The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

pwc 羅兵咸永道

17 April 2012

The Directors
China Zhongsheng Resources Holdings Limited

Haitong International Capital Limited

Dear Sirs,

We report on the financial information of China Zhongsheng Resources Holdings Limited (the "Company") and its subsidiaries (together, the "Group") which comprises the consolidated balance sheets as at 31 December 2009, 2010 and 2011, the balance sheet of the Company as at 31 December 2011 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years ended 31 December 2009, 2010 and 2011 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes. This financial information has been prepared by the directors of the Company and is set out in Section I to III below for inclusion in Appendix I to the prospectus of the Company dated 17 April 2012 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in Cayman Islands on 8 February 2011 as an exempted company with limited liability under the Companies Law (2010 Revision) of Cayman Islands. Pursuant to a group reorganisation as described in Note 1 of Section II headed "General Information and Reorganisation" (the "Reorganisation") below, which was completed on 19 August 2011, the Company became the holding company of the subsidiaries now comprising the Group.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

As at the date of this report, the Company has direct and indirect interests in the subsidiaries, as set out in Note 1 of Section II below. Except for Ishine International Resources Limited ("Ishine International"), which is a company incorporated in Australia and listed on the Australian Securities Exchange, all of other companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristic as a Hong Kong incorporated private company.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation, other than the Reorganisation. The audited financial statements of the other companies comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. Details of the statutory auditors of these companies are set out in Note 1 of Section II.

The directors of the Company have prepared the consolidated financial statements of the Company for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). The Underlying Financial Statements have been audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company (普華永道中天會計師事務所有限公司) in accordance with Hong Kong Standards on Auditing (the "HKSA") issued by the HKICPA under separate terms of engagement with the Company.

The directors of the Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with HKFRSs.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the financial information gives, for the purposes of this report, a true and fair view of the state of affairs of the Company as at 31 December 2011, the state of affairs of the Group as at 31 December 2009, 2010 and 2011 and of the Group's results and cash flows for the Relevant Periods then ended.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the consolidated financial information of the Group prepared by the directors of the Company as at 31 December 2009, 2010 and 2011 and for each of the years ended 31 December 2009, 2010 and 2011 (the "Financial Information"):

(a) Consolidated balance sheets

		As at 31 December		
		2009	**2010**	**2011**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Property, plant and equipment	*7*	77,244	120,532	192,523
Intangible assets	*8*	24,718	27,974	29,219
Investment in an associate	*10*	–	4,062	–
Available-for-sale financial assets	*11*	–	–	4,256
Other financial assets	*12*	–	1,268	561
Deferred income tax assets	*13*	5,700	3,605	2,790
		107,662	157,441	229,349
Current assets				
Inventories	*14*	22,712	15,882	34,080
Accounts receivables	*15*	94,377	102,145	199,798
Notes receivables	*16*	287,218	202,500	327,150
Prepayments and other receivables	*17*	91,446	409,775	102,391
Restricted bank deposits	*18*	33,150	34,600	–
Cash and cash equivalents	*18*	122,539	39,903	202,586
		651,442	804,805	866,005
Total assets		759,104	962,246	1,095,354
EQUITY				
Equity attributable to equity holders of the Company				
Share capital and share premium	*19*	274,769	274,769	274,769
Reserves	*20*	(73,815)	(103,105)	(6,956)
Retained earnings		148,979	139,271	161,590
		349,933	310,935	429,403
Non-controlling interests		13,799	11,310	8,490
Total equity		363,732	322,245	437,893

		As at 31 December		
		2009	2010	2011
	Note	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES				
Non-current liabilities				
Borrowings	*24*	150,000	200,000	160,000
Provision for close down, restoration and environmental costs	*25*	12,210	13,008	9,978
Deferred income tax liabilities	*13*	–	1,982	3,189
		162,210	214,990	173,167
Current liabilities				
Borrowings	*24*	140,000	208,000	357,620
Accounts payables	*21*	21,496	42,024	63,280
Notes payables	*22*	6,320	13,490	–
Accruals and other payables	*23*	48,224	142,197	36,113
Current income tax liabilities		17,122	19,300	27,281
		233,162	425,011	484,294
Total liabilities		395,372	640,001	657,461
Total equity and liabilities		759,104	962,246	1,095,354
Net current assets		418,280	379,794	381,711
Total assets less current liabilities		525,942	537,235	611,060

(b) Balance sheet

	Note	As at 31 December 2011 RMB'000
ASSETS		
Non-current assets		
Interest in subsidiaries	9	394,019
		394,019
Current assets		
Prepayment and other receivable	17	3,510
Cash and cash equivalents	18	69
		3,579
Total assets		397,598
EQUITY		
Equity attributable to equity holders of the Company		
Share capital and share premium	19	274,769
Contributed surplus	20	118,704
Accumulated losses		(6,789)
Total equity		386,684
LIABILITIES		
Current liabilities		
Accruals and other payables	23	10,914
		10,914
Total liabilities		10,914
Total equity and liabilities		397,598
Net current liabilities		(7,335)
Total assets less current liabilities		386,684

(c) Consolidated statements of comprehensive income

		Year ended 31 December		
		2009	**2010**	**2011**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	26	196,447	485,452	1,010,252
Cost of sales	27	(124,722)	(281,063)	(734,056)
Gross profit		71,725	204,389	276,196
Selling and distribution costs	27	(4,487)	(4,602)	(9,649)
Administrative expenses	27	(19,381)	(31,732)	(41,462)
Other (losses)/gain, net	29	(125)	(2,502)	3,016
Profit from operations		47,732	165,553	228,101
Finance income	30	1,621	1,156	2,425
Finance costs	30	(9,945)	(23,733)	(50,888)
Finance costs, net		(8,324)	(22,577)	(48,463)
Share of loss of an associate	10	–	(851)	(1,606)
Profit before income tax		39,408	142,125	178,032
Income tax expense	31	(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 the 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	32	26.27	96.53	118.93
Dividends	33	–	100,000	80,000

(d) Consolidated statements of changes in equity

		Attributable to equity holders of the Company					
		Share capital and share premium	**Reserves**	**Retained earnings**	**Subtotal**	**Non-controlling interests**	**Total equity**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note 19)	*(Note 20)*				
As at 1 January 2009		274,769	(82,627)	135,415	327,557	–	327,557
Comprehensive income							
Profit for the year		–	–	29,184	29,184	(455)	28,729
Other comprehensive income							
Currency translation differences		–	(505)	–	(505)	(229)	(734)
Transaction with owners							
Capital injection from non-controlling interests		–	9,548	–	9,548	12,987	22,535
Appropriations		–	15,620	(15,620)	–	–	–
Share-based payments		–	3,288	–	3,288	1,496	4,784
Deemed distribution to the equity holders	*20(b)*	–	(19,139)	–	(19,139)	–	(19,139)
As at 31 December 2009		274,769	(73,815)	148,979	349,933	13,799	363,732

		Attributable to equity holders of the Company					
		Share capital and share premium	**Reserves**	**Retained earnings**	**Subtotal**	**Non-controlling interests**	**Total equity**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note 19)	*(Note 20)*				
As at 31 December 2009		274,769	(73,815)	148,979	349,933	13,799	363,732
Comprehensive income							
Profit for the year		–	–	107,254	107,254	(4,692)	102,562
Other comprehensive income							
Currency translation differences		–	2,214	–	2,214	1,016	3,230
Transaction with owners							
Appropriations		–	16,962	(16,962)	–	–	–
Capital injection from non-controlling interests		–	34	–	34	1,078	1,112
Dividends	*33*	–	–	(100,000)	(100,000)	–	(100,000)
Share-based payments		–	241	–	241	109	350
Deemed distribution to equity holders	*20(b)*	–	(48,741)	–	(48,741)	–	(48,741)
As at 31 December 2010		274,769	(103,105)	139,271	310,935	11,310	322,245
Comprehensive income							
Profit for the year		–	–	132,150	132,150	(2,160)	129,990
Other comprehensive income							
Currency translation differences		–	(1,005)	–	(1,005)	(404)	(1,409)
Change in value on available-for-sale financial assets	*11*	–	(729)	–	(729)	(335)	(1,064)
Transaction with owners							
Appropriations		–	29,831	(29,831)	–	–	–
Dividends	*33*	–	–	(80,000)	(80,000)	–	(80,000)
Share-based payments		–	172	–	172	79	251
Deemed distribution to equity holders	*20(b)*	–	(3,243)	–	(3,243)	–	(3,243)
Contribution by equity holders	*20(b)*	–	71,123	–	71,123	–	71,123
As at 31 December 2011		274,769	(6,956)	161,590	429,403	8,490	437,893

(e) Consolidated cash flow statements

		Year ended 31 December		
	Note	**2009** *RMB'000*	**2010** *RMB'000*	**2011** *RMB'000*
Cash flows from operating activities				
Cash used in operations	*36(a)*	(12,639)	(98,270)	(87,230)
Interest paid		(8,936)	(22,488)	(36,046)
Interest income received		1,621	1,156	2,425
Income tax paid		(1,239)	(33,308)	(29,969)
Net cash used in operating activities		(21,193)	(152,910)	(150,820)
Cash flows from investing activities				
Purchase of property, plant and equipment and intangible assets		(34,645)	(49,137)	(64,577)
Proceeds from disposal of property, plant and equipment		–	217	38
Investment in an associate	*10*	–	(4,913)	–
Loans granted to related parties and the Controlling Shareholder		–	(110,535)	–
Loans repayments from related parties and the Controlling Shareholder		–	110,535	230,537
Loans granted to third parties		(189,500)	–	–
Loan repayment from third parties		–	76,000	–
Net cash generated from/(used in) investing activities		(224,145)	22,167	165,998
Cash flows from financing activities				
Deemed distribution to equity holders		(127)	(48,741)	(3,243)
Contribution by equity holders		–	–	71,123
Payment of the amounts due to a related party		–	–	(19,012)
Capital injection from non-controlling interests		22,535	132	–
Proceeds from borrowings		435,000	318,000	484,720
Repayments of borrowings		(195,000)	(200,000)	(375,100)
Proceeds from loans from third parties		19,140	–	–
Repayment of loans from third parties		–	(19,140)	–
Repayment for initial public offering expenses		–	–	(10,304)
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
Exchange losses on cash and cash equivalents		(497)	(2,144)	(679)
Cash and cash equivalents at end of the year		122,539	39,903	202,586

II. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION AND REORGANISATION

(i) General information of the Group

China Zhongsheng Resources Holdings Limited (the "Company") was incorporated in Cayman Islands on 8 February 2011 as an exempted company with limited liability under the Companies Law (2010 Revision) of Cayman Islands. The address of its registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively the "Group") are principally engaged in iron ore mining, iron ore processing, sales of iron concentrate in the People's Republic of China (the "PRC") and exploration of metal reserves in Australia (the "Listing Businesses"). The directors considered Hongfa Holdings Limited ("Hongfa Holdings"), a company incorporated in British Virgin Islands ("BVI") and wholly owned by Mr. Li Yunde (the "Controlling Shareholder"), to be the ultimate holding company.

