. Accounts payables turnover days for the relevant year are calculated by dividing the average of the opening and closing balances of accounts payables for the relevant year by cost of sales and then multiplied by the number of days in the relevant year.

We managed to maintain stable accounts payables turnover days during 2009 and 2010. The turnover days decreased significantly to 26 days in 2011 as compared to 41 days in 2010 as we traded a significant volume of coarse iron powder in 2011 amounted to approximately RMB230.8 million in terms of cost of sales which have faster accounts payables turnover as we fully settled the purchase before delivery. We also managed to control accounts payables turnover days within the normal credit terms of 60 days to maintain a good relationship with our suppliers.

The following table sets forth an ageing analysis of accounts payables at the respective balance sheet dates:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Less than 6 months	633	12,060	63,015
6 Months to 1 year	20,772	29,920	194
1 year and above	91	44	71
	21,496	42,024	63,280

Notes payables

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Notes payables			
– Bank acceptance notes	6,320	13,490	–

Notes payables are used to settle a portion of our account payables and are issued by our banks on behalf of us. Notes payables increased significantly from 2009 to 2010 as we utilised more bank acceptance notes to settle the accounts payables to our suppliers and settled the bank acceptance notes to the issuing banks at the end of the maturity period which normally lasts for 6 months. There were no notes payables as at 31 December 2011 as all bank acceptance notes had matured as at the end of 2011 and had been settled by us.

Accruals and other payables

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Amount due to Mr. Li	–	–	6,115
Employee benefit payables	4,136	4,686	3,734
Dividends payable	–	100,000	–
Deposits and receipts in advance	1,233	1,820	5,483
Accrued land compensation cost	1,487	2,034	2,406
Other tax payable	587	10,117	16,301
Prepayments for set-up of joint venture from third parties	19,140	–	–
Amount due to Ausrich	19,012	19,012	–
Others	2,629	4,528	2,074
	48,224	142,197	36,113

Accruals and other payables mainly consisted of employee benefit payables, dividends payables, accrued land compensation cost, amount due to related and independent third parties and others. The balance as at 31 December 2010 increased to approximately RMB142.2 million from 31 December 2009 by approximately RMB94.0 million, due to the increase of dividend payable in 2010 by RMB100 million and increase of other tax payable (which included, among others, value-added tax, resource tax, urban maintenance and construction tax and education surcharge) of approximately RMB9.5 million, offset by return of prepayments of approximately RMB19.1 million from third parties in 2009 for a plan to set up a joint venture engineering company to conduct mining activities in our Yangzhuang Iron Mine, which was subsequently abandoned in 2010. The balance decreased to approximately RMB36.1 million as at 31 December 2011 which was mainly due to (1) the pay-off of dividends payable of RMB100 million, and (2) decrease in amount due to Ausrich of approximately RMB19.0 million representing payment by Ausrich on behalf of Shandong Ishine as its investment proceeds in Ishine International (which was unsecured, interest-free and repayable on demand and which has been fully repaid as at the Latest Practicable Date), offset by (1) increase in amount due to Mr. Li of approximately RMB6.1 million, representing professional fees paid by Mr. Li on behalf of our Group, which is unsecured, interest-free and repayable on demand, (2) increase in deposits and receipts in advance by approximately RMB3.7 million which mainly represented deposits received by us from our suppliers as an guarantee for the quality of their goods and services provided, and (3) increase in other tax payable of approximately RMB6.2 million which mainly represented increase in value added tax payables of approximately RMB5.7 million as all of the trading activities for coarse iron powder was conducted during the second half of 2011, generating more taxable income for value added tax.

With a view to establishing a joint venture to invest in certain mining equipments which would serve to lower operational costs, our Group, Luxing Titanium and an independent individual, entered into a cooperation agreement ("**JV Agreement**") in November 2009, pursuant to which the parties agreed to establish a joint venture company for operating mining projects. The intended total investment of the joint venture was RMB35,000,000, which was agreed to be contributed as to approximately 45.32% by our Group, approximately 20.82% by Luxing Titanium and approximately 33.86% by the independent individual. Luxing Titanium was both our customer and supplier during the year ended 31 December 2010. It is an Independent Third Party and principally engaged in the manufacture and sale of iron and titanium concentrates. The independent individual, also an Independent Third Party, was an employee of one of our Independent Third Party Mining Contractors.

It was originally agreed between the parties under the JV Agreement that the independent individual was to be responsible for managing the daily operation of the joint venture company. However, as our Group subsequently attempted to negotiate for the right to manage the daily operation of the joint venture company, and an agreement could not be reached among the parties, after negotiations, entered into a memorandum of understanding in August 2010 pursuant to which the JV Agreement was terminated and any prepayments made to our Group for investing in the joint venture company was returned without interest. Since the signing of the JV Agreement and up to the date of its termination, our Group did not invest any amount in the joint venture and since then no progress has been made in setting up the joint venture company.