(ii) Reorganisation

Prior to the incorporation of our Company and the completion of the reorganisation steps as described below (the "Reorganisation"), Shandong Ishine Mining Industry Co., Ltd. ("Shandong Ishine"), a company directly controlled by Mr. Li Yunde (the Controlling Shareholder), and its subsidiaries and associates conduct both Listing Businesses and other businesses that are not within and have never been part of the Listing Businesses ("the Excluded Businesses"). The entities that conduct the Excluded Businesses are:

Name of subsidiary/ associates	Place of incorporation	Percentage of shareholding	Principal operation
Ausrich Resources Pty Ltd. ("Ausrich")	Australia	100%	Holding of certain investment property in Australia
Chang Sheng Mining Development Co., Ltd. ("Thailand Chang Sheng")	Thailand	49%	Construction and operation of an iron ore processing plant in Thailand
Yishui Shengrong Small Loans Corporation ("Shengrong Small Loans")	The PRC	20%	Finance and loan business

In preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), the Group underwent the following transactions to transfer the Listing Businesses to the Company and to dispose of the Excluded Businesses from Shandong Ishine:

a) On 29 November 2010, Alliance Worldwide Group Limited ("Alliance Worldwide") was incorporated in BVI with an authorised share capital of US dollar ("USD") 50,000 at USD1 each, all of which were allotted and fully paid up by the Controlling Shareholder.

b) On 22 December 2010, Ishine Mining International Limited ("Ishine Mining") was incorporated in Hong Kong with an authorised share capital of HK dollar ("HKD") 10,000 at HKD1 each, all of which were allotted and fully paid up by Alliance Worldwide.

c) On 8 February 2011, the Company was incorporated in Cayman Islands as a wholly owned subsidiary of Hongfa Holdings, a company wholly owned by the Controlling Shareholder. On 18 February 2011, 749,999 shares of the Company were allotted and issued to Hongfa Holdings at a consideration of HKD7,500. On 18 February 2011, the Controlling Shareholder transferred his entire interests in Alliance Worldwide to the Company at a consideration of USD1.

d) Pursuant to an equity transfer agreement dated 26 February 2011, Shandong Ishine agreed to transfer all of its entire interests in Shengrong Small Loans to Linyi Runxing Investment Limited ("Linyi Runxing Investment"), which was beneficially owned by the Controlling Shareholder at a consideration of RMB20 million.

e) Pursuant to an equity transfer agreement dated 2 May 2011, Shandong Ishine transferred its entire interests in Ausrich and Thailand Chang Sheng to Yishui Hesheng Minerals Processing Co., Ltd. ("Hesheng Minerals"), a third party and a customer of the Group, at a consideration of USD6.35 million and RMB9,955,865 respectively.

f) Pursuant to an equity transfer agreement dated 20 February 2011, the Controlling Shareholder transferred his 75% equity interests in Shandong Ishine to Ishine Mining at a consideration of USD27,853,200 (which were fully settled on 16 November 2011 see step j) below). The aforesaid equity transfer was approved by the relevant government authority in the PRC on 17 August 2011. On 19 August 2011, a new business license was granted to Shandong Ishine by the Administration for Industry and Commerce of Shandong Province, the PRC (山東省工商行政管理局).

Upon completion of the Reorganisation on 19 August 2011, the Company became the holding company of the Group.

g) Pursuant to an equity transfer agreement dated 2 September 2011, Alliance Worldwide acquired the remaining 25% equity interest in Shandong Ishine through acquiring the entire equity interest of Fortuneshine Investment Limited ("Fortuneshine Investment"), the then 25% shareholder of Shandong Ishine, from a company controlled by Mr. Lang Weiguo. The consideration for such acquisition was settled by issuance of 250,000 shares of the Company to two companies incorporated in BVI, which were beneficially owned by Mr. Lang Weiguo.

h) On 19 October 2011, the Controlling Shareholder, Hongfa Holdings and Jiuding Callisto Limited ("Jiuding Callisto") entered into a subscription agreement under which Jiuding Callisto subscribed for a 10% equity interest in the Company at a consideration of USD11,250,000.

i) On 15 November 2011, Hongfa Holdings subscribed for an additional 1 share of the Company at a consideration of USD16,603,200.

j) On 16 November 2011, the consideration payable by the Group amounting to USD27,853,200 for acquisition of Shandong Ishine as mentioned in step f) above were fully settled.

Upon completion of the Reorganisation and as at the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Company name	*Note*	Place and date of incorporation	Principal activities	Type of legal entity	Issued/ paid-up capital	Equity interest attributable to the Group
Directly held:						
Alliance Worldwide	*(a)*	BVI/ 29 November 2010	Investment holding	Limited liability company	USD50,000	100%
Indirectly held:						
Ishine Mining	*(a)*	Hong Kong/ 22 December 2010	Investment holding	Limited liability company	HKD10,000	100%
Fortuneshine Investment	*(a)*	Cayman Islands/ 21 September 2010	Investment holding	Limited liability company	USD50,000	100%
Shine Mining Investment Limited	*(a)*	Hong Kong/ 1 November 2010	Investment holding	Limited liability company	HKD10,000	100%
Shandong Ishine	*(b)*	The PRC/ 4 December 2001	Iron ore mining processing and sales of iron concentrate	Limited liability company	USD16,850,903	100%
Ishine International	*(c)*	Australia/ 18 September 2009	Exploration of metal reserves	Limited liability company	AUD6,839,952	68.27%

Notes:

(a) *No audited financial statements were issued for these companies as they are either newly incorporated or not required to issue audited financial statements under the statutory requirements of their respective places of incorporation.*

(b) *The financial statements of Shandong Ishine for the years ended 31 December 2009 and 2010 which were filed to the Yishui Administration for Industry and Commerce, Shandong Province, the PRC, were audited by Linyi Qiyang Certified Public Accountants (臨沂啟陽聯合會計師事務所).*

(c) *The financial statements of Ishine International were audited by Deloitte Touche Tohmatsu for the period from 18 September 2009 (date of incorporation) to 30 June 2010, and for the year ended 30 June 2011.*

The English names of certain companies represent the best effort by the management of the Group in translating their Chinese names as they do not have official English names.

Other than Ishine International which has financial year ends on 30 June, all other companies comprising the Group have adopted 31 December as their financial year-end date.

2. BASIS OF PRESENTATION

For the purpose of this report, the consolidated financial statements of the 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 the 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 the Controlling Shareholder and now comprising the 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 the Controlling Shareholder, whichever is a shorter period. The consolidated balance sheets of the Group as at 31 December 2009, 2010 and 2011 have been prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence as at these dates. The net assets and results of the Group were consolidated using the existing book values from the Controlling Shareholder's 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 the 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of this Financial Information which are in accordance with HKFRSs issued by the HKICPA as set out below. The Financial Information has been prepared under the historical cost convention, as modified by available-for-sale financial assets and financial assets (including derivative instruments) at fair value through profit or loss.

The preparation of the Financial Information requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 5.

All new standards, amendments to standards and interpretations, which are mandatory for the financial year beginning 1 January 2011, are consistently applied to the Group for the Relevant Periods.

The following new standards, amendments to standards and interpretations have been issued by HKICPA which are relevant to the Group's operation but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

(i) Changes effective for annual periods beginning on or after 1 July 2012

HKAS 1 (Amendment) – "Presentation of financial statements"

The main change resulting from these amendments is a requirement for entities to group items presented as 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently. The amendments do not address which items are presented as OCI.

(ii) Changes effective for annual periods beginning on or after 1 January 2013

(1) HKFRS 10 "Consolidated financial statements"

The objective of HKFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements, defines the principle of control, and establishes controls as the basis for consolidation. It also sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee and the accounting requirements for the preparation of consolidated financial statements.

(2) HKAS 27 (revised 2011) – "Separate financial statements"

HKAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10.

(3) HKFRS 11 "Joint arrangements"

HKFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

(4) HKAS 28 (revised 2011) "Associates and joint ventures"

HKAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted for following the issue of HKFRS 11.

(5) HKFRS 12 "Disclosure of interests in other entities"

HKFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

(6) HKFRS 13 "Fair value measurements"

HKFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned between HKFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs or US GAAP.

(iii) Changes effective for annual periods beginning on or after 1 January 2015

(1) HKFRS 9 – "Financial Instruments"

HKFRS 9 is the first standard issued as part of a wider project to replace HKAS 39. HKFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in HKAS 39 on impairment of financial assets and hedge accounting continues to apply.

The Group is in the process of making an assessment of the impact of these standards, amendments and interpretations on the financial statements of the Group in the initial application and does not anticipate that the adoption will result in any material impact on the Group's operating results or financial position.

(a) Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Except for the Reorganisation and business combination under common control as described in Note 1(ii) and Note 2 above, the Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(iii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associate's post-acquisition profits or losses is recognised in the consolidated statements of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in the consolidated statements of comprehensive income.

(b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Senior Executive Management of the Company that make strategic decisions.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Financial Information is presented in Renminbi ("RMB") which is the functional currency of the Company and the Group's presentation currency. RMB is the functional currency of Shandong Ishine. Australian Dollar ("AUD") is the functional currency of Ishine International.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statements of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statements of comprehensive income within "finance income" or "finance cost". All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within "other gain/(losses), net".

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

On consolidation or combination, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated statements of comprehensive income as part of the gain or loss on sale.

(d) 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. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated statements of comprehensive income during the financial period in which they are incurred.

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 lives
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 iron ore reserves as the depletion base.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3(g)).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the consolidated statements of comprehensive income.

(e) Construction in progress

Construction in progress represents property, plant and equipment under construction or pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

(f) Intangible assets

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 the 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;

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 the 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.

(g) Impairment of non-financial assets and associate

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU). Each mine represents a CGU. Assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are presented as "accounts receivables", "restricted bank deposits", "other receivables" and "cash and cash equivalents" in the consolidated balance sheets.

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise, they are classified as non-current.

(iii) 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.

(iv) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statements of comprehensive income within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statements of comprehensive income as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statements of comprehensive as 'gains and losses – net'.

Dividends on available-for-sale equity instruments are recognised in the consolidated statements of comprehensive income as part of other income when the Group's right to receive payments is established.

(v) Impairment of financial assets

(1) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statements of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statements of comprehensive income.

(2) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statements of comprehensive income on equity instruments are not reversed through the consolidated statements of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statements of comprehensive income.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average costing method. The cost of finished goods comprises raw material, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost to completion and the applicable variable selling expenses.

(j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Restricted bank deposit represents guaranteed deposits held in a separate reserve account to be pledged to the bank for issuance of trade facilities such as notes payable and letter of guarantee, such restricted bank deposit will be released when the Group repays the related trade facilities.

(k) Accounts payable and other payables

Accounts payable and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has a contractual or an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(m) Current and deferred income tax

The income tax expense for the year comprises current and deferred income tax. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 the 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.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(n) Employee benefits

(i) Pension obligations

The PRC employees of the Group covered by various PRC government-sponsored defined-contribution pension plans under which the employees become entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expenses as incurred. The non-PRC employees are covered by other defined-contribution pension plans sponsored by local government.

(ii) Housing benefits

The PRC employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries. The Group's liability in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by the housing benefits.

(o) Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(p) Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees and other service providers as consideration for equity instruments (options) of the 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, the 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.

(q) Provision for close down, restoration and environmental costs

One consequence of mining is damage of land at the mining sites. Depending on the circumstances, the Group may compensate the inhabitants for the losses or damage of land at mining site due to mining activities. The Group may be required to make payments for close down, restoration, rehabilitation or environmental protection of the land after the sites have been mined.

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during mine development or during the production phrase, based on the net present value of estimated future costs. The cost is capitalised where it gives rise to future benefits, whether the rehabilitation activity is expected to occur over the life of the operation or at the time of close down. The capitalised cost is amortised over the life of the operation and increase in the net present value of the provision is recognised as interest expense.

Where there is a change in the expected decommissioning and restoration costs, an adjustment is recorded against the carrying value of the provision and related assets, and the effect is then recognised in the consolidated statements of comprehensive income on a prospective basis over the remaining life of the operation. Provisions for close down and restoration costs do not included any additional obligations which are expected to arise from future disturbance. The cost estimates are reviewed and revised at each balance sheet date to reflect changes in conditions.

(r) Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods

Revenue associated with the sale of iron ore and iron concentrate is recognised 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) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(s) Lease

Leases where a significant portion of the risks and rewards of the ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for leasehold land and land use rights, are charged to the consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

(t) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial information in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

(u) Government grant

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to the consolidated statements of comprehensive income on a straight-line basis over the expected useful lives of the related assets.

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and cash flow interest rate risk), credit risk, liquidity risk and concentration risk.

(a) Market risk

(i) Foreign exchange risk

Shandong Ishine and Ishine International, which operates in the PRC and Australia respectively, are two major subsidiaries of the Group. Almost all of the transactions of Shandong Ishine and Ishine International are denominated and settled in their respective functional currencies, i.e. RMB and AUD respectively. Therefore the Group has no significant foreign exchange risk from the operations of these two subsidiaries that might impact its consolidated result of operations.

RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

(ii) Cash flow interest rate risk

The Group's exposure to cash flow interest rate risks arises from the Group's interest bearing bank deposits and bank borrowings whose interest rates are subjected to adjustments by the PRC government. All borrowings are at variable rates which expose the Group to cash flow interest rate risk. The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

Other than those mentioned above, the Group's income and operating cash flows are substantially independent of changes in the market interest rates.

As at 31 December 2009, 2010 and 2011, if the interest rate on borrowings had been higher/lower by 1%, the net profit for each year would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of changes are as follows:

	Year Ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Year ended:			
Net profit increase/(decrease)			
– Higher 1%	(1,008)	(1,638)	(2,902)
– Lower 1%	1,008	1,638	2,902

(b) Credit risk

The carrying amounts of cash and cash equivalents, restricted bank deposits, trade receivables, other receivables except for prepayment included in the consolidated balance sheets represent the Group's maximum exposure to credit risk in relation to its financial assets.

Bank deposits and restricted bank deposits are mainly placed in state-owned banks in the PRC and overseas banks that have investment grade ratings. Notes receivables represent bank acceptance notes. The issuing banks of these bank acceptance notes are either state-owned banks with investment grade ratings or local banks with good reputation. Management believes these financial institutions are of high credit quality and there is no significant credit risk on such bank deposits and bank acceptance notes. Sales to the Group's top five largest customers accounted for 98.4%, 98.5% and 78.1%, respectively, of the total revenue for the years ended 31 December 2009, 2010 and 2011. All of these major customers are with good credit history. The Group also has significant amounts due from related parties or the Controlling Shareholder during the Relevant Periods. The Group's historical experience in collection of trade and other receivables (including amounts due from related parties and the Controlling Shareholder) falls within the recorded allowance and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the Financial Information.

(c) Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, which is generated from the financing cash flows and expected future operating cash flows.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

	Less than 1 year	**1-2 years**	**2-5 years**	**Above 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2009				
Borrowings	154,097	9,504	162,707	–
Accounts payables	21,496	–	–	–
Notes payables	6,320	–	–	–
Other payables	43,501	–	–	–
Total	225,414	9,504	162,707	–
As at 31 December 2010				
Borrowings	227,386	51,285	172,170	–
Accounts payables	42,024	–	–	–
Notes payables	13,490	–	–	–
Other payables	108,382	19,012	–	–
Total	391,282	70,297	172,170	–
As at 31 December 2011				
Borrowings	383,502	71,704	108,595	–
Accounts payables	63,280	–	–	–
Other payables	16,078	–	–	–
Total	462,860	71,704	108,595	–

(d) Concentration risk

Revenue of the Group is principally derived from the Yangzhuang Iron Mine which is the only operating mine of the Group. Any disruption to the operation of the mine may have a material adverse impact on the result of operations and the financial position of the Group.

During the Relevant Periods, more than 95% of the Group's revenue was derived from sales made to top five customers in 2009 and 2010, while more than 78% of the Group's revenue was derived from sales made to top five customers in 2011. In the event that these major customers terminate their business relationship with the Group and the Group fails to find new customers, it may have a material adverse impact on the Group's financial position and results of operations.

4.2 Fair value estimation

Financial instruments carried at fair value are measured by different levels defined as follows:

a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

c) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's other financial assets measured at fair value belong to level 2 investment.

The Group's available-for-sale financial assets measure at fair value belong to level 1 investment.

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted bank deposits, accounts receivables, other receivables and financial liabilities including accounts payables and other payables, borrowings, approximate their fair values due to their short maturities and floating interest rate.

4.3 Capital management

The Group monitors capital risk on the basis of the gearing ratio. This 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 "equity" as shown in the consolidated balance sheets plus total debt.

During the Relevant Periods, the Group's strategy is to maintain the gearing ratio below 60%. The gearing ratio at 31 December 2009, 2010 and 2011 were as follows:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Total debt – total borrowings	290,000	408,000	517,620
Total equity	363,732	322,245	437,893
Total capital	653,732	730,245	955,513
Gearing ratio	44%	56%	54%

Increase in gearing ratio during the Relevant Periods is mainly due to increase in drawdown of borrowings and distribution of dividends.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment for receivables

Provision for impairment of receivables is determined based on the evaluation of the collectability of accounts receivable, notes receivable and other receivables.

A considerable amount of judgment is required in assessing the ultimate realisation of account receivables, including the past collection history of each counterparty, the current creditworthiness, and the current market condition. The major customers of the Group are steel mills and iron ore processing and trading companies in the neighborhood area, which account for almost all of the Group's overdue receivables. Based on the prior dealing history, current financial position of these companies and the prevailing market conditions, the Group did not expect any losses from non-performance by these counter parties.

Since majority of other receivables are amounts due from the Controlling Shareholder with low risk of default, no further impairment provision has been made by the Group.

(b) Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's properties. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand and commodity prices.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgments and calculations to interpret the data.

Estimates of reserves may change from period to period, because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

i. asset carrying amounts may be affected due to changes in estimated future cash flows;

ii. depreciation, depletion and amortisation charges may change where such charges are based on the units of production, or where the useful economic lives of assets change;

iii. decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities;

iv. the carrying amounts of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

(c) 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, the 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 the Group. The PRC government, however, has moved and may move further towards the adoption or more stringent environment standards. Environmental liabilities are subject to considerable uncertainty which affect the 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.

(d) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives appear to be shorter than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(e) Carrying value of non-current assets

Non-current assets, including property, plant and equipment, intangible assets, are carried at cost or cost less accumulated depreciation and amortisation. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

(f) Income taxes and deferred tax

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will be reflected in the income tax expense and deferred tax provisions in the period in which such determination is made. In addition, the realisation of future income tax assets is dependent on the Group's ability to generate sufficient taxable income in future years to utilise income tax benefits and income tax loss carry-forwards. Deviations of future profitability from estimates or in the income tax rate would result in adjustments to the value of future income tax assets and liabilities that could have a significant effect on earnings.

6. SEGMENT INFORMATION

(a) General information

The CODM has been identified as the Senior Executive Management who reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

Senior Executive Management assess the performance of the business segments based on relative net profit/loss contributed by the respective segments.