Provision for close down, restoration and environmental costs

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	11,461	12,210	13,008
Interest charge on unwinding of discounts	749	798	850
Payment for land restoration work	–	–	(3,880)
At end of year	12,210	13,008	9,978

A provision is recognised for the present value of costs to be incurred for the restoration of the damaged land in the mine site due to mining activities and the removal of the processing plants. These costs have been determined by our management with reference to a report of land rehabilitation plan ("**Rehabilitation Report**") issued by an independent professional advisor and based on their past experience and best estimate of future expenditure by discounting the expected expenditures to their net present value. The independent professional advisor, having relevant professional qualifications in assessing the rehabilitation costs for mines, has confirmed that the basis used in preparing the Rehabilitation Report is the same as the basis they used in the preparation of other rehabilitation reports. Moreover, as advised by our Directors, there is no accounting standard that specifically governs how the restoration costs should be estimated and the amount of provision for the restoration costs. However, in so far as the effect of the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to revision in the future. The amounts provided in relation to close down, restoration and environmental clean-up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are remeasured accordingly. The interest charge on unwinding of discounts represents the time value of the provision of close down, restoration and environment costs due to passage of time as it is expected that such provision will be utilized (unwind) in more than one year's time. Where a close down, restoration and environmental obligation arises from mine development activities, the costs are capitalised as part of the cost of the associated asset. Where there is a change in the estimates of restoration costs, changes to provisions that were capitalised on initial recognition in the cost of the related asset are added to or deducted from the carrying amount of the asset. Where a close down, restoration and environmental obligation arises from mine production activities, the costs are expensed, with subsequent changes in the provision being charged to profit and loss accounts. For illustration purpose, the estimated restoration cost per tonne of the iron ore reserves to be excavated from Yangzhuang Iron Mine as at 31 December 2011 is approximately RMB0.28, as calculated by dividing the provision for close down, restoration and environmental costs of approximately RMB9,978,000 as at 31 December 2011 as set out above by the product of (i) the total proved and probable reserve of iron ore of our Yangzhuang Iron Mine of approximately 43.9 Mt as at November 2011, as set out in the Report of Independent Technical Adviser and (ii) the mining recovery rate of approximately 82% for 2012 as set out in the Report of Independent Technical Adviser and assuming such mining recovery rate stays constant throughout the mining life of our Yangzhuang Iron Mine. For further details of our Group's accounting treatment of provision for close down, restoration and environment costs, please refer to Note 3 (q) and Note 25 of the Accountant's Report set out in Appendix I to this prospectus.

Pursuant to the letter of commitment issued by Shandong Ishine to relevant authorities in 2009, Shandong Ishine has committed to pay land restoration deposit of not less than RMB43,049,000 before the expiration of its mining license. The initial payment should not be less than 20% of the existing balance, and the subsequent annual payment should not be less than 20% of the remaining balance. The last payment is due 1 year before the mining right expiry date. The deposit is not refundable if Shandong Ishine does not fulfill its obligation to restore the land destroyed due to mining activities. As at 31 December 2011, RMB4,425,000 has been paid by our Group to the Yishui County of Ministry of Land Resource of Shandong

Province as land restoration deposit. On 15 November 2011, our Group obtained confirmation from the Yishui County of Ministry of Land Resource of Shandong Province to release the Shandong Ishine's obligation from the commitment. As a result, Shandong Ishine is not obligated to pay any further deposit in this regard in the future. As advised by our PRC Legal Advisers, based on the confirmation from the Yishui County of Ministry of Land Resources of Shandong Province, for reason that Shandong Ishine had carried out its obligations in land restoration satisfactorily, Shandong Ishine will not be subject to any penalty for not having made full payment of the committed amount of land restoration deposit, will not be obliged to pay further deposit under the letter of commitment, and when the Yishui County of Ministry of Land Resources of Shandong Province is satisfied that Shandong Ishine has fulfilled its restoration obligations, Shandong Ishine will be refunded the amount of restoration deposits paid by it in the past.

SHARE BASED PAYMENT

	Year ended 31 December		
	2009	**2010**	**2011**
	Options	**Options**	**Options**
	('000)	*('000)*	*('000)*
At beginning of the year	–	6,175	6,275
Granted	6,175	200	–
Exercised	–	(100)	–
At the end of the year	6,175	6,275	6,275

Our subsidiary, Ishine International, has adopted share based payment plans in 2009 and 2010. The above table shows the movements in the share options of Ishine International during the Track Record Period. For the year ended 31 December 2009, Ishine International granted approximately 6.2 million options, of which 5 million options were granted to a third party vendor in exchange for the acquisition of certain exploration rights in Australia; and the remaining approximately 1.2 million options were granted as consideration for provision of certain consultancy services. For the year ended 31 December 2010, 0.2 million options were granted to an employee of Ishine International. For the year ended 31 December 2011, no options were granted. For further details of the share based payment plan of Ishine International, please refer to Note 35 to the Accountants' Report set out in Appendix I to this prospectus.

LIQUIDITY AND CAPITAL RESOURCES

	As at 31 December			As at 29 February
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets				
Inventories	22,712	15,882	34,080	67,995
Accounts receivables	94,377	102,145	199,798	306,729
Notes receivables	287,218	202,500	327,150	193,050
Prepayments and other receivables	91,446	409,775	102,391	199,844
Cash and cash equivalents	122,539	39,903	202,586	242,901
Restricted bank deposits	33,150	34,600	–	15,000
	651,442	804,805	866,005	1,025,519
Current liabilities				
Borrowings	140,000	208,000	357,620	398,620
Accounts payables	21,496	42,024	63,280	94,182
Notes payables	6,320	13,490	–	15,000
Accruals and other payables	48,224	142,197	36,113	126,791
Current income tax liabilities	17,122	19,300	27,281	15,397
	233,162	425,011	484,294	649,990
Net current assets	418,280	379,794	381,711	375,529

During the Track Record Period, we funded our operations principally with cash generated from our operations and bank loans. Our primary uses of funds included our operating expenses, purchases of property, plant and equipment and repayment of our borrowings. As at 31 December 2011, we had cash and cash equivalents of approximately RMB202.6 million. Numerous factors beyond our control, including fluctuations in the market prices of our products, may adversely impact our cash flows from operations and may require us to seek other sources of funds including bank borrowings. See the section headed "Risk Factors" of this prospectus and the paragraph headed "Factors Affecting Results of Operations and Financial Condition" in this section. The principal uses of cash that affect our liquidity position include operational expenditures, capital expenditures, interest expense and income tax payments.