The Group's reportable segments are defined by location, which is the basis by which the CODM makes decisions about resources to be allocated to the segments and assesses their performance. Financial information of the two locations has been separated to present discrete segment information to be reviewed by the CODM.

The CODM assesses performance of two reportable segments:

i. Shandong Ishine, which was incorporated in the PRC and is engaged in iron ore mining, iron ore processing and sales of iron concentrate in the PRC.

ii. Ishine International, which was incorporated in Australia and is engaged in the exploration of metal reserves in Australia.

(b) Information about reportable segment profit, assets and liabilities

The measurement of profit or loss, assets and liabilities of the operating segments are the same as those described in the summary of significant accounting policies. The amounts of segment information of Shandong Ishine and Ishine International are denominated in RMB and AUD respectively. The segment information of Ishine International is translated into RMB for the report used by the CODM.

The segment information provided to the CODM for the reportable segments for the years ended 31 December 2009, 2010 and 2011 is as follows:

	Shandong Ishine	Ishine International	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2009			
Revenue	196,447	–	196,447
Tenement and exploration expenses	(1,058)	–	(1,058)
Gross profit	71,725	–	71,725
Finance income	1,621	–	1,621
Finance costs	(9,945)	–	(9,945)
Income tax expense	(10,679)	–	(10,679)
Net profit/(loss)	30,184	(1,455)	28,729
Other information			
Depreciation of property, plant and equipment	14,588	12	14,600
Expenditures for non-current assets	32,318	8,195	40,513

	Shandong Ishine	Ishine International	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2010			
Revenue	485,452	–	485,452
Tenement and exploration expenses	(490)	(6,865)	(7,355)
Gross profit/(loss)	211,254	(6,865)	204,389
Finance income	1,156	–	1,156
Finance costs	(23,731)	(2)	(23,733)
Share of loss of an associate	–	(851)	(851)
Income tax expense	(39,563)	–	(39,563)
Net profit/(loss)	117,551	(14,989)	102,562
Other information			
Depreciation of property, plant and equipment	14,335	184	14,519
Expenditures for non-current assets	66,218	397	66,615
Year ended 31 December 2011			
Revenue	1,010,252	–	1,010,252
Tenement and exploration expenses	(792)	(3,103)	(3,895)
Gross profit/(loss)	279,299	(3,103)	276,196
Finance income	2,390	35	2,425
Finance costs	(51,386)	–	(51,386)
Share of loss of an associate	–	(1,606)	(1,606)
Income tax expense	(48,042)	–	(48,042)
Net profit/(loss)	143,274	(6,868)	136,406
Other information			
Depreciation of property, plant and equipment	19,186	205	19,391
Expenditures for non-current assets	94,567	13	94,580

(i) Reconciliations of reportable segments revenue, profit or loss

	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Total revenue for reportable segments	196,447	485,452	1,010,252
Elimination of inter-segment revenue	–	–	–
Group revenue	196,447	485,452	1,010,252

	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Net profit for reportable segments	28,729	102,562	136,406
Other unallocated expenses	–	–	(6,416)
Net profit	28,729	102,562	129,990

The segment information provided to the CODM for the reportable segments as at 31 December 2009, 2010 and 2011 is as follows:

	Shandong Ishine	Ishine International	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2009			
Segment assets	712,967	46,137	759,104
Segment liabilities	393,377	1,995	395,372
As at 31 December 2010			
Segment assets	926,853	35,393	962,246
Include: Investment in an associate	–	4,062	4,062
Segment liabilities	638,452	1,549	640,001
As at 31 December 2011			
Segment assets	1,065,148	30,551	1,095,699
Segment liabilities	650,616	649	651,265

(ii) Reconciliations of reportable segments assets

	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Total assets for reportable segments	759,104	962,246	1,095,699
Other unallocated assets	–	–	398,137
Elimination of inter-segment accounts	–	–	(398,482)
Group assets	759,104	962,246	1,095,354

(iii) Reconciliations of reportable segments liabilities

	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Total liabilities for reportable segments	395,372	640,001	651,265
Other unallocated liabilities	–	–	10,995
Elimination of inter-segment accounts	–	–	(4,799)
Group liabilities	395,372	640,001	657,461

7. PROPERTY, PLANT AND EQUIPMENT

The Group

	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 1 January 2009					
Cost	12,071	55,603	42,021	2,383	112,078
Accumulated depreciation	(1,907)	(30,737)	(12,439)	–	(45,083)
Net book value	10,164	24,866	29,582	2,383	66,995
Year ended 31 December 2009					
Opening net book value	10,164	24,866	29,582	2,383	66,995
Additions	4,301	14,361	5,353	834	24,849
Transferred from construction in progress	564	–	412	(976)	–
Written off or disposals – cost	–	(16,060)	–	–	(16,060)
Written off or disposals – accumulated depreciation	–	16,060	–	–	16,060
Depreciation charge	(860)	(7,703)	(6,037)	–	(14,600)
Closing net book value	14,169	31,524	29,310	2,241	77,244
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
Year ended 31 December 2010					
Opening net book value	14,169	31,524	29,310	2,241	77,244
Additions	19,324	19,440	12,392	12,947	64,103
Transferred from construction in progress	1,895	–	5,589	(7,484)	–
Written off or disposals – cost	(1,579)	(14,265)	(7,854)	–	(23,698)
Written off or disposals – accumulated depreciation	525	14,265	2,612	–	17,402
Depreciation charge	(1,964)	(5,423)	(7,132)	–	(14,519)
Closing net book value	32,370	45,541	34,917	7,704	120,532
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
Year ended 31 December 2011					
Opening net book value	32,370	45,541	34,917	7,704	120,532
Additions	42,288	3,103	28,538	18,982	92,911
Transferred from construction in progress	7,469	–	15,890	(23,359)	–
Written off or disposals – cost	(46)	(15,427)	(5,036)	–	(20,509)
Written off or disposals – accumulated depreciation	30	15,427	3,555	–	19,012
Depreciation charge	(6,167)	(3,737)	(9,487)	–	(19,391)
Effect of foreign exchange rate changes	–	–	(32)	–	(32)
Closing net book value	75,944	44,907	68,345	3,327	192,523
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

Depreciation charge of the Group was included in the following categories in the consolidated statements of comprehensive income and the consolidated balance sheets:

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Cost of sales	10,489	11,728	13,692
Administrative expenses	1,955	2,565	5,572
Capitalised in inventories	2,156	226	127
	14,600	14,519	19,391

8. INTANGIBLE ASSETS

	The Group			
	Exploration rights	**Exploration and evaluation assets**	**Mining rights**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(b)	*(c)*	*(a)*	
At 1 January 2009				
Cost	4,750	4,327	–	9,077
Accumulated amortisation	–	–	–	–
Net book amount	4,750	4,327	–	9,077
Year ended 31 December 2009				
Opening net book amount	4,750	4,327	–	9,077
Additions	7,532	8,132	–	15,664
Amortisation charge	–	–	–	–
Effect of foreign exchange rate changes	(23)	–	–	(23)
Closing net book amount	12,259	12,459	–	24,718
At 31 December 2009				
Cost	12,259	12,459	–	24,718
Accumulated amortisation	–	–	–	–
Net book amount	12,259	12,459	–	24,718
Year ended 31 December 2010				
Opening net book amount	12,259	12,459	–	24,718
Additions	–	2,512	–	2,512
Amortisation charge	–	–	–	–
Effect of foreign exchange rate changes	744	–	–	744
Closing net book amount	13,003	14,971	–	27,974

	The Group			
	Exploration rights	Exploration and evaluation assets	Mining rights	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(b)	*(c)*	*(a)*	
At 31 December 2010				
Cost	13,003	14,971	–	27,974
Accumulated amortisation	–	–	–	–
Net book amount	13,003	14,971	–	27,974
Year ended 31 December 2011				
Opening net book amount	13,003	14,971	–	27,974
Additions	–	1,669	–	1,669
Transfer to mining rights	–	(4,327)	4,327	–
Amortisation charge	–	–	(30)	(30)
Effect of foreign exchange rate changes	(394)	–	–	(394)
Closing net book amount	12,609	12,313	4,297	29,219
At 31 December 2011				
Cost	12,609	12,313	4,327	29,249
Accumulated amortisation	–	–	(30)	(30)
Net book amount	12,609	12,313	4,297	29,219

(a) During the year ended 31 December 2011, one of the mine areas – Yangzhuang mine exploration area in Shandong Province, the PRC, was put into production. As a result, corresponding exploration and evaluation assets amounting to RMB4,327,000 was transferred to mining right at the date the mine was being put into production.

As at 31 December 2009, 2010 and 2011, such mining right was pledged as collateral for the Group's borrowings (Note 24).

(b) Exploration rights consist of:

(i) an exploration right of an iron ore mine in Shandong Province, the PRC, acquired by the Group in 2008 at consideration of RMB4,750,000.

(ii) certain exploration tenements in Australia acquired by the Group in 2009 amounting to AUD1,226,100 (equivalent to RMB7,532,000), which was settled by:

- Cash of AUD50,000 (equivalent to RMB306,000);

- 2,000,000 shares of Ishine International, a subsidiary whose shares were listed on Australian Securities Exchange (ASX code: ISH), issued at price of AUD0.20 per share with a total value of AUD400,000 (equivalent to RMB2,450,000), and

- 5,000,000 options to acquire the shares of Ishine International at AUD0.20 each on or before 31 December 2015 by the vendor (Note 35(a)). The total fair value of the options granted as at date of acquisition was AUD776,100 (equivalent to RMB4,776,000).

(c) Exploration and evaluation assets represent the capitalised expenditures incurred for application of the mining rights in Shandong Province, the PRC.

9. INTEREST IN SUBSIDIARIES

The Company

	As at 31 December 2011 *RMB'000*
Unlisted investment, at cost *(Note (a))*	217,126
Amount due from a subsidiary *(Note (b))*	176,893
Total interest in subsidiaries	394,019

(a) Unlisted investment in subsidiaries is stated at the aggregate net book value of the net assets of the subsidiaries acquired upon the Reorganisation, net of the amount due from a subsidiary as mentioned below.

(b) Amount due from a subsidiary represents a shareholder's loan to Alliance Worldwide, an intermediate holding company. Such loan is unsecured, non interest bearing and not repayable until Alliance Worldwide is financially capable to do so.

10. INVESTMENT IN AN ASSOCIATE

The Group

	Year ended 31 December		
	2009 *RMB'000*	**2010** *RMB'000*	**2011** *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 *(Note 11)*	–	–	(5,750)
Ending balance of the year	–	4,062	–
Market value of the listed associate	–	5,028	–

The Group's investment in an associate represents investment in Athena Resources Limited ("Athena"), a company whose shares are listed on the Australian Securities Exchange (ASX code: AHN), held by Ishine International, details of which is as follows:

				Proportion of ownership interest	
Name of associate	**Principal activity**	**Place of incorporation and operation**	**Registered and fully paid capital**	**15 April 2010 (the date of investment in Athena) to 31 December 2010**	**For the six months ended 30 June 2011**
Athena Resource Limited	Mineral Exploration	Australia	AUD9,604,452	From 12.7% to 11.0%	From 11.0% to 7.8%

Summary of the Group's interest in Athena is as follows:

	RMB'000
As at 31 December 2010	
Total assets	4,096
Total liabilities	(1,342)
Net assets	2,754
The Group's share of net assets of Athena	303
Period from 15 April 2010 to 31 December 2010	
Total revenue	126
Total loss	(10,100)
The Group's share of loss of Athena	(851)
As at 30 June 2011	
Total assets	6,015
Total liabilities	(3,082)
Net assets	2,933
The Group's share of net assets of Athena	229
For the six months ended 30 June 2011	
Total revenue	219
Total loss	(19,432)
The Group's share of loss of Athena	(1,606)

The associate was audited by HLB Mann Judd (WA Partnership).

As at 31 December 2009 and 2010, Ishine International had one out of three seats at the Board of Athena, the Directors were of the opinion that Ishine International could exert significant influence on the financial and operational activities of Athena and consequently had accounted for it as an associate.

As at 1 July 2011, Athena ceased to be the Company's associate as it no longer demonstrates significant influence due to the dilution of Ishine's equity shares of Athena and resignation of the Group's representative from the board of Athena as director.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Beginning balance	–	–	–
Transfer from investment in an associate *(Note 10)*	–	–	5,750
Effect of foreign exchange rate changes	–	–	(430)
Loss from revaluation	–	–	(1,064)
Ending balance	–	–	4,256

Ishine International holds 7.8% of the ordinary share capital of Athena, which is a former associate (Note 10).

12. OTHER FINANCIAL ASSETS

The Group

Financial assets carried at fair value through profit and loss ("FVTPL").

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

The Group's other financial assets represent 4,150,000 options of Athena's share acquired concurrently by the Group upon the acquisition of Athena as an associate. These options are exercisable at AUD0.08 per share and will expire on 30 April 2012. The fair value of these options as at date of acquisition amounted to AUD297,242 (equivalent to RMB1,945,000).

13. DEFERRED INCOME TAX ASSETS AND LIABILITIES

The Group

The analysis of deferred income tax assets and deferred income tax liabilities are as follows:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax assets:			
– Deferred income tax assets to be recovered after more than 12 months	4,437	3,252	2,495
– Deferred income tax assets to be recovered within 12 months	1,263	353	295
	5,700	3,605	2,790
Deferred tax liabilities:			
– Deferred income tax liabilities to be recovered after more than 12 months	–	(1,761)	(2,963)
– Deferred income tax liabilities to be recovered within 12 months	–	(221)	(226)
	–	(1,982)	(3,189)

The gross movement on the deferred income tax account is as follows:

	Year ended 31 December		
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Beginning balance of the year	7,267	5,700	1,623
Recognised in the consolidated statements of comprehensive income *(Note 31)*	(1,567)	(4,077)	(2,022)
Ending balance of the year	5,700	1,623	(399)

The movement in deferred income tax assets and liabilities during the Relevant Periods, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(a) Deferred income tax assets

	Provision for close down, restoration and environmental costs	Depreciation of mining infrastructure	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	2,865	4,358	168	7,391
Recognised in the consolidated statements of comprehensive income	187	(2,973)	1,095	(1,691)
At 31 December 2009	3,052	1,385	1,263	5,700
Recognised in the consolidated statements of comprehensive income	200	(1,385)	(910)	(2,095)
At 31 December 2010	3,252	–	353	3,605
Recognised in the consolidated statements of comprehensive income	(757)	–	(58)	(815)
At 31 December 2011	2,495	–	295	2,790

(b) Deferred income tax liabilities

	Depreciation of mining infrastructure	Others	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2009	–	(124)	(124)
Recognised in the consolidated statements of comprehensive income	–	124	124
At 31 December 2009	–	–	–
Recognised in the consolidated statements of comprehensive income	(1,761)	(221)	(1,982)
At 31 December 2010	(1,761)	(221)	(1,982)
Recognised in the consolidated statements of comprehensive income	(1,201)	(6)	(1,207)
At 31 December 2011	(2,962)	(227)	(3,189)

(i) Pursuant to the PRC corporate income tax ("PRC CIT"), 10% withholding income tax ("WHT") will be levied on foreign investors for dividend distributions from foreign invested enterprises' profit earned after 1 January 2008. For qualified investors incorporated in Hong Kong, a treaty rate of 5% will be applied. As at 31 December 2011, Shandong Ishine, the subsidiary of the Group incorporated in the PRC, with total retained earnings amounting to RMB184,011,000 will be subject to this withholding tax. The Group did not recognise the related deferred tax liabilities of approximately RMB9,201,000 as at 31 December 2011, as the Directors of the Company had confirmed that retained earnings up to 31 December 2011 of Shandong Ishine will not be distributed in the future.

(ii) As at 31 December 2009, 2010 and 2011, the Group did not recognise deferred income tax assets of RMB438,000, RMB4,935,000 and RMB7,156,000 in respect of accumulated losses arising from Ishine International amounting to RMB1,455,000, RMB16,445,000 and RMB23,848,000, respectively, which can be carried forward indefinitely to offset against future taxable income.

14. INVENTORIES

The Group

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials			
– Iron ore	3,210	3,329	3,140
– Others	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

For the years ended 31 December 2009, 2010 and 2011, the cost of inventories recognised as cost of sales amounting to approximately RMB64,604,000, RMB195,440,000 and RMB639,556,000, respectively.

15. ACCOUNTS RECEIVABLES

The Group

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Accounts receivables	94,377	102,145	199,798

The Group's sales are mainly made on credit terms of 1-90 days.

As at 31 December 2009, 2010 and 2011, the carrying amounts of accounts receivables approximated their fair values.

Ageing analysis of accounts 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 receivables			
– 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 RMB9,629,000, RMB1,098,000 and RMB3,934,000 respectively, were past due but not impaired. These related to a number of independent customers for whom there was no recent history of default. The ageing analysis of these accounts receivables is as follows:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Less than 1 year	6,044	1,098	3,934
1 year and above	3,585	–	–
	9,629	1,098	3,934

All the Group's accounts receivables were denominated in RMB as at 31 December 2009, 2010 and 2011.

There was no provision for accounts receivables as at 31 December 2009, 2010 and 2011.

The maximum exposure to credit risk as at the balance sheet date was the carrying value of the accounts receivables.

As at 31 December 2010 and 2011, accounts receivable with carrying amounts of RMB37,635,000 and RMB145,445,000, respectively, were pledged as collaterals for the Group's borrowings (Note 24).

16. NOTES RECEIVABLES

The Group

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Notes receivables			
– bank acceptance notes	287,218	202,500	327,150

The aging of notes receivables is within 6 months.

As at 31 December 2009, 2010 and 2011, the carrying amounts of notes receivables approximated their fair values.

As at 31 December 2011, bank acceptance notes with carrying amount of RMB69,000,000 were pledged as collateral against its bank borrowings (Note 24).

17. PREPAYMENTS AND OTHER RECEIVABLES

The Group

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Advance to suppliers *(a)*	925	6,370	91,269
Amount due from Ausrich *((b) and Note 38)*	–	43,000	–
Amount due from the Controlling Shareholder *((c) and Note 38)*	–	350,550	–
Land restoration deposit *(Note 25)*	1,500	1,732	4,425
Advance to employees	4,867	2,250	113
Loans to third parties *(d)*	81,142	1,351	–
Other taxes recoverable	957	–	–
Deferred initial public offering fee (e)	–	–	3,510
Others	2,055	4,522	3,074
	91,446	409,775	102,391

(a) As of 31 December 2011, advance to suppliers mainly comprised prepayments made to two suppliers of RMB20,740,000 and RMB69,156,000, respectively, for purchasing of iron concentrate and coarse iron powder.

(b) Amount due from Ausrich was unsecured, interest free and repayable on demand.

(c) Amount due from the Controlling Shareholder is unsecured, interest-free and repayable on demand.

(d) Loans to third parties are unsecured, interest-free and repayable on demand. As at 31 December 2009, loans to third parties mainly comprised a loan to Hesheng Minerals amounting to RMB80,000,000.

(e) Deferred initial public offering ("IPO") fee represent legal and other professional fees relating to the initial public offering of the Company's shares, which will be deducted from equity upon completion of the IPO.

The Company

	As at 31 December 2011
	RMB'000
Deferred initial public offering fee (e)	3,510
	3,510

18. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

The Group

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents			
– Cash on hand	39	43	331
– Cash at banks	122,500	39,860	202,255
	122,539	39,903	202,586
Restricted bank deposits			
– Deposits for issuance of bank acceptance notes *(a)*	6,800	14,600	–
– Deposits for letter of guarantees *((b) and Note 38))*	26,350	20,000	–
	33,150	34,600	–
	155,689	74,503	202,586

(a) These represent bank deposits of Shandong Ishine which were pledged as collateral for bank acceptance notes issued to suppliers.

(b) This represented bank deposits of Shandong Ishine which were pledged as collateral for a letter of guarantee issued to Ausrich (Note 38).