Working capital

We had net current assets of RMB418.3 million, RMB379.8 million, and RMB381.7 million as at 31 December 2009, 2010 and 2011, respectively. Based on the unaudited consolidated management accounts of our Group, as at 29 February 2012, our Group had net current assets of approximately RMB375.5 million.

As at 31 December 2010, we recorded net current assets of RMB379.8 million. As compared to 31 December 2009, the liquidity position remained stable. Though net current assets decreased by 9.2%, in terms of business activities, our liquidity position was strengthened due to lower level of notes receivables.

As at 31 December 2011, net current assets increased by approximately RMB1.9 million as compared to that at 31 December 2010. Such increase indicated improvement of liquidity as prepayments and other receivables decreased as we have fully collected amount due from Ausrich of RMB43 million and Mr. Li also fully repaid loans due to us of approximately RMB350.6 million, and our cash and cash equivalents increased by approximately RMB162.7 million.

Based on the unaudited consolidated management accounts of our Group as at 29 February 2012, our Group had net current assets of approximately RMB375.5 million. Based on the unaudited consolidated management accounts of our Group as at 29 February 2012, our Group has obtained banking facilities totalling approximately RMB590.0 million, of which approximately RMB198.7 million was utilised, and approximately RMB391.3 million was unutilised. Pursuant to the terms of such banking facilities granted to us, (1) Shandong Ishine should maintain normal operations, (2) there should be no default of principles or interests under any contracts with relevant banks, and (3) there should be no material litigation or arbitration that affects the timely repayment of debts by us to the relevant banks.

Indebtedness

Our bank borrowings on each of the consolidated statement of financial position dates are summarised as follows:

	As at 31 December			As at 29 February
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Bank borrowings	150,000	200,000	160,000	160,000
Current				
Bank borrowings	140,000	208,000	317,620	358,620
Short-term portion of non-current borrowings	–	–	40,000	40,000
	140,000	208,000	357,620	398,620
Total borrowings	290,000	408,000	517,620	558,620
Representing:				
Secured –				
Pledged (i)	210,000	348,000	362,620	403,620
Guaranteed (ii)	80,000	60,000	155,000	155,000
	290,000	408,000	517,620	558,620

Notes:

(i) As at 31 December 2009 and 31 December 2010, bank borrowings of RMB60,000,000 and RMB118,000,000 were pledged by mining right of Luxing Titanium, an Independent Third Party, respectively.

As at 31 December 2009, 31 December 2010, 31 December 2011 and 29 February 2012, bank borrowings of RMB150,000,000, RMB200,000,000, RMB200,000,000 and RMB200,000,000 were pledged by mining right of Shandong Ishine, respectively.

As at 31 December 2010, 31 December 2011 and 29 February 2012, bank borrowings of RMB30,000,000, RMB107,000,000 and RMB107,000,000 were pledged by accounts receivables of Shandong Ishine with carrying amount of RMB37,635,000, RMB145,445,000 and RMB145,445,000, respectively.

As at 31 December 2011 and 29 February 2012, bank borrowings of RMB55,620,000 and RMB96,620,000 were pledged by notes receivables of Shandong Ishine with carrying amount of RMB69,000,000 and RMB111,000,000, respectively.

(ii) As at 31 December 2009, 2010, 2011 and 29 February 2012, the borrowings were guaranteed by the following Independent Third Parties and Mr. Li.

	As at 31 December			As at 29 February
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Joint guarantee given by Independent Third Parties and Mr. Li				
– Yishui Sanzhong Real Estate Co., Ltd. and Mr. Li	50,000	30,000	–	–
– Hesheng Minerals, Linyi Hexing Material Trading Co., Ltd and Mr. Li	–	–	40,000	40,000
– Hesheng Minerals	–	–	55,000	55,000
– Linyi Hexing Material Trading Co., Ltd.	–	–	30,000	30,000
Guarantee given by other Independent Third Parties				
– Yishui Xinxing Building Materials Co., Ltd.	–	30,000	30,000	30,000
– Shandong Hong Yi Technology Co., Ltd.	30,000	–	–	–
	80,000	60,000	155,000	155,000

Guarantee and pledge for the bank borrowings

Luxing Titanium, which is an Independent Third Party, was both our customer and supplier during the year ended 31 December 2010 which accounted for approximately 0.23% and 4.19% of our total sales and total purchase, respectively. During the two years ended 31 December 2009 and 2011, however, we did not make any sales and purchase with it. During the year ended 31 December 2010, we advanced approximately RMB11.0 million to Luxing Titanium (unsecured, interest-free and repayable on demand), which were settled during the year. The reason to make such loan to Luxing Titanium was because Luxing Titanium has been both of our customers and suppliers during the Track Record Period and we had good relationship with Luxing Titanium. Please refer to the section headed "Business – Sales and Customers – Customers – Luxing Titanium" for further details. There were no benefits or considerations received by our Group for the loan. During the year ended 31 December 2009, Luxing Titanium transferred to us approximately RMB7.3 million as prepayment for purpose of setting up a joint venture mining company. Such intention was subsequently abandoned hence we returned the same amount back to Luxing Titanium during 2010. At the request of Mr. Yang Wenxing, the controlling shareholder of Luxing Titanium, who was in the opinion that the reputation of Shandong Ishine and Mr. Li would benefit Luxing Titanium, Shandong Ishine and Mr. Li entered into an entrustment agreement on 25 May 2010 with Mr. Yang Wenxing pursuant to which Mr. Yang Wenxing, entrusted Shandong Ishine and Mr. Li to hold on his behalf 54.54% and 18.18% interests in Luxing Titanium, respectively (the "Entrustment Arrangement"). Such agreement was subsequently terminated on 18 April 2011. As advised by our PRC Legal Advisers: (i) according to the Entrustment Arrangement, Mr. Yang Wenxing entrusted Shandong Ishine and Mr. Li to hold his interests in Luxing Titanium, pursuant to which, the capital contribution from Shandong Ishine and Mr. Li was in fact contributed by Mr. Yang Wenxing. Mr. Li and Shandong Ishine did not have any right or entitlement in the aforesaid entrusted interests; and (ii) the termination of the Entrustment Arrangement was legal, valid and complete, and in compliance with the PRC laws. Luxing Titanium used its mining right to pledge our bank borrowings during the Track Record Period as we have good relationship with Luxing Titanium.