(c) Cash and cash equivalents and restricted bank deposits were denominated in the following currencies:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
RMB	117,882	54,120	184,694
AUD	37,807	20,383	11,837
USD	–	–	6,048
HKD	–	–	7
	155,689	74,503	202,586

RMB is currently not a freely convertible currency in international market. The conversion of RMB into foreign currency and remittance of RMB out of the PRC are subject to the rules and regulations of exchange controls promulgated by the PRC authorities.

The Company

	As at 31 December 2011
	RMB'000
Cash and cash equivalents	
– Cash on hand	6
– Cash at banks	63
	69

Cash and cash equivalents were denominated in the following currencies:

The Company

	As at 31 December 2011
	RMB'000
USD	63
HKD	6
	69

19. SHARE CAPITAL AND SHARE PREMIUM

The Group and the Company

Authorised shares:

	Number of authorised shares
As at 8 February 2011 (date of incorporation) and as at 31 December 2011	38,000,000

On 8 February 2011, the Company was incorporated with an authorised share capital of HKD380,000 divided into 38,000,000 shares of HKD0.01 each.

Issued shares:

	Number of shares issued and fully paid	Share capital	Share premium	Total
		RMB'000	*RMB'000*	*RMB'000*
Issue of one share upon incorporation *(Note (a))*	1	–	–	–
Issue of shares to Hongfa Holdings *(Note (b)(i))*	749,999	6	–	6
Issue of shares to Hongfa Holdings *(Note (b)(ii))*	1	–	104,987	104,987
Issue of shares to BVI companies *(Note (c))*	250,000	2	98,422	98,424
Issue of shares to Jiuding Callisto *(Note (d))*	111,111	1	71,351	71,352
At 31 December 2011	1,111,112	9	274,760	274,769

(a) Upon the incorporation of the Company, one share was allotted and issued at par to Reid Services Limited, the subscriber of the Company, who subsequently transferred such share to Hongfa Holdings on the same date at consideration of HKD0.01.

(b) (i) On 18 February 2011, 749,999 shares were allotted and issued to Hongfa Holdings at consideration of HKD7,500 (equivalent to RMB6,000).

(ii) In addition, on 15 November 2011, one share was allotted and issued to Hongfa Holdings at consideration of USD16,603,200 (equivalent to RMB104,987,000).

(c) On 2 September 2011, as the consideration for the acquisition of the entire issued share capital of Fortuneshine Investment, 250,000 shares were allotted and issued, all credit as fully paid, to two companies incorporated in BVI, which were beneficially owned by Mr. Lang Weiguo.

(d) On 25 October 2011, 111,111 shares were allotted and issued fully paid to Jiuding Callisto at a total consideration of USD11,250,000 (equivalent to RMB71,352,000).

Refer to Note 1 for details of the Group's Reorganisation.

20. RESERVES

The Group

	Note	Merger reserve	Capital reserve	Statutory reserve funds	Safety fund	Future development fund	Share-based payments reserve	Available-for-sale financial assets reserve	Currency translation differences	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(a)		*(d)*	*(e)*	*(f)*				
At 1 January 2009		(162,269)	41,359	13,716	24,567	–	–	–	–	(82,627)
Dilution gain from capital injection from non-controlling interests		–	9,548	–	–	–	–	–	–	9,548
Other comprehensive income		–	–	–	–	–	–	–	(505)	(505)
Appropriations		–	–	1,494	14,126	–	–	–	–	15,620
Share-based payments		–	–	–	–	–	3,288	–	–	3,288
Deemed distribution to equity holders	*(b)*	–	(19,139)	–	–	–	–	–	–	(19,139)
At 31 December 2009		(162,269)	31,768	15,210	38,693	–	3,288	–	(505)	(73,815)
Dilution gain from capital injection from non-controlling interests		–	34	–	–	–	–	–	–	34
Other comprehensive income		–	–	–	–	–	–	–	2,214	2,214
Appropriations		–	–	9,841	843	6,278	–	–	–	16,962
Share-based payments		–	–	–	–	–	241	–	–	241
Deemed distribution to equity holders	*(b)*	–	(48,741)	–	–	–	–	–	–	(48,741)
At 31 December 2010		(162,269)	(16,939)	25,051	39,536	6,278	3,529	–	1,709	(103,105)
At 31 December 2010		(162,269)	(16,939)	25,051	39,536	6,278	3,529	–	1,709	(103,105)
Currency translation differences		–	–	–	–	–	–	–	(1,005)	(1,005)
Change in value on available-for-sale financial assets		–	–	–	–	–	–	(729)	–	(729)
Appropriations		–	–	13,120	11,107	5,604	–	–	–	29,831
Share-based payments		–	–	–	–	–	172	–	–	172
Deemed distribution to equity holders	*(b)*	–	(3,243)	–	–	–	–	–	–	(3,243)
Contribution by equity holders	*(b)*	–	71,123	–	–	–	–	–	–	71,123
At 31 December 2011		(162,269)	50,941	38,171	50,643	11,882	3,701	(729)	704	(6,956)

The Company

	Contributed surplus
	RMB'000
	(c)
At 8 February 2011 (date of incorporation)	
Contributed surplus	118,704
At 31 December 2011	118,704

(a) Merger reserve

Merger reserve represents the difference between the share capital and share premium issued by the Company for acquisition of the subsidiaries pursuant to the Reorganisation and the aggregate capital of the subsidiaries being acquired at the time of the Reorganisation.

(b) During the years ended 31 December 2009, 2010 and 2011, Shandong Ishine, a subsidiary of the Group, injected capital of RMB19,139,000, RMB48,741,000, and RMB3,243,000 respectively to the Excluded Businesses as capital contributions of its respective investments in the companies comprising the Excluded Businesses. Such injection were accounted for as deemed distribution to equity holders of the Group. Shandong Ishine disposed of such Excluded Businesses during the year ended 31 December 2011 (Note 1) and the related cash consideration of RMB71,123,000 arising from such disposal was retained by the Group as contribution by equity holders.

(c) Contributed surplus

Contributed surplus of the Company represents the difference between the excess of the nominal value of the Company's shares issued and the aggregate net asset value at the subsidiaries acquired pursuant to the Reorganisation.

(d) Statutory reserve funds

In accordance with the PRC Company Law and Shandong Ishine's articles of association, Shandong Ishine is required to allocate 10% of its profit after tax as determined in accordance with the relevant accounting principles and financial regulations applicable to the PRC companies ("PRC GAAP") and regulations applicable to Shandong Ishine, to the statutory reserve fund until such reserve reaches 50% of the registered capital of Shandong Ishine. The appropriation to the reserve must be made before any distribution of dividends to equity holders. The statutory reserve can be used to offset previous years' losses, if any, and part of the statutory surplus reserve can be capitalised as Shandong Ishine's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of Shandong Ishine.

For the years ended 31 December 2009, 2010 and 2011, Shandong Ishine appropriated RMB1,494,000, RMB9,841,000 and RMB13,120,000 respectively to the statutory reserve fund, representing 10% of Shandong Ishine's profit after tax for the years then ended, as determined in accordance with the PRC GAAP.

(e) Safety fund

Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC, Shandong Ishine is required to set aside an amount to a safety fund at RMB8 per ton of iron ore mined. The fund can be used for improvements of safety at the mines, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditures, Shandong Ishine is eligible to transfer the equivalent amount of the expenditures from safety fund to retained earnings.

(f) Future development fund

Pursuant to the relevant PRC regulations, Shandong Ishine is required to set aside an amount to a future development fund at RMB15 per ton of raw iron ore mined. The fund can be used for future development of the iron ore mining operations, and is not available for distribution to shareholders. Upon incurring qualifying development expenditures, Shandong Ishine is eligible to transfer the equivalent amount of the expenditure from future development fund to retained earnings.

21. ACCOUNTS PAYABLES

The Group

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

Ageing analysis of accounts payables at the respective balance sheet dates is as follows:

	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

As at 31 December 2009, 2010 and 2011, the carrying amounts of accounts payables approximated their fair values. Accounts payables were denominated in RMB.

22. NOTES PAYABLES

The Group

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

The aging of notes payables is within 6 months.

As at 31 December 2009 and 2010, the carrying amounts of notes payables approximated their fair values.

23. ACCRUALS AND OTHER PAYABLES

The Group

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Amount due to the Controlling Shareholder *((c) and Note 38)*	–	–	6,115
Employee benefit payables	4,136	4,686	3,734
Dividends payable *(Note 33)*	–	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
Amount due to third parties *(a)*	19,140	–	–
Amount due to Ausrich *((b) and Note 38)*	19,012	19,012	–
Others	2,629	4,528	2,074
	48,224	142,197	36,113

The Company

	As at 31 December 2011
	RMB'000
Amount due to the Controlling Shareholder *(c)*	6,115
Amount due to Shandong Ishine	4,799
	10,914

(a) Amount due to third parties is interest free with no fixed repayment terms.

(b) Amount due to Ausrich is interest free with no fixed repayment terms.

(c) Amount due to the Controlling Shareholder is interest free with no fixed repayment terms. Refer to Note 38 for details.

24. BORROWINGS

The Group

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

(i) As at 31 December 2009 and 2010, bank borrowings of RMB60,000,000, RMB118,000,000 were pledged by mining right of Yishui Luxing Titanium Industry Co., Ltd., a third party.

As at 31 December 2009, 2010 and 2011, bank borrowings of RMB150,000,000, RMB200,000,000 and RMB200,000,000 were pledged by a mining right of Shandong Ishine with book value of nil, nil, and RMB4,327,000 respectively.

As at 31 December 2010 and 2011, bank borrowings of RMB30,000,000 and RMB107,000,000 were pledged by the Group's accounts receivables (Note 15) with carrying amount of RMB37,635,000 and RMB145,445,000, respectively.

As at 31 December 2011, bank borrowings of RMB55,620,000 were pledged by the Group's notes receivables (Note 16) with carrying amount of RMB69,000,000.

(ii) As at 31 December 2009, 2010 and 2011, the following borrowings of the Group were guaranteed by certain third parties and the Controlling Shareholder:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Joint guarantee given by third parties and the Controlling Shareholder			
– Yishui Sanzhong Real Estate Co., Ltd. and the Controlling Shareholder	50,000	30,000	–
– Hesheng Minerals, Linyi Hexing Material Trading Co., Ltd. and the Controlling Shareholder	–	–	40,000
– Hesheng Minerals	–	–	55,000
– Linyi Hexing Material Trading Co., Ltd.	–	–	30,000
Guarantee given by other third parties			
– Yishui Xinxing Building Materials Co., Ltd.	–	30,000	30,000
– Shandong Hong Yi Technology Co., Ltd.	30,000	–	–
	80,000	60,000	155,000

According to the letter of release of guarantees issued by the relevant banks in November 2011, all the guarantees provided by related parties and third parties would be released and replaced by the Company's guarantee upon the successful listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

All of the Group's borrowings are denominated in RMB.

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**
RMB	5.53%	5.58%	7.00%

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates were as follows:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Within 6 months	20,000	88,000	207,000
6 months to 1 year	270,000	320,000	310,620
	290,000	408,000	517,620

The maturity of non-current borrowings as at 31 December 2009, 2010 and 2011 was as follows:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
1-2 years	–	40,000	60,000
2-5 years	150,000	160,000	100,000
	150,000	200,000	160,000

As at 31 December 2009, 2010 and 2011, the carrying amounts of current borrowings and non-current borrowing approximated their fair values.

25. PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS

The Group

	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 *(Note 30)*	749	798	850
Payments	–	–	(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 management based on their past experience and best estimate of future expenditure by discounting the expected expenditures to their net present value. 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.

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 50% of the existing balance. The last payment being due 1 year before the mining right expire date. The deposit is not refundable if Shandong Ishine does not fulfill its obligation to restore the land destroyed due to mining activities. As of 31 December 2011, RMB4,425,000 has been paid by the Group to the Yishui County of Ministry of Land Resource of Shandong Province as land restoration deposit. On 15 November 2011, the Group obtained confirmation from the Yishui County of Ministry of Land Resource of Shandong Province to release Shandong Ishine's obligation from the commitment. As a result, Shandong Ishine is no longer obliged to pay any further deposit in this regard in the future.

26. REVENUE

The Group

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Production			
– Sales of iron concentrate	196,447	432,292	687,010
Trading			
– Sales of iron concentrate	–	–	9,256
– Sales of iron pellets	–	48,074	50,202
– Sales of coarse iron powder	–	1,650	262,928
– Others	–	3,436	856
	–	53,160	323,242
Total	196,447	485,452	1,010,252

27. EXPENSE BY NATURE

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Changes in inventories of finished goods and iron ore *(Note 14)*	(18,558)	8,193	(13,281)
Payment to mining contractors	57,676	68,666	71,983
Cost of raw materials for production	6,459	50,334	269,612
Cost of raw materials for trading	–	51,399	287,218
Spare parts and others	19,027	16,848	24,024
Employee benefits *(Note 28)*	13,638	19,956	24,262
Depreciation *(Note 7)*	14,600	14,519	19,391
Amortisation *(Note 8)*	–	–	30
Utilities and electricity	18,867	22,636	24,139
Repairs and maintenance	3,176	7,493	5,461
Transportation expenses	4,434	10,259	17,825
Professional fees	113	1,439	10,640
Travelling expenses	1,571	4,545	2,955
Entertainment expenses	2,367	2,415	1,617
Resources tax	12,199	11,832	12,443
Sales tax surcharges	2,142	5,793	7,230
Land compensation expenses	1,984	2,799	4,011
Tenement and exploration expenses	1,058	7,355	3,895
Auditor's remuneration	14	420	731
Other expenses	7,823	10,496	10,981
Total cost of sales, selling and distribution costs and administrative expenses	148,590	317,397	785,167

28. EMPLOYEE BENEFITS (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries and allowances	10,195	15,466	20,470
Pensions and others welfare expenses	3,443	3,433	3,792
Shares and share option granted to employees *(Note 35)*	–	1,057	–
	13,638	19,956	24,262

29. OTHER LOSSES/(GAIN), NET

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Gain on fair value revaluation upon transfer from associate to available-for-sale financial assets *(Note 10)*	–	–	(3,103)
Loss on disposal of property, plant and equipment	–	2,153	1,459
Government grants	–	(1,251)	–
Donations	146	167	–
Changes in fair value of other financial assets	–	677	677
Others	(21)	756	(2,049)
	125	2,502	(3,016)

30. FINANCE COSTS, NET

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Finance income			
– Interest income of bank deposits	1,621	1,156	2,425
Exchange losses, net	–	(447)	(1,531)
Finance costs			
– Interest expense on bank borrowings	(8,936)	(22,488)	(38,446)
– Interest charge on unwinding of discounts *(Note 25)*	(749)	(798)	(850)
– Interest expense on discount of bank acceptance notes	(260)	–	(10,061)
	(9,945)	(23,286)	(49,357)
Finance costs, net	(8,324)	(22,577)	(48,463)

31. INCOME TAX EXPENSE

	Year ended 31 December		
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Current income tax:			
– PRC	9,112	35,486	46,020
Deferred income tax *(Note 13)*	1,567	4,077	2,022
	10,679	39,563	48,042

Our Company was incorporated in Cayman Islands as an exempted company with limited liability under the Companies Law (2010 revised) of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

The subsidiary incorporated in British Virgin Islands under the International Business Companies Acts of the British Virgin Islands is exempted from payment of British Virgin Islands income tax.

Hong Kong profits tax has not been provided for the subsidiaries in Hong Kong as there is no estimated assessable profit arising in or derived from Hong Kong during the Relevant Periods.

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

Corporate income tax ("CIT") in the PRC is calculated based on the statutory profit of 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 Law promulgated by the PRC government on 16 March 2007 (the "New CIT Law"), the tax rate for the Company's PRC subsidiary, Shandong Ishine, was 25% from 1 January 2008 onwards.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	Year ended 31 December		
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	39,408	142,125	178,032
Tax calculated at statutory tax rate	9,777	34,781	45,973
Income not subject to tax	–	–	(218)
Expenses not deductible for taxation purposes	464	285	66
Tax losses for which no deferred income tax asset was recognised	438	4,497	2,221
Income tax expense	10,679	39,563	48,042

32. EARNINGS PER SHARE

The basic earnings per share is calculated based on the profit attributable to equity holders of the Company for the years ended 31 December 2009, 2010 and 2011 and on the assumption that 1,111,112 shares issued after the completion of the Reorganisation were deemed to have been issued since 1 January 2009.

	Year ended 31 December		
	2009	**2010**	**2011**
Profit attributable to equity holders of the Company (RMB'000)	29,184	107,254	132,150
Adjusted weighted average number of shares in issue	1,111,112	1,111,112	1,111,112
Basic and diluted earnings per share (RMB)	26.27	96.53	118.93

Diluted earnings per share is equal to basic earnings per share as there was no dilutive potential share outstanding for the Relevant Periods.

The basic earnings per share and diluted earnings per share as presented on the consolidated statements of comprehensive income have not taken into account the proposed capitalisation issue as described in Note 39(ii).

33. DIVIDENDS

Except for the dividends declared by Shandong Ishine to its equity holders on 27 November 2010 of RMB100,000,000 and on 7 January 2011 of RMB80,000,000 respectively, no other dividend has been paid or declared by the Company or the companies comprising the Group during the Relevant Periods.

34. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Directors' emoluments for the years ended 31 December 2009, 2010 and 2011 are set out as follows:

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Basic salaries and allowances	483	546	613
Discretionary bonuses	–	–	–
Other benefits including pension	8	10	14
Total	491	556	627

Director's emoluments are set out below:

	Fees	Salaries and allowances	Discretionary bonus	Pension – defined contribution plans	Other benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2009						
Executive Directors						
Li Yunde (李運德)	–	292	–	4	–	296
Geng Guohua (耿國華)	–	131	–	4	–	135
Lang Weiguo (郎偉國)	–	–	–	–	–	–
Independent Non-executive Directors						
Zhang Jingsheng (張涇生)	–	60	–	–	–	60
Lin Chu Chang (林鉅昌)	–	–	–	–	–	–
Li Xiaoyang(李曉陽)	–	–	–	–	–	–
Year ended 31 December 2010						
Executive Directors						
Li Yunde (李運德)	–	302	–	5	–	307
Geng Guohua (耿國華)	–	184	–	5	–	189
Lang Weiguo (郎偉國)	–	–	–	–	–	–
Independent Non-executive Directors						
Zhang Jingsheng (張涇生)	–	60	–	–	–	60
Lin Chu Chang (林鉅昌)	–	–	–	–	–	–
Li Xiaoyang(李曉陽)	–	–	–	–	–	–
Year ended 31 December 2011						
Executive Directors						
Li Yunde (李運德)	–	302	–	7	–	309
Geng Guohua (耿國華)	–	251	–	7	–	258
Lang Weiguo (郎偉國)	–	–	–	–	–	–
Independent Non-executive Directors						
Zhang Jingsheng (張涇生)	–	60	–	–	–	60
Lin Chu Chang (林鉅昌)	–	–	–	–	–	–
Li Xiaoyang(李曉陽)	–	–	–	–	–	–

On 9 April 2012, the Company appointed 2 independent non-executive directors, Mr. Lin Chu Chang and Mr. Li Xiaoyang. They had not received and have not received any emoluments for the years ended 31 December 2009, 2010 and 2011.

On 9 April 2012, Mr. Lang Weiguo was appointed as a director of the Company, Mr. Lang Weiguo had not received and have not received any emoluments for the years ended 31 December 2009, 2010 and 2011.

(b) Five highest paid individuals

For years ended 31 December 2009, 2010 and 2011, the five individuals whose emoluments were the highest in the Group include one director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four individuals were as follows:

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Basic salaries and allowances	786	2,461	2,879
Discretionary bonuses	–	1,056	137
Other benefits including pension	16	192	118
Total	802	3,709	3,134

The emoluments of the five highest paid individuals fell within the following bands:

	Number of individuals		
	Year ended 31 December		
	2009	**2010**	**2011**
Emolument bands (in HK dollar)			
HKD1,000,000 and below	5	3	4
HKD1,000,001 – HKD1,500,000	–	2	1

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

35. SHARE-BASED PAYMENTS

Ishine International, a subsidiary of the Group, has signed certain share-based payments contracts in 2009 and 2010 respectively for the acquisition of the exploration rights and to a consultancy service provider and certain employees.