To the best knowledge of our Directors, the other Independent Third Parties as mentioned below provided guarantees to us as their controlling shareholders (which are also Independent Third Parties) are in good relationship with Mr. Li.

(i) Linyi Hexing Material Trading Co., Ltd, which has been one of our suppliers during the year ended 31 December 2011, accounting for approximately 12.3% of our total purchases.

(ii) Hesheng Minerals, which has been both our customer and supplier during the Track Record Period. For detailed information of Hesheng Minerals, please refer to the section headed “Business – Sales and customers”.

(iii) Yishui Sanzhong Real Estate Co., which did not have any other transactions with us during the Track Record Period.

(iv) Yishui Xinxing Building Materials Co., Ltd – Linyi Runxing, a company wholly owned by Mr. Li and his wife, is interested in 5% shareholding of this company. This company did not have any other transactions with us during the Track Record Period.

(v) Shandong Hong Yi Technology Co., Ltd. – Zhao Hong Yi, who had been one of the shareholders and a supervisor of Shandong Ishine, is interested in 34.5% shareholding of this company. This company did not have any other transactions with us during the Track Record Period. Zhao Hong Yi had subsequently sold all his shares in Shandong Ishine but remained as the supervisor.

Our Group did not pay any consideration to the above parties for provision of such guarantees or pledges to us, and there was no other arrangement for the provision of such guarantees or pledges. As at the Latest Practicable Date, we have settled certain amounts of our bank borrowings that were guaranteed by or pledged by assets of the abovementioned parties including Mr. Li. The relevant banks to the remaining amounts of such bank borrowings have undertaken all guarantees and pledges from Mr. Li and the above mentioned Independent Third Parties will be released and replaced by corporate guarantee of our Group upon Listing. We have no intention to make advance from and to third parties after Listing.

All of our Group's borrowings are RMB-denominated borrowings. The weighted average effective interest rates per annum as at 31 December 2009, 2010 and 2011 were as follows:

	As at 31 December		
	2009	**2010**	**2011**
Weighted average effective interest rates	5.53%	5.58%	7.00%

The gearing ratios of our Group during the Track Record Period were summarised as follows:

	As at 31 December		
	2009	**2010**	**2011**
Gearing ratio	44%	56%	54%

Note: *Gearing ratio is calculated as total debt divided by total capital. Total debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheets). Total capital is calculated as "total equity" as shown in the consolidated balance sheets plus total debt.*

Securities and guarantees

As at 29 February 2012, our Group did not have any charges, mortgages or provide any guarantees.

Contingent liabilities

As at 29 February 2012, our Group had no hire purchase commitments or other material outstanding contingent liabilities.

Commitments

As at 29 February 2012, our Group had exploration commitments of approximately RMB24.8 million.

Disclaimers

Save as otherwise disclosed above, and apart from the intra-group liabilities, our Group did not have, at the close of business on 29 February 2012, any debt securities issued and outstanding, or authorised or otherwise created but unissued, or term loans or bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits or any guarantees or other material contingent liabilities.

Our Directors confirmed that there has not been any material change in the indebtedness and contingent liabilities of our Group since 29 February 2012 and up to the date of this prospectus.

Cash flow data

The following table sets forth selected cash flow data from our consolidated statements of cash flow for the periods indicated:

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Net cash used in operating activities	(21,193)	(152,910)	(150,820)
Net cash generated from/(used in) investing activities	(224,145)	22,167	165,998
Net cash generated from financing activities	281,548	50,251	148,184
Net increase/(decrease) in cash and cash equivalents	36,210	(80,492)	163,362

Cash flow used in operating activities

In 2011, our net cash outflow from operating activities was approximately RMB150.8 million. The net cash outflow was primarily attributable to profit before tax of approximately RMB178.0 million which was offset by increase in accounts receivables and notes receivables of approximately RMB97.7 million and RMB220.2 million respectively primarily due to increase in sales. The negative cashflow in 2011 was mainly due to that we received bank acceptance notes as settlement of our accounts receivables which though not accounted in cash and cash equivalents due to its long maturities of at most 6 months, is highly liquid as we could either use them for our payment or convert them into cash at a discount any time. By adding the balance of notes receivables of approximately RMB327.2 million, our cash flow generated from operating activities would turn to approximately RMB176.4 million.

In 2010, our net cash outflow from operating activities was approximately RMB152.9 million. The negative cash flow was primarily attributable from profit before tax of approximately RMB142.1 million and increase in accounts payables of approximately RMB11.8 million primarily due to increase in purchase of raw materials used in production, and offset by (a) increase of prepayments and other receivables of approximately RMB45.5 million primarily attributable to prepayments to Ausrich of RMB43.0 million and (b) the increase in notes receivables of approximately RMB261.5 million. We made positive profit before income tax during 2010 but recorded negative cash flow mainly due to the fact that we advanced to Mr. Li approximately RMB350.6 million in form of bank's acceptance notes. Should such bank's acceptance notes were not given to Mr. Li but became cash, our cashflow from operating activities would turn to a net cash inflow.

In 2009, a net cash outflow of approximately RMB21.2 million from operating activities was recorded. The net cash outflow was primarily attributable from profit before tax of approximately RMB39.4 million, decrease in accounts receivables of approximately RMB19.4 million primarily due to decrease in the sales, increase in accounts payables of approximately RMB12.6 million primarily due to increase of accounts payables to our Independent Third Party Mining Contractors as a result of increase in payment to our Independent Third Party Mining Contractors during 2009, and increase in notes payables of approximately RMB6.1 million primarily due to that we utilized more bank acceptance notes to pay our suppliers, offset by (a) increase of inventories of approximately RMB19.2 million as we strategically reduce the sales amount of iron concentrates in view of the sharp decline in price during 2009, (b) increase of notes receivables of approximately RMB49.6 million primarily due to that 1) we ceased trading of iron concentrates in 2009 and hence made less payment to our iron concentrates suppliers in banks' acceptance notes, and 2) fewer spare parts were purchased and consumed during 2009 using banks' acceptance notes due to improvement of processing production design, (c) increase of restricted bank deposits of approximately RMB32.9 million which consisted of deposits of issuance of notes payables of approximately RMB6.5 million and deposits of letter of guarantee of approximately RMB26.4 million to Ausrich for its borrowings in Australia. Such letter of guaranteed issued by Shandong Ishine to Ausrich for Ausrich's borrowing in Australia was released in the first half of 2011, and the restriction on the bank deposits was released accordingly. By adding the balance of deposits of letter of guarantee of approximately RMB26.4 million, our cash flow generated from operating activities would turn to a net cash inflow.

Cash flow generated from/(used in) investing activities

Cash used in investing activities has primarily been used to fund purchase of property, plant and equipment and loans to the Controlling Shareholder and third parties.

In 2011, net cash generated from investing activities was approximately RMB166.0 million, mainly as a result of (1) purchase of property, plant and equipment of approximately RMB64.6 million, and (2) repayment of loans by Mr. Li of approximately RMB230.5 million in cash.

In 2010, net cash generated from investing activities was approximately RMB22.2 million. This was primarily attributable to loan repayment from third parties to our Group of approximately RMB76 million of which approximately RMB11 million was repaid by Luxing Titanium and approximately RMB65 million was repaid by Hesheng Minerals, offset by net purchase of property, plant and equipment of approximately RMB49.1 million.

In 2009, net cash used in investing activities was approximately RMB224.1 million, comprising net purchase of property, plant and equipment of approximately RMB34.6 million and loans granted to third parties of RMB189.5 million of which RMB80 million was advanced to Hesheng Minerals and RMB109.5 million was advanced as prepayment for acquisition of mining right which subsequently did not proceed and with the prepayment returned.

Cash flow generated from financing activities

In 2011, net cash generated from financing activities was approximately RMB148.2 million, attributable primarily to (1) net proceeds from bank borrowings of approximately RMB109.6 million and (2) deemed contribution by equity holders of approximately RMB67.9 million as a result of the Reorganisation, offset by (i) payment for initial public offering expenses of approximately RMB10.3 million, and (ii) payment of amount due to Ausrich of approximately RMB19.0 million.

In 2010, net cash generated from financing activities was approximately RMB50.3 million, attributable primarily to proceeds from bank borrowings of approximately RMB318.0 million, partially offset by (a) repayments of short-term bank borrowings of approximately RMB200.0 million, (b) deemed distribution to equity holders of approximately RMB48.7 million as a result of the Reorganisation, and (c) repayment of loans from third parties by our Group of approximately RMB19.1 million. of which approximately RMB7.3 million was advanced from Luxing Titanium and approximately RMB11.8 million from an independent individual in 2009 with the intention to set up a joint venture company for operating mining projects. Such intention was subsequently aborted in 2010 with the advances received repaid back.

In 2009, net cash generated from financing activities was approximately RMB281.5 million, attributable primarily to (1) proceeds from borrowings of approximately RMB435.0 million, (2) proceeds generated from transaction with non-controlling interests of approximately RMB22.5 million, which represented seed capital and initial public offering proceeds raised by Ishine International from its non-controlling shareholders, and (3) proceeds from loans from third parties of approximately RMB19.1 million of which approximately RMB7.3 million was advanced from Luxing Titanium and approximately RMB11.8 million from an independent individual with the intention to set up a joint venture company for operating mining projects, the intention of which was subsequently aborted in 2010, offset by (a) repayments of short-term bank borrowings of approximately RMB195.0 million.

CAPITAL EXPENDITURE

Our Group's estimated capital expenditure, expected timing of the capital expenditure, and the source of funding in relation to its operations in the PRC and Australia is detailed as follows:

Yangzhuang Iron Mine

A table detailing the steps to expand the mining capacity of Yangzhuang Iron Mine and the relevant capital expenditures was summarized below:

Step	Duration	Investment amount *(RMB million)*	Source of funding
1	2nd quarter of 2012 – 3rd quarter of 2012	62.4	Net proceeds from the Share Offer
2	3rd quarter of 2012 – 2nd quarter of 2013	65.4	Internal resources, bank borrowing (using our existing banking facilities)
3	3rd quarter of 2013 – 4th quarter of 2013	85.0	Internal resources, bank borrowing (using our existing banking facilities)
	Total investment:	212.8	

Zhuge Shangyu Ilmenite Mine

A table detailing the steps to expand the mining and processing capacity of Zhuge Shangyu Ilmenite Mine and the relevant capital expenditures was summarized below:

Stage	Duration	Investment amount *(RMB million)*	Source of funding
1	2nd quarter of 2012 – 4th quarter of 2013	228.2	Net proceeds from the Share Offer, our internal resources, bank borrowing (using our existing banking facilities)
2	1st quarter of 2014 – 4th quarter of 2014	239.5	Our then internal resources, new bank borrowing to be obtained and/or other means of equity or debt financing
3	1st quarter of 2015 – 2nd quarter of 2016	496.6	Our then internal resources, new bank borrowing to be obtained and/or other means of equity or debt financing
	Total investment	964.3	

Gaozhuang Shangyu Ilmenite Project

We have engaged IGME in January 2012 to conduct detailed exploration work for Gaozhuang Shangyu Ilmenite Project which is expected to be completed with 2012. The relevant capital expenditures for such detailed exploration work is estimated to be totaling approximately RMB2.9 million and to be financed by internal resources.

Australia tenements

The expected total expenditures in exploration of our tenements located in Australia is approximately RMB24.8 million, of which approximately RMB9.5 million, RMB8.5 million and RMB6.7 million is expected to be incurred in 2012, during 2013 to 2014 and during 2015 to 2016 respectively. Such expenditures will be expensed-off and not capitalised as exploration and evaluation assets until the relevant projects reach a stage at which there is a high degree of confidence in its viability. Source of funding of such expenditures is expected to be by equity financing through the issuance of new shares of Ishine International, or by debt financing by Ishine International.

CONTRACTUAL COMMITMENTS

Exploration commitment

Ishine International has obligations under the exploration license to spend a minimum amount of exploration expenditures on the project. The obligations may vary from time to time subject to the approval from the relevant government authorities. Due to the nature of Ishine International's operations in exploring and evaluating areas of interest, it is difficult to accurately forecast the nature and amount of future expenditure beyond the next year. Expenditures may be reduced by seeking exemption from individual commitments, by relinquishing of tenure or any new joint venture agreements. Expenditure may be increased when new tenements are granted or joint venture agreements amended. Our Directors confirmed that during the Track Record Period, the aforesaid obligations of Ishine International to spend a minimum amount of exploration expenditures under the exploration license had been met.

The existing tenement commitments are as follows:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
No later than 1 year	8,127	6,942	9,547
1 to 3 years	11,169	10,357	8,520
3 to 5 years	12,546	6,198	6,701
	31,842	23,497	24,768

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have significant contingent liabilities.

OTHER LIABILITIES

Except as disclosed above and other than intra-group liabilities, which have been disregarded for these purposes, we did not have any outstanding loan capital, bank overdrafts, liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities outstanding as of 31 December 2011.

SENSITIVITY ANALYSIS FOR NET PROFIT

Our net profit is subject to changes in market conditions. The following tables illustrate the sensitivity of net profit for each of the three years ended 31 December 2009, 2010 and 2011 with reference to movements in average selling price of iron concentrates produced by us and the major cost components of our Group, namely payment to mining contractors, cost of iron concentrates purchased from independent suppliers, cost of coarse iron powder purchased from independent suppliers and power and utilities expenses.

(1) Effect of fluctuation in average selling price of iron concentrates produced by us (with 65% iron content)

	For the year ended 31 December		
	2009	**2010**	**2011**
Increase in average selling price of iron concentrates produced by us by 50%			
Increase in net profit (RMB'000)	72,540	159,629	257,105
% increase in net profit	252.5%	155.6%	197.8%
Increase in average selling price of iron concentrates produced by us by 20%			
Increase in net profit (RMB'000)	29,016	63,852	102,842
% increase in net profit	101.0%	62.3%	79.1%
Increase in average selling price of iron concentrates produced by us by 10%			
Increase in net profit (RMB'000)	14,508	31,926	51,421
% increase in net profit	50.5%	31.1%	39.6%
Decrease in average selling price of iron concentrates produced by us by 10%			
Decrease in net profit (RMB'000)	(14,508)	(31,926)	(51,421)
% decrease in net profit	(50.5%)	(31.1%)	(39.6%)
Decrease in average selling price of iron concentrates produced by us by 20%			
Decrease in net profit (RMB'000)	(29,016)	(63,852)	(102,842)
% decrease in net profit	(101.0%)	(62.3%)	(79.1%)
Decrease in average selling price of iron concentrates produced by us by 50%			
Decrease in net profit (RMB'000)	(72,540)	(159,629)	(257,105)
% decrease in net profit	(252.5%)	(155.6%)	(197.8%)

The following table sets out the historical fluctuation in average selling price of iron concentrates produced by us during the Track Record Period:

	2009	2010	2011
Change in average selling price of iron concentrates produced by us	N/A	43.7%	15.4%

It can be seen that the 50% changes in average selling price of iron concentrates produced by us from the sensitivity analysis above have already taken into account the fluctuation in the average selling price of iron concentrates during the Track Record Period.

(2) Effect of fluctuation in payment to mining contractors

	For the year ended 31 December		
	2009	**2010**	**2011**
Increase in payment to mining contractors by 20%			
Decrease in net profit (RMB'000)	(8,784)	(10,458)	(10,963)
% decrease in net profit	(30.6%)	(10.2%)	(8.4%)
Increase in payment to mining contractors by 10%			
Decrease in net profit (RMB'000)	(4,392)	(5,229)	(5,481)
% decrease in net profit	(15.3%)	(5.1%)	(4.2%)
Decrease in payment to mining contractors by 10%			
Increase in net profit (RMB'000)	4,392	5,229	5,481
% increase in net profit	15.3%	5.1%	4.2%
Decrease in payment to mining contractors by 20%			
Increase in net profit (RMB'000)	8,784	10,458	10,963
% increase in net profit	30.6%	10.2%	8.4%

The following table sets out the historical fluctuation in payment to mining contractors during the Track Record Period:

	2009	2010	2011
Change in payment to mining contractor	N/A	19.1%	4.8%

It can be seen that the 20% changes in payment to mining contractors from the sensitivity analysis above have already taken into account the fluctuation in the payment to mining contractors during the Track Record Period.

(3) Effect of fluctuation in cost of iron concentrates purchased from independent suppliers

	For the year ended 31 December		
	2009 *(Note)*	**2010**	**2011**
Increase in cost of iron concentrates by 20%			
Decrease in net profit (RMB'000)	–	(6,261)	(8,088)
% decrease in net profit	–	(6.1%)	(6.2%)
Increase in cost of iron concentrates by 10%			
Decrease in net profit (RMB'000)	–	(3,131)	(4,044)
% decrease in net profit	–	(3.1%)	(3.1%)
Decrease in cost of iron concentrates by 10%			
Increase in net profit (RMB'000)	–	3,131	4,044
% increase in net profit	–	3.1%	3.1%
Decrease in cost of iron concentrates by 20%	–	6,261	8,088
Increase in net profit (RMB'000)			
% increase in net profit	–	6.1%	6.2%

Note: We did not purchase iron concentrates in 2009.

The following table sets out the historical fluctuation in average cost of iron concentrates purchased during the Track Record Period:

	2009	**2010**	**2011**
Change in average cost of iron concentrates purchased	N/A	N/A	13.0%

It can be seen that the 20% changes in the average cost of iron concentrates purchased from the sensitivity analysis above have already taken into account the fluctuation in the average cost of iron concentrates purchased during the Track Record Period.

(4) Effect of fluctuation in cost of coarse iron powder purchased from independent suppliers

	For the year ended 31 December		
	2009 *(Note)*	**2010**	**2011**
Increase in cost of coarse iron powder by 20%			
Decrease in net profit (RMB'000)	–	(251)	(69,636)
% decrease in net profit	–	(0.2%)	(53.6%)
Increase in cost of coarse iron powder by 10%			
Decrease in net profit (RMB'000)	–	(126)	(34,818)
% decrease in net profit	–	(0.1%)	(26.8%)
Decrease in cost of coarse iron powder by 10%			
Increase in net profit (RMB'000)	–	126	34,818
% increase in net profit	–	0.1%	26.8%
Decrease in cost of coarse iron powder by 20%			
Increase in net profit (RMB'000)	–	251	69,636
% increase in net profit	–	0.2%	53.6%

Note: We did not purchase coarse iron power in 2009.

The following table sets out the historical fluctuation in average cost of coarse iron powder purchased during the Track Record Period:

	2009	**2010**	**2011**
Change in average cost of coarse iron powder purchased	N/A	N/A	(1.2)%

It can be seen that the 20% changes in the average cost of coarse iron powder purchased from the sensitivity analysis above have already taken into account the fluctuation in the average cost of coarse iron powder purchased during the Track Record Period.

(5) Effect of fluctuation in power and utilities expenses

	For the year ended 31 December		
	2009	**2010**	**2011**
Increase in power and utilities expenses by 20%			
Decrease in net profit (RMB'000)	(2,868)	(3,436)	(3,648)
% decrease in net profit	(10.0%)	(3.4%)	(2.8%)
Increase in power and utilities expenses by 10%			
Decrease in net profit (RMB'000)	(1,434)	(1,718)	(1,824)
% decrease in net profit	(5.0%)	(1.7%)	(1.4%)
Decrease in power and utilities expenses by 10%			
Increase in net profit (RMB'000)	1,434	1,718	1,824
% increase in net profit	5.0%	1.7%	1.4%
Decrease in power and utilities expenses by 20%			
Increase in net profit (RMB'000)	2,868	3,436	3,648
% increase in net profit	10.0%	3.4%	2.8%

The following table sets out the historical fluctuation in power and utilities expenses during the Track Record Period:

	2009	**2010**	**2011**
Change in power and utilities costs	N/A	19.8%	6.2%

It can be seen that the 20% changes in power and utilities expenses from the sensitivity analysis above have already taken into account the fluctuation in power and utilities expenses during the Track Record Period.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted net tangible assets of our Group which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Share Offer as if it had been taken place on 31 December 2011 and based on the audited consolidated net tangible assets attributable to equity holders of our Company as of 31 December 2011 as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

The unaudited pro forma adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Share Offer been completed as at 31 December 2011 or at any further date.

	Audited consolidated net tangible assets attributable to equity holders of the Company as at 31 December 2011	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company as at 31 December 2011	Unaudited pro forma adjusted net tangible assets per Share	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Notes 2 and 6)*		*(Note 3)*	*(Note 6)*
Based on an Offer Price of HK$1.52 per Share	400,184	135,986	536,170	0.74	0.92
Based on an Offer Price of HK$1.01 per Share	400,184	83,037	483,221	0.67	0.83

Notes:

1. *The audited consolidated net tangible assets attributable to equity holders of our Company as of 31 December 2011 is based on the audited consolidated net assets of our Group attributable to the equity holders of our Company as of 31 December 2011, as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus with an adjustment for intangible assets of RMB29.2 million.*

2. *The estimated net proceeds from the Share Offer are based on the indicative Offer Prices of HK$1.01 and HK$1.52 per share, being the lower end to higher end of the stated offer price range, after deduction of the underwriting fees and related expenses payable by our Company and takes no account of any shares which may be allotted and issued upon the exercise of the Over-allotment Option or any shares which may be issued upon the exercise of the options granted or to be granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate.*

3. *The unaudited pro forma adjusted net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis of 720,871,584 Shares are in issue assuming that the Share Offer and the Capitalisation Issue have been completed on 31 December 2011, but takes no account of any shares which may be allotted and issued upon the exercise of the Over-allotment Option or any shares which may be issued upon the exercise of the options granted or to be granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate.*

4. *By comparing the valuation of our Group's property interests of RMB90.3 million as set out in Appendix III to this Prospectus and the unaudited net book value of these properties as of 29 February 2012, the net revaluation surplus is approximately RMB13.2 million, which has not been included in the above net tangible assets attributable to equity holders of our Company as of 31 December 2011. The revaluation of our Group's property interests will not be incorporated in our Group's financial information. If the revaluation surplus is to be included in our Group's financial information, an additional depreciation charge of approximately RMB1.8 million per annum related to the property interests would be recorded.*

5. *No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2011.*

6. *For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at a rate of RMB1.00 to HK$1.2311. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.*

DIVIDEND POLICY

We declared dividends of RMB100 million and RMB80 million to our Shareholders for the year ended 31 December 2010 and for the year ended 31 December 2011, respectively by internal resources generated from our business operations. Save as disclosed above, no other dividends were declared or distributed by us or any of our subsidiaries during the Track Record Period. We currently do not have a fixed dividend policy. According to the Articles, we may declare and pay dividends out of our distributable reserves. The payment and the amount of any dividends will depend on the results of our operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends, future prospects and other factors that we may consider relevant. The declaration, payment, and amount of dividends will be subject to our discretion.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our operations. We cannot assure that dividends will be paid in the future or as to the timing of any dividends that may be paid in the future. See the section headed "Risk Factors – Risks Relating to our Shares – We cannot assure you that we will declare dividends in the future" of this prospectus. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars.

Pursuant to the PRC corporate income tax laws and regulations ("**PRC CIT Laws**"), 10% withholding income tax will be levied on dividends distribution from our Group's PRC subsidiary to our Hong Kong incorporated intermediate parent companies. If these Hong Kong incorporated intermediate parent companies fall within qualified investors as defined by the PRC CIT Laws, a treaty rate of 5% will apply. Ishine Mining and SMI will be subject to a 5% withholding tax rate imposed by the local tax bureau in accordance with the PRC CIT Laws.

Pursuant to the Australia Corporation Tax laws and regulations, 15% withholding income tax will be levied on dividends distribution from Australia subsidiary to its PRC intermediate parent company.

SUFFICIENCY OF WORKING CAPITAL

Taking into account the financial resources available to us, including the estimated net proceeds from the Share Offer, available banking facilities and cash flows from our operations, and in the absence of unforeseen circumstances, our Directors are of the opinion that we have sufficient working capital to meet 125% of our present requirements, that is, for at least the next 12 months from the date of this prospectus.

MARKET RISK DISCLOSURE

We are, in the normal course of business, exposed to market risks relating primarily to fluctuations in commodity prices, interest rate risks, inflation risks, foreign currencies risks and liquidity risks. Our risk management strategy aims to minimise the adverse effects of these risks on our financial performance.

Commodity price risk

The prices of our products are impacted by international and domestic market prices and changes in global supply and demand for such products. Fluctuations in both global and domestic prices and demand for our products are beyond our control. Price volatility of non-ferrous metals is also affected by the global and PRC economic cycles as well as the fluctuations of the global currency markets. As the pricing of our products correlates with global and domestic non-ferrous metal prices, any significant decrease in non-ferrous metal prices may materially and adversely affect our financial condition and results of operations.

Interest rate risk

We are exposed to risks resulting from fluctuations in interest rates on our debt. We undertake debt obligations to support general corporate functions, including capital expenditures and working capital needs. Our bank loans bear interest rates that are subject to adjustment by our lenders in accordance with changes to the relevant regulations imposed by the People's Bank of China ("PBOC"). If the PBOC increases interest rates, our finance cost will be increased. In addition, to the extent that we may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debt. To date, we have not entered into any type of interest rate agreements or derivatives to hedge against interest rate changes.

Liquidity risk

We monitor our risk of funds shortage by considering the maturity of both our financial instruments and financial assets and projected cash flows from operations. Our objective is to maintain a balance between continuity of funding and flexibility through the use of a mix of interest-bearing bank facilities and advances from related parties.

Inflation risk

We are exposed to inflation risk that our suppliers and Independent Third Party contractors might increase the prices of goods or services provided to us from time to time and we might not be able to fully transfer the increase in our costs to our customers.

Foreign exchange risk

Our businesses are mainly located in the PRC and our primary operating transactions are conducted in Renminbi. Most of our assets and liabilities are denominated in Renminbi, except for our business activities and capital commitment associated with the business in the Commonwealth of Australia which were conducted in Australian dollars.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

As of the Latest Practicable Date, our Directors confirm there are no circumstances that will give rise to a disclosure requirement under rule 13.13 to rule 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm there has been no material adverse change in our financial or trading position or prospects since 31 December 2011, being the date of our latest audited financial results as set out in the Accountant's Report attached as Appendix I to this prospectus and up to the date of this prospectus.

PROPERTY VALUATION AND RECONCILIATION

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, has valued our property interests as of 29 February 2012 and is of the opinion that the capital value of our property interests in aggregate amounted to RMB90.3 million as of 29 February 2012. Details of valuation of our property interests as of 29 February 2012 are set out in Appendix III to this prospectus.

The table below sets forth the reconciliation of aggregate amount of land and buildings and property portion of construction in progress from our audited financial statements as of 31 December 2011 to the unaudited net book value of our property interests as of 29 February 2012.

	RMB'000
Net book value of our property interests as of 31 December 2011 *(Note)*	73,076
Movement for the two months ended 29 February 2012 (unaudited):	
Addition	5,202
Depreciation	(1,187)
Disposal	–
Net book value as of 29 February 2012 (unaudited)	77,091
Valuation surplus as of 29 February 2012	13,209
Valuation as of 29 February 2012 per Appendix III – Property Valuation	90,300

Note: Net book value of our property interests represents the aggregate of net book value of the property elements of "buildings and structures" and "construction in progress" as disclosed in Note 7 of Appendix I.