(a) Share options

Movements in the share options of Ishine International during the Relevant Periods and their related weighted average exercise prices are as follows:

	Year ended 31 December					
		2009		2010		2011
	Average exercise price in AUD per share	Options ('000)	Average exercise price in AUD per share	Options ('000)	Average exercise price in AUD per share	Options ('000)
At beginning of the year/period	–	–	0.2000	6,175	0.2032	6,275
Granted						
– Note (i)	0.2000	5,000	–	–	–	–
– Note (ii)	0.2000	1,175	–	–	–	–
– Note (iii)	–	–	0.3000	200	–	–
Exercised	–	–	0.2000	(100)	–	–
At the end of the year/period	0.2000	6,175	0.2032	6,275	0.2032	6,275
Exercisable number of options	0.2000	6,175	0.2032	6,275	0.2032	6,275

(i) Share options issued for acquisition of exploration rights

As disclosed in Note 8 (b) (ii), on 3 December 2009, Ishine International granted 5,000,000 share options to a third party vendor in exchange for the acquisition of certain exploration rights in Australia. The options are exercisable at AUD0.20 each on or before 31 December 2015. The total fair value of the options granted as at the date of acquisition amounted to AUD776,100 (equivalent to RMB4,776,000) and was recorded as part of consideration for acquisition of the exploration rights.

(ii) Share option issued to service providers

On 29 March 2010, Ishine International issued 1,175,000 options as consideration for provision of certain consultancy services by a third party consultant. The options are exercisable at AUD0.20 each and will be expired on 29 March 2013. The options will not be vested until the market price of Ishine International on the ASX reaches AUD0.30 per share or above for 35 consecutive days.

(iii) ***Share options issued to an employee***

On 25 August 2010, Ishine International issued 200,000 options to an employee of Ishine International. Such options are exercisable at AUD0.30 each and will expire on 31 December 2012. These options have no vesting conditions.

The fair value of the options granted as mentioned above was estimated as at the date of grant using Black Scholes calculation model, taking into account the terms and conditions upon which the options were granted. Key inputs to the model comprise:

	Note (a)	**Note (b)**	**Note (c)**
No. of options issued	5,000,000	1,175,000	200,000
Price of the underlying share	AUD0.2000	AUD0.2300	AUD0.2950
Exercise price	AUD0.2000	AUD0.2000	AUD0.3000
Risk free interest rate	5.34%	3.75%	4.50%
Expiry date	31 December 2015	29 March 2013	31 December 2012
Volatility	90%	50%	50%
Price of the option	AUD0.1552	AUD0.0968	AUD0.0991

The total fair value of above options granted was AUD909,560 (equivalent to RMB5,617,000), out of which AUD853,880 (equivalent to RMB5,273,000) was recorded by the Group during the Relevant Periods as follows:

(1) As disclosed above, options amounted to AUD776,100 (equivalent to RMB4,776,000) is recorded as exploration rights; and

(2) Share option expenses of RMB8,000, RMB350,000 and RMB251,000, were recorded in administrative expenses in the consolidated statements of comprehensive income for the years ended 31 December 2009, 2010 and 2011, respectively.

Share options outstanding at the end of the respective years have the following expiry date and exercise prices:

		Number of Options ('000)		
	Exercise price in AUD	**As at 31 December**		
Expiry date	**per share**	**2009**	**2010**	**2011**
31 December 2012	0.3000	–	200	200
29 March 2013	0.2000	1,175	1,075	1,075
31 December 2015	0.2000	5,000	5,000	5,000
		6,175	6,275	6,275

(b) Ordinary shares issued to a director of Ishine International

On 23 November 2010, Ishine international granted 500,000 ordinary shares at fair value of AUD0.3 each to its managing director. The total aggregate value of such shares amounting to AUD150,000 (equivalent to RMB962,000) were charged to the consolidated statements of comprehensive income for the year ended 31 December 2010.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of profit before income tax to net cash flow used in operations

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	39,408	142,125	178,032
Adjustments for:			
Depreciation *(Note 27)*	14,600	14,519	19,391
Loss on disposals of property, plant and equipment, net *(Note 29)*	–	2,153	1,459
Amortisation *(Note 27)*	–	–	30
Interest income *(Note 30)*	(1,621)	(1,156)	(2,425)
Interest expense *(Note 30)*	8,936	22,488	38,446
Interest charge on unwinding of discounts *(Note 30)*	749	798	850
Share of loss of an associate *(Note 10)*	–	851	1,606
Gain on fair value revaluation upon transfer from association to available-for-sale financial assets *(Note 29)*	–	–	(3,103)
Change in share-based payments reserve	8	1,312	251
Initial public offering expenses	–	–	6,794
Changes in working capital:			
Inventories *(Note 14)*	(19,184)	6,830	(18,198)
Prepayments and other receivables	(7,092)	(45,489)	(44,080)
Accounts receivables	19,433	(7,768)	(97,653)
Notes receivables	(49,628)	(261,532)	(220,230)
Accounts payables	12,586	11,808	27,425
Notes payables	6,120	2,170	(13,490)
Accruals and other payables	(4,104)	14,071	6,945
Provision for close down, restoration and environmental costs	–	–	(3,880)
Restricted bank deposits *(Note 18)*	(32,850)	(1,450)	34,600
Cash used in operations	(12,639)	(98,270)	(87,230)

(b) Major non-cash transactions:

(i) During the year ended 31 December 2010, the Group extended loans to its Controlling Shareholder in form of bank acceptance notes, which the Group obtained from its customers and were transferable, amounting to RMB350,550,000. During the year ended 31 December 2011, the Controlling Shareholder repaid RMB126,060,000 to the Group in form of bank acceptance notes and RMB224,490,000 in cash.

(ii) As disclosed in Note 33, Shandong Ishine declared dividends of RMB180,000,000 in 2010 and 2011 to its equity holders. Such dividends payable was settled in the following manner:

(1) RMB171,000,000 of the dividends payable was due to the Controlling Shareholder, amongst which RMB164,000,000 was net off with the loan due from the Controlling Shareholder as mentioned in (i) above; whilst RMB7,000,000 was paid to the Controlling Shareholder in the form of bank acceptance notes during the year ended 31 December 2011;

(2) RMB9,000,000 of the dividends payable to the other equity holder was distributed in the form of bank acceptance notes during the year ended 31 December 2011.

37. 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.

The existing tenement commitments in accordance with the contracts 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

38. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

(a) During the Relevant Periods, the Group's directors were of the view that the following companies and individuals were related parties of the Group:

Names of related parties	Nature of relationship
Mr. Li Yunde	The Controlling Shareholder
Shengrong Small Loans	Associate of Shandong Ishine
Thailand Chang Sheng*	Associate of Shandong Ishine
Ausrich*	Subsidiary of Shandong Ishine
Linyi Runxing Investment	Controlled by the Controlling Shareholder

* *As disclosed in Note 1, Thailand Chang Sheng and Ausrich were no longer related parties of the Group after 2 May 2011 when Shandong Ishine disposed of its entire interest in Ausrich and Thailand Chang Sheng to a third party.*

(b) Significant transactions with related parties

During the Relevant Periods, the Group has the following significant transactions with related parties:

(i) Movement of amount due from/(to) the Controlling Shareholder (Note 17 and Note 23):

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	–	–	350,550
Net repayment in cash	–	–	(224,490)
Addition (net of repayment) in form of bank acceptance notes	–	350,550	37,940
Repayment by offsetting dividends payable *(Note 36(b))*	–	–	(164,000)
Others	–	–	(6,115)
At the end of the year	–	350,550	(6,115)

(ii) Transaction with related parties:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Ausrich			
At the beginning of the year	–	(19,012)	23,988
Prepayment to/(Repayment from) Ausrich	–	43,000	(23,988)
Loan from Ausrich	(19,012)	–	–
At the end of the year	(19,012)	23,988	–

As disclosed in Note (a), Ausrich was no longer a related party of the Group after Shandong Ishine transferred its entire interests in Ausrich to Hesheng Minerals (Note 1(ii)e)).

(iii) As disclosed in Note 18, Shandong Ishine issued letter of guarantees in favour of a bank in Australia for bank loans granted to Ausrich by that bank.

(iv) As disclosed in Note 24, certain of the Group's bank borrowings were guaranteed by the Controlling Shareholder.

(c) Balances with related parties

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Prepayment and other receivables			
– the Controlling Shareholder *(Note 17)*	–	350,550	–
– Ausrich *(Note 17)*	–	43,000	–
	–	393,550	–
Accrual and other payables			
– the Controlling Shareholder *(Note 23)*	–	–	6,115
– Ausrich *(Note 23)*	19,012	19,012	–
	19,012	19,012	6,115
Dividends payable to equity holders *(Note 23)*	–	100,000	–

Maximum balance outstanding on balance due from the Controlling Shareholder amounted to nil, approximately RMB350 million and RMB375 million during the years ended 31 December 2009, 2010 and 2011, respectively.

Balances with related parties were all unsecured, interest-free and had no fixed repayment terms.

(d) Key management compensation

Key management includes directors (executive and non-executive), members of the Executive Committee, and the Company Secretary. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries and allowances	928	1,034	1,935
Contributions to pension plans	21	23	41
	949	1,057	1,976

39. SUBSEQUENT EVENTS

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 31 December 2011:

(i) On 9 April 2012, the Company's shareholders resolved to increase the authorised share capital of the Company from HK$380,000 to HK$30,000,000 by the creation of an additional of 2,962,000,000 shares, each ranking pari passu with the shares then in issue in all respects.

(ii) Pursuant to a shareholder's resolution dated 9 April 2012, and conditional on the share premium account of the Company being credited as a result of the issue of the offer shares pursuant to the proposed share offering described in the Prospectus, the Company will capitalise an amount of HKD5,900,004.72, standing to the credit of its share premium account and to appropriate such amount as capital to pay up 590,000,472 shares in full at par.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 31 December 2011. Saved as disclosed elsewhere in this report, no dividend or other distribution has been declared, made or paid by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2011.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong