



中國中盛資源控股有限公司

China Zhongsheng Resources Holdings Limited

(incorporated in the Cayman Islands with limited liability)
Stock Code: 2623

SHARE OFFER

Sole Sponsor



Sole Bookrunner



IMPORTANT

If you are in any doubt about the contents of this prospectus, you should obtain independent professional advice.

China Zhongsheng Resources Holdings Limited 中國中盛資源控股有限公司

(incorporated in the Cayman Islands with limited liability)

SHARE OFFER

| | |
|--------------------------------------|---|
| Number of Offer Shares | : 129,760,000 Shares (subject to the Over-allotment Option) |
| Number of Public Offer Shares | : 12,976,000 Shares (subject to reallocation) |
| Number of Placing Shares | : 116,784,000 Shares (subject to the Over-allotment Option and reallocation) |
| Offer Price | : Not more than HK\$1.52 per Offer Share (payable in full on application and subject to refund, plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) and expected to be not less than HK\$1.01 per Offer Share |
| Nominal Value | : HK\$0.01 per Share |
| Stock Code | : 2623 |

Sole Sponsor



Haitong International Capital Limited

Sole Bookrunner



Haitong International Securities Company Limited

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required under Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by the Price Determination Agreement between the Sole Bookrunner (on behalf of the Underwriters) and us on or about Friday, 20 April 2012 or such later time as may be agreed between the Sole Bookrunner (on behalf of the Underwriters) and us, but in any event no later than 11:59 p.m. (Hong Kong time) on Friday, 20 April 2012. If, for any reason, the Sole Bookrunner (on behalf of the Underwriters) and us are unable to reach an agreement on the Offer Price by 11:59 p.m. on Friday, 20 April 2012, the Share Offer will not become unconditional and will lapse immediately. The Offer Price will be not more than HK\$1.52 per Offer Share and is currently expected to be not less than HK\$1.01 per Offer Share unless otherwise announced in the manner set out below. Investors applying for Offer Shares must pay the maximum Offer Price of HK\$1.52 per Offer Share together with brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price finally determined is lower than HK\$1.52 per Offer Share.

The Sole Bookrunner (on behalf of the Underwriters) may, with our consent, reduce the indicative Offer Price range below that as stated in this prospectus at any time not later than the morning of the last day for lodging applications under the Public Offer. In such a case, notice of the reduction in the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Public Offer. If applications for Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, then even if the Offer Price is so reduced such applications cannot be subsequently withdrawn.

Pursuant to the force majeure provisions contained in the Public Offer Underwriting Agreement in respect of the Share Offer, the Sole Bookrunner (on behalf of the Underwriters) has the right in certain circumstances, subject to its sole and absolute opinion, to terminate the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (such date is currently expected to be Friday, 27 April 2012). Further details of the terms of the force majeure provisions are set out in the section headed "Underwriting" in this prospectus.

17 April 2012

EXPECTED TIMETABLE

2012^(Note 1)

- Latest time to complete electronic applications
under the **HK eIPO White Form**
service through the designated website
at www.hkeipo.hk (note 2) 11:30 a.m. on Friday, 20 April
- Application lists for the Public Offer open (note 3) 11:45 a.m. on Friday, 20 April
- Latest time for lodging **WHITE** and **YELLOW**
Application Forms and giving **electronic application**
instructions to HKSCC (note 4) 12:00 noon on Friday, 20 April
- Latest time to complete payment of **HK eIPO**
White Form applications by effecting internet
banking transfer(s) or PPS payment transfer(s) 12:00 noon on Friday, 20 April
- Application lists close (note 3) 12:00 noon on Friday, 20 April
- Expected Price Determination Date (note 5) Friday, 20 April
- Announcement of the Offer Price, the level of indication of
interest in the Placing, results of applications and the basis
of allocation of the Public Offer Shares under the Public Offer
to be published (a) in the South China Morning Post
(in English) and the Hong Kong Economic Times
(in Chinese) and (b) on the website of the Stock Exchange
at www.hkexnews.hk and the website of the Company
at <http://chinazhongsheng.com.hk> (note 6) Thursday, 26 April
- Results of allocations in the Public Offer (with successful
applicants' identification document numbers, where appropriate)
to be available through a variety of channels, including
the website of the Stock Exchange at www.hkexnews.hk
and the website of our Company at <http://chinazhongsheng.com.hk>
as described in the section headed "How to Apply for the
Public Offer Shares – Publication of Results" in this prospectus Thursday, 26 April
- Despatch of share certificates in respect of wholly or partially
successful applications pursuant to the Public Offer on
or before (notes 6 to 9, 12) Thursday, 26 April

EXPECTED TIMETABLE

Despatch of refund cheques/HK eIPO White Form

e-Auto payment instructions in respect of wholly successful (where applicable) or wholly or partially unsuccessful applications pursuant to the Public Offer on or before (notes 6, 8 to 12) Thursday, 26 April

Dealings in Shares on the Main Board to commence on Friday, 27 April

Notes:

- (1) All times refer to Hong Kong local time. Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure and conditions of the Share Offer” in this prospectus.
- (2) You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., the applicant will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 20 April 2012, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for the Public Offer Shares – Effect of bad weather conditions on the opening of the application lists” in this prospectus. If the application lists do not open and close on Friday, 20 April 2012, the dates mentioned in “Expected Timetable” may be affected. An announcement will be made by us in such event.
- (4) Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for the Public Offer Shares – How to apply by giving electronic application instructions to HKSCC” in this prospectus.
- (5) The Offer Price is expected to be determined by Friday, 20 April 2012, or such later time as may be agreed between the Sole Bookrunner (on behalf of the Underwriters) and our Company, but in any event no later than 11:59 p.m. (Hong Kong time) on Friday, 20 April 2012. If, for any reason, the Sole Bookrunner (on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by 11:59 p.m. on Friday, 20 April 2012, the Share Offer will not become unconditional and will lapse immediately.
- (6) e-Auto Refund payment instruction/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delays in encashment of, or may invalidate, the refund cheque.
- (7) Share certificates for the Public Offer Shares will become valid certificates of title at 8:00 a.m. on Friday, 27 April 2012 provided that (i) the Share Offer has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms.
- (8) Applicants who have applied on **WHITE** Application Forms or through the **HK eIPO White Form** for 1,000,000 Public Offer Shares or more under the Public Offer and have indicated in their applications that they wish to collect any refund cheque(s) and/or Share certificate(s) in person from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong, may do so in person from 9:00 a.m. to 1:00 p.m. on Thursday, 26 April 2012. Applicants being individuals who are applying for 1,000,000 Public Offer Shares or more and opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are

EXPECTED TIMETABLE

applying for 1,000,000 Public Offer Shares or more and opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chop. Identification and (where applicable) authorisation documents acceptable to our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, must be produced at the time of collection.

- (9) Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Public Offer Shares or more under the Public Offer may collect their refund cheque(s), where applicable, in person but may not elect to collect their Share certificate(s), which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheque(s) for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants specified in note (8) above.
- (10) For applicants who have applied for Public Offer Shares by giving **electronic application instructions**, their refund (if any) will be credited to their designated bank account or the designated bank account of the designated CCASS Participant through which they made their application on Thursday, 26 April 2012. For applicants who have instructed their designated CCASS Participant (other than CCASS Investor Participant) to give **electronic application instructions** on their behalf, they can check the amount of refund (if any) payable to them with that designated CCASS Participant. For applicants who have applied as CCASS Investor Participant, they can check the amount of refund (if any) payable to them via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 26 April 2012 or in the activity statement showing the amount of refund money credited to their designated bank account made available to them by HKSCC immediately after the credit of refund money to their bank account. Please refer to the section headed "How to apply for the Public Offer Shares – Refund of your money" in this prospectus for details.
- (11) For applicants who have applied through the **HK eIPO White Form** service and paid the application monies from a single bank account, refund monies (where applicable) will be despatched to their application payment bank account in the form of e-Auto Refund payment instructions on Thursday, 26 April 2012. For applicants who have applied through **HK eIPO White Form** service and paid the application monies from multiple bank accounts, refund monies (where applicable) in the form of refund cheque(s) on Thursday, 26 April 2012 by ordinary post at their own risk. Please refer to the section headed "How to apply for the Public Offer Shares – Refund of your money" in this prospectus for details.
- (12) Uncollected Share certificate(s) and refund cheque(s) will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant applications. Further details are set out in the section headed "How to Apply for the Public Offer Shares – If your Application for the Public Offer Shares is Successful (in Whole or in Part)" in this prospectus.

For details of the structure of the Share Offer, including the conditions thereof, please refer to the section headed "Structure and conditions of the Share Offer" in this prospectus.

CONTENTS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information which is different from that contained in this prospectus. Any information or representation not made in this prospectus must not be relied upon by you as having been authorised by us, the Sole Sponsor, the Sole Bookrunner, the Underwriters, any of their respective directors or any other person or party involved in the Share Offer.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all of the information which may be important to you. You should read this prospectus in its entirety before you decide to invest in our Shares.

OVERVIEW

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

We also possess mining rights and exploration rights in respect of our mines and projects located in the Yishui County of Shandong Province, with our Yangzhuang Iron Mine being our only mine in operation as at the Latest Practicable Date. During the Track Record Period, our Yangzhuang Iron Mine produced 321.4 Kt, 332.4 Kt and 328.1 Kt of iron concentrates respectively. Based on management's experience and assuming that the conversion rate of processing approximately 6.2 tonnes of iron ores from our Yangzhuang Iron Mine to produce 1 tonne of iron concentrates with iron content of 65%, it is expected that by processing approximately 2.85 Mt of iron ores from Yangzhuang Iron Mine, representing our current processing capacity, approximately 0.46 Mt of iron concentrates with 65% iron content can be produced.

We intend to expand the mining capacity of our Yangzhuang Iron Mine from an annual mining capacity of 2.3 Mt to 3.5 Mt of iron ores by commencing the expansion plan in the second quarter of 2012 and completing in the fourth quarter of 2013, and to increase our annual processing capacity from 2.85 Mt to 3.56 Mt of iron ores in 2012. We plan to develop our Zhuge Shangyu Ilmenite Mine to achieve annual mining and processing capacities of about 2.0 Mt, 4.0 Mt and 8.0 Mt by fourth quarter of 2013, fourth quarter of 2014 and second quarter of 2016 respectively.

Please refer to the section headed "Business – Overview" on page 159 of this prospectus for further details of our business operation.

SUMMARY

Our mines and projects

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

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

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

SUMMARY

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

| | Reserves figures available | | | Reserves figures not available (Note 6) |
|---|--|--|---|--|
| | Yangzhuang Iron Mine | Zhuge Shangyu Ilmenite Mine | Qinjiashuang Ilmenite Project | Gaozhuang Shangyu Ilmenite Project |
| Exploration rights area (sq. km.) | 17.88 <i>(Note 1)</i> | 7.30 | 17.88 <i>(Note 1)</i> | 7.66 |
| Time when exploration right was first obtained | September 2002 | January 2004 | January 2005 | April 2008 |
| Validity period of the exploration rights (Note 7) | 4 January 2011 – 31 December 2012 (for the Yangzhuang Qinjiashuang Combined Exploration Right) | 19 July 2010 – 30 June 2012 | 4 January 2011 – 31 December 2012 (for the Yangzhuang Qinjiashuang Combined Exploration Right) | 22 April 2011 – 31 March 2013 |
| Status of renewal of exploration right (Note 7) | To be renewed at around 3 to 6 months before expiry | In the process of renewal | To be renewed at around 3 to 6 months before expiry | To be renewed before expiry or to apply for mining right (Note 2) |
| Mining rights area (sq. km.) | 3.9093 | 0.356 | No mining permit obtained yet | No mining permit obtained yet |
| Time when mining right was first obtained | September 2001 | May 2008 | N/A | N/A |
| Validity period of the mining rights | 20 June 2011 – 20 June 2019 | 5 May 2010 – 5 May 2015 | NA | NA |
| Approved production scale under current mining right term | 2.3 Mt per annum | 400,000 cubic metres per annum (or approximately 1.2 Mt per annum) | NA | NA |
| Status of renewal of mining rights | To increase the approved annual production scale to 3.5 Mt in 2012 | To increase the approved annual production scale to 8.0 Mt in 2012 | NA | NA |
| Mining method | Underground | Open pit (Note 3) | Open pit | NA |
| Mine life | 13.2 years | 36 years | 43.3 years | NA |
| Depletion rate | 2.5 Mt (actual) in 2011 2.4 Mt (expected) in 2012 | N/A | N/A | N/A |
| Total costs incurred (Note 4) | Approximately RMB13.8 million | Approximately RMB11.3 million | Approximately RMB8.5 million | Approximately RMB5.0 million |
| Current status and plan for the mine or project | Current: In operation Plan: Expand annual mining capacity to 3.5 Mt in 2013 (Note 5) | Current: Not in operation Plan: Develop annual mining and processing capacities to 2.0 Mt in 2013, 4.0 Mt in 2014 and 8.0 Mt in 2016 (Note 5) | Current: Not in operation Plan: No plan to start mining operations yet | Current: Not in operation Plan: Perform further detailed exploration in second half of 2012 and complete by end of 2012 |
| Estimated capital requirements | Approximately RMB212.8 million (Note 5) | Approximately RMB964.3 million (Note 5) | N/A | RMB2.9 million for further detailed exploration |
| Sources of funding | Net proceeds from the Share Offer, internal resources, bank borrowings and/or other means of equity or debt financing (Note 5) | Net proceeds from the Share Offer, internal resources, bank borrowings and/or other means of equity or debt financing (Note 5) | N/A | Internal resources |

SUMMARY

Notes:

1. *In order to consolidate and integrate mineral resources with a view to developing mineral resources in a more efficient manner, optimizing mineral resource allocation and promoting large-scale operation and centralized management in mining business, the exploration area of our Yangzhuang Iron Mine and Qinjiazhuang Ilmenite Project was requested by relevant government authority to be consolidated to a combined area of 17.88 sq.m.. The last exploration permit in respect of our Yangzhuang Iron Mine with an area of 6.25 sq. km. was valid from 16 August 2010 to 31 December 2010, during which no exploration activity had been conducted.*
2. *For details of the renewal plan of the exploration right of Gaozhuang Shangyu Ilmenite Project, please refer to section headed “Business – Our mineral resources and mining rights – Gaozhuang Shangyu Ilmenite Project” to this prospectus.*
3. *Our Zhuge Shangyu Ilmenite Mine is currently an open-pit mine and we can perform open-pit mining method for mining of ilmenite ores for approximately 36 years from the date of mining commencement, after which it will become an underground mine.*
4. *For details of the total costs incurred in each of our mines, please refer to section headed “Business – Overview” to this prospectus.*
5. *For details of our expansion plans on our Yangzhuang Iron Mine and Zhuge Shangyu Ilmenite Mine, please refer to section headed “Business – Business Strategies” to this prospectus.*
6. *As at the Latest Practicable Date, our preliminary exploration work did not provide us with sufficient data and information for compilation of a competent person report, hence reserves figure is not available for our Gaozhuang Shangyu Ilmenite Project.*
7. *According to the relevant PRC laws and regulations (i) the initial validity period of exploration rights cannot exceed 3 years, and could be renewed for a period of not exceeding 2 years each time afterwards; and (ii) the exploration rights must be renewed at least 30 days before expiry.*

As regards our Zhuge Shangyu Ilmenite Mine, we have not yet proceeded to commercial production as of the Latest Practicable Date as such development would involve significant capital expenditure which requires further funding. As at the Latest Practicable Date, we did not have any plan to carry out mining work or other expansion plan for our Qinjiazhuang Ilmenite Project as we will focus our financial and operational resources on the development of our Yangzhuang Iron Mine and Zhuge Shangyu Ilmenite Mine. As for our Bashan Iron Project, we will not carry out any mining work in the near future since it is not commercially viable, and we shall consider disposal of our Bashan Iron Project in the future.

Our products

Iron concentrates produced by us

During the Track Record Period, our self-produced product was iron concentrates (65% Fe grade). For each of the three years ended 31 December 2011, we derived 100.0%, 89.0% and 68.0% respectively of our revenue from the sale of iron concentrates produced by us.

Trading products

We are also engaged in trading of iron concentrates, iron pellets, coarse iron powder and other iron related products during the Track Record Period. During the Track Record Period, we derived approximately nil, 11.0% and 32.0% respectively of our revenue from our trading activities. We engage in trading of iron concentrates when our production volume is insufficient to meet our customers' demands. Moreover, as our customers include steel manufacturers which require iron pellets for their production process and iron pellet manufacturers, we have sourced iron pellets from other suppliers for onward sale to them. In the second half of 2011, we also engaged in substantial trading of coarse iron powder. With the intention to fully utilise our excess processing capacity, we identified a trading company in Shandong Province to provide us with a stable and long-term source of coarse iron powder for further processing into iron concentrates. Notwithstanding our aforesaid intention, in 2011, a majority amount of the purchases were onward sold to our customers after taking into account the satisfactory gross profit margin. Please refer to the section headed “Business – Products – Trading products” on page 179 of this prospectus for a more detailed discussion of our trading activity of coarse iron powder.

Going forward, should opportunities arise, it is our intention to continue our trading activities as long as such business activities provide us with a satisfactory profit margin.

SUMMARY

Sales and customers

Our customers of iron concentrates produced by us are located in Shandong Province in close proximity to us. We have maintained stable relationship with our major customers ranging from approximately 2 years to 8 years. Three of our major customers are Laiwu Steel, Lunan Mining and Laiwu Mine Construction. Laiwu Steel is a subsidiary of Shandong Steel Group, whereas Lunan Mining and Laiwu Mine Construction are associated companies of Shandong Steel Group, a state-owned enterprise ranked the largest steel producer in Shandong Province and the 9th largest steel producer in the world as of 2010 according to the CRU Report. Although Laiwu Steel, Lunan Mining and Laiwu Mine Construction are subsidiary or associated companies of Shandong Steel Group, our Directors consider that each of them is a distinctive and independent customer to our Group as so far as they are aware each of them has independent management and independent operations and procurement departments, and would obtain independent quotations from us. Our Directors consider that such large scale of our major customers would help maintain a sufficient and stable demand of our products. Please refer to the section headed “Business – Sales and Customers” on page 215 of this prospectus for a more detailed discussion of our sales and customers.

During the Track Record Period, our total sales to Laiwu Steel, Lunan Mining and Laiwu Mine Construction was approximately RMB80.5 million, RMB311.1 million, and RMB534.1 million representing approximately 41.0%, 64.0%, and 52.9% of our total sales respectively during the same periods.

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

Independent Third Party Contractors

We have outsourced certain of our business operations to third parties contractors as we believe it lowers our overall operational costs. We have engaged our Independent Third Party Surveying Contractor to carry out our geological surveying work, our Independent Third Party Mining Contractors to carry out our mining work, and our Independent Third Party Blasting Contractor to carry out the related blasting work.

By engaging our Independent Third Party Surveying Contractor, Independent Third Party Mining Contractors and Independent Third Party Blasting Contractor, we would be able to lower our operational costs since it would not be necessary to maintain an in-house surveying and exploration team while exploration work is only carried out periodically when we make new discoveries of geological anomalies; and we also do not have to maintain an internal mining and blasting team and mining and blasting facilities.

Utilities – Electricity and Water

We utilize electricity and water in our operation. We utilize electricity secured from an Independent Third Party, at market rates to our Yangzhuang Processing Facilities in all our operations. As the Independent Third Party is the only legal electricity supplier of Shandong Province, we do not have any alternative supplier for electricity.

The water we utilized at our Yangzhuang Processing Facilities is from our water recycling system (which includes a water reservoir which can be replenished by rainwater from time to time). We can also obtain water from a water reservoir operated by an individual, being a PRC citizen and an Independent Third Party, whom we have entered into an agreement with for the provision of water at an annual fee of RMB5,000 and also a monthly management fee of RMB1,000.

For alternative water supply, we may also use water from the water reservoir operated by the individual, exploit groundwater resources or obtain water from other nearby water suppliers at market prices.

SUMMARY

Please refer to the section head “Business – Utilities and Raw Materials – Electricity and Water” on page 211 of this prospectus for a more detailed discussion of our usage on electricity and water.

Transportation of our Products

Our customers can choose to collect our products directly from our Yangzhuang Processing Facilities or request us to deliver our products to their designated destinations. For delivery, we use logistics service providers to deliver our products by trucks to our customers and we will recoup the costs associated with the transport of our products to them by adding these costs to the contracted sales price. We have maintained relationship with the logistics service providers ranging from approximately 1 year to 4 years during the Track Record Period.

Our long-term business diversification in Australia

To diversify our business overseas and to explore other business opportunities in the mining industry for the long-term development of our Group, Ishine International was incorporated in Western Australia, Australia in September 2009 and was admitted to the official list of ASX on 18 December 2009.

As at the Latest Practicable Date, Ishine International, our indirect non-wholly owned subsidiary incorporated in Western Australia, owned 11 granted exploration licences located in Western Australia and 7 granted exploration licences located in South Australia, and it did not own any mining licence. In addition, Ishine International has a 49% beneficial interest in three granted exploration licences in Queensland, with the right to acquire up to a 70% interest in these licences in relation to joint venture projects with Kabiri Resources Pty Ltd (“**Kabiri**”). Up to the Latest Practicable Date, Ishine International had made 12 exploration licence applications in Western Australia, 3 exploration licence applications in South Australia and 1 application for an exploration permit for minerals in Queensland.

As at 31 December 2011, our Group incurred costs and expenditures in relation to the tenement in Australia (capitalized and expensed-off through income statement) of approximately RMB17.8 million. As the tenements held by Ishine International were still in exploration phases, estimated capital expenditure requirements are not applicable. As at 31 December 2011, the total committed expenditures of our Australia tenements amounted to approximately RMB24.8 million, among which approximately RMB5.3 million was attributable to the joint venture projects with Kabiri. Our Directors consider that our source of funding for our business operations in Australia will be from equity financing through the issuance of new shares of Ishine International, or by debt financing by Ishine International.

For details of the joint venture projects and Ishine International’s tenements in Australia, please refer to the paragraph headed “Business – Our mineral resources and mining rights – Exploration licences in Australia” of this prospectus.

SUMMARY

SUMMARY FINANCIAL INFORMATION

The summary of our consolidated financial information for the three years ended 31 December 2009, 2010 and 2011 set forth below is derived from the Accountant's Report set forth in Appendix I to this prospectus and should be read in conjunction with the Accountant's Report and notes thereto.

Summary consolidated statements of comprehensive income

| | Year ended 31 December | | |
|---|------------------------|------------------------|------------------------|
| | 2009 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| Revenue | 196,447 | 485,452 | 1,010,252 |
| Gross profit | 71,725 | 204,389 | 276,196 |
| Profit from operations | 47,732 | 165,553 | 228,101 |
| Profit before income tax | 39,408 | 142,125 | 178,032 |
| Income tax expense | (10,679) | (39,563) | (48,042) |
| Profit for the year | 28,729 | 102,562 | 129,990 |
| Total comprehensive income for the year | 27,995 | 105,792 | 127,517 |
| Total comprehensive income attributable to: | | | |
| Equity holders of our Company | 28,679 | 109,468 | 130,416 |
| Non-controlling interests | (684) | (3,676) | (2,899) |
| Dividends | – | 100,000 | 80,000 |

Sales volume and average selling price

The following table sets forth details of the sales volumes and average selling prices of our iron concentrates during the Track Record Period:

| | Year ended 31 December | | |
|---|------------------------|---------|---------|
| | 2009 | 2010 | 2011 |
| Sales volume of iron concentrates produced by us | | | |
| – Produced by iron ores from our Yangzhuang Iron Mine (Kt) | 275.0 | 378.9 | 328.1 |
| – Produced by mixing (Kt) | – | 42.2 | 251.9 |
| | 275.0 | 421.1 | 580.0 |
| Sales volume of iron concentrates from trading (Kt) | – | – | 9.1 |
| Average selling price of iron concentrates with iron contents of 65% produced by us (RMB per tonne) | 714.3 | 1,026.6 | 1,184.5 |
| Average historical market price of iron concentrates with iron contents of 65% in Shandong Province (RMB per tonne) | 674.0 | 1,033.2 | 1,183.0 |

During the Track Record Period, the only product we produced was iron concentrates with iron contents of 65% which is the iron content grading required by our customers. During the Track Record Period, we produced iron concentrates using iron ores from our Yangzhuang Iron Mine. We conduct testing of our iron concentrates regularly and the monthly average grade of iron concentrates produced using our Yangzhuang iron ore during the Track Record Period was approximately 65% or above. In order to increase our output volume of 65% iron concentrates to meet sales demand and also to utilize our iron concentrates with iron content of over 65% efficiently, we engaged in mixing in 2010 and 2011 of which we mixed (i) iron concentrates with iron contents of approximately 65% or above produced by us using iron ores from our Yangzhuang Iron Mine, with (ii) various grades of iron concentrates sourced from other suppliers; and/or (iii) various grades of iron concentrates produced by us using coarse iron powder sourced from other suppliers, to produce 65% iron concentrates. Our purchases of iron concentrates and coarse iron powder used in mixing do not indicate that the iron ore produced by our Yangzhuang Iron Mine is unsalable without mixing.

SUMMARY

The weighted average grade of (i) iron concentrates purchased for the purpose of mixing for 2010 and 2011 was approximately 59.1% and 58.7% respectively; and (ii) coarse iron powder purchased for the purpose of mixing in 2011 was approximately 55.1%.

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

As shown above, during the Track Record Period, (i) our sales volumes of iron concentrates produced directly from iron ores of our Yangzhuang Iron Mine were approximately 275.0 Kt, 378.9 Kt and 328.1 Kt respectively, representing 100.0%, approximately 90.0% and 56.6% of our total sales volumes of iron concentrates produced by us; and (ii) sales volumes of iron concentrates produced by mixing were approximately nil, 42.2 Kt and 251.9 Kt respectively, representing nil, approximately 10.0% and 43.4% of our total sales volumes of iron concentrates produced by us. The substantial increase in sales volumes of iron concentrates produced by mixing in 2011 was due to the substantial increasing proportion of iron concentrates produced using coarse iron powder as a result of utilising our increased annual processing capacity of 2.85 Mt in July 2011.

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

Fluctuation in the price of our iron concentrates could be attributed to a number of factors, including but not limited to the global, PRC and Shandong supply of and demand for iron ore products, the prosperity of the Shandong steel industry and the market price of iron concentrates in Shandong Province. The average selling price of iron concentrates produced by us in 2009 was approximately RMB714.3 per tonne and in view of the low market price of iron concentrates caused by the global financial crisis beginning from the fourth quarter of 2008, our Directors have strategically reduced the sales of our Group in 2009 in the expectation that the price would pick up in 2010. Our average selling price of iron concentrates was approximately RMB40.3, or 6.0%, higher than the Shandong Province average price in 2009 as we strategically reduced sales volume of iron concentrates during the months when market price was relatively lower than the annual average in 2009. The average selling price of iron concentrates produced by us increased sharply by approximately 43.7% in 2010 and further increased by 15.4% in 2011 as a result of the recovery from the global financial crisis and the gradual recovery of China's economy in 2010 and continuing growth in 2011 and various stimulus plans implemented by the PRC government in both years. Such fluctuation in the average selling prices of our iron concentrates is in line with the fluctuation of the average historical market price of iron concentrates with iron contents of 65% in Shandong Province.

SUMMARY

Revenue analysis

The following table illustrates our revenue generated through sales of iron concentrates produced by us and trading for the three years ended 31 December 2009, 2010 and 2011:

| | 2009 | | Year ended 31 December 2010 | | 2011 | |
|--|----------------|--------------|-----------------------------|--------------|------------------|--------------|
| | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Production | | | | | | |
| – Sales of iron concentrates produced by us | | | | | | |
| • from iron ore of Yangzhuang Iron Mine | 196,447 | 100 | 388,945 | 80.0 | 388,662 | 38.5 |
| • from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder | – | – | 43,347 | 9.0 | 298,348 | 29.5 |
| | <u>196,447</u> | <u>100</u> | <u>432,292</u> | <u>89.0</u> | <u>687,010</u> | <u>68.0</u> |
| Trading | – | – | 53,160 | 11.0 | 323,242 | 32.0 |
| Total | <u>196,447</u> | <u>100.0</u> | <u>485,452</u> | <u>100.0</u> | <u>1,010,252</u> | <u>100.0</u> |

Our revenue increased significantly by 147.1% in 2010 due to the sharp increase in the average selling price and sales volume of our iron concentrates. Our revenue further increased by 108.1% in 2011 mainly due to (i) the increase in sales volume of iron concentrates resulting mainly from the increase in production of iron concentrates by processing coarse iron powder purchased from other suppliers utilising our excess processing capacity as a result of the 2011 Processing Facility Expansion for mixing purpose; and (ii) the substantial increase in trading of coarse iron powder.

Average cost of sales

Average cost of sales per tonne of iron concentrates produced by us for each of the three years ended 31 December 2011 are RMB453.5, RMB538.5 and RMB761.3 respectively.

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

Average cost of sales of iron concentrates produced by us increased from RMB538.5 in 2010 to RMB761.3 in 2011 by 41.4% was partly due to increase in average cost of sales per tonne of iron concentrates produced using ores from our Yangzhuang Iron Mine (and no mixing) from approximately RMB500.9 in 2010 to approximately RMB562.7 in 2011, as a result of (i) increase in cost of other raw materials by 44.5% as more spare parts were purchased as a result of the 2011 Processing Facility Expansion and the average purchase price of fuel increased in 2011; and (ii) increase in employee benefits by 56.6% due to increase in salaries in 2011. Such increase in cost of sales was also due to 43.4% of the sales volume of iron concentrates produced by us was produced by mixing various grades of iron concentrates

SUMMARY

purchased from other suppliers and iron concentrates produced from processing coarse iron powder sourced from other suppliers, and the average unit cost of iron concentrates produced by mixing amounted to approximately RMB1,020.0, which was higher than unit cost of producing iron concentrates using ores from our Yangzhuang Iron Mine.

Gross profit and gross profit margin

The following tables set forth breakdowns of our Group's gross profit and gross profit margin by segments for the periods indicated.

| Gross profit | Year ended 31 December | | | | | |
|--|------------------------|---------------|----------------|---------------|----------------|---------------|
| | 2009 | | 2010 | | 2011 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Production | | | | | | |
| – Sales of iron concentrates produced by us | | | | | | |
| • from iron ore of Yangzhuang Iron Mine | 71,725 | 100% | 199,167 | 97.5% | 204,031 | 73.9% |
| • from mixing iron concentrates purchased from third parties and/or produced from coarse iron powder | – | – | 6,357 | 3.1% | 41,411 | 15.0% |
| | <u>71,725</u> | <u>100%</u> | <u>205,524</u> | <u>100.6%</u> | <u>245,442</u> | <u>88.9%</u> |
| Trading | – | – | 5,730 | 2.8% | 33,857 | 12.2% |
| Exploration costs incurred by Ishine International | – | – | (6,865) | (3.4)% | (3,103) | (1.1)% |
| Total gross profit | <u>71,725</u> | <u>100.0%</u> | <u>204,389</u> | <u>100.0%</u> | <u>276,196</u> | <u>100.0%</u> |

| Gross profit margin | Year ended 31 December | | |
|--|------------------------|--------------|--------------|
| | 2009 | 2010 | 2011 |
| Production – Sales of iron concentrates | | | |
| – Produced from iron ores of our Yangzhuang Iron Mine | 36.5% | 51.3% | 52.5% |
| – Produced from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder purchased from other suppliers | – | 14.7% | 13.9% |
| | <u>36.5%</u> | <u>47.5%</u> | <u>35.7%</u> |
| Trading | N/A | 10.8% | 10.5% |
| Overall gross profit margin (Note) | 36.5% | 42.1% | 27.3% |

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

Gross profit margin of iron concentrates produced by us increased by 11.0% from 2009 to 2010 mainly due to increase in gross profit margin of iron concentrates produced from iron ores of Yangzhuang Iron Mine from 36.5% to 51.3% mainly as a result of the increase in average selling price by 43.7% in 2010 which is in line with the increase in market price, offset by the increase in average cost of sales of iron concentrates produced from Yangzhuang Iron Mine mainly due to that 10.0% of sales volume of iron concentrates produced by us represented sales of iron concentrates produced from mixing iron concentrates purchased from other suppliers which contributed a lower gross profit margin of only 14.7%.

Gross profit margin of iron concentrates produced by us declined by 11.8% to 35.7% in 2011 mainly due to that the sales volume percentage of iron concentrates produced from mixing (including mixing of iron concentrates purchased from other suppliers and iron concentrates produced from coarse iron powder) increased significantly from 10.0% to 43.4%, while the gross profit margin of such sales was only 13.9% as compared to that of iron concentrates produced from iron ores of Yangzhuang Iron Mine which was 52.5%.

We recorded a stable gross profit margin for our trading activities of approximately 10.5% in 2011 as compared to approximately 10.8% in 2010.

SUMMARY

Listing expenses

We paid legal and professional fees with respect to the Listing. In accordance with relevant accounting standard, listing related fees that are incremental and directly attributable to offering of new Shares should be recorded as prepaid expenses, which will be deducted from equity upon Listing. The remaining listing related fees are charged to income statement. It is expected that approximately RMB13.4 million listing related expenses will be charged to our Group's consolidated statements of comprehensive income for the year ending 31 December 2012.

RECENT DEVELOPMENT

Due to strong demand for steel to support economic growth, China continues to be short of domestic iron ore supply. The price of iron ore has increased significantly in recent years. However, towards the end of 2011, the iron ore industry has experienced fluctuations caused by the slight slow-down in the growth of the PRC economy. Nevertheless, we are optimistic about the PRC iron ore industry as a result of growing demand for steel to fuel China's industrialisation and urbanization.

The recent fluctuation in the PRC iron ore industry has affected our average selling price of iron concentrates to drop. Based on management account, average selling price of our iron concentrates with iron contents of 65% dropped by approximately 13.6% to approximately RMB1,023.8 per tonne for the two months ended 29 February 2012 as compared to that for 2011.

Based on management account, for the two months ended 29 February 2012, our total sales amounted to approximately RMB158.7 million which comprised of (i) approximately RMB93.8 million from the sales of iron concentrates produced by us; and (ii) approximately RMB64.9 million from trading of coarse iron powder. Our monthly average sales volume of iron concentrates dropped by approximately 13.2% to approximately 46 Kt for the two months ended 29 February 2012 as compared to that of approximately 53 Kt for the fourth quarter of 2011 as a result of lower sales during the Chinese New Year.

Based on management account, our accounts receivable increased from approximately RMB199.8 million as at 31 December 2011 to RMB306.7 million as at 29 February 2012 as a result of sales of approximately RMB153.5 million made for the two months ended 29 February 2012, offset by settlement of approximately RMB46.5 of accounts receivables by our customers. As at 29 February 2012, our non-current bank borrowings totaled to approximately RMB160 million, which remained the same as compared to that of 31 December 2011; and our current bank borrowings totaled to approximately RMB398.6 million, representing an increase of approximately RMB41.0 million as compared to the balance as at 31 December 2011. Such additional bank borrowings were used to finance our normal business operations. The lending bank of such bank borrowings have required us to maintain the gearing ratio^(Note) of Shandong Ishine at below 70% and such restriction will be released upon full settlement of such bank borrowings by us. The gearing ratio of Shandong Ishine was approximately 64.9% as at 29 February 2012. We will monitor the compliance of such gearing ratio from time to time and if such ratio is expected to be exceeded, we will settle such additional bank borrowing by our internal resources and/or bank borrowings without this restriction. As at 29 February 2012, we have utilised and unutilised banking facilities amounted to approximately RMB198.7 million and RMB391.3 million, respectively.

Note: Gearing ratio is calculated as total liabilities divided by total assets.

SUMMARY

OFFER STATISTICS

| | Based on an Offer Price of HK\$1.01 per Share | Based on an Offer Price of HK\$1.52 per Share |
|--|--|--|
| Market capitalisation of our Shares (<i>note 1</i>) .. | HK\$728.1 million | HK\$1,095.7 million |
| Unaudited pro forma adjusted net tangible assets per Share (<i>note 2</i>)..... | HK\$0.83 | HK\$0.92 |

Notes:

- (1) *The calculation of the market capitalisation of our Shares is based on 720,871,584 Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue but does not take into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the issuing mandate and the repurchase mandate.*
- (2) *The unaudited pro forma adjusted net tangible assets of our Group per Share has been arrived at after the adjustments referred to in the section headed “Financial Information” in this prospectus and on the basis of 720,871,584 Shares in issue at the respective Offer Price of HK\$1.01 and HK\$1.52 per Share immediately following completion of the Share Offer and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the issuing mandate and the repurchase mandate.*

DIVIDEND POLICY

We only declared dividends of RMB100 million and RMB80 million to our then Shareholders for the two years ended 31 December 2010 and 2011, respectively during the Track Record Period. We currently do not have a fixed dividend policy.

We are also subject to withholding income taxes of 5% by the PRC corporate income tax laws and 15% by the Australia Corporation Tax laws respectively.

Please refer to the section headed “Financial Information – Dividend Policy” on page 338 of this prospectus for further information in relation to payment of dividends.

USE OF PROCEEDS

Assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$1.27 per Share (being the mid-point of the estimated price range), our Directors estimate that the net proceeds to be received by our Company from the Share Offer will be about HK\$134.8 million, after deducting the underwriting commissions and other estimated expenses payable by our Company in relation to the Share Offer.

Our Directors presently intend to use the net proceeds from the Share Offer as follows:

- approximately 57.0%, or HK\$76.8 million (equivalent to approximately RMB62.4 million), to finance the expansion of mining capacity of our Yangzhuang Iron Mine; and
- approximately 43.0%, or HK\$58.0 million (equivalent to approximately RMB47.1 million), to finance the first stage of the development plan of our Zhuge Shangyu Ilmenite Mine.

Further details of the expansion and development plans of our Yangzhuang Iron Mine and Zhuge Shangyu Ilmenite Mine are set out under the paragraph headed “Business Strategies” under the section headed “Business” of this prospectus. You should refer to the section headed “Future Plans and Use of Proceeds from the Share Offer” on page 342 of this prospectus for a more detailed discussion of our use of proceeds.

SUMMARY

RISK FACTORS

There are certain risks related to investing in our Shares, among which, the relatively material risks are set out below. You should read the entire section headed “Risk Factors” to this prospectus before you decide to invest in our Shares.

We focus our operations primarily on our Yangzhuang Iron Mine, our only mine in operation as at the Latest Practicable Date; therefore, any factors such as safety problems at our Yangzhuang Iron Mine could materially and adversely affect our business, financial condition, and results of operations.

Our mining operations is carried out on 10 parcels of collectively-owned lands at our Yangzhuang Iron Mine on a two years short-term leased basis, and if we could not execute renewals of such leases upon expiration, our business, financial condition and results of operations may be materially and adversely affected.

Our major capital expenditure projects require significant investment. If we cannot obtain additional funds, we may not be able to, among others, expand our business, which may have material adverse effect on our business, financial, and results of operations.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

| | |
|-----------------------|---|
| “All Five Capital” | All Five Capital Ltd, a limited liability company incorporated under the laws of the BVI on 25 March 2011 which is wholly-owned by Mr. Lang and a Shareholder |
| “Alliance Worldwide” | Alliance Worldwide Group Limited, a limited liability company incorporated under the laws of the BVI on 29 November 2010 and a directly wholly-owned subsidiary of our Company |
| “Application Form(s)” | WHITE application form(s), YELLOW application form(s) and GREEN application form(s), or where the context so requires, any of them, to be used in relation to the Public Offer |
| “Articles” | the articles of association adopted by our Company pursuant to the written resolutions passed by our Shareholders on 9 April 2012 |
| “associate(s)” | has the meaning ascribed thereto under the Listing Rules |
| “ASX” | The Australian Securities Exchange |
| “Ausrich” | Ausrich Resources Pty. Ltd., a proprietary company limited by shares incorporated in Western Australia on 23 September 2009 and formerly wholly-owned by Shandong Ishine and as at the Latest Practicable Date, wholly-owned by Hesheng Minerals, which is an Independent Third Party |
| “Bashan Iron Project” | Bashan Iron Project, an iron ore project located in Yishui County, Shandong Province, the PRC |
| “Board” | the board of Directors |
| “Business Day(s)” | any day(s) (excluding Saturday(s), Sunday(s) and public holidays) in Hong Kong on which licensed banks in Hong Kong are open for banking business throughout their normal business hours |
| “BVI” | the British Virgin Islands |

DEFINITIONS

| | |
|---|--|
| “CAGR” | compound annual growth rate |
| “Capitalisation Issue” | the issue of 590,000,472 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “Written resolutions of our Shareholders passed on 9 April 2012” in Appendix VI to this prospectus |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |
| “CCASS Clearing Participant” | a person admitted to participate in CCASS as a direct clearing participant or general clearing participant |
| “CCASS Custodian Participant” | a person admitted to participate in CCASS as a custodian participant |
| “CCASS Investor Participant” | a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation |
| “CCASS Participant” | a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant |
| “Companies Law” or “Cayman Companies Law” | the Companies Law (2011 Revision) of the Cayman Islands, as amended, supplemented or other modified from time to time |
| “Companies Ordinance” | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Company” or “our Company” | China Zhongsheng Resources Holdings Limited (中國中盛資源控股有限公司), an exempted company incorporated in the Cayman Islands on 8 February 2011 under the Companies Law with limited liability |
| “connected person” | has the meaning ascribed thereto under the Listing Rules |

DEFINITIONS

| | |
|--|---|
| “Controlling Shareholder(s)” | has/have the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to Hongfa Holdings and Mr. Li, who together will control the exercise of approximately 55.35% voting rights in the general meeting of our Company after the Capitalisation Issue and the Share Offer (assuming that the Over-allotment Option is not exercised and there is no exercise of the options that may be granted under the Share Option Scheme) |
| “CRU” | CRU International Ltd, a research and consulting company specialising in the international metals, mining and electricity industries, an Independent Third Party |
| “CRU Report” | the iron ore and titanium ore industry report prepared by CRU to be dated 17 April 2012 |
| “Director(s)” | director(s) of our Company |
| “Dry Grinding Workshop” | the workshop for dry pulverization of non-magnetic coarse iron powder or tailings into iron concentrates, the installation of which was completed in March 2011 as part of the 2011 Processing Facility Expansion |
| “First Yangzhuang Processing Facility” | an ore processing facility which had ceased to process ore since December 2008 and is now in use by our Group as storage purposes and located near our Yangzhuang Iron Mine |
| “Fortuneshine Investment” | Fortuneshine Investment Ltd., a limited liability company incorporated under the laws of the Cayman Islands on 21 September 2010 and an indirectly wholly-owned subsidiary of our Company |
| “Gaozhuang Shangyu Ilmenite Project” | Gaozhuang Shangyu Ilmenite Project, an ilmenite ore project located in Shangyu District, Yinan County and Yishui County, Shandong Province, the PRC |
| “Green application form(s)” | the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company |

DEFINITIONS

| | |
|---|---|
| “Group”, “our Group”, “we”, “our” or “us” | our Company and its subsidiaries or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, the present subsidiaries of our Company, some or any of them and the businesses carried on by such subsidiaries or (as the case may be) their predecessors |
| “Haitong Capital” or “Sole Sponsor” | Haitong International Capital Limited, a licensed corporation under SFO to carry on type 6 (advising on corporate finance) regulated activity, being the sponsor to the Share Offer |
| “Haitong Securities” or “Sole Bookrunner” | Haitong International Securities Company Limited, a licensed corporation under SFO to carry on type 1 (dealing in securities), type 3 (leveraged foreign exchange trading) and type 4 (advising on securities) regulated activities being the sole bookrunner to the Share Offer |
| “Hesheng Minerals” | Hesheng Minerals Processing Co., Ltd (沂水合盛礦產品加工有限公司), a company with limited liability established under the laws of the PRC and an Independent Third Party, being one of our customers and suppliers during the Track Record Period |
| “HK eIPO White Form” | the application for the Public Offer Shares to be issued in the applicant’s own name by submitting application online through the designated website at www.hkeipo.hk |
| “HK eIPO White Form Service Provider” | the HK eIPO White Form Service Provider designated by our Company, as specified on the designated website at www.hkeipo.hk |
| “HKSCC” | Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited |
| “HKSCC Nominees” | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |

DEFINITIONS

| | |
|--|---|
| “Hong Kong Branch Share Registrar” | Tricor Investor Services Limited |
| “Hongfa Holdings” | Hongfa Holdings Limited (鴻發控股有限公司), a limited liability company incorporated under the laws of the BVI on 6 January 2011 which is wholly-owned by Mr. Li and one of our Controlling Shareholders |
| “IGME” | 8th Institute of Geology and Mineral Exploration of Shandong Province (山東省第八地質礦產勘查院), our Independent Third Party Surveying Contractor |
| “Independent Technical Adviser” or “Micromine” | Micromine Proprietary Limited, an Australian-owned Independent Third Party company appointed by our Company in respect of the Listing, that specialises in performing mineral Resource and Reserve estimations and providing Independent Technical Reports through Micromine Consulting Services (MCS) division, to the minerals industry worldwide |
| “Independent Third Party(ies)” | a person(s) or company(ies) which is/are not connected with (within the meaning of the Listing Rules) any directors, chief executives or substantial shareholders of our Company, its subsidiaries or any of their respective associates |
| “Independent Third Party Blasting Contractor” | contractor engaged by our Group to carry out blasting work and an Independent Third Party |
| “Independent Third Party Mining Contractor(s)” | contractor(s) engaged by our Group to carry out mining work and each an Independent Third Party |
| “Independent Third Party Surveying Contractor” | contractor engaged by our Group to carry out geological surveying and exploration work and an Independent Third Party |
| “Ishine International” | Ishine International Resources Limited, a limited liability company incorporated in Western Australia on 18 September 2009, the shares of which are listed on the ASX, and an indirectly non-wholly-owned subsidiary of our Company |

DEFINITIONS

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| “Ishine Mining” | Ishine Mining International Limited, a limited liability company incorporated under the laws of Hong Kong on 22 December 2010 and an indirectly wholly-owned subsidiary of our Company |
| “Jiuding Callisto” | Jiuding Callisto Limited, a limited liability company incorporated under the laws of Hong Kong which is wholly-owned by Jiuding China Growth Fund, L.P. and a Shareholder |
| “Jiuding Subscription Agreement” | the subscription agreement entered into among Hongfa Holdings, Mr. Li, our Company and Jiuding Callisto dated 19 October 2011 in relation to the subscription of 111,111 Shares by Jiuding Callisto |
| “Laiwu Mine Construction” | 萊蕪鋼鐵集團礦山建設有限公司 (Laiwu Steel Group Mine Construction Co., Ltd.*), a limited liability company located in Shandong Province and established in the PRC and an Independent Third Party, being one of our customers during the Track Record Period, and an associated company of Shandong Steel Group |
| “Laiwu Steel” | 萊蕪鋼鐵股份有限公司 (Laiwu Steel and Iron Joint Stock Co., Ltd.*), a limited liability company located in Shandong Province and established in the PRC and an Independent Third Party, being one of our customers during the Track Record Period, and a subsidiary of Shandong Steel Group |
| “Latest Practicable Date” | 12 April 2012, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus |
| “Linyi Runxing” | 臨沂潤興投資有限公司 (Linyi Runxing Investment Limited*), a company with limited liability established under the laws of the PRC and owned by Mr. Li as to 90% and Ms. Zhang as to 10% |
| “Listing” | the listing of our Shares on the Main Board |
| “Listing Committee” | the listing sub-committee of the board of directors of the Stock Exchange |

DEFINITIONS

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| “Listing Date” | the date on which the trading of our Shares on the Main Board commences, which is currently expected to be Friday, 27 April 2012 |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time |
| “Lunan Mining” | 萊蕪鋼鐵集團魯南礦業有限公司 (Laiwu Steel and Iron Group Lunan Mining Co., Ltd.*), a limited liability company located in the Shandong Province and established in the PRC and an Independent Third Party, being one of our customers during the Track Record Period, and an associated company of Shandong Steel Group |
| “Luxing Titanium” | 臨沂魯興鈦業股份有限公司 (Linyi Luxing Titanium Corporation*), a limited liability company established in the PRC and an Independent Third Party, being one of our customers and suppliers during the Track Record Period |
| “Main Board” | the stock market operated by the Stock Exchange, which excludes Growth Enterprise Market of the Stock Exchange and the options market |
| “Memorandum of Association” | the memorandum of association adopted by our Company pursuant to the written resolutions passed by our Shareholders on 9 April 2012 |
| “MEP” | Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部) |
| “Micromine Consulting Services” or “MCS” | a division of Micromine Proprietary Limited, an Australian-owned Independent Third Party company appointed by our Company in respect of the Listing, that specialises in performing mineral Resource and Reserve estimations and providing Independent Technical Reports to the minerals industry worldwide |
| “MLR” | Ministry of Land and Resources of the PRC (中華人民共和國國土資源部) |

DEFINITIONS

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| “MPF Ordinance” | Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time |
| “Mr. G.H. Li” | Mr. Li Genghe (李庚和), a member of the board of directors of Shandong Ishine during January 2008 and November 2010 and an Independent Third Party as at the Latest Practicable Date |
| “Mr. Lang” | Mr. Lang Weiguo, an executive Director, the sole shareholder of All Five Capital and Novi Holdings and our substantial Shareholder |
| “Mr. Li” | Mr. Li Yunde (李運德), chairman of our Company and our Board, an executive Director and one of our Controlling Shareholders |
| “Ms. Zhang” | Ms. Zhang Limei (張立梅), the spouse of Mr. Li |
| “Novi Holdings” | Novi Holdings Limited, a limited liability company incorporated under the laws of the BVI on 5 July 2011 which is wholly-owned by Mr. Lang and a substantial Shareholder |
| “Offer Price” | the final price for each Offer Share (exclusive of brokerage fee, SFC transaction levy and the Stock Exchange trading fee payable thereon) of not more than HK\$1.52 per Offer Share and is expected to be not less than HK\$1.01 per Offer Share at which the Offer Shares are to be offered for subscription pursuant to the Share Offer |
| “Offer Shares” | the Public Offer Shares and the Placing Shares |
| “Over-allotment Option” | the option to be granted by our Company to the Sole Bookrunner under the Placing Underwriting Agreement, exercisable by the Sole Bookrunner pursuant to which our Company may be required to allot and issue Over-allotment Shares at the Offer Price to cover over-allocations in the Placing and/or to satisfy the obligation of the Sole Bookrunner to return securities borrowed under the Stock Borrowing Agreement; further details of which are set out in the section headed “Structure and conditions of the Share Offer” in this prospectus |

DEFINITIONS

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| “Over-allotment Shares” | up to an aggregate of 19,464,000 new Shares to be issued pursuant to the exercise of the Over-allotment Option, representing approximately 15% of the number of Shares initially available under the Share Offer |
| “Placing” | the conditional placing of the Placing Shares by the Placing Underwriters on behalf of our Company for cash at the Offer Price with professional, institutional and private investors as described in the section headed “Structure and conditions of the Share Offer” in this prospectus |
| “Placing Shares” | the 116,784,000 Offer Shares initially being offered for subscription under the Placing subject to re-allocation as described in the section headed “Structure and conditions of the Share Offer” in this prospectus, together with any additional Shares which may be issued by our Company upon the exercise of the Over-allotment Option |
| “Placing Underwriters” | the underwriters of the Placing who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing |
| “Placing Underwriting Agreement” | the conditional placing underwriting agreement relating to the Placing expected to be entered into by, among others, our Company, our executive Directors, Mr. Li, Mr. Lang, Hongfa Holdings, All Five Capital and Novi Holdings as covenantors, the Sole Sponsor, the Sole Bookrunner and the Placing Underwriters on or before the Price Determination Date |
| “PRC” or “China” | the People’s Republic of China which, for the purposes of this prospectus only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| “PRC government” | the government of the PRC including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and organs thereof or, as the context requires, any of them |
| “PRC Legal Advisers” | Dacheng Law Offices, our legal advisers as to PRC laws |

DEFINITIONS

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| “Price Determination Agreement” | the agreement to be entered into between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) on or before the Price Determination Date to record and fix the Offer Price |
| “Price Determination Date” | the date, expected to be on or before Friday, 20 April 2012, on which the Offer Price is expected to be fixed for the purposes of the Share Offer and in any event no later than 11:59 p.m. (Hong Kong time) on Friday, 20 April 2012 |
| “Public Offer” | the conditional offer of the Public Offer Shares by our Company for subscription by members of the public in Hong Kong for cash at the Offer Price, payable in full on application, on and subject to the terms and conditions stated herein and in the related Application Forms |
| “Public Offer Shares” | the 12,976,000 Offer Shares initially offered for subscription under the Public Offer subject to re-allocation as described in the section headed “Structure and conditions of the Share Offer” in this prospectus |
| “Public Offer Underwriters” | the underwriters listed in the paragraph headed “Public Offer Underwriters” under the section headed “Underwriting” in this prospectus, being the underwriters of the Public Offer |
| “Public Offer Underwriting Agreement” | the conditional public offer underwriting agreement dated 16 April 2012 relating to the Public Offer and entered into by, among others, our Company, our executive Directors, Mr. Li, Mr. Lang, Hongfa Holdings, All Five Capital and Novi Holdings as covenantors, the Sole Sponsor, the Sole Bookrunner and the Public Offer Underwriters relating to the Public Offer |
| “Qinjiashuang Ilmenite Project” | Qinjiashuang Ilmenite Project, an ilmenite ore project located in Qinjiashuang District, Yishui County, Shandong Province, the PRC |
| “Reorganisation” | the corporate reorganisation of our Group in preparation for the Listing as described under the paragraph headed “Corporate Reorganisation” in Appendix VI to this prospectus |

DEFINITIONS

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| “Report of the Independent Technical Adviser” | the independent technical report prepared by the Independent Technical Adviser |
| “Second Yangzhuang Processing Facility” | an existing ore processing facility which is in use by our Group as of the Latest Practicable Date and located near our Yangzhuang Iron Mine |
| “SFC” | the Securities and Futures Commission in Hong Kong |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time |
| “Shandong Ishine” | Shandong Ishine Mining Industry Co. Ltd. (山東興盛礦業有限責任公司) (formerly known as Shandong Yishui Ishine Mining Industry Co. Ltd. (山東省沂水縣興盛礦業有限責任公司), Yishui Ishine Mining Industry Co. Ltd. (沂水縣興盛礦業有限責任公司), Shandong Ishine Mining Industry Group Ltd. (山東興盛礦業集團有限公司), Shandong Ishine Mining Industry Corporation (山東興盛礦業股份有限公司 and Shandong Xingsheng Mining Industry Company Limited), a limited liability company established under the laws of the PRC on 4 December 2001 and an indirectly wholly-owned subsidiary of our Company |
| “Shandong Steel Group” | 山東鋼鐵集團有限公司 (Shandong Steel and Iron Group Co., Ltd.*), a limited liability company established in the PRC and an Independent Third Party and whose subsidiaries included Laiwu Steel and whose associated companies included Laiwu Mine Construction and Lunan Mining |
| “Share(s)” | share(s) of HK\$0.01 each in the share capital of our Company |
| “Shareholder(s)” | holder(s) of Share(s) |
| “Share Offer” | the Public Offer and the Placing |
| “Share Option Scheme” | the share option scheme conditionally adopted by our Company on 9 April 2012, a summary of principal terms of which is set out under the paragraph headed “Share Option Scheme” in Appendix VI to this prospectus |

DEFINITIONS

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| “Shengrong Small Loans” | Yishui Shengrong Small Loans Corporation (沂水縣盛榮小額貸款股份有限公司), a joint stock company with limited liability established under the laws of the PRC on 28 July 2010 which is legally owned by Shandong Ishine as to 20%, further details of which are set out in the section headed “History and Development – Reorganisation – (3) Disposal of interests in relevant companies – Shengrong Small Loans – 20% owned by Shandong Ishine before the Reorganisation” in this prospectus |
| “SMI” | Shine Mining Investment Limited, a limited liability company incorporated under the laws of Hong Kong on 1 November 2010 and an indirectly wholly-owned subsidiary of our Company |
| “Stock Borrowing Agreement” | the stock borrowing agreement expected to be entered into between Hongfa Holdings and the Sole Bookrunner, pursuant to which the Sole Bookrunner may borrow up to 19,464,000 Shares to cover any over-allocation in the Placing |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “subsidiary(ies)” | has the meaning ascribed thereto under the Companies Ordinance |
| “substantial shareholder(s)” | has/have the meaning ascribed to it under the Listing Rules |
| “Thailand Chang Sheng” | Chang Sheng Mining Development Co., Ltd., a limited liability company incorporated under the laws of Thailand on 26 October 2010 and formerly owned as to 49% by Shandong Ishine and as to 51% by other Independent Third Parties and as at the Latest Practicable Date, owned as to 49% by Hesheng Material and as to 51% by the same other Independent Third Parties |
| “Third Yangzhuang Processing Facility” | an existing ore processing facility which is in use by our Group as of the Latest Practicable Date and located near our Yangzhuang Iron Mine |
| “Track Record Period” | the three financial years ended 31 December 2011 |

DEFINITIONS

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| “Underwriters” | the Placing Underwriters and the Public Offer Underwriters |
| “Underwriting Agreements” | the Public Offer Underwriting Agreement and the Placing Underwriting Agreement |
| “US” or “United States” | the United States of America |
| “US Securities Act” | the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder |
| “Yangzhuang Iron Mine” | Yangzhuang Iron Mine (楊莊鐵礦), an iron ore mine located in Qinjiazhuang Village, Yangzhuang Town, Yishui County, Shandong Province, the PRC |
| “Yangzhuang Processing Facilities” | the First Yangzhuang Processing Facility, the Second Yangzhuang Processing Facility and the Third Yangzhuang Processing Facility, the ore processing facilities located near our Yangzhuang Iron Mine |
| “Yangzhuang Qinjiazhuang Combined Exploration Right Area” | the combined area of 17.88 sq. km. covering an area of 6.25 sq. km. of our Yangzhuang Iron Mine and an area of 11.63 sq. km. of our Qinjiazhuang Ilmenite Project under which the exploration permit in relation to our Yangzhuang Iron Mine and Qinjiazhuang Ilmenite Project was granted |
| “Zhuge Shangyu Ilmenite Mine” | Zhugeshangyu Ilmenite Mine (諸葛上峪鐵鈦礦), an ilmenite and magnetite mine located in Yishui County, Shandong Province, the PRC |
| “2011 Processing Facility Expansion” | the expansion of the Third Yangzhuang Processing Facility by setting up a new iron concentrates production line and the new Dry Grinding Workshop |
| “AUD” | Australian dollars, the lawful currency of Australia |
| “HK\$” and “cents” | Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “US\$” or “USD” | United States dollars, the lawful currency of the US |

DEFINITIONS

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| “sq. km.” | square kilometres |
| “sq. m.” or “m ² ” | square metres |
| “%” | per cent |

Unless otherwise specified, for the purpose of this prospectus and for the purpose of illustration only, Hong Kong dollar amounts have been translated using the following rates:

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|------------------|----------|------------------|
| <i>US\$1</i> | <i>:</i> | <i>HK\$7.766</i> |
| <i>RMB0.8123</i> | <i>:</i> | <i>HK\$1</i> |

No representation is made that any amounts in US\$, RMB or HK\$ were or could have been converted at the above rates or at any other rates or at all.

For ease of reference, the names of certain PRC laws and regulations or the PRC established companies, entities or individuals have been included in this prospectus in both the Chinese and English languages. The English names of these companies, entities and individuals are only English translation of their respective official Chinese names. In the event of any inconsistency, the Chinese version shall prevail.

* *for identification purposes only*

GLOSSARY OF TECHNICAL TERMS

The glossary contains certain definitions and other terms related to our business and used in this prospectus. The terms and their meanings may not correspond to the standard industry meaning or usage of these terms.

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| “°” | degrees |
| “ball mill” | a rotating cylindrical mill that uses heavy iron balls to grind ore into fine particle powder |
| “beneficiation” | a process to upgrade the mineralised content of an ore or of ore concentrates typically through flotation, gravity or magnetic separation |
| “Bt” | billion tonne(s) |
| “coarse iron powder” | powder with a coarse particle size whose main mineral content is iron |
| “concentrates” | a powdery product containing an upgraded mineral content resulting from initial processing of mined ore to remove some waste materials. Concentrates are an intermediary product, which would still be subject to further processing, such as smelting, to effect recovery of metal |
| “crude steel” | steel in the first solid state after melting, suitable for further processing or for sale |
| “cut-off grade” | the threshold above which material is selectively mined or queried |
| “deposit” | a body of mineralisation containing a sufficient average grade of metal or metals to warrant further exploration and/or development expenditure. A deposit may not have a realistic expectation of being mined, therefore it may not be classified as a resource or a reserve |
| “drilling” | in mineral exploration, boring a hole to recover core or rock chip samples to obtain geological information as well as for use as samples for grade determination and other analyses |
| “exploration” | activity to prove the location, volume and quality of an ore body |

GLOSSARY OF TECHNICAL TERMS

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| “Fe” | the symbol for the chemical element of iron |
| “gangue” | waste rock |
| “grade” | the concentration, commonly expressed as percentage or grams per tonne, of useful elements, minerals or their components in any ore or concentrates |
| “ilmenite” | a weak magnetic titanium-iron oxide mineral that is a crystalline iron titanium oxide (FeTiO ₃) |
| “indicated resource” | mineral resource that has been sampled by drill holes or other sampling procedures at locations too widely spaced to ensure continuity, but close enough to give a reasonable indication of continuity and where geoscientific data are known with a reasonable level of reliability, as defined by the JORC Code |
| “inferred resource” | mineral resource that has geoscientific evidence from drill holes or other sampling procedures such that continuity cannot be predicted with confidence and where geoscientific data may not be known with a reasonable level of reliability, as defined by the JORC Code |
| “in-situ” | in its natural position |
| “iron” | a silvery-white, lustrous, malleable, ductile, magnetic or magnetisable, metallic element occurring abundantly in combined forms, notably in hematite, limonite, magnetite, and taconite, and alloyed for use in a wide range of important structural materials |
| “iron concentrates” | concentrates whose main mineral content (by value) is iron |
| “iron ore” | compounds of iron and oxygen (iron oxides) mixed with impurities (gangue) and a mineral that yields metallic iron when heated in the presence of a reductant |
| “iron pellet” | a round hardened clump of iron-rich material suitable for application in blast furnaces |
| “JORC” | the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy |

GLOSSARY OF TECHNICAL TERMS

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| “JORC Code” | the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the JORC, Australian Institute of Geoscientists and Minerals Council of Australia in September 1999 and revised in December 2004, a widely used and internationally recognised code setting out the minimum standards, recommendations and guidelines for public reporting of exploration results, mineral resources and ore reserves |
| “km” | kilometer(s) |
| “Kt” | thousand tonne(s) |
| “Ktpa” | Kt per annum |
| “kwh” | kilowatt hours |
| “m” | meter(s) |
| “magnetic separation” | a mineral concentrating process to separate magnetic minerals from non-magnetic materials in ground ore |
| “magnetite” | a ferrimagnetic mineral with chemical formula Fe_3O_4 , one of several iron oxides and the common chemical name of which is ferrous-ferric oxide |
| “measured resource” | mineral resource that has been intersected and tested by drill holes or other sampling procedures at locations close enough to confirm continuity and where geoscientific data are reliably known, as defined by the JORC Code |
| “mFe” | iron in magnetite |
| “mine life” | the number of years that a mine is expected to continue operations based on the current mine plan |
| “mineral deposits” | a natural occurrence of a useful mineral on sufficient degree of concentration and size to suggest it may be economically extracted |
| “mineral resource” | an identified in-situ mineral occurrence from which valuable or useful minerals may be recovered |

GLOSSARY OF TECHNICAL TERMS

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| “mineral resource(s)” or “resource(s)” | a concentration or occurrence of material of intrinsic economic interest in or on the earth’s crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction, as defined in the JORC Code. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge |
| “mining rights” | the rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed |
| “Mt” | million tonnes |
| “Mtpa” | Mt per annum |
| “Oe” | oersted, the unit of magnetizing field in the centimeter-gram-second system, also known as magnetic field strength or intensity |
| “operating cost” | the threshold cost below which mining a block would be un-economic |
| “ore” | mineral bearing rock which can be mined and treated profitably under current or immediately foreseeable economic conditions |
| “ore body” | natural mineral accumulations which can be extracted for use under existing economic conditions and using existing extraction techniques |
| “ore processing” or “processing” | the process which in general refers to the extraction of usable portions of ores by using physical and chemical methods |

GLOSSARY OF TECHNICAL TERMS

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| “ore reserve(s)” or “reserve(s)” | the economically mineable part of a measured and/or indicated mineral resource, as defined by the JORC Code. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore reserves are subdivided into proved and probable |
| “ore resource(s)” or “resource(s)” | a concentration or occurrence of iron ore of intrinsic economic interest in or on the Earth’s crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction |
| “probable reserves” | the economically mineable part of an indicated, and in some circumstances, a measured mineral resource, as defined by the JORC Code. It includes diluting materials and allowances for losses which may occur when the material is mined |
| “proved reserves” | the economically mineable part of a measured mineral resource, as defined by the JORC Code. It includes diluting materials and allowances for losses which may occur when the material is mined |
| “recovery rate” | the percentage of valuable mineral resource that is able to be recovered from mining and processing activities |
| “recovery ratio” | proportion of mineral or metal recovered from the ore |
| “rehabilitation” | the return of disturbed land to a stable, productive and self sustaining condition, after taking into account beneficial uses of the site and surrounding land |
| “Run-of-Mine” or “ROM” | the ore delivered from the mine that reports to the processing plant |
| “SG” | specific gravity (unit tonnes per cubic metre) |
| “short-hole shrinkage stoping” | underground mining method in which blasted ore is left in the stope for support purposes until it is to be mined |

GLOSSARY OF TECHNICAL TERMS

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| “sinter” or “sintering” | a heat treatment for mineral powder that applies a temperature below the melting point, the purpose of which is to combine the component particles in order to increase size and strength |
| “tail” or “tailing” | waste materials that are produced after processing of ore for extracting target minerals |
| “TFe” | total iron |
| “titanium” | a light, strong, lustrous, corrosion-resistant transition metal with a white-silvery-metallic color |
| “titanium concentrates” | concentrates whose main content (by value) is titanium dioxide |
| “TiO ₂ ” | titanium dioxide |
| “tpa” | tonne(s) per annum |

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that state our Group's intention, belief, expectation or prediction for the future that are, by their nature, subject to significant risks and uncertainties.

These forward-looking statements include, without limitation, statements relating to:

- the industry regulatory environment as well as the industry outlook in general;
- the amount and nature of, and potential for, future development of our Group's business;
- our Group's business objectives and strategies;
- our Group's capital expenditure plans;
- our Group's operations and business prospects;
- our Group's cash flows, working capital, liquidity and capital resources; and
- our Group's future plans.

The words "believe", "intend", "anticipate", "estimate", "plan", "potential", "will", "would", "could", "may", "should", "expect", "predict", "seek" and the negative of these terms and other similar expressions, as they relate to our Group, are intended to identify a number of these forward-looking statements. All statements (other than statements of historical facts included in this prospectus), including statements regarding our Group's strategy, plans and objectives of management for future operations, are forward-looking statements. These forward-looking statements reflect our current view with respect to future events, but they are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risks factors as disclosed under the section headed "Risk Factors" and elsewhere in this prospectus. One or more of these risks or uncertainties may materialise, or the underlying assumptions may prove to be incorrect. Although our Directors believe that our current views as reflected in those forward-looking statements based on currently available information are reasonable, we can give no assurance that those views will prove to be correct, and the investors are cautioned not to place undue reliance on such statements.

Subject to the requirements of the Listing Rules or the applicable laws, we undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should evaluate the following risks associated with an investment in our Company before making any investment decision regarding our Company. You should pay particular attention to the fact that our Company is incorporated in the Cayman Islands and our Group has operations conducted outside Hong Kong and is governed by a legal and regulatory environment which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties described below could have a material adverse effect on our business, results of operations, financial condition or on the trading price of our Shares, and could cause you to lose all or part of your investment.

RISK FACTORS

You should carefully consider all the information in this prospectus, including the risks and uncertainties described below, before making an investment in the Offer Shares. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The trading price of the Offer Shares could decline due to any of these risks, and you may lose all or part of your investment.

You should pay particular attention to the fact that our business is located almost exclusively in the PRC, the legal and regulatory conditions of which may differ in some respects from those of other countries.

Our operations involve certain risks, many of which are beyond our control. These risks fall into the following categories: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to conducting our operations in the PRC; (iv) risks relating to the Share Offer; and (v) risks relating to statements in this prospectus. Additional risks and uncertainties that are presently unknown to us, or that are currently deemed to be immaterial by us, may also have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO OUR BUSINESS

Our operations are primarily exposed to uncertainties in relation to one major project, our Yangzhuang Iron Mine.

We focus our operations primarily on one iron ore mine, our Yangzhuang Iron Mine. As at the Latest Practicable Date, our Yangzhuang Iron Mine was our only mine in operation.

As our Yangzhuang Iron Mine is the only profit generating mine as at the Latest Practicable Date, our operations are primarily exposed to uncertainties in relation to only one mine. If there are any factors such as environmental or safety problems which affects the operation of our Yangzhuang Iron Mine, our business, financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

We rely on Independent Third Party contractors for certain of our operations.

To use resources more effectively and reduce operating costs, we engage Independent Third Party contractors to carry out geological surveying and exploration and mining and blasting work for us.

We cannot assure you that our monitoring of the work and performance of our Independent Third Party contractors will be sufficient to control the quality of their work or of their safety or environmental standards. In the event that our Independent Third Party contractors fail to meet our quality, safety, environmental and other operating standards and those standards required by the relevant PRC laws and regulations, our operations may suffer and we may be liable to third parties. Costs associated with rectifying any problems caused by our Independent Third Party contractors may have a material adverse effect on our business, financial condition and results of operations.

Furthermore, if we are unable to maintain a cooperative relationship with any of our Independent Third Party contractors or obtain replacements on equal or more favourable terms in a timely manner, or at all, our production schedule may be delayed and we may breach the terms of our contracts, any or all of which may have a material adverse effect on our business, financial condition and results of operations.

Under our contracts with our Independent Third Party Mining Contractors, they are liable to us for any accidents arising from the mining operations. However, we cannot assure you that we will not be involved in any legal claims with respect to such outsourced activities and that we will not be liable to third parties for losses or damages caused by our Independent Third Party contractors. If a third party institutes legal action against us relating to outsourced activities, we may be required to incur costs and devote resources to defend ourselves against such claims. Costs and expenses incurred by us as a result of any acts or omissions of our Independent Third Party contractors or of any failure in the services they render to us or to third parties may have a material adverse effect on our business, financial condition and results of operations.

Our major capital expenditure projects require significant capital investments and may not achieve the intended economic benefits.

An integral part of our business strategy is to expand our business by increasing our mining and processing capacity. We intend to increase our mining capacity and our processing capacity by a number of ways, including (i) increasing the mining capacity at our Yangzhuang Iron Mine by improving our existing facilities and introducing new facilities; (ii) commencing mining work at our Zhuge Shangyu Ilmenite Mine; (iii) constructing new processing lines at our Zhuge Shangyu Ilmenite Mine; and (iv) acquisition of existing mining operations.

However, we may not be able to improve or expand our mining or processing capacity successfully, successfully identify and acquire suitable acquisition target mines or investment opportunities or may not be able to complete any of these transactions on favourable terms. Our

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expansion plans may also be delayed or adversely affected by numerous factors, including the failure to obtain necessary regulatory approvals, technical difficulties, the lack of manpower or other resource constraints, and may divert resources and management attention from our other business concerns. In addition, the capital requirements of these expansion plans may exceed our planned investment budget. As a consequence of delays, cost overruns, changes in market circumstances or other factors, the intended economic benefits from our intended expansion plans may not materialise and our business, financial condition and results of operations may be materially and adversely affected.

Also, there is no assurance that our exploration activities will result in the discovery of mineable resources and that feasibility assessments will result in the justification of ore extraction. If a viable deposit is discovered, it can take several years and significant capital expenditures from the initial phase of exploration until commercial production commences during which time the capital cost and economic feasibility may change.

Furthermore, we cannot assure you that our development efforts in the titanium products business at our Zhuge Shangyu Ilmenite Mine could be successfully implemented since we are relatively inexperienced in the PRC titanium products industry. We could not assure you that we could develop a stable and reliable customer base or gain a similar profit as our iron ore business, which might have a material adverse effect on our business, financial condition and results of operations.

As a result of our overall business strategy, we will require a high level of capital expenditure in the foreseeable future to fund our ongoing operations and future growth. Our aggregate estimate capital expenditures, which includes total capital investments and working capital, for our Yangzhuang Iron Mine expansion and Zhuge Shangyu Ilmenite Mine development are expected to be approximately RMB212.8 million for an investing period from the second quarter of 2012 to the fourth quarter of 2013 and approximately RMB964.3 million for an investing period from the second quarter of 2012 to the second quarter of 2016, respectively. We intend to fund such capital expenditures out of the net proceeds from the Share Offer, internal sources, bank borrowings and/or other means of equity or debt financing. Our ability to obtain external financing in the future at a reasonable financing cost is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- the condition of the global and domestic financial markets; and
- changes in the monetary policy of the PRC government with respect to bank interest rates and lending practices.

If we require additional funds and cannot obtain them when required or at a reasonable financing cost, we may be unable to fulfill our working capital needs, upgrade our existing facilities or expand our business. These or other factors may also prevent us from entering into transactions that would otherwise benefit our business. Any or all of these factors may have a material adverse effect on our business, financial condition and results of operations.

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We rely on a small number of major customers and face competition from other suppliers.

We rely on our major customers for a significant portion of our revenue. Our five largest customers, taken together, accounted for approximately 98.4%, 98.5% and 78.1% of our total revenue for each of the three years ended 31 December 2011, with our largest customer accounting for approximately 41.0%, 33.3% and 27.1% of such total revenue, respectively. Moreover, three of our largest customers in 2011, namely, Laiwu Mine Construction, Lunan Mining and Laiwu Steel collectively accounted for 41.0%, 64.0%, and 52.9% respectively of our revenue for each of the three years ended 31 December 2011. If any of our major customers (including Laiwu Mine Construction, Lunan Mining and Laiwu Steel) significantly reduces its purchases of iron concentrates from us, or if we are unable to sell iron concentrates to any of them on favourable terms or at all, or if any of our major customers are not satisfied with the standard of our iron concentrates or if our products are unable to satisfy the demand of any of our major customers and cease to purchase iron concentrates from us and purchase iron concentrates from our competitors instead our business, financial condition and results of operations may be materially and adversely affected.

We are subject to credit risk in collecting the accounts receivable due from the customers.

Our sales are generally made on credit terms of 90 days, and account receivables were settled by either bank transfers or bank acceptance notes with maturity within 6 months. During the Track Record Period, the accounts receivables turnover days of our Group was 193 days, 74 days and 55 days respectively, which are mostly within our credit period of 90 days save for the year ended 31 December 2009. As at 31 December 2009, 2010 and 2011, accounts receivables of approximately RMB9.6 million, RMB1.1 million, and RMB3.9 million respectively, were past due but not impaired. These related to a number of customers for whom there was no recent history of default. Our Directors consider that a long credit period inevitably increases the potential credit risk of our Group. There is no assurance that all such amounts due to our Group will be settled on time. Accordingly, our Group faces credit risk in collecting the accounts receivable due from the customers. Our Group's performance, liquidity and profitability will be adversely affected if significant amounts due to our Group are not settled on time. The bankruptcy or deterioration of the credit condition of any of our major customers could also materially and adversely affect our business.

We may face shortages in our water and electricity supply.

We use water in various stages of our processing operations. Water for use at our Yangzhuang Processing Facilities is from our water recycling system. However, any climate change that results in unstable or reduced rainfall or any other event that causes a shortage of water supplies may force us to limit or delay our production.

We use electricity in our operations. We obtain our electricity from local electric company at market rates. For the three years ended 31 December 2009, 2010 and 2011, our electricity expenditures accounted for approximately 15.1%, 8.0% and 3.3% of our total cost of sales, respectively, for these periods.

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During the Track Record Period, we purchased electricity from the only legal electricity supplier in Shandong Province, and there is no alternative supplier for electricity in Shandong Province. In the event there is an interruption in the supply of electricity or water, our operations, or those of our Independent Third Party contractors, may be disrupted. We cannot assure you that supplies of electricity or water will not be interrupted or that their prices will not increase. If our existing suppliers cease to supply us, or our Independent Third Party contractors, with water or electricity at a sufficiently competitive price, or at all, or if we cannot find alternative sources of these supplies within a reasonable time and at a reasonable cost, or at all, our business, financial condition and results of operations may be materially and adversely affected.

Our business depends on reliable and adequate transportation capacity for our products.

Iron ore and iron ore-related products are bulky, heavy and difficult to transport in large quantities required by downstream users. Transportation costs are therefore generally a component of the cost of purchase for our customers. Fluctuations in transportation costs may have a detrimental effect on the demand for our products. Our expansion plan and associated higher sales volume will increase demand on the road transport networks near our mines and those networks may be inadequate to handle our increased sales volume. Transportation may also be disrupted by a number of factors such as traffic accidents, rain storm, snow, landslide, etc.. If transportation to and from our mines or processing facilities is reduced or cut off entirely for a long period of time, we may lose our customers and also be in breach of any existing sales contracts. Any difficulties experienced by our customers in transporting our products may reduce demand for our products and our business, financial condition and results of operations may be materially and adversely affected.

Our operations may be interrupted if we are denied access to our mines.

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

We have been granted short-term land use rights to the Ten Parcels of Wild Lands for a period of two years issued by the Yishui County branch of Land Resources Bureau, and we have obtained a written confirmation from such bureau that it undertakes to approve our application for renewal of existing short-term land use rights. We have entered into the specific land-use agreements with the owners of the Ten Parcels of Wild Lands to use such lands for a term of two years, and we have entered into land-use framework agreements with them which allows us to renew the specific land-use agreements every two years upon expiry.

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Throughout the mining life of our mines, we intend to keep on renewing the short-term land use rights and relevant specific land-use agreements for some or all of the Ten Parcels of Wild Lands before expiry if we need to utilise some or all of such lands in conducting our mining operations. However, there is no assurance that we will be able to execute such renewals upon the expiration, and if we could not execute any of such renewals in a timely manner or at all, we will not be able to continue conducting our operations on these parcels of land and our financial condition and results of operations will be adversely affected.

We may not be able to obtain temporary structures occupied by us.

As at the Latest Practicable Date, we had not obtained the temporary construction works planning permits (臨時建築規劃許可証) in respect of 13 temporary buildings which are currently used by us for storage and ancillary purposes, including, among others, pump station, power distribution rooms, testing laboratory and other ancillary buildings with a total gross floor area of approximately 2,604 sq. m. at an aggregate net book value as at 31 December 2011 of approximately RMB1,063,000 on the parcels of land we held and occupied at Qinjiazhuang Village, Yishui County, Linyi City, Shandong Province, the PRC. As at the Latest Practicable Date, our Group has submitted applications for temporary construction works planning permits (臨時建築規劃許可証) in respect of such temporary buildings.

There is no assurance that we will be able to obtain the temporary construction works planning permits (臨時建築規劃許可証) for these temporary buildings or any of them. In the event that we are required to demolish such temporary buildings, we may relocate some of the functions (including storage, laboratory room, reception room, guard room and duty room) to our office buildings, Second Yangzhuang Processing Facility and the Third Yangzhuang Processing Facility, for those functions not possible to be relocated (including pump room, power distribution room, etc.), we will relocate them to new simple shelter structures to be constructed by us, such that, we may incur additional costs, hence affecting our financial and operating results. It is estimated that the time and costs required for demolishing the temporary buildings and relocation of those functions conducted in these buildings are approximately 1 month and approximately RMB0.5 million, and our Directors consider that such time and costs taken are not material to our Group.

We may not be able to expand our mining capacity.

Our core strategy is to expand our mineral volume by a number of ways including expansion of mining activities in our existing mines or projects, increase in volume of mining in our existing mines, extension of our mining areas to areas adjacent to the boundary limits of our existing mines or projects set forth in our current mining rights, commencement of mining in our existing mines or projects with mining rights or application for mining rights in mines which we have obtained exploration rights.

There are no assurances that approval for extension of mining areas or increase of production scale or exploration permits or mining permits will be granted, nor that iron or titanium ore will be found in such areas. We cannot assure you that our plans to expand our

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mineral volume or further development of our Yangzhuang Iron Mine and our Zhuge Shangyu Ilmenite Mine will succeed. Such plans may be delayed or adversely affected by a number of factors, including the failure to obtain relevant regulatory approvals, the failure to secure sufficient financing to fund our expansion, the occurrence of other constraints on managerial, operational, technical and other resources. In the event we encounter any delay or difficulty in the expansion of our iron or titanium mineral volume or we fail to increase our production scale at our Yangzhuang Iron Mine and our Zhuge Shangyu Ilmenite Mine, it will adversely affect our expansion plans which may in turn adversely affect our results of operations.

Our plan to acquire additional mineral reserves may not succeed.

We intend to acquire mines, exploration and mining rights over mines or apply for exploration or mining rights in the future to expand our mineral reserves. However, we may not be successful in our plan to acquire additional reserves. We may encounter intense competition during the expansion process and we may fail to select or value targets appropriately. One of the important factors that we will consider when we select or value targets is their resource and reserve data. Such resource and reserve data are estimates that involve professional judgment based on factors such as technical data, experience and industry practice. The accuracy of these estimates may be affected by many factors, including the quality of the results of exploration, drilling, sampling of the ore, analysis of the ore samples, estimation procedures and the experience of the person making the estimates. There are also many assumptions and variables beyond our control that may result in inherent uncertainties in estimating reserves. As a result, resource and reserve data are only estimates and may be inaccurate. The failure to select or value targets appropriately may result in our inability to complete our expansion plans at a reasonable cost, if at all. Even if our expansion plans are successful, we may have to allocate additional capital and human resources to implement the integration of any acquired business with ours. We cannot assure you that such integration will be completed within a reasonable period of time or at all or that it will generate the expected economic benefits. If our expansion plans are delayed or they fail to deliver the expected economic benefits, then our business, financial condition and results of operations may be materially and adversely affected.

We may have difficulty in managing our future growth and the associated increased scale of our operations.

We expect to expand through increasing the mining capacity of our Yangzhuang Iron Mine, developing the mining and processing facilities of our Zhuge Shangyu Ilmenite Mine and acquisition of other mines as and when our Directors consider appropriate. To sustain our growth, we must also further expand our customer base. The growth of our business will put substantial demands on our managerial, operational, financial and other resources as well as increase our working capital needs. Our ability to sustain growth of our business is also subject to risks and uncertainties that are beyond our control. We may not be able to sustain our historical revenue growth rate for a variety of reasons, including:

- limitations on expansion in our current markets and failure to secure new contracts;
- limited access to necessary working capital and investment capital;

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- availability of target iron ore mines and target titanium mines;
- inability to hire and retain essential personnel;
- inability to identify acquisition candidates and integrate them into our business; and
- a significant reduction in demand of iron concentrates and titanium concentrates and titanium related products in the PRC.

Our insurance coverage may be insufficient to cover our business risks.

We face various operational risks in connection with our business, including:

- production interruptions caused by operational errors, electricity outages, raw materials shortages, the failure of equipment and other production risks;
- operating limitations imposed by environmental or other regulatory requirements;
- social, political and labour unrest;
- environmental or industrial accidents; and
- catastrophic events such as fires, earthquakes, explosions, floods, collapse of mine or other natural disasters.

As of the Latest Practicable Date, we maintain the required PRC employee social benefits insurance and insurance for our transport vehicles. We do not maintain fire, earthquake, liability or other property insurance with respect to our property, equipment or inventory. We also do not maintain any business interruption insurance or third party liability insurance against claims for property damage, personal injury and environmental liabilities other than third party liability insurance for our vehicles. Any uninsured losses and liabilities incurred by us may have a material adverse effect on our business, financial condition and results of operations.

We cannot assure you that the safety measures we have in place for our operations will be sufficient to mitigate or reduce industrial accidents. We also cannot assure you that casualties or accidents will not occur or that our insurance coverage would be sufficient to cover costs associated with major accidents. In the event that we incur substantial losses or liabilities and our insurance is unavailable or inadequate to cover such losses or liabilities, our business, financial condition and results of operations may be materially and adversely affected.

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Non-compliance with PRC employee social welfare contribution regulations could lead to the imposition of fines or penalties.

In accordance with relevant PRC laws and regulations, we are required to contribute to a number of employee social welfare schemes in respect of our employees, including employees hired on a temporary basis. Such schemes include pension insurance, medical insurance, unemployment insurance, birth insurance, work-related injury insurance (together “**social insurance**”) and housing provident fund contributions. During the Track Record Period, we did not fully comply with the social insurance and housing provident fund requirements for our employees. For further details, please refer to the section headed “Business – Employees – Social insurance and housing provident fund contributions” of this prospectus. We estimate that the aggregate unpaid amount by our Group to the social insurance authority for the years ended 31 December 2009, 2010 and 2011 would be approximately RMB1,072,000, RMB773,000 and nil, respectively, and the aggregate unpaid amount by our Group to the housing provident fund authority for the years ended 31 December 2009, 2010 and 2011 would be approximately RMB133,000, RMB227,000 and nil, respectively.

There is no assurance that we will not be required to make up for any historical unpaid contributions or will not be subject to penalties imposed by local authorities in accordance with the relevant PRC laws and regulations which, in either or both cases, could adversely affect our financial results. Shandong Ishine may also face proceedings or claims brought by its employees concerned for the outstanding payment.

According to our PRC Legal Advisers, there is a possibility that we may be required to make retrospective payment of all outstanding social insurance contributions within a prescribed period, be subject to an overdue penalty of 0.05% of the unpaid contributions per day as of the date when the amount becomes overdue and may also be fined for an amount of 100% to 300% of the unpaid contributions for failure to make the required contributions within the prescribed period specified by the relevant authorities. As for housing provident fund, we may be ordered by the relevant housing provident fund authority to pay the outstanding housing provident contributions, and the statutory maximum amount of penalty for failing to make registration with the housing fund administration is RMB50,000 under the PRC law.

We cannot assure you that there will be no claims by relevant employees regarding payment of the social welfare insurances or housing provident fund contributions, or there will be no imposition of fines or penalties by the labor disputes arbitration committee or the People’s Court relating to disputes about payment of these insurances in the future, and that we will not be required to pay such insurances or any related damages in the future.

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Our future performance is dependent on our ability to attract and retain key qualified personnel.

Our future performance depends to a significant extent upon our ability to continue to attract, retain and motivate key qualified personnel, key senior management and other employees in our business, all of those individuals set out in the “Directors, Senior Management and Staff” and “Business” sections in this prospectus. We cannot assure you that these key qualified personnel will continue to provide services to us or will honour the agreed terms and conditions of their employment or service contracts. Any loss of key qualified personnel or failure to recruit and retain personnel may have a material adverse effect on our business, financial condition, results of operations and future prospects.

We will continue to be controlled by our Controlling Shareholders, whose interests may differ from those of our other Shareholders.

Immediately following the Share Offer, our Controlling Shareholders will hold in aggregate approximately 55.35% of our Shares (assuming the Over-allotment Option and the option, which may be granted under the Share Option Scheme are not exercised). Following the Listing, our Controlling Shareholders will, through their voting power at our Shareholders’ meetings, continue to have significant influence over our business and affairs, including decisions with respect to mergers or other business combinations, acquisition or disposition of assets, issuance of additional shares or other equity securities, timing and amount of dividend payments, and election of our management.

Our Directors are not aware of any case where the Controlling Shareholders made any decisions of our Group that conflict with the best interests of our other shareholders during the Track Record Period. Going forward, our Controlling Shareholders may cause us to undertake certain corporate transactions or not enter into other corporate transactions which might not be in, or may conflict with, the best interests of our other Shareholders. We cannot assure you that our Controlling Shareholders will vote on Shareholders’ resolutions in a way that will benefit all of our Shareholders. Furthermore, we cannot assure you that these decisions made by our Controlling Shareholders will not have a material adverse effect on our business, financial condition, and results of operations.

The resource and reserve data cited in this prospectus are estimates and may be inaccurate.

We base our production, expenditure and revenue plans, among others, on our resource and reserve data. The resource and reserve data are estimates based on the result of geographical exploration. Resource and reserve estimates involve professional judgment based on factors such as technical data, experience and industry practice. The accuracy of these estimates may be affected by many factors, including the quality of the results of exploration drilling, sampling of the ore, analysis of the ore samples, estimation procedures and the experience of the person making the estimates. There are also many assumptions and variables beyond our control that may result in inherent uncertainties in estimating reserves. As a result, the resource and reserve data are only estimates and our actual volume of resources and reserves and rates of production may differ materially from these estimates.

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Estimates of our resources and reserves may change significantly when new information becomes available or new factors arise to change the assumptions underlying the resource and reserve estimates. Resource and reserve estimates locate in-situ mineral occurrences from which minerals may be recovered, but do not provide an analysis as to whether such resources are capable of being mined or whether minerals could be processed economically and do not incorporate mining dilution or allowance for mining losses. The reserve estimates contained in this prospectus represent the amount of reserves that we believe can be mined and processed economically. In the future we may need to revise our reserve estimates, if, for instance, our production costs increase or the prices of our products decrease and render a portion (or all) of our reserves uneconomical to recover. A revision of our reserve estimates may result in the lowering of our estimated reserves as well as the expected mine life of our mines or projects.

Fluctuations in factors such as the prices of our products, production costs and transportation costs, variation in recovery rates and unforeseen geological or geotechnical perils may require us to revise our resource and reserve data. If such revisions result in a substantial reduction in recoverable reserves at one or more of our mines or projects, our business, financial condition and results of operations may be materially and adversely affected. For more information on our resources and reserves, including qualifications to the Report of the Independent Technical Advisor, please refer to the “Report of the Independent Technical Advisor” in Appendix IV to this prospectus.

We have recorded, and may continue to record, operating cash outflows and we may not be able to maintain sufficient working capital and liquidity from our operations.

We recorded operating cash outflows in the three financial years ended 31 December 2011. Our operating cash outflows increased from RMB21,193,000 for the year ended 31 December 2009 to RMB152,910,000 for the year ended 31 December 2010 which was mainly due to the fact that we advanced to Mr. Li approximately RMB350.6 million in form of bank’s acceptance note. Our operating cash outflows was RMB150,820,000 for the year ended 31 December 2011 which is primarily attributable to profit before tax of approximately RMB178,032,000 which was offset by increase in accounts receivables and notes receivables of approximately RMB97,653,000 and RMB220,230,000 respectively primarily due to increase in sales. We may continue to experience significant operating cash outflows in the future as a result of our continuing expansion. If we continue to record significant operating cash outflows in the future, our working capital and liquidity may be constrained which may materially and adversely affect our business, growth, results of operations and financial conditions.

We fund our working capital requirements through a combination of cash inflow from our operations and bank borrowings. Our gearing ratio, as calculated by dividing our total debt by our total capital, amounted to 44%, 56% and 54% as of 31 December 2009, 2010 and 2011, respectively. For more details, please refer to the section headed “Financial Information – Liquidity and capital resources” in this prospectus. As we further expand our business, our requirements for working capital and other payments, such as capital expenditures, will increase. We cannot assure you that we will be able to generate sufficient cash inflows from our operations or obtain adequate debt or equity financing at reasonable costs, or at all, to meet

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such requirements. If we fail to successfully manage our working capital or acquire adequate funding to finance our operations and expansion, our ability to pay our suppliers and employees and otherwise fund our operations and expansion could be impaired, and our business, financial condition and results of operations may be materially and adversely affected.

Risk relating to investment in Ishine International in Australia

Aboriginal heritage and native title risks

There are areas or objects of Aboriginal heritage located within a number of the exploration tenements of Ishine International, our indirect non-wholly owned subsidiary. Australian Federal and State Aboriginal heritage protection laws may restrict or prohibit exploration on such areas within the tenements. We have to ensure that there will not be any breach of the Commonwealth and applicable State legislation relating to Aboriginal heritage in Australia.

Title risk

Interests in tenements in Australia are governed by State legislation and are evidenced by the granting of licences or leases. Each licence or lease is for a specific term and carries with it annual expenditure and reporting commitments, as well as other conditions requiring compliance. Consequently, Ishine International could lose title to the tenements if licence conditions are not met or if insufficient funds are available to meet expenditure commitments.

Consent to access tenements

There are a number of third party interests which may overlay areas within Ishine International's tenements. Under Australian Federal and State legislation, Ishine International may be required to obtain the consent of the holders of such third party interests prior to commencing any exploration or mining activities on the affected areas within the tenements. Any delay in obtaining these consents may impact on Ishine International's ability to carry out exploration activities within the affected areas.

Tenement applications and licence renewal

A number of Ishine International's tenements are applications, and there is a risk that the tenements may not be granted. In addition, granted tenements are subject to periodic renewal, and there is no guarantee that such tenements will be renewed by the relevant Minister, or renewed on terms acceptable to Ishine International. Further, Ishine International has yet to apply for approval to convert any exploration licences to mining leases. There is no guarantee that such approval will be obtained on terms satisfactory to Ishine International, or at all.

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Exploration success

Mineral exploration and development are high risk undertakings. The tenements held by Ishine International are at various stages of exploration, and there can be no assurance that exploration of these tenements, or any other tenements that may be acquired in the future, will result in the discovery of an economic ore deposit.

Operating risks

The operations of Ishine International may be affected by various factors, including failure to achieve predicted grades in exploration and mining; operational and technical difficulties encountered in mining; difficulties in commissioning and operating plant and equipment; mechanical failure or plant breakdown; adverse weather conditions; industrial and environmental accidents; industrial disputes; and unexpected shortages or increases in the costs of plant, equipment and labour.

Environmental risks

The operations of Ishine International are subject to Australian State and Federal laws concerning the environment. As with most exploration projects and mining operations, Ishine International's activities are expected to have an impact on the environment, particularly if advanced exploration or mine development proceeds.

Approvals may be required for such activities, and any delays in obtaining such approvals may delay to anticipated exploration programmes or mining activities. Further, significant liabilities could be imposed on Ishine International for damages, clean up costs or penalties in the event of environmental damage caused by Ishine International's operations or non-compliance with environmental laws.

Joint venture risk

Changes in the status of any of Ishine International's joint ventures (including changes caused by financial failure or default by a participant in the joint venture) may adversely affect the operations and performance of Ishine International. This risk factor applies to the joint venture arrangements between Ishine International and Kabiri Resources Pty Ltd as well as IGME. Further details of the joint venture arrangement of our Group are set out in the paragraph headed "Business – Exploration licences in Australia" of this prospectus.

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RISKS RELATING TO OUR INDUSTRY

Our business depends on the economic growth of the PRC, the performance of the PRC iron and steel industries and the growth of the PRC titanium and titanium-related industries.

Our business and prospects depend on the economic growth rate in the PRC which, in turn, affects demand for iron and steel as well as for titanium and its related products. If the PRC's economic growth rate slows or if the PRC economy experiences a recession, the demand for our products may decrease and our business, financial condition and results of operations may be materially and adversely affected.

During the Track Record Period, we derived most of our revenue from the sale of iron concentrates and other iron related products. Growth in demand for our iron concentrates is directly affected by the growth of the PRC iron and steel industries. As our products are mainly sold to our customers in Shandong Province, the demand for our iron concentrates is, in particular, heavily dependent on the performance of major steel producers in Shandong Province of the PRC.

Beginning in September 2008, concerns over the availability and cost of credit, inflation, declining business and consumer confidence and increased unemployment worldwide, among other factors, contributed to diminished expectations for the global economy and heightened volatility in international equity markets. These factors combined with continuing disruptions in global markets precipitated a global economic slowdown. As a result, the prices of our products fluctuated after the fourth quarter of 2008. We recorded a low average selling price per tonne of our iron concentrates of RMB714.3 in 2009 while rebounding to RMB1,026.6 in 2010 due to the recovery of the global and PRC economics and further increased to RMB1,184.5 in 2011, respectively. The average selling prices of our iron concentrates have shown signs of stabilisation beginning in the second half of 2009.

The table below shows the average selling prices per tonne of iron concentrates produced by us, respectively, during the Track Record Period:

| Period | Average selling price per tonne of iron concentrates (RMB) | Percentage increase (decrease) from previous period (%) |
|-----------------------------|---|--|
| Year ended 31 December 2009 | 714.3 | N/A |
| Year ended 31 December 2010 | 1,026.6 | 43.7 |
| Year ended 31 December 2011 | 1,184.5 | 15.4 |

As a result of its effect on demand and pricing, the economic slowdown may continue to have a material adverse effect on our gross margin, profitability and revenue growth as well as on our plans to expand our mining capacity, processing capacity and our line of business.

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Any further significant slowdown in economic growth rates in the PRC or globally or a further reduction in the demand for our products from major steel producers, in particular in Shandong Province of the PRC, may further reduce the prices or increase the price volatility of our products and may have a material adverse effect on our business, financial condition and results of operations.

We plan to expand our business into the mining and processing of titanium ore in 2013, our business will therefore also be affected by the market conditions relating to titanium and titanium related products in the future and any adverse pricing trends or material decreases in the prices of these products may have a material adverse effect on our business, financial condition and results of operations.

We face risks and uncertainties associated with our mining and processing operations.

Our mining and processing operations are subject to a number of operating risks and hazards, some of which are beyond our control. These operating risks and hazards include unexpected maintenance or technical problems, periodic interruptions due to inclement or hazardous weather conditions and natural disasters, industrial accidents, power or fuel supply interruptions, critical equipment failures in our mining and ore processing operations, fires, earthquakes, flooding and unusual or unexpected variations in the ore, and geological or mining conditions such as instability of the slopes and subsidence of the working areas. Such risks and hazards may delay the production and delivery of our products and/or increase the costs associated with our mining and processing operations, and may have a material adverse effect on our business, financial condition and results of operations.

Any disruption for a sustained period to the operations of our mines or projects or processing plants or supporting infrastructure or any change to the natural environment surrounding our mines or projects may have a material adverse effect on our business, financial condition and results of operations.

Natural disasters, such as earthquakes, floods and snowstorms, may also interrupt our customers' operations and production. These natural disasters may also damage ancillary operations such as the transportation of our products to our customers. The occurrence of any natural disaster adversely affecting our customers and their ancillary operations may have a material adverse effect on our business, financial condition and results of operations.

Our business is subject to extensive regulations and affected by government policies in the PRC.

We are subject to extensive national, provincial and local government regulations, policies and controls in the PRC that govern many aspects of our industry, such as:

- grant and renewal of exploration rights;
- grant and renewal of mining rights;

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- increases in approved production scale and/or exploration or mining areas;
- grant and renewal of safety production permits;
- production safety and casualty ratings;
- taxes and fees;
- environmental, health and safety standards; and
- annual verification of mining permits and exploration permits.

The liabilities, costs, obligations and requirements associated with these laws and regulations may be significant and may delay or interrupt our operations. Failure to comply with the relevant laws and regulations in our mining operations may result in penalties or in the suspension of our operations. Additionally, we cannot assure you that the relevant government agencies will not alter these laws or regulations or impose additional or more stringent laws or regulations. Compliance with new laws or regulations may require us to incur significant capital expenditures or other obligations and secure new sources of financing. More stringent laws or regulations may also restrict our business operations. The cost of compliance with regulations is and will continue to be substantial, and any increase in costs due to changes in laws or regulations or to our failure to comply may have a material adverse effect on our business, financial condition and results of operations.

For more information on the relevant PRC regulations, see the “Regulatory Overview – PRC Laws and Regulations” section in this prospectus.

Our business operations may be affected by current or future safety and environmental regulations.

We are subject to extensive and increasingly stringent safety and environmental protection laws and regulations in the PRC. These laws and regulations:

- impose fees for the discharge of waste substances;
- mining control and land rehabilitation;
- impose fines for serious environmental offences; and
- allow the PRC government, at its discretion, to close down any facilities failing to comply with orders to correct or stop operations that have caused environmental damage.

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The PRC government is currently moving toward more rigorous enforcement of applicable laws and regulations, as well as the adoption and enforcement of more stringent environmental standards. As a result, our budgeted capital expenditure for environmental regulatory compliance may be insufficient and we may need to allocate additional funds. Moreover, we cannot assure you that we can comply with all environmental laws and regulations that may be adopted or amended in the future. If we fail to comply with current or future environmental laws and regulations, we may be required to stop production, pay penalties or fines or take corrective actions, any or all of which may have a material adverse effect on our business, financial condition and results of operations.

Our operations are exposed to risks relating to occupational hazards and production safety.

We cannot assure you that accidents such as explosions, fires, equipment mishandling and mechanical failures which may result in property damage, severe personal injuries or even fatalities will not occur during the course of our operations. Should we fail to comply with any relevant laws, regulations or policies or should any accident occur as a result of any of the foregoing events, our business, reputation, financial condition and results of operations may be adversely affected, and we may be subject to penalties, civil liabilities or criminal liabilities. There can be no assurance that accidents will not occur.

RISKS RELATING TO CONDUCTING OUR OPERATIONS IN THE PRC

The political, social and economic conditions in the PRC may adversely affect our business.

Since 1978, the PRC's GDP has been growing at a rapid rate. However due to the global economic slowdown, the PRC's growth rate slowed in the end of 2008 and rebounded by the end of 2009. However, we cannot assure you that the financial crisis in 2008 will not occur again in the future. The PRC economy differs from the economies of most developed countries in many respects, including structure, government involvement, level of development, economic growth rate, control over foreign exchange, allocation of resources and balance of payment position. For the past two decades, the PRC government has implemented economic reform measures emphasizing the utilisation of market forces in the development of the PRC economy. We cannot predict whether changes in the economic, political and social conditions in the PRC will lead to continued growth or whether any such growth will be in a geographic region or economic sector beneficial to us. Moreover, even if new policies may benefit our industry in the long term, we cannot assure you that we will be able to successfully adjust to such policies. As we derive our revenue exclusively from the PRC, we depend heavily on general economic conditions in the PRC for our continued growth. Therefore, if the PRC's economic growth slows down or if the PRC economy experiences a recession, the growth in demand for our products may be reduced or become minimal, and thus may have a material and adverse effect on our business, financial condition and results of operations.

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Demand for our products may be affected by a variety of social and economic factors, some of which may be beyond our control, including:

- political instability or changes in social conditions in the PRC;
- changes in laws and regulations or in the interpretation of laws and regulations;
- measures introduced to control inflation or deflation;
- changes in the rate or method of taxation;
- imposition of additional restrictions on currency conversion and remittances abroad;
- reduction in tariff protection and other import restrictions;
- increases in usage fees and other applicable charges and payments associated with mineral resources; and
- fluctuations in the foreign exchange rate.

Any significant change in any of the above or other factors may have a material adverse effect on our business, financial condition and results of operations. For more information on the relevant PRC regulations, please refer to the “Regulatory Overview – PRC Laws and Regulations” section in this prospectus.

Changes in PRC laws, regulations and policies may adversely affect our business operations.

Our operations, like those of other mining companies in the PRC, are subject to regulations imposed by the PRC government. These regulations affect many aspects of our operations, including the pricing of our main products, utility expenses, industry-specific taxes and fees, business qualifications, capital investment and environmental and safety standards. As a result of the stringent regulations applicable to our industry, we may face significant constraints on our ability to implement our business strategies, to develop or expand our business operations or to maximize our profitability. In addition, our business may be adversely affected by future changes in policies of the PRC government applicable to our industry. Any policy reforms promulgated by the PRC government in respect of iron ore resources may also have an impact on our future operations. Apart from factors arising from our industry itself, the macroeconomic control measures implemented by the PRC government may have an impact on the demand and supply conditions applicable to our products.

In accordance with the provisions of the “Interim Regulations on Resource Tax of the People’s Republic of China” (《中華人民共和國資源稅暫行條例》) revised on 30 September 2011 and officially implemented on 1 November 2011, all enterprises engaged in the exploitation of mineral products within China must pay resource tax. The taxable items and

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amount of resource tax shall be implemented in accordance with the “Table of Resource Taxable Items and Range of Tax Rates” (《資源稅稅目稅額幅度表》) attached to such regulations and relevant provisions of the Ministry of Finance. Tax rates for ferrous metal ores range from RMB2 to RMB30 per tonne. In accordance with the provisions of the “Notice of the Ministry of Finance and the State Administration of Taxation on the Adjustment of Resource Tax Policy for Taxable Items such as Molybdenum Ore” (《財政部、國家稅務總局關於調整鉬礦石等品目資源稅政策的通知》) promulgated on 12 December 2005 and officially implemented on 1 January 2006, the resource tax rate for iron ore would be lowered to 60% of the standard tax rate for the time being. In accordance with the provisions of the “Notice of the Ministry of Finance and the State Administration of Taxation on the Applicable Resource Tax Rate Standard for Taxable Items such as Tin Ore” (《財政部國家稅務總局關於調整錫礦石等資源稅適用稅率標準的通知》) officially implemented on 1 February 2012, the resource tax rate for iron ore would be adjusted from 60% to 80% of the standard tax rate for the time being. As at the Latest Practicable Date, the resource tax rate of our Group is RMB8 per tonne of ore mined and extracted. We cannot assure you that our resource tax rate will not increase in future, and that the adjustment to our resource tax rate will not become less favourable to our Group. Any further material increase in resource-related taxes or any policy reforms promulgated by the PRC government in relation to iron ore or titanium ore may have a material adverse effect on our business, financial condition and results of operations.

All of our revenue is denominated in Renminbi, which is not freely convertible for capital account transactions and may be subject to exchange rate volatility.

We require access to foreign currency to pay dividends to our Shareholders. However, all of our revenue is denominated in Renminbi, which currently is not a freely convertible currency. Under the PRC foreign exchange rules and regulations, payments of current account items, including profit distributions, interest payments and expenditures related to business operations, are permitted to be made in foreign currencies without prior government approval but are subject to certain procedural requirements. Strict foreign exchange controls continue to apply to capital account transactions. Capital account transactions must be approved by or registered with SAFE. Repayments of loan principal, direct capital investment and investments in negotiable instruments are also subject to restrictions. As a result of these controls, we cannot assure you that we will be able to meet all of our foreign currency obligations or to remit profits to our Shareholders in the form of dividends.

The value of the Renminbi depends to a large extent on the PRC’s domestic and international economic, financial and political conditions and government policies, as well as the local and international currency markets. Prior to 1994, the Renminbi experienced a significant net devaluation against most major currencies and there was significant volatility in the market-based exchange rate. Since 1994, the conversion of Renminbi into foreign currencies in the PRC, including HK and US dollars, has been based on exchange rates published by the People’s Bank of China, which are set daily based on the previous day’s interbank foreign exchange market rates in the PRC and currency exchange rates in world financial markets. Since 1994, the Renminbi to US dollar exchange rate has largely stabilised. On 21 July 2005, the People’s Bank of China announced that the exchange rate of US dollars

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to Renminbi would be adjusted from US\$1.00 to RMB8.27 to US\$1.00 to RMB8.11 and it ceased to peg the Renminbi solely to the US dollar. Instead, the Renminbi is now pegged to a basket of currencies as determined by the People's Bank of China, the components of which are adjusted based on market changes and according to a set of systematic principles. On 23 September 2005, the PRC government widened the daily trading band for the Renminbi against non-US dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system. For almost two years after July 2008, the RMB traded within a very narrow range against the US dollar, remaining within 1% of its July 2008 high. As a consequence, the RMB fluctuated significantly during that period against other freely traded currencies, in tandem with the US dollar. In June 2010, the PRC government announced that it would increase RMB exchange rate flexibility. However, it remains unclear how this flexibility might be implemented. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the US dollar, the Hong Kong dollar or other foreign currency.

In the future, the Renminbi may be revalued further against the US dollar or other currencies or may be permitted to enter into a full or limited free float, any of which may result in the appreciation or depreciation of the Renminbi against the US dollar or other currencies. Any change in PRC foreign exchange policies may give rise to uncertainties in our financial condition and results of operations. We currently do not, nor do we intend to, hedge our exposure to the US dollar or other currencies. Since our income and profits are substantially denominated in Renminbi, any appreciation in the Renminbi may subject us to increased competition from imports while a devaluation of the Renminbi may adversely affect the value of our net assets, earnings and declared dividend in foreign currency terms, as well as our ability to meet our foreign currency obligations.

There are uncertainties associated with the implementation, interpretation and enforcement of the PRC legal system.

Our PRC operating subsidiaries are governed by PRC law. The PRC is a civil law jurisdiction based on written codes and statutes. Unlike common law jurisdictions, prior court decisions may be cited as persuasive authority but do not have binding legal force. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters in general such as foreign investment, corporate organisation and governance, commerce, taxation and trade in order to establish a comprehensive legal system conducive to investment. However, the implementation, interpretation and enforcement of these statutes may involve greater uncertainty compared to those in the common law jurisdictions due to a relatively short legislative history and the limited number and non-binding nature of court cases. Depending on the government agency and court or how an application or a case is presented to such agency or court, we may be subject to less favorable interpretations of the law than those imposed on our competitors. In addition, litigation in the PRC may be protracted and result in substantial legal costs and the diversion of our resources and the attention of our management. Similarly, legal uncertainty in the PRC may limit the legal protections available to potential investors. We cannot predict the effects of future legal developments in the PRC, including the promulgation

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of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national law. As a result, there is substantial uncertainty as to the legal protection available to potential investors.

There may be difficulties in effecting service of process upon us or our management who reside in the PRC and in seeking recognition and enforcement of foreign judgments or arbitral awards in the PRC.

Our assets are primarily located in the PRC and most of our senior management and Directors reside in the PRC. On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the “**Arrangement**”), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil commercial case according to a written choice of court agreement may apply for the recognition and enforcement of such judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring the payment of money in a civil commercial case pursuant to a written choice of court agreement may apply for the recognition and enforcement of such judgment in Hong Kong. A written choice of court agreement is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong or PRC court is expressly designated as the court having sole jurisdiction for the dispute. It may be difficult or impossible for investors to effect service of process against our assets, senior management or Directors in the PRC in order to seek the recognition and enforcement of foreign judgments in the PRC, if the parties in dispute do not agree to such a choice of court agreement in accordance with the requirements set forth in the Arrangement.

The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of the United States, the United Kingdom, or most other western countries or Japan. Therefore, it may not be possible for investors to effect service of process on us or those persons in the PRC or to enforce any judgment awarded by non-PRC courts in the PRC.

The PRC is one of the signatories to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”), which allows for the enforcement of arbitral awards given by the arbitration bodies of other New York Convention signatories. Following the resumption of sovereignty over Hong Kong by the PRC on 1 July 1997, the New York Convention is no longer applicable for the enforcement of arbitral awards of Hong Kong in other parts of the PRC. As a result, a memorandum of understanding was signed on 21 June 1999 to permit the reciprocal enforcement of arbitral awards between Hong Kong and the PRC (the “**Memorandum of Understanding**”). This Memorandum of Understanding was approved by the Supreme People’s Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. It may be difficult to seek recognition and enforcement of arbitral awards in the PRC if the arbitral awards were given by arbitration bodies that are not signatories to the New York Convention or do not have similar arrangements to the Memorandum of Understanding between Hong Kong and the PRC.

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Our global income and the dividends we may receive from our PRC subsidiary may be subject to PRC tax under the PRC Enterprise Income Tax Law (“EIT Law”), which would have a material adverse effect on our results of operations.

Under the EIT Law and its implementing rules, both of which became effective from 1 January 2008, an enterprise established outside of the PRC with “de facto management bodies” situated within the PRC could be considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income with any relevant foreign tax paid available to be claimed as a foreign tax credit. The implementing rules of the EIT Law define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise.” The State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (“**Guo Shui Fa [2009] No. 82**”, or “**Circular 82**”) (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知,國稅發 [2009]82號), on 22 April 2009. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by PRC individuals or foreigners, like our Company, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals. If the PRC authorities were to subsequently determine that we should be so treated, a 25% enterprise income tax on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability. Further, if we are regarded as a PRC resident enterprise, dividends that we receive from the subsidiaries which are considered as PRC resident enterprises would be exempt from EIT and no withholding tax would be applied either. However, as there is still uncertainty as to how the EIT Law and its implementation rules will be interpreted and implemented, we cannot assure you that we are eligible for such PRC enterprise income tax exemptions or reductions.

We are a Cayman Islands holding company and substantially all of our income may come from dividends from our PRC subsidiary. To the extent these dividends are subject to withholding tax, the amount of funds available to us to meet our cash requirements will be reduced.

In addition, because there remains uncertainty regarding the interpretation and implementation of the EIT Law and its implementing rules, it is uncertain whether, if we are regarded as a PRC resident enterprise, dividends we pay with respect to our ordinary shares, or the gain you may realise from the transfer of our ordinary shares, would be treated as income derived from sources within the PRC and be subject to a 10% withholding income tax, unless any such foreign corporate shareholder is qualified for a preferential withholding rate under a tax treaty. For example, under the Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal

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Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》) effective on 1 January 2007, for a Hong Kong corporate shareholder owning at least 25% of our shares, a 5% withholding tax would apply. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our non-PRC corporate shareholders, or if you are required to pay PRC income tax on the transfer of our ordinary shares, your investment in our Shares may be materially and adversely affected.

RISKS RELATING TO THE SHARE OFFER

Because there has been no prior public market for our Shares, their market price may be volatile and an active trading market in our Shares may not develop.

Prior to the Share Offer, there has been no public market for our Shares. The initial issue price range of our Shares is negotiated among the Sole Bookrunner on behalf of the Underwriter(s), and us. The Offer Price may differ significantly from the market price of our Shares following the Share Offer. We have applied for listing and permission to trade our Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active trading market for our Shares will develop, or if it does develop, that it will be sustainable following the Share Offer or that the market price of our Shares will not decline after the Share Offer. Furthermore, the price and trading volume of our Shares may be volatile.

The following factors, among others, may cause the market price of our Shares after the Share Offer to vary significantly from the Offer Price:

- variations in our revenue, earnings and cash flow;
- unexpected business interruptions resulting from natural disasters or power shortages;
- major changes in our key personnel or senior management;
- our inability to obtain or maintain regulatory approval for our operations;
- our inability to compete effectively in the market;
- political, economic, financial and social developments in the PRC and in the global economy;
- fluctuations in stock market prices and volume;
- changes in analysts' estimates of our financial performance; and
- involvement in material litigation.

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There may be a future sale or major divestment of our Shares by a substantial Shareholder.

The sale of a significant number of our Shares in the public market after the Share Offer, or the possibility of such sales, may adversely affect the market price of our Shares. Except as otherwise described in the “Underwriting – Underwriting Arrangements and Expenses – Undertakings” section in this prospectus, there are generally no restrictions imposed on our substantial Shareholders selling or otherwise disposing of their shareholdings. Any major disposal of our Shares by any of our substantial Shareholders may cause the market price of our Shares to decline. Future sales, or perceived sales, of a substantial number of our Shares may materially and adversely affect our ability to raise capital in the future at a time and a price favorable to us, and our Shareholders would experience dilution of their holdings upon a future issuance or sale of additional securities.

We cannot assure you that we will declare dividends in the future.

As a holding company, our ability to declare future dividends will depend on the availability of dividends, if any, received from our PRC operating subsidiary. Under PRC law and the constitutional documents of our PRC operating subsidiary, dividends may be paid only out of distributable profits. Distributable profits refer to after tax profits as determined under PRC Accounting Standards (“**PRC GAAP**”) less any recovery of accumulated losses and required allocations to statutory funds. Any distributable profits that are not distributed in a given year are retained and become available for distribution in subsequent years.

The calculation of our distributable profits under PRC GAAP differs in many aspects from the calculation under the Hong Kong Financial Reporting Standards (“**HKFRS**”). As a result, our PRC operating subsidiaries may not be able to pay a dividend in a given year if they do not have distributable profits as determined under PRC GAAP even if they have profits as determined under HKFRS. Accordingly, since our Company derives all of our earnings and cash flows from dividends paid to us by our subsidiary in the PRC, we may not have sufficient distributable profits to pay dividends to our Shareholders.

We declared dividends of RMB100 million and RMB80 million to our then Shareholders for the two years ended 31 December 2011, respectively. Other than the declaration of such dividends, we did not declare or pay any dividends during the Track Record Period. For further details of our dividend policy, see the “Financial Information – Dividend Policy” section in this prospectus. We cannot assure you that future dividends will be declared or paid in an amount equivalent to or exceeding historical dividends. Therefore, investors are cautioned not to use historical dividends as an indication of the amount of future dividends. The declaration, payment and amount of any future dividends are subject to the discretion of our Directors depending on, among other considerations, our operations, earnings, financial condition, cash requirements and availability, our constitutional documents and applicable law.

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You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or disseminated through other media relating to us and/or the Share Offer, certain of which may not be consistent with the information contained in this prospectus.

Prior to the publication of this prospectus, there may be press and media coverage regarding us and/or the Share Offer including certain financial information, financial projections and other information about us that do not appear in this prospectus, the disclosure of which was not authorised by us (the “**Unauthorised Information**”). We wish to emphasize to potential investors that we do not accept any responsibility for any such Unauthorised Information. The Unauthorised Information was not sourced from or approved by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the Unauthorised Information. To the extent that any of the Unauthorised Information is inconsistent with, or is in conflict with, the information contained in this prospectus, we disclaim it. Accordingly, prospective investors are cautioned to make their investment decisions based solely on the information contained in this prospectus and should not rely on any of the Unauthorised Information.

RISKS RELATING TO STATEMENTS IN THIS PROSPECTUS

We cannot guarantee the accuracy of facts and other statistics with respect to certain information obtained from official government and non-official publications contained in this prospectus.

Certain facts and statistics cited in this prospectus are based on various official government and non-official publications, including the CRU Report. We cannot guarantee the quality or reliability of such facts and statistics. Such information has not been independently verified by us and may be inconsistent, inaccurate, incomplete or out-of-date. None of our Company, the Sole Sponsor, the Sole Bookrunner, the Underwriter(s), their respective directors and advisors or any other parties involved in the Share Offer makes any representation as to the accuracy or completeness of such facts and statistics. Such facts and statistics may not be consistent with other information compiled within or outside the PRC. Furthermore, the facts and statistics may be incomparable to statistics on the economies of other nations and there can be no assurance that the statistics are stated or compiled on the same basis or with the same degree of accuracy as compared to those stated or compiled by other nations. Accordingly, such facts and statistics should not be unduly relied upon.

WAIVER FROM COMPLIANCE WITH THE LISTING RULES

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, our Company must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Given that the business and operations of our Group are primarily located, managed and conducted in the PRC and none of our executive Directors are ordinarily resident in Hong Kong, our Company does not and will not, in the foreseeable future, have a management presence in Hong Kong.

Accordingly, our Company has applied to the Stock Exchange for a waiver from compliance with the requirements under Rule 8.12 of the Listing Rules. The Stock Exchange has granted the requested waiver to our Company from strict compliance with the requirements under Rule 8.12 of the Listing Rules on condition that our Company would adopt the following arrangements to maintain regular communication with the Stock Exchange:

- (a) our Company has appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Company's principal channel of communication with the Stock Exchange. The two authorised representatives appointed are Mr. Geng Guohua, an executive Director and Ms. Chan Yuen Ying, Stella, our company secretary who is ordinarily resident in Hong Kong. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong upon reasonable short notice and will be readily contactable by telephone, facsimile or email. Each of the two authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange;
- (b) all the authorised representatives have the means to promptly contact all members of the Board (including our independent non-executive Directors) and of the senior management team at all times as and when the Stock Exchange wishes to contact them or any of them for any matters. To enhance the communication between the Stock Exchange, the authorised representatives and our Directors, our Company will implement a number of policies including (i) each executive Director and independent non-executive Director shall provide his/her mobile phone numbers, residential phone numbers, office phone numbers, fax numbers (if available) and email addresses (if available) to the authorised representatives; (ii) in the event that an executive Director or an independent non-executive Director expects to travel and be out of office, he/she shall provide the phone number of the place of his/her accommodation to the authorised representatives; and (iii) all our Directors and authorised representatives will provide their respective mobile phone numbers, residential phone numbers, office phone numbers, fax numbers (if available) and email addresses (if available) to the Stock Exchange;
- (c) if the circumstances require, meetings of the Board can be convened and held in such manner as permitted under the Articles of Association at short notice to discuss and address any issue with which the Stock Exchange is concerned in a timely manner;

WAIVER FROM COMPLIANCE WITH THE LISTING RULES

- (d) a compliance advisor will be appointed by our Company before the Listing pursuant to Rule 3A.19 of the Listing Rules to provide our Company with professional advice on continuing obligations under the Listing Rules, and to act at all times, in addition to the two authorised representatives of our Company, as our Company's additional channel of communication with the Stock Exchange for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our Company's financial results for the first full financial year commencing after the Listing Date;
- (e) meetings between the Stock Exchange and our Directors can be arranged through the authorised representatives or the compliance advisor, or directly with our Directors within a reasonable time frame. Our Company will inform the Stock Exchange promptly of any change in the authorised representatives or the compliance advisor; and
- (f) all our Directors have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and would be able to come to Hong Kong and meet with the Stock Exchange upon reasonable notice.

We have received from the Stock Exchange a waiver from compliance with Rule 8.12 of the Listing Rules subject to the above arrangements being put in place.

ISSUE OF ANNUAL REPORT AND ACCOUNTS UNDER THE LISTING RULES

Pursuant to Rule 13.46(2) of the Listing Rules, an issuer is required to send a copy of its annual report and accounts or summary financial report to its shareholders within four months after its financial year-end.

Our Company has included in this prospectus the financial information in respect of the year ended 31 December 2011; and is not in breach of the Articles or applicable laws and regulations or other regulatory requirements of the Cayman Islands for not publishing annual results announcements and distributing annual reports and accounts within four months after the financial year ended 31 December 2011 provided that no annual general meeting is to be convened in the year 2012. In addition, our Company has included in this prospectus a statement as to whether we intend to comply with the provisions in the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules (the "Code") after the Listing and, if not, reasons for our proposed departure from the Code. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 13.46(2) of the Listing Rules in respect of the annual results for the year ended 31 December 2011. Please also refer to in the paragraph headed "Compliance with the Listing Rules and Appendix 14 to the Listing Rules" under the section headed "Directors, senior management and staff" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the SFO, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in this prospectus misleading.

The Share Offer is made solely on the basis of the information contained and the representations made in this prospectus and the Application Forms. No person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus and the Application Forms, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sole Sponsor, the Sole Bookrunner, the Underwriters, any of their respective directors or affiliates of any of them or any other persons or parties involved in the Share Offer.

UNDERWRITING

This prospectus is published in connection with the Public Offer, which forms part of the Share Offer, which is sponsored by the Sole Sponsor and managed by the Sole Bookrunner. The Public Offer is fully underwritten by the Public Offer Underwriters subject to the terms and conditions of the Public Offer Underwriting Agreement, including the Sole Bookrunner (on behalf of the Underwriters) and us agreeing to the Offer Price. Information relating to the underwriting arrangements is set out in the section headed "Underwriting" in this prospectus. The Placing will be fully underwritten by the Placing Underwriters under the terms of the Placing Underwriting Agreement. Further details about the Underwriters and the Underwriting Agreements are contained in the section headed "Underwriting" in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which is expected to be determined by the Sole Bookrunner (on behalf of the Underwriters) and us on or around Friday, 20 April 2012, or such later date as may be agreed between the Sole Bookrunner (on behalf of the Underwriters) and us but in any event not later than 11:59 p.m. (Hong Kong time) on Friday, 20 April 2012.

If the Sole Bookrunner (on behalf of the Underwriters) and us are unable to reach an agreement on the Offer Price on or before the Price Determination Date, the Share Offer will not become unconditional and will lapse.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

PROCEDURES FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The application procedures for the Public Offer Shares are set out in the section headed “How to apply for the Public Offer Shares” in this prospectus and on the relevant Application Forms.

SELLING RESTRICTIONS

Each person acquiring the Offer Shares under the Share Offer will be required to, or be deemed by his/her/its subscription for Offer Shares to, confirm that he/she/it is aware of the restrictions on offers of the Share Offer described in this prospectus.

No action has been taken to permit an offering of the Offer Shares or the distribution of this prospectus or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, our Shares in issue, Shares to be issued pursuant to the Capitalisation Issue and the Share Offer, and any Shares to be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, on the Main Board.

Save as disclosed herein, no part of the Shares or loan capital of our Company is listed or dealt in on the Main Board or on any other stock exchange and at present, no such listing or permission to deal is being or is proposed to be sought on the Main Board or any other stock exchange in the near future.

HONG KONG BRANCH SHARE REGISTER AND STAMP DUTY

All Shares to be issued pursuant to the Share Offer will be registered on our Company’s register of members in Hong Kong to be maintained by Tricor Investor Services Limited. The principal register of members will be maintained in the Cayman Islands. Only Shares registered on the register of members of our Company in Hong Kong may be traded on the Stock Exchange.

Dealings in Shares registered on the register of members in Hong Kong will be subject to Hong Kong stamp duty. The current rate of stamp duty in Hong Kong is 0.2% of the consideration or, if higher, the market value of the Shares being sold or transferred.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to, the Offer Shares, you should consult an expert.

We, our Directors, the Sole Sponsor, the Sole Bookrunner, the Underwriters, any of their respective directors, agents or advisers or any other persons or parties involved in our Share Offer do not accept responsibility for any tax effects on or liabilities resulting from the subscription for, purchase, holding, disposing of, dealing in, or the exercise of any rights in relation to, the Offer Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the approval for listing of, and permission to deal in, the Shares on the Stock Exchange and our compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading days. Investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for our Shares to be admitted into CCASS.

OVER-ALLOTMENT AND STABILISATION

Details of the arrangements relating to stabilisation and Over-allotment Option are set out in the section headed “Structure and conditions of the Share Offer” in this prospectus.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure and conditions of the Share Offer” in this prospectus.

ROUNDING

Certain amounts and percentage figures included in this prospectus are subject to rounding adjustments. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in our Shares on the Main Board are expected to commence at 9:00 a.m. on Friday, 27 April 2012. Shares will be traded in board lots of 2,000 each.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

| Name | Address | Nationality |
|------|---------|-------------|
|------|---------|-------------|

Executive Directors

| | | |
|--------------------|---|---------|
| Mr. Li Yunde (李運德) | No. 627 Qin Jia Zhuang Cun Yangzhuang Town Yishui County Shandong Province the PRC | Chinese |
|--------------------|---|---------|

| | | |
|-----------------------|---|---------|
| Mr. Geng Guohua (耿國華) | Room 302-402, Unit 2 Building 3, Wen Quan Jia Yuan No. 82 Rui Yang Road County Town, Yiyuan County Shandong Province the PRC | Chinese |
|-----------------------|---|---------|

| | | |
|-----------------|--|----------|
| Mr. Lang Weiguo | Building 10, Jianwai SOHO 39 East Third Ring Road, Suite 2302 Chaoyang, Beijing, China 100022 CHN | Canadian |
|-----------------|--|----------|

Independent non-executive Directors

| | | |
|-----------------------|--|---------|
| Mr. Li Xiaoyang (李曉陽) | Room 15, Unit 2, Building 23 No. 86 Yuan Tong North Road Wuhua District Kunming Yunnan Province the PRC | Chinese |
|-----------------------|--|---------|

| | | |
|-------------------------|--|---------|
| Mr. Lin Chu Chang (林鉅昌) | 34-1 Rose and Ginkgo Villa Hou Sha Yu Shunyi District Beijing the PRC | Chinese |
|-------------------------|--|---------|

| | | |
|---------------------------|--|---------|
| Mr. Zhang Jingsheng (張涇生) | Room 502, Building 20 Ke Xue Cun Yuelu District Changsha Hunan Province the PRC | Chinese |
|---------------------------|--|---------|

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor

Haitong International Capital Limited
25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

Sole Bookrunner

Haitong International Securities Company Limited
25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

Public Offer Underwriters

Haitong International Securities Company Limited
25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

Somerley Limited
10th Floor, The Hong Kong Club Building
3A Chater Road Central
Hong Kong

First Shanghai Securities Ltd.
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

China Merchants Securities (HK) Co., Limited
48th Floor, One Exchange Square
Central
Hong Kong

China Everbright Securities (HK) Limited
36th Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

Oriental Patron Securities Limited
27th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal advisers to our Company

As to Hong Kong law:

Loong & Yeung
Suites 2001-2005, 20th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

As to PRC law:

Dacheng Law Offices
5th, 12th, 15th Floor, Guohua Plaza
3 Dongzhimennan Avenue
Beijing 100007
PRC

As to Cayman Islands law:

Appleby
2206-19 Jardine House
1 Connaught Place
Central
Hong Kong

As to Australian law:

Steinepreis Paganin
Level 4, The Read Buildings
16 Milligan Street
Perth WA 6000

As to Thailand law:

Bamrung Suvicha Apisakdi Law Associates
155/19 Soi Mahadlekluang 1
Rajdamri Road
Lumpinee, Pathumwan
Bangkok 10330

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

| | |
|--|---|
| Legal advisers to the Sole Sponsor and the Underwriters | <i>As to Hong Kong law:</i> Chiu & Partners 40th Floor, Jardine House 1 Connaught Place Central Hong Kong <i>As to PRC law:</i> King & Wood Mallesons Lawyers 55/F, Guangzhou International Finance Center 5 Zhujiang Xi Road Zhujiang New Town, Guangzhou Guangdong 510623 PRC |
| Reporting accountant | PricewaterhouseCoopers <i>Certified Public Accountants</i> 22/F Prince's Building Central, Hong Kong |
| Property valuer/Technical Consultant | Jones Lang LaSalle Corporate Appraisal and Advisory Limited 6/F Three Pacific Place 1 Queen's Road East Hong Kong |
| Independent Technical Adviser | Micromine Proprietary Limited Level 2, 174 Hampden Road Nedlands 6009 Western Australia |
| Receiving banker | Standard Chartered Bank (Hong Kong) Limited 15/F, Standard Chartered Tower 388 Kwun Tong Road, Kowloon Hong Kong |

CORPORATE INFORMATION

| | |
|---|---|
| Registered office | Clifton House 75 Fort Street PO Box 1350 Grand Cayman KY1-1108 Cayman Islands |
| Headquarters in the PRC | Qin Jia Zhuang Yangzhuang Town Yishui County Shandong Province The PRC |
| Principal place of business in Hong Kong | Suites 2001-2005, 20th Floor Jardine House 1 Connaught Place Central Hong Kong |
| Authorised representatives | Mr. Geng Guohua Room 302-402, Unit 2 Building 3, Wen Quan Jia Yuan No. 82 Rui Yang Road County Town, Yiyuan County Shandong Province the PRC Ms. Chan Yuen Ying, Stella Flat A, 14th Floor, Block T1 Marina Habitat 1 Yuet Hoi Street Ap Lei Chau Hong Kong |
| Company secretary | Ms. Chan Yuen Ying, Stella <i>ACIS, ACS, HKIoD</i> |
| Audit committee | Mr. Lin Chu Chang (<i>Chairman</i>) Mr. Li Xiaoyang Mr. Zhang Jingsheng |
| Remuneration committee | Mr. Lin Chu Chang (<i>Chairman</i>) Mr. Li Yunde Mr. Zhang Jingsheng |

CORPORATE INFORMATION

| | |
|--|---|
| Nomination committee | Mr. Li Yunde (<i>Chairman</i>) Mr. Li Xiaoyang Mr. Zhang Jingsheng |
| Compliance adviser | Haitong International Capital Limited 25th Floor, New World Tower 16-18 Queen's Road Central Hong Kong |
| Website address | <u>http://chinazhongsheng.com.hk</u> ^Δ |
| Principal share registrar and transfer office in the Cayman Islands | Appleby Trust (Cayman) Ltd. Clifton House 75 Fort Street PO Box 1350 Grand Cayman KY1-1108 Cayman Islands |
| Hong Kong branch share registrar and transfer office | Tricor Investor Services Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong |
| Principal bankers | Agricultural Bank of China, Yishui Branch 75 Changan Road Yishui County Shandong Province the PRC China Construction Bank Corporation, Yishui Branch 35 Xin Wah Road Yishui County Shandong Province the PRC Bank of China Limited, Yishui Branch 66 Changan Middle Road Yishui County Shandong Province the PRC |

^Δ The content of the website do not form part of this prospectus.

CORPORATE INFORMATION

Industry And Commercial Bank of China Ltd,
Yishui Branch
1 Zheng Yang Road
Yishui County
Shandong Province
the PRC

Shandong Rural Credit Cooperative Union,
Yishui Sales Department
2 Cheng Yi Meng Shan Road
Yishui County
Shandong Province
the PRC

Linyi Commercial Bank, Yishui Branch
81 Changan Road
Yishui County
Shandong Province
the PRC

Shanghai Pudong Development Bank,
Linyi Branch
43 Lanshan Yinqueshan Road
Linyi City
Shandong Province
the PRC

Shenzhen Development Bank Co., Ltd., Jinan
Branch
138 Li Shan Road
Jinan City
Shandong Province
the PRC

INDUSTRY OVERVIEW

Investors should note that CRU has been engaged by our Company to prepare a report to provide an overview of the global and Chinese iron ore industry, which will be used for use in whole or in part in this Prospectus.

CRU is a research and consulting company specialising in the international metals, mining and electricity industries, and the views contained in this report are solely those of CRU. CRU prepared its report based on its in-house database, independent third-party report and publicly available data from reputable industry organisations.

Part of the statistical and graphical information contained in this Industry Overview is provided by CRU. CRU has advised that (i) some information in CRU's database is derived from estimates from industry source or subjective judgments; and (ii) the information in the database of other mining industry data collection agencies may differ from the information in CRU's database.

The information and statistics set out in this section have been extracted from the research report compiled by CRU and other publicly available sources. CRU and our Directors believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. CRU and our Directors have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading.

No independent verification has been carried out on such information and statistics by us, the Sole Sponsor, the Sole Bookrunner, the Underwriters, their respective affiliates, directors and advisers or any other parties involved in the Share Offer, and none of them makes any representation as to the accuracy or completeness of such information.

SOURCE OF INFORMATION

CRU Report

This prospectus contained information extracted from the CRU Report in sections such as “Summary”, “Risk factors”, “Industry overview”, “Business”, and “Financial information”. The sources cited in this “Industry overview” section are in the form provided in the CRU Report, unless otherwise noted.

CRU, an experienced consultant in the mining & metals industry, has been engaged to provide the CRU Report for use in whole or in part in this document. The research and writing of the CRU Report was a desktop exercise carried out by experienced CRU professionals who have extensive knowledge of the iron ore sector. CRU utilizes its in-house database, independent third-party reports and publicly available data from reputable industry organizations to prepare the CRU Report. Where necessary, CRU's researchers contact companies operating in the industry to gather and synthesize information about the market, prices and other relevant information. CRU applied its own professional judgment and analysis to the data from 3rd party sources to form the statistics and data used in the report.

INDUSTRY OVERVIEW

CRU has confirmed that it is not aware of anything which could possibly lead it to believe that this assumption is unfair, unreasonable or incomplete. The CRU report was last updated in April 2012 based upon data published in January 2012.

CRU operates at strict international standards of moral, legal and professional conduct. CRU guards its reputation for independence and confidentiality with great care. CRU has more than 40 years of commercial project experience in the metals and mining industry.

We have paid CRU a total of approximately RMB576,000 in fees for the preparation of the CRU Report. We believe that the fees are reasonable for the preparation of an industry report by an independent third-party consultant.

Others

We have not engaged USGS, GTIS, Asian Metals, Oxford Economics, NBS, International Titanium Association and Metallurgical Mines' Association of China, when preparing data quoted in this Prospectus. Data from these resources were not prepared on a commissioned basis by us.

INTRODUCTION TO IRON ORE

Iron ore and its main uses

The dominant use of iron ore is in steel making, about 98% of mined iron ore is used as a raw material in the fabrication of steel while the remaining 2% of mined ore is used in marine-grade concrete, and in chemical and industrial applications.

Iron ore is one of the key raw materials in the iron making process, a process which converts primary iron units (ore) to a product that is around 96% iron. The iron making process may take the form of the blast furnace method or the direct reduction furnace method. In a blast furnace pig iron will be produced, and in a direct reduction furnace Direct Reduced Iron (DRI) or Hot Briquetted Iron (HBI) is produced.

Types of iron ore products

Generally iron ore is produced from two types of iron ore mineral: haematite and magnetite. The amount of iron (Fe) contained in iron ore varies, haematite ores are usually with higher grade (>60% Fe) and magnetite lower grade (<30% Fe). Sometimes deposits can be a mixture of the two ores. Haematite ores typically produce lump and fines through crushing and screening. Magnetite ores require upgrading, and hence are beneficiated as well, this process decreases the grain size of the material and usually produces a pellet feed or fines product. In order for iron ore to be used in a furnace it must have an iron content of over 58% Fe.

INDUSTRY OVERVIEW

Iron products can be grouped into different types according to the size (diameter) of the products, a description of the products obtained from both types of ore deposit, and their relative values is given below. Typical size intervals are given for the diameter of each product in brackets.

- **Sinter Fines (150µm-6.8mm):** This is the baseline product in the iron ore market, from which other products are priced. Fines are agglomerated into pebble-sized balls of ore called “sinter” at the sinter plant of a steel mill before use in a furnace. This process involves mixing the fines with a flux and baking; the resultant operating cost causing fines to have a lower relative value than lump ore and pellets, as the latter two can be directly charged to a furnace.
- **Lump (6.8mm-15mm):** Irregularly sized lumps of iron ore which can be charged directly into a furnace, enabling a steel producer to avoid the cost of sintering iron ore fines. Lump therefore is sold at a premium to fines. Generally this product is not obtained from magnetite ore.
- **Pellets (10mm):** Uniform size and composition give pellets the highest value in use, meaning they provide the most efficient source of iron units to a furnace, and as such they command a strong value position. Pellets are manufactured by the agglomeration of pellet feed.
- **DR grade pellets (10mm):** This grade of pellet contains lower than 2% combined silica and alumina, making it suitable for conversion to direct-reduced iron (DRI), a high value product used in certain types of steelmaking furnace. As such, it commands a 5-10% premium as of 2011 over conventional pellets (normally referred to as blast furnace or BF grade pellets).
- **Pellet feed (60µm¹ – 150µm):** Pelletising process required to convert the pellet feed into useable pellets. Approximately 1.02 tonnes of pellet feed are required to make one tonne of pellet.

Concentrates: Some iron ore products are referred to as “concentrates”, which is a term used to describe a material that has undergone beneficiation at the mine, and can refer to as either “pellet feed” or “fines”.

¹ Pellet feed with a diameter of less than 60µm can present handling issues and increase transportation costs. Furthermore, pellet plants often prefer coarser grade pellet feed, as it can be ground to their own specifications.

INDUSTRY OVERVIEW

OVERVIEW OF THE IRON ORE INDUSTRY

Global iron ore industry

Global iron ore reserves

Global iron ore resources are estimated to be approximately 800 billion tonnes (Bt) by the United States Geological Service (“USGS”) and to contain approximately 230 Bt of iron. In 2010, global iron ore reserves were estimated to be approximately 180 Bt by the USGS with an iron content of approximately 87 Bt.

In 2010, crude iron ore reserves in Ukraine, Russia, China, Australia and Brazil collectively accounted for 72.8% of the world total iron ore reserves. The table below sets out the distribution of estimated raw iron ore reserves globally.

World Iron Ore Reserves by Country in 2010 (Mt)

| Country | Raw Iron Ore | | Contained Iron | |
|--------------------|----------------|------------------|----------------|------------------|
| | Reserves | % of World Total | Reserves | % of World Total |
| Ukraine | 30,000 | 16.7% | 9,000 | 10.3% |
| Brazil | 29,000 | 16.1% | 16,000 | 18.4% |
| Russia | 25,000 | 13.9% | 14,000 | 16.1% |
| Australia | 24,000 | 13.3% | 15,000 | 17.2% |
| China | 23,000 | 12.8% | 7,200 | 8.3% |
| Other Countries | 49,000 | 27.2% | 25,800 | 29.7% |
| World Total | 180,000 | 100.0% | 87,000 | 100.0% |

Source: USGS

Note: Relevant data for 2011 is not yet available

China accounted for approximately 12.8% of the world total crude iron ore reserves or approximately 23 Bt in 2010. However, the deposits in China are mostly low-grade ores, and require beneficiation and agglomeration for commercial use.

Global demand for iron ore products

Demand for iron ore products is driven principally by the production of steel. Steel is widely used in infrastructure development, construction, and manufacturing industries such as automotive, shipbuilding, railway, machinery and electronic appliances.

INDUSTRY OVERVIEW

World crude steel production totalled almost 1,500 Mt in 2011, an increase of 7.0% year-on-year, after the collapse in demand led to a contraction of 8.0% in global steel output in 2009. Crude steel production grew at a CAGR of 4.7% per annum over 2005 to 2011, on account of growth in Chinese steel production of 91.7% over the same period. The world's largest steel producing countries/regions are China, Europe, the CIS and North America, producing about 681 Mt, 177 Mt, 113 Mt and 117 Mt of crude steel representing about 45%, 12%, 8% and 8% of the world's production of crude steel in 2011, respectively. Growth in 2011 returned to 7% year-on-year and total crude steel production was 1.51 Mt.

World crude steel production is expected to experience further growth of an average of 4.5% per year in the period to 2015, driven by strong growth in Asia, especially China. Asian crude steel production will add another 212 Mt to global output by 2015, around 74% of which will come from China.

The following table sets forth crude steel production data by region for 2005 through 2015:

Crude steel production, 2005-2016E (million tonnes)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012E | 2013E | 2014E | 2015E | 2016E | CAGR 2010- 2016 |
|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------------|
| North America | 126 | 130 | 131 | 123 | 82 | 110 | 117 | 121 | 126 | 130 | 134 | 135 | 3.5% |
| South America | 46 | 46 | 49 | 48 | 39 | 45 | 50 | 54 | 56 | 59 | 61 | 63 | 5.7% |
| Europe | 220 | 235 | 240 | 230 | 168 | 206 | 216 | 217 | 225 | 233 | 239 | 237 | 2.3% |
| CIS | 113 | 120 | 124 | 116 | 98 | 108 | 113 | 119 | 125 | 129 | 132 | 133 | 3.4% |
| China | 355 | 421 | 495 | 501 | 568 | 624 | 681 | 710 | 757 | 798 | 838 | 853 | 5.3% |
| Middle East & Africa | 34 | 36 | 37 | 36 | 35 | 39 | 39 | 40 | 43 | 47 | 51 | 52 | 4.9% |
| Rest of Asia | 246 | 256 | 271 | 272 | 233 | 274 | 292 | 302 | 317 | 334 | 347 | 349 | 4.1% |
| Oceania | 9 | 9 | 9 | 8 | 6 | 8 | 7 | 6 | 6 | 6 | 6 | 6 | (4.1%) |
| Total | 1,150 | 1,253 | 1,357 | 1,334 | 1,228 | 1,416 | 1,515 | 1,569 | 1,655 | 1,737 | 1,808 | 1,828 | 4.4% |

Data: CRU

Iron ore products consumption

For the period from 2000 to 2011, global consumption of iron ore products (pellet, sinter fines, and lump) increased at a CAGR rate of 4.1% to reach almost 1,800 Mt in 2011. In 2011, iron ore product consumption recovered from the previous year's level, growing 3.5% year-on-year, compared to a decline of 3.6% in 2009, as a result of the contraction in global steel production. China has been the leading driver of the world's iron ore product demand growth in 2011, accounting for 86.9% of the growth in iron ore consumption in 2011.

INDUSTRY OVERVIEW

According to CRU, global consumption of iron ore products (pellet, sinter fines, and lump) is forecast to increase to more than 2,190 Mt in 2015. The table below sets forth the iron ore products consumption by major region/country historically for the period of 2005 to 2011 and forecast from 2012 to 2015:

Global consumption of iron ore products (pellets, sinter fines & lump) (Mt), 2005-2015E

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012E | 2013E | 2014E | 2015E |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| North America | 87 | 87 | 88 | 84 | 52 | 72 | 77 | 81 | 85 | 89 | 91 |
| South America | 72 | 72 | 75 | 68 | 49 | 57 | 65 | 72 | 75 | 78 | 82 |
| Europe | 131 | 136 | 137 | 131 | 94 | 121 | 122 | 124 | 129 | 132 | 134 |
| CIS | 137 | 145 | 148 | 138 | 121 | 131 | 132 | 140 | 149 | 157 | 161 |
| China | 497 | 575 | 700 | 705 | 826 | 894 | 975 | 1,035 | 1,102 | 1,159 | 1,213 |
| Middle East & Africa | 42 | 42 | 43 | 43 | 43 | 48 | 48 | 54 | 60 | 64 | 67 |
| Rest of Asia | 250 | 261 | 288 | 293 | 258 | 302 | 314 | 328 | 345 | 362 | 373 |
| Oceania | 9 | 10 | 9 | 9 | 6 | 9 | 8 | 5 | 5 | 5 | 6 |
| <i>of which:</i> <i>unaccounted</i> <i>imports/stock</i> <i>changes</i> | 72 | 66 | 63 | 80 | 45 | 97 | 83 | 60 | 63 | 64 | 66 |
| Total | 1,297 | 1,394 | 1,553 | 1,551 | 1,495 | 1,730 | 1,825 | 1,899 | 2,012 | 2,110 | 2,193 |

Data: CRU

Iron ore trade and competition

Total consumption of iron ore products imported from other countries totalled about 1,100 Mt in 2011, up about 4.1% from 2010 levels. In other words, about 62% of total consumption of iron ore products was met by ore imported from other countries. The largest importer of iron ore products in the world is China, which imported about 665 Mt in 2011, which accounted for about 58.7% of the total consumption of imported ore in that year.

The seaborne iron ore products market, namely iron ore products shipped to other countries, totalled about 1,079 Mt in 2011. The seaborne iron ore products market experienced rapid growth in recent years, growing at a CAGR of 8.0% per annum over 2005 to 2011. The main driver of the growth in the seaborne market has been China, which accounted for about 60.6% of the global seaborne market of iron ore products in 2011, compared to only about 40% in 2005 and about 16% in 2000.

INDUSTRY OVERVIEW

The global iron ore industry is highly consolidated, and the main suppliers to the seaborne market are the “Big Three” iron ore producers, namely Vale, Rio Tinto and BHP Billiton. These three companies accounted for about 36% of the world’s iron ore production and about 55% of the world’s exports in 2010. The top ten major exporters of iron ore accounted for about 69% of world exports in 2010 which was largely unchanged in 2011.

The table below sets forth the top ten major iron ore exporters in 2010 and 2011:

Global exports of iron ore, top ten major exporters (Mt), 2010 and 2011

| Company | Iron ore exports in 2010 | Iron ore exports in 2011 |
|---|--------------------------------|--------------------------------|
| Vale | 251 | 261 |
| Rio Tinto | 189 | 191 |
| – Hamersley Iron (100%) | 133 | 133 |
| – Robe River (53%) | 32 | 32 |
| – Hope Downs (50%) | 16 | 16 |
| – Iron Ore Company of Canada (IOC) (58.7%) | 9 | 10 |
| BHPB | 133 | 152 |
| Fortescue Metals Group (FMG) | 42 | 45 |
| Kumba | 36 | 37 |
| CSN | 26 | 26 |
| Samarco | 23 | 23 |
| LKAB-Sweden | 19 | 20 |
| ArcelorMittal Mines Canada | 11 | 11 |
| SNIM-Mauritania | 11 | 12 |
| | 741 | 777 |
| Total iron ore exports of Top 10 companies | 741 | 777 |
| % of world total exports | 68% | 69% |

Data: CRU

Note: Totals may not add up due to rounding errors

Australia and Brazil are the leading exporters of iron ore and second and third largest producers on a gross tonnage basis. In 2011, Australia exported about 462 Mt of iron ore, a 6.8% year-on-year increase from 2010 levels. Brazil exported about 325 Mt of iron ore in 2011, an increase of 4.3% year-on-year.

The seaborne market for iron ore is expected to grow from 1,000 Mt in 2011 to 1,400 Mt in 2015, spurred on by increased demand from China. Chinese imports of iron ore are forecast to grow at a CAGR of 9.9% per annum over 2011 to 2015, owing to a concurrent increase in consumption, plus a decline in domestic iron ore supply, on account of declining ore grades. By 2015, China is expected to account for about 68.1% of the global seaborne market.

INDUSTRY OVERVIEW

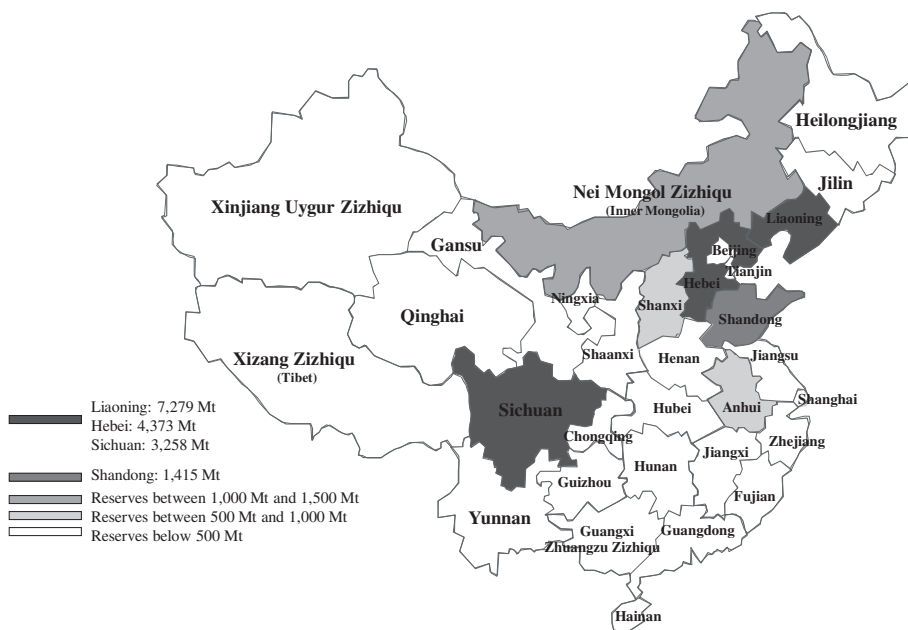
PRC IRON ORE INDUSTRY

PRC iron ore reserves

According to the USGS, China ranked fifth globally in terms of iron ore reserves, accounting for about 13%, or approximately 23,000 Mt of global iron ore reserves in 2010. In terms of contained iron this percentage falls to 8% due to the lower grade of most Chinese deposits. According to the National Bureau of Statistics of China (“NBS”), these reserves were primarily situated in the north-eastern and northern regions of China, which together accounted for about 61.1% of China’s total iron ore reserves in 2010. Liaoning, Hebei and Shandong are the leading provinces in terms of iron ore reserves, accounted for about 31.4%, 18.9% and 6.0%, respectively, of the total Chinese iron ore reserves in 2010. Relevant data for 2011 is not yet available.

The following map and chart sets forth the estimated distribution of China’s iron ore reserves in 2010:

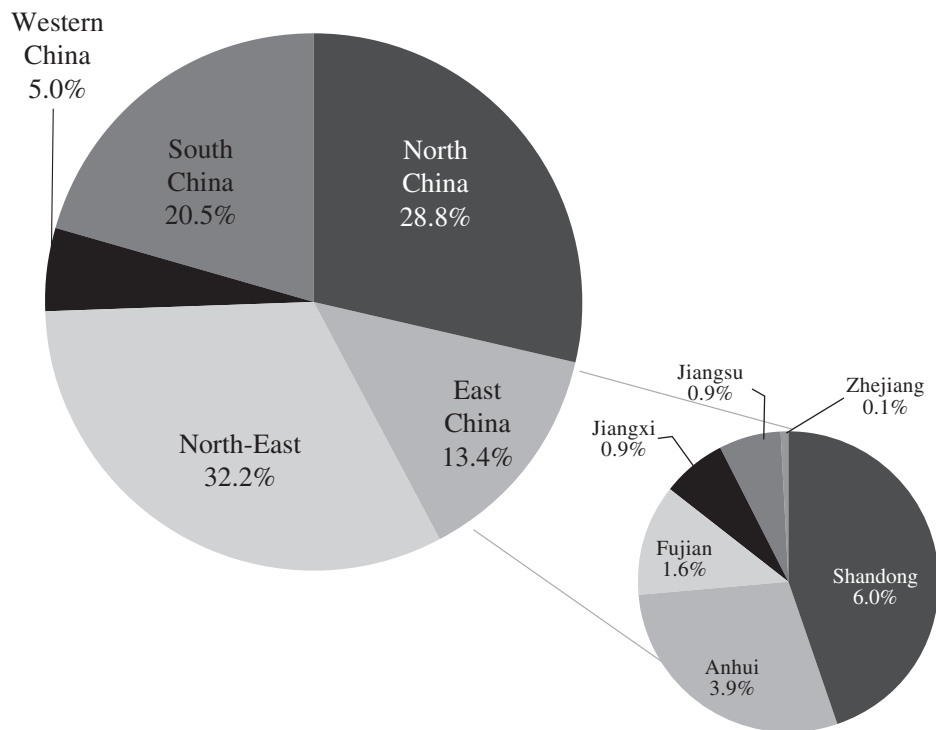
Distribution of Chinese ore reserves 2010



Source: NBS, CRU

INDUSTRY OVERVIEW

China's iron ore reserves by region in 2010



Source: NBS, CRU

As China's steelmaking is centred along the eastern seaboard, most Chinese iron ore production is also located there due to the proximity of end-users and also significant reserves of iron ore. In the more southerly provinces iron ore reserves tend to be lower which means that more iron ore needs to be imported from overseas or from other regions of China. According to CRU, the need to import material adds significantly to price achievable from local iron ore mines as prices must include the additional freight charges.

PRC iron ore production

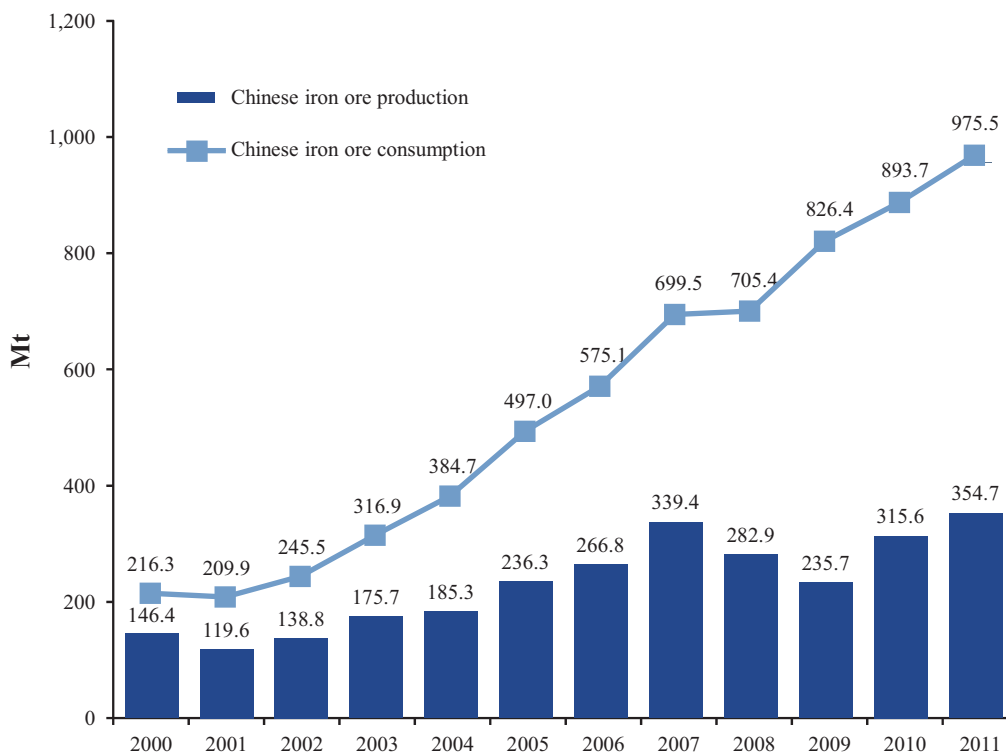
Raw iron ore production in China reached approximately 1,326.9 Mt in 2011. Chinese iron ore mines typically have lower iron content compared to most mines serving the seaborne market. As a result, although China is the largest gross tonnage producer of iron ore, it does not produce the highest number of iron units.

A lack of iron ore supply on the seaborne market has seen China more than double its raw iron ore and iron ore product production since 2004 in order to satisfy the requirements of the domestic steel industry. In order to meet this demand, and attracted by historically high prices, many high-cost mines have opened in China, according to CRU. As supply increases in the seaborne market, CRU forecasts that those higher cost Chinese operations will close, leaving lower-cost Chinese producers to compete with the seaborne suppliers.

INDUSTRY OVERVIEW

The following chart sets forth domestic production and consumption of iron ore products in China, for the period from 2005 to 2011:

Chinese iron ore production and consumption (Mt), 2000-2011



Source: CRU

The Chinese iron ore industry is highly fragmented, in comparison with the seaborne market, and had over 1,200 registered iron ore mines in 2010, according to CRU. The ten largest domestic raw iron ore producers produced about 169.9 Mt of raw iron ore and about 58.1 Mt of iron ore concentrates in 2010, accounting for about 19.5% of total raw ore production in China during the same period. The majority of the larger mines and mining companies are associated with the larger steel producers. This leaves a smaller pool of iron ore miners, with varying production costs, serving a dynamic market for iron ore products in China.

INDUSTRY OVERVIEW

The following table sets forth the output of the ten largest iron ore producers in China in 2010:

Top ten Chinese iron ore companies in 2010

| Rank | Company Name | Raw iron ore (Mt) | Iron Concentrates (Mt) |
|------|-------------------------------------|----------------------|------------------------------|
| 1 | Anshan Steel | 45.6 | 15.6 |
| 2 | Hebei Iron and Steel Mining Company | 26.4 | 9.8 |
| 3 | Panzhuhua Steel | 20.9 | 7.5 |
| 4 | Benxi Steel | 17.7 | 6.5 |
| 5 | Taiyuan Steel | 13.8 | 5.5 |
| 6 | Baotou Iron and Steel Group | 13.4 | 4.9 |
| 7 | Shougang Mining Company | 10.8 | 4.6 |
| 8 | Ma'anshan Steel | 8.7 | 3.2 |
| 9 | Hanxing Mining | 7.0 | 2.7 |
| 10 | Wuhan Steel | 5.6 | 3.9 |
| | Total | 169.9 | 58.1 |

Data: China Iron & Steel Association (CISA) and CRU estimates

Note 1: Raw iron ore production refers to the amount of material collected at the mine, also known as run-of-mine production; concentrates refers to a saleable product for use in the steel industry after beneficiation.

Note 2: Relevant data for 2011 is not yet available.

INDUSTRY OVERVIEW

The following chart shows Chinese iron ore production by province in 2011. Production is dominated by the Hebei and Liaoning provinces which are also the largest steel producing areas in China. According to CRU Report, Shandong province accounted for about 2.1% of iron ore production in China in 2010 while it accounted for about 8.4% of Chinese steel output. This means that Shandong province faces second largest shortfall in iron ore supply after Hebei province. Shandong province accounted for about 1.4% of iron ore production in China in 2011, and once again faced the second largest shortfall in iron ore supply after Hebei province.

Chinese iron ore production by Province (Mt), 2011 Total Production = 1,326.9 Mt

| Province | Iron ore production (Mt) | Percentage of total Chinese iron ore production (%) |
|----------------|--------------------------------|---|
| Hebei | 556.0 | 41.9 |
| Liaoning | 143.0 | 10.8 |
| Sichuan | 125.8 | 9.5 |
| Inner Mongolia | 92.3 | 7.0 |
| Shanxi | 66.1 | 5.0 |
| Anhui | 35.6 | 2.7 |
| Fujian | 24.9 | 1.9 |
| Xinjiang | 24.6 | 1.9 |
| Shandong | 18.1 | 1.4 |
| Beijing | 18.5 | 1.4 |
| Yunnan | 20.8 | 1.6 |
| Guangdong | 19.8 | 1.5 |
| Other | 181.4 | 13.7 |
| Total | 1,326.9 | 100.0 |

Source: CRU, NBS

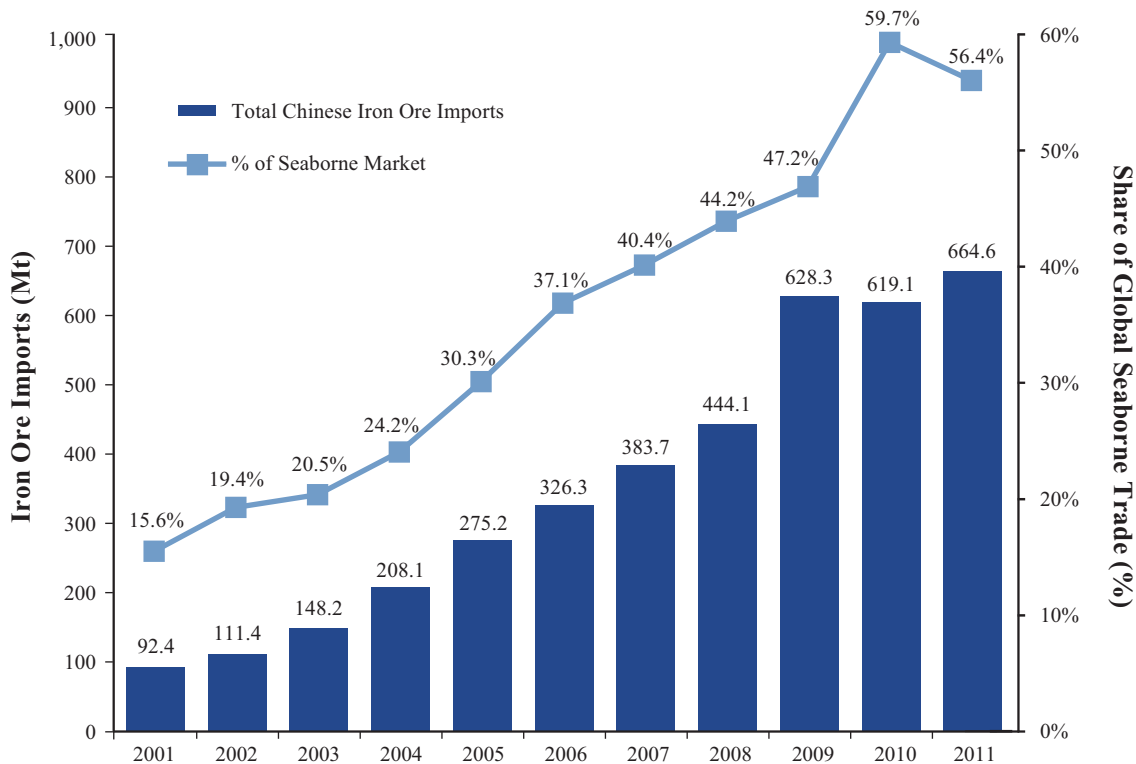
Imports of iron ore to the PRC

As China's steel production has expanded, the domestic industry has not been able to keep up with rising demand. This has led to an increase in the import requirement as shown in the chart below. Chinese imports increased by about 572.2 Mt in the period between 2001 and 2011, an increase of 619.2%.

INDUSTRY OVERVIEW

CRU forecast that the Chinese import requirement for iron ore will continue to grow by a CAGR of 9.9% up to 2015, reaching about 988.3 Mt in 2015.

Chinese imports of iron ore from 2001 to 2011



Source: CRU, Global Trade Information Services (GTIS) – imports of sinter fines, lump, pellet and pellet feed

China is also by far the largest importer of iron ore accounting for about 58.6% of imports in 2011, followed by Japan with 11.3%, South Korea with 5.5% and Germany with 3.6% of global imports.

INDUSTRY OVERVIEW

The following table shows the location of major import partners shipping iron ore into China in the years 2008, 2009 and 2010. This shows that Australia remains the largest import partner, which is reflective of both the size of Australia production levels and also its geographical advantage in shipping material over Brazil, which is better placed to export to the European market.

Chinese imports of iron ore by country (Mt), 2008-2010

| | 2008 | | 2009 | | 2010 | |
|---------------|--------------------------|---|--------------------------|---|--------------------------|---|
| | Import volume (Mt) | Percentage of total PRC imports (%) | Import volume (Mt) | Percentage of total PRC imports (%) | Import volume (Mt) | Percentage of total PRC imports (%) |
| Australia | 184 | 41.4 | 262 | 41.7 | 265 | 42.9 |
| Brazil | 101 | 22.7 | 143 | 22.7 | 131 | 21.1 |
| India | 91 | 20.5 | 108 | 17.1 | 97 | 15.6 |
| South Africa | 15 | 3.3 | 34 | 5.4 | 30 | 4.8 |
| Other | 54 | 12.1 | 82 | 13.1 | 96 | 15.6 |
| Total imports | <u>445</u> | <u>100.0</u> | <u>629</u> | <u>100.0</u> | <u>619</u> | <u>100.0</u> |

Source: CRU, GTIS – imports of sinter fines, lump, pellet and pellet feed

Note: Relevant data for 2011 is not yet available

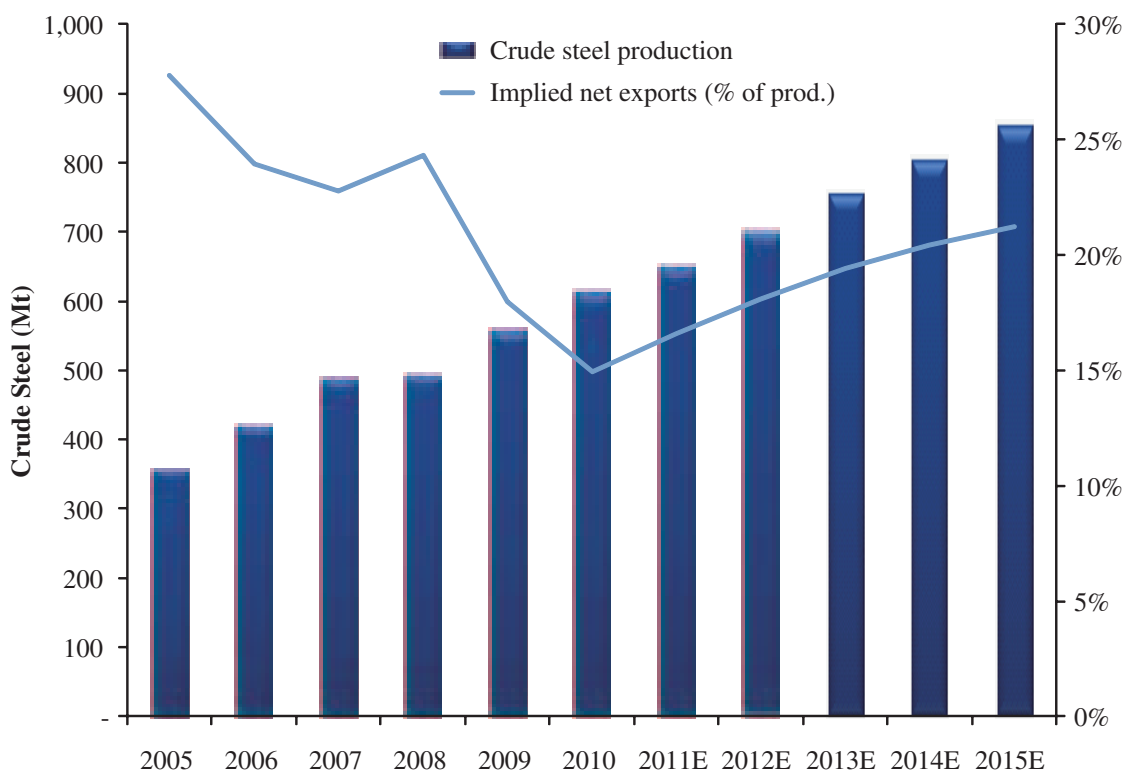
INDUSTRY OVERVIEW

PRC iron ore demand

China is the largest and fastest growing steel producing country, and also the fastest growing in terms of iron ore demand. According to CRU, Chinese iron ore consumption has grown by a CAGR of 8.7% over 2005 to 2011, to reach 975.5 Mt in 2011. This figure refers to iron ore consumed in the iron making process in a more concentrated form equivalent to 62% iron. For any comparison with Chinese iron ore production, this is equivalent to more than 2,800 Mt of Chinese raw iron ore, assuming an average grade of 21% iron content in raw iron ore, or more than twice current domestic raw iron ore production. Moreover, the period is forecast to see domestic ore production being offset with higher tonnages of imported material due to the marginalization of higher-cost iron ore production in China.

The following chart sets forth the Chinese crude steel production for the period from 2005 to 2011 and forecast from 2012 to 2015:

**Chinese crude steel production versus implied net exports,
2005-2015, million tonnes**



Source: NBS, CRU. Note net exports are production minus consumption and do not take into account potential stock changes, potential under-reporting of production and yield loss during production of finished steel.

INDUSTRY OVERVIEW

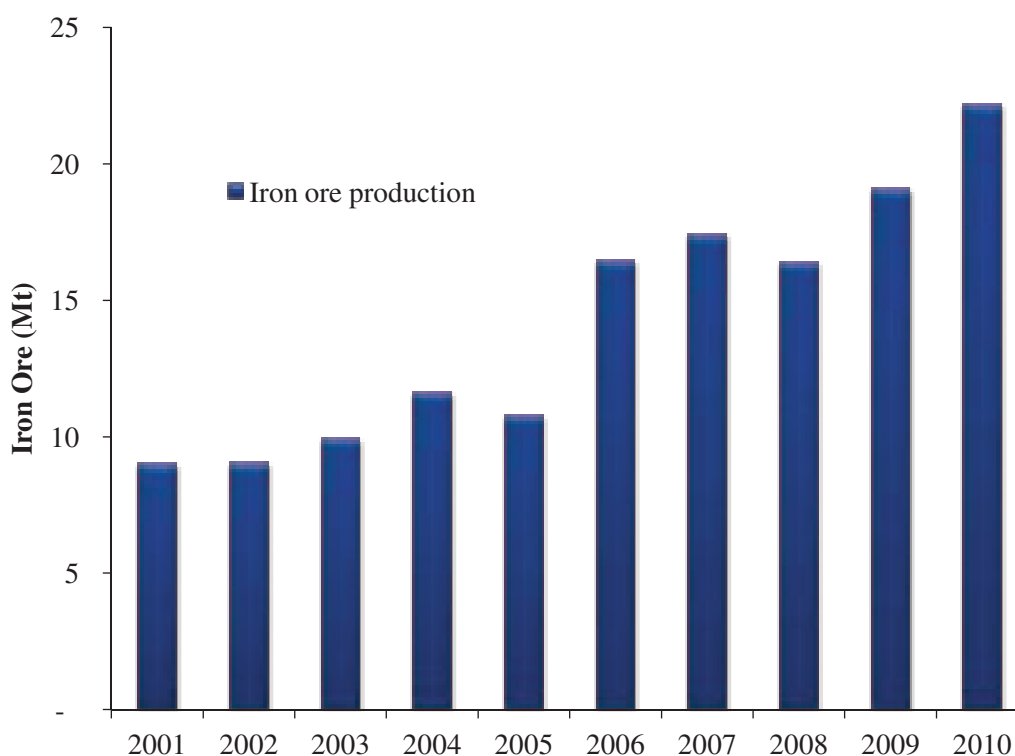
SHANDONG IRON ORE INDUSTRY

Shandong iron ore production

The iron ore production industry in Shandong is well consolidated with 80% of supply in the hands of the top ten producers. Production of raw ore has risen from 9.0 Mt in 2001 to 22.18 Mt in 2010; and increase of 146.4% over ten years. The largest producer in the province is the Laiwu Iron and Steel Group Company Limited at an estimated 3.46 Mt in 2010, followed by the Luzhong Metallurgical and Mining Group Company Limited at 2.72 Mt.

The chart below highlights the production growth in iron ore reported on a run-of-mine basis from 2001 to 2010. Despite this growth Shandong has become increasingly important dependent over the past decade.

Shandong iron ore output 2001-2010 (Mt)



Source: NBS

Note: Relevant data for 2011 is not yet available

INDUSTRY OVERVIEW

Competition

Comparison by reserves and resources

Shandong iron ore reserves are estimated by CRU to total 1,415 Bt in 2010 based upon NBS data, equating to approximately 6.0% of the PRC total while Shandong accounts for around 13.0% of PRC demand for iron ore from steel making. Company by company reserve data is not publicly available in Shandong province however the below table shows the reserve status of companies in Shandong and of some major iron ore mines in Shandong. Shandong Ishine's JORC compliant reserves total 676.9 Mt which represents a significant proportion of the known reserves for Shandong province. As of 2010, CRU estimate that the reserves of Shandong Ishine would have totalled 47.8% of the total known reserves in the province and 2.9% of the PRC total. According to CRU, Shandong Ishine has the largest known iron ore reserves in Shandong province as of 2010. Relevant data for 2011 is not yet available.

Iron ore mines reserves and resources in Shandong by mine, Company data for Iron and Titanium deposits

| Company/Mine Name | Reserves (Mt) | Resources (Mt) | Production 2010 (Mt) |
|--------------------------|--------------------------|---------------------------|---------------------------------|
| Shandong Ishine | 676.85 | 825.16 | 1.97 |
| Luzhong Mining | 129.12 | 112.44 | 2.72 |
| Shandong Jinling | 60.09 | N/A | 2.04 |
| Laigang Laiwu | 51.12 | 31.29 | 3.46 |
| Jigang Mining | 4.16 | 1.21 | N/A |

Data: CRU 2010, Competent Persons Report, Metallurgical Mines' Association of China 2009

INDUSTRY OVERVIEW

Comparison by production

Shandong province had 41 operating iron ore mines in 2010, 23 of which produced less than 300,000 tonnes of iron ore. The table below indicates estimated iron ore production in Shandong from 2008 until 2010 for the largest ten companies:

The information below comes from a variety of sources, such as company websites, and has not been independently verified by CRU.

Iron ore processed in Shandong (million tonnes of raw ore)

| Company name | | 2008 | 2009 | 2010 |
|--------------|---|--------------|--------------|--------------|
| 1 | Laiwu Iron & Steel Grp. Co., Ltd. State-owned | 2.56 | 2.97 | 3.46 |
| 2 | Luzhong Met. Min. Grp. Co., Ltd. State-owned | 2.01 | 2.34 | 2.72 |
| 3 | Jinan Iron and Steel Group State-owned | 1.86 | 2.16 | 2.51 |
| 4 | Shandong Jinling Iron Mine State-owned | 1.51 | 1.75 | 2.04 |
| 5 | Shandong Ishine Private-owned | 1.81 | 1.98 | 2.04 |
| 6 | Zibo Jinshunda Ent. Grp. Co. Private-owned | 0.98 | 1.14 | 1.32 |
| 7 | Zibo Beijing Group Co., Ltd. Private-owned | 0.82 | 0.96 | 1.11 |
| 8 | Jinan Iron & Steel Grp – Shimen State-owned | 0.71 | 0.82 | 0.95 |
| 9 | Zibo Hualian Mining Co., Ltd. State-owned | 0.70 | 0.82 | 0.95 |
| 10 | Zaozhuang Jinzheng Min. Co. Private-owned | 0.67 | 0.78 | 0.90 |
| | Total top ten | 13.62 | 15.71 | 18.00 |
| | Total Shandong | 16.40 | 19.08 | 22.18 |

Data: CRU, Competent Persons Report, Metallurgical Mines' Association of China, Company Websites

Note 1: The above data refers to the raw iron ore processed at our Company rather than the iron ore concentrates produced or sold. Levels of concentrates sold will vary depending upon the iron content of the ore.

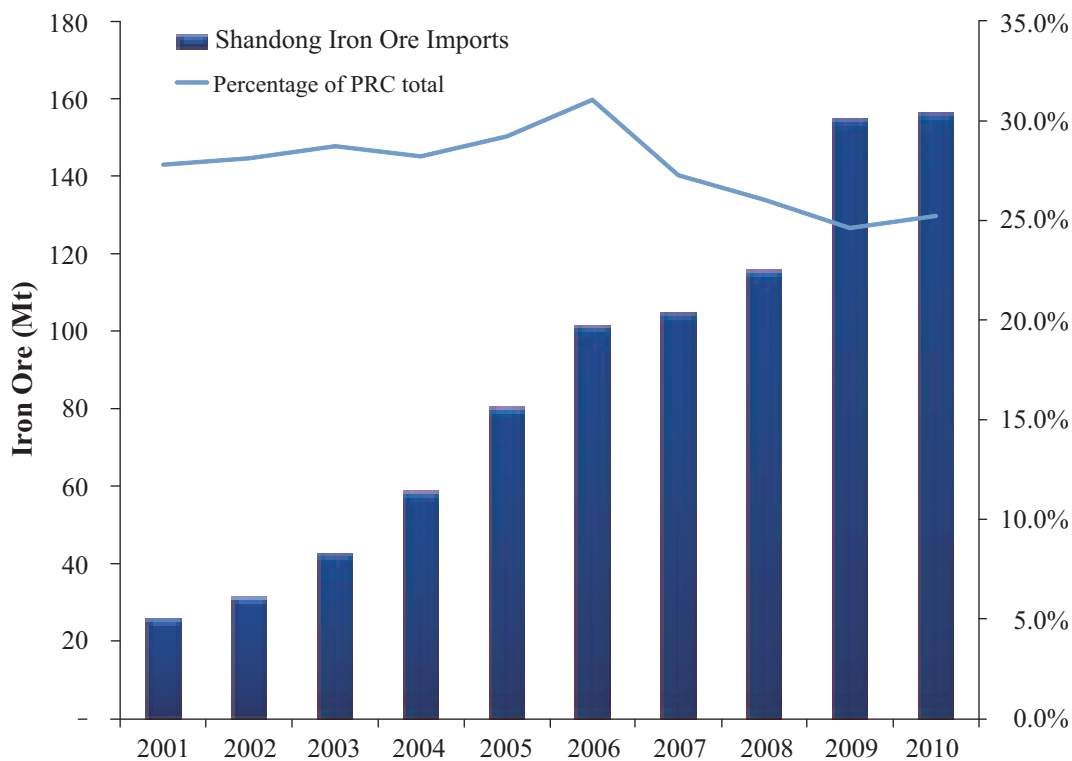
Note 2: Relevant data for 2011 is not yet available.

INDUSTRY OVERVIEW

Shandong iron ore imports

The chart below shows imports to Qingdao district in Shandong Province from 2001 to 2010. The data shows that on average 27.6% of Chinese iron ore imports have arrived in Qingdao, although much of this will have subsequently been shipped to other provinces within China. In 2010 Qingdao district imported 156.2 Mt of iron ore, equivalent to 25.2% of total imports.

Shandong's iron ore imports 2001-2010 (Mt)



Source: GTIS, CRU

Note: Relevant data for 2011 is not yet available

INDUSTRY OVERVIEW

Shandong crude steel production

Shandong's production of crude steel accounted for 8.4% of the country's total crude steel output in 2010 despite the fact that total crude steel output in 2010 was 52.6 Mt which is 45.4 Mt higher than the total crude steel output in 2001, representing an increase of 627%. Since 2001, Shandong's steel production has grown by a CAGR of 24.7%, the fifth fastest growth seen in the PRC and also equating to the third largest increase in tonnage terms as shown in the table below.

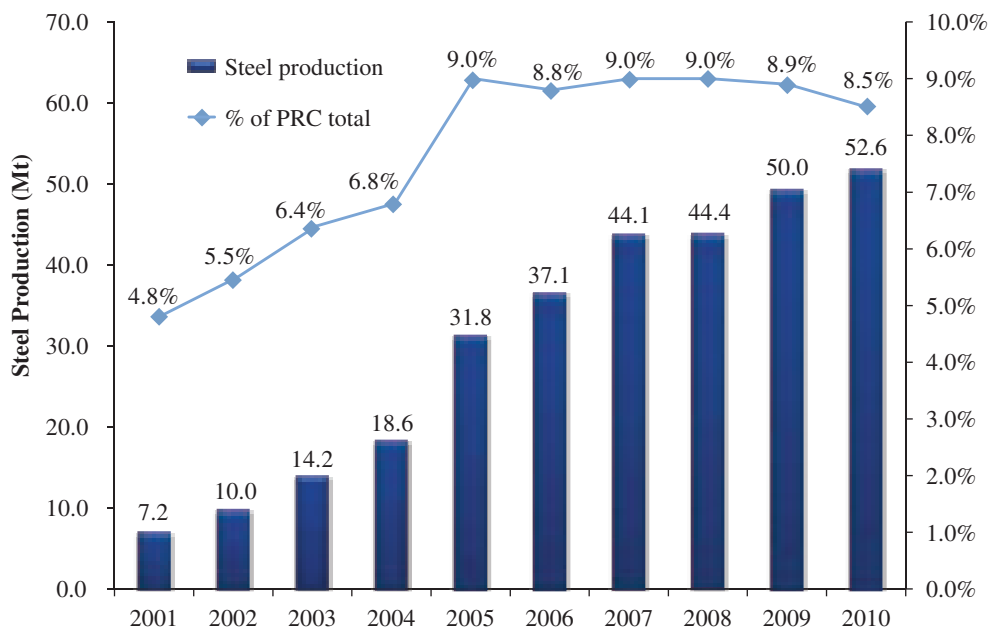
PRC Crude Steel Production, Top 5 Provinces, 2001-2010 (Mt)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Net-Growth 2000- 2010 | CAGR 2000- 2010 |
|-----------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------------------|-----------------------|
| Guangxi | 1.3 | 1.7 | 2.1 | 3.4 | 5.0 | 6.3 | 7.7 | 7.9 | 10.0 | 12.0 | 10.7 | 28.2% |
| Shanxi | 0.7 | 0.9 | 1.8 | 2.3 | 3.1 | 3.9 | 4.0 | 3.0 | 5.3 | 6.0 | 5.4 | 27.2% |
| Jiangsu | 8.5 | 13.3 | 17.4 | 25.7 | 33.0 | 42.0 | 47.2 | 48.6 | 55.1 | 62.4 | 53.9 | 24.8% |
| Hebei | 19.7 | 26.6 | 40.7 | 57.0 | 74.2 | 91.0 | 105.7 | 115.9 | 138.3 | 144.6 | 124.9 | 24.8% |
| Shandong | 7.2 | 10.0 | 14.2 | 18.6 | 31.8 | 37.1 | 44.1 | 44.4 | 50.0 | 52.6 | 45.3 | 24.7% |

Data: CRU, NBS

Note: Relevant data for 2011 is not yet available

Shandong's steel output 2001 – 2010 (Mt)



Source: NBS, CRU

Note: Relevant data for 2011 is not yet available

INDUSTRY OVERVIEW

The steel industry in Shandong Province is dominated by Shandong Steel Group, itself owned by the Shandong Provincial government. Shandong Steel Group was formed in March 2008 with the merger of Jinan Iron and Steel Company and Laiwu Steel Corporation. In September 2009, Shandong Steel Group further expanded by taking a 67% share in Rizhao Steel Holding Group. In 2010, Shandong Steel Group produced 23.2 Mt, 44.1% of the provinces total and making Shandong Steel Group the ninth largest steel maker in the world. Shandong also has a number of smaller steel makers, a selection of which are listed in the table below:

Major Shandong Steel Works Annual Capacity in 2010 (Mt)

| Ownership | Annual capacity (Mt) |
|----------------------|-------------------------|
| Shandong Steel Group | 21.8 |
| Weifang Steel | 5.0 |
| Qingdao Steel | 3.3 |
| Taishan Steel | 3.0 |
| Shandong Jiuyang | 2.0 |
| Xiwang Steel | 0.5 |

Data: CRU

Note: Relevant data for 2011 is not yet available

IRON ORE PRICES

International iron ore prices

International iron ore prices are generally negotiated directly between buyers and sellers and are mostly set on a quarterly basis, although spot, monthly and annual pricing mechanisms are also common. The benchmark level for annual price negotiations was historically set by the first major sinter fine contract signed and announced by one of Vale, BHP Billiton or Rio Tinto with either a major European or Asian steel maker. In 2010 the annual pricing system for iron ore was discontinued and prices have since been primarily set against a daily index price for iron ore sinter fines delivered China on either a spot, monthly or quarterly basis. Iron ore is priced in US cents per “dry metric tonne unit” (US c/dmtu).

Starting around 2004 and becoming particularly intense by 2008, the rapid growth of Chinese steel production, combined with the limited upside production potential available for the local mining industry, caused demand to exceed the production capabilities of the major exporters. This caused large increases in the price of iron ore, both domestically in China and on the international market. For example, the price of Pilbara blend (formerly Hamersley) fines, fob Dampier, selling to Japanese steel makers was US 60c/dmtu in 2005, rising to reach 140c/dmtu in 2008. The global economic slowdown from late 2008 hit industrial production

INDUSTRY OVERVIEW

and steelmaking particularly hard, and iron ore prices fell significantly. The benchmark Pilbara blend fines price fell to 94c/dmtu in 2009. A strong recovery in steel, and hence iron ore demand, saw prices rising in 2010. The 2010 benchmark price Pilbara blend fines was 214c/dmtu.

The following table sets forth the movement of international iron ore benchmark prices from 2005 to 2011:

Historical international iron ore prices, benchmark prices, 2005-2011 (US c/dmtu)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|------|------|------|------|------|------|------|
| Itabira fines 65% Fe, contract price (US cents/dmtu fob) | 63 | 74 | 81 | 134 | 97 | 164 | 251 |
| Pilbara blend fines 62% Fe, contract price (US cents/dmtu fob) | 60 | 71 | 78 | 140 | 94 | 179 | 260 |

Data: CRU, June 2011

Note: Values are in nominal US dollars. Fiscal year data, April-March. Pilbara Blend fines based on 62% Fe, Vale fines based on 65% Fe content.

PRC iron ore prices

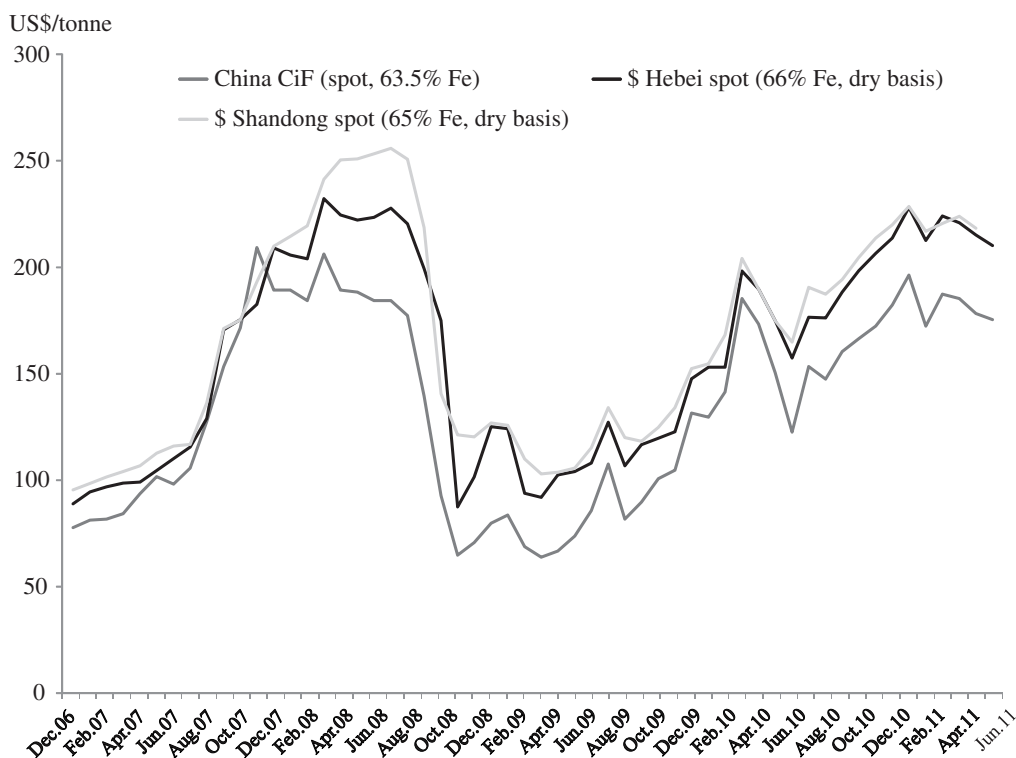
A large percentage of iron ore products imported into China are purchased on spot prices, or against an index of spot prices. Domestic prices of iron ore products across all provinces in China are influenced by imported ore prices, especially those imported on a spot basis.

With the recovery in economic growth in late 2009 to 2010, spot prices for iron ore products increased sharply. The upward trend commenced in October 2009 and, by April 2010, spot prices for iron ore products were as high as US\$186/tonne (fines C&F China 63.5% Fe). A moderation in steel output in the second half of 2010 led to a slight weakening in ore prices, but a rally at the end of the year and into 2011 has led to spot prices in Q1 and Q2 2011 reaching close to historically peak levels.

The chart below shows monthly Chinese iron ore prices for different grades of concentrates in different geographical locations. This also highlights that while there are different grades of iron ore traded, the underlying trends in prices remain the same. It also highlights that iron ore prices in Shandong, such as the Shandong Ishine's, were traded at a premium to other domestic markets.

INDUSTRY OVERVIEW

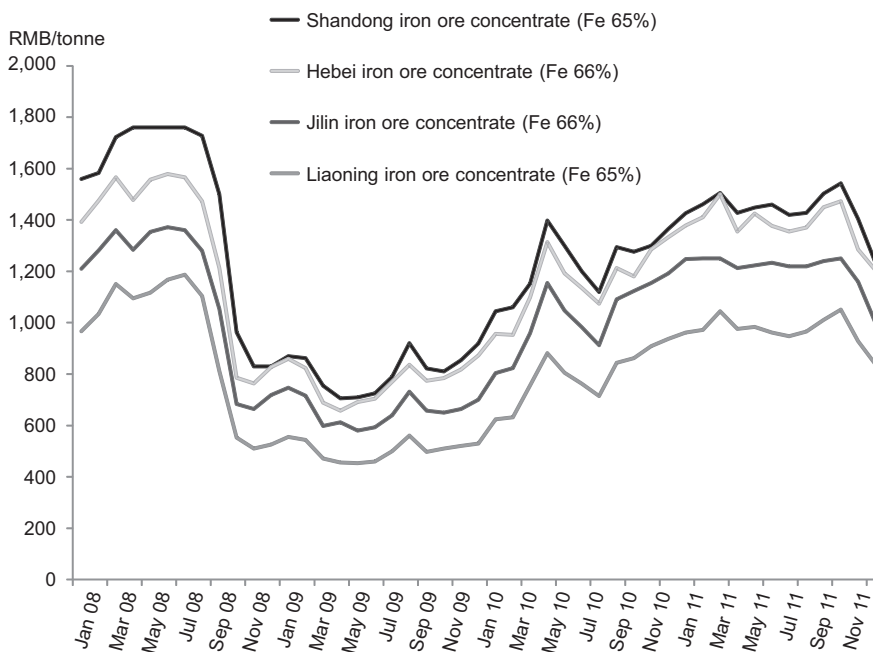
Monthly Chinese iron ore spot prices (US\$/tonne)



Source: CRU

The chart below further illustrates that Shandong province has historically recorded premiums over other domestic markets in monthly iron ore spot prices:

Monthly Chinese Iron Ore Spot Prices (RMB/tonne)



Source: Mysteel, CRU

INDUSTRY OVERVIEW

In 2011 demand for iron ore increased further, with the demand from China remaining strong in particular, as supply struggled to keep up. In the first half of 2011, the supply of imported iron ore into China from India remained constrained, whilst announced increases in Australian and Brazilian supply did not fully meet the supply gap. Instead, the production of Chinese iron supply has risen to meet demand.

Prices are expected to moderate over the period to 2015, as new supply comes on stream, predominantly from Australia and Brazil. By tracking the production schedules of a large number of newly expanded or commissioned mines in Australia and Brazil, it is forecasted by CRU that production volumes of iron ore in Australia and Brazil will increase by approximately 220.1 Mt and 157.2 Mt respectively per year by 2015. Such additional production volume is forecasted to represent excess volume over their domestic consumption, which will be exported to the global seaborne market. However, prices should remain well above historical standards. Strong demand growth, especially in Chinese seaborne demand, combined with highly consolidated supply, will ensure that high cost ore supply continues to be in demand, especially as we expect Indian exports to decline.

The following table shows historical and forecast prices for fines products imported into China over 2008 to 2015E:

Chinese imported and domestic iron ore prices (2008-2015e), US cents/dmtu

| | 2008 | 2009 | 2010 | 2011 | 2012e | 2013e | 2014e | 2015e |
|---|------|------|------|------|-------|-------|-------|-------|
| Imported 62% Fe fines, delivered | | | | | | | | |
| China port, inc VAT | 245 | 133 | 245 | 284 | 249 | 263 | 258 | 247 |
| Shandong Concentrates, 65% Fe fines, including VAT | 356 | 199 | 307 | 369 | 349 | 372 | 363 | 348 |

Source: CRU, nominal, calendar year, prices include VAT at 17% (13% in 2008). Imported 62% fines assumes 6% moisture and Shandong Concentrates assume 8.7% moisture

POLICIES AND REGULATIONS SUPPORTING GROWTH IN THE PRC MINING AND STEEL INDUSTRIES

Facing the rapid development of China's steel and mining industries, the PRC Government has focused on establishing and implementing policies to regulate the development of these industries, as well as their impact on the environment and international trade.

INDUSTRY OVERVIEW

Policies for the Development of the PRC Iron and Steel Industry

Development policy for the PRC iron and steel industry

Since 2003, China has imposed adjustments and controls at a micro level over the steel industry. The State Council promulgated the *Interim Provisions for Promoting Adjustment on the Industrial Structure* (Guo Fa [2005] No. 40) (《促進產業結構調整暫行規定》(國發[2005]40號)) in 2005 and the *Notice of State Council on Accelerating and Pushing the Structural Adjustment of Industries with Excess Capacity* (Guo Fa [2006] No. 11) (《國務院關於加快推進產能過剩行業結構調整的通知》(國發[2006]11號)) in 2006 and the NDRC issued the *Development Policy for Iron and Steel Industry* (NDRC Decree No. 35) (《鋼鐵產業發展政策》(國家發改委第 35 號令)) in 2005 (“Development Policy”).

The Development Policy provides that the State shall restrict the export of primary products that consume high units of energy and result in a large amount of pollution, such as coke, ferrous alloy, pig iron, scrap, steel billets and ingots. The Development Policy encourages iron and steel enterprises to manufacture high-strength steel and hot rolled ribbed bars of Grade III (400 Mtpa) and above.

China’s State Council approved the *Steel Industry Support Plan* in principle on 14 January 2009 and promulgated the *Adjustment and Revitalization Plan for the Steel Industry* (《鋼鐵產業調整和振興規劃》) on 20 March 2009 to support the steel industry. The details of the plan include the following: (i) steel consumed in construction projects in China is expected to constitute approximately 50% of total steel consumed; (ii) emphasis on promoting corporate restructuring and promote industry consolidation; and (iii) focus on the exploration of iron resources and ensuring production safety to improve domestic iron production.

Policies for the Development of Mine Exploration and Mining

Policies and regulation of mine exploration and mining

In addition to the development of the iron and steel industry, the Development Policy also gives directives related to raw materials. The Development Policy encourages large-scale steel enterprises to explore and develop iron ore resources, although a mining permit must be obtained for the mines. New mining projects with iron ore reserves of 50 Mt or more are subject to verification or approval by the NDRC.

In 1999, the Ministry of Finance and the MLR jointly issued the *Measures on Administration of the Use Fee and Payment for Exploration Rights and Exploitation Rights* (《探礦權採礦權使用費和價款管理辦法》), which provides that the exploration rights utilization fee must be calculated for the year of exploration and paid annually according to the block area at a price of RMB100 per km² each year starting from the first year of exploration through to the third year of exploration. In addition, RMB100 per km² for every additional year starting from the fourth year of exploration must be paid, up to RMB500 per km² each year. The mining rights utilization fee must be paid annually according to a mine area of RMB1,000 per km².

INDUSTRY OVERVIEW

As early as September 2000, six ministries, including the MLR, jointly issued the *Several Opinions about Further Encouraging Foreign Investment in Exploitation and Mining of Non-oil-or-gas Mineral Resource* (《關於進一步鼓勵外商投資勘查開採非油氣礦產資源的若干意見》), which provides for the further development of the exploration and mining rights market of domestic non-oil-or-gas mineral resources and the encouragement of foreign investment in exploration and mining of non-oil-or-gas mineral resources, particularly in the western regions of China.

In December 2003, the Information Office of the State Council issued the white book, *China's Policy on Mineral Resources* (《中國的礦產資源政策》), and mentioned that China will mainly rely on the development of domestic mineral resources to meet the demand of modern construction requirements. The PRC Government encourages the exploration and development of mineral resources demanded by the market, particularly mineral resources found in the western regions of China, in order to improve the availability of domestic mineral products.

In January 2004, the State Council officially issued the *Regulations on Production Safety Permits* (the State Council's Decree No. 397) (《安全生產許可證條例》) (國務院令 (第397號)), which stipulates that the State has adopted the requirement for production safety permits for certain enterprises. Mining enterprises are not permitted to engage in any production activities until production safety permits have been obtained.

The State Council issued in 2006 the *State Council's Decision on Enhancing Geological Work* (Guo Fa [2006] No. 4) (《國務院關於加強地質工作的決定》) (國發 [2006]4號), which further expresses that China will enhance the exploration and mining of mineral resources.

While continuously enhancing the exploration and mining of mineral resources, the State has also issued, from time to time, policies to regulate the development and utilization of mineral resources.

The MLR issued in December 2007 the *Notice on Adoption of Uniform Numbering of Exploration Rights across the Country* (《關於實行全國探礦權統一配號的通知》), which stipulates that as of 1 January 2008, the creation, modification, extension and continuance of exploration rights, as well as geological investigation, are subject to the registration and approval by the exploration rights registration authority after which an exploration permit number is electronically generated.

On 3 March 2008, the State Council published the *Regulation on Administration of Qualification for Geological Exploration* (中華人民共和國國務院令 (第520號) 《地質勘查資質管理條例》), which became effective on 1 July 2008 and stipulates that the geological exploration units are not permitted to conduct any geological exploration activities for their consignors until the relevant mineral resource exploration or mining permits have been duly obtained.

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On 3 March 2008, the MLR issued the notice on *National Plan on Geological Exploration* (《全國地質勘查規劃》), containing the objectives planned for geological exploration in China by 2010 including major breakthroughs in mineral exploration, large increases in the availability of domestic mineral resource, establishment of backup areas in the western regions of China for the exploration and development of important resources and increases in newly-identified iron ore reserves by 5,000 Mt.

The MLR officially issued the *National Mineral Resources Plan (2008-2015)* (《全國礦產資源規劃》) on 31 December 2008 in an attempt to promote the substitutability of mineral resources. The *National Mineral Resources Plan (2008-2015)* stipulates that the national newly-added iron ore ensured reserve will amount to 3,000 Mt from 2008 to 2010 and further expand to 6,000 Mt from 2011 to 2015. Meanwhile, iron ore production will increase to 940 Mt in 2010 and to 1,100 Mt in 2015.

12th Five-year Plan

The 12th *Five-Year Plan* of the PRC (“**PRC Plan**”) was approved by the fourth session of the Eleventh National People’s Congress on 14 March 2011. The PRC Plan recognises the importance of the mineral resource industry and aims to increase production efficiency and enhance the comprehensive utilization of mineral resources. Under the PRC Plan, the PRC Government will promote the geological exploration, conservation and reasonable exploitation of mineral resources in the pursuit of forming strategic and sustainable resources, and establishing a reserve system for key mineral resources.

Shandong Stimulus

The Shandong’s provincial government has announced a number of plans to over the 2011-2015 period with the intention of achieving 9% GDP growth per annum over the forecast period. This is 2% higher than the central government’s stated target of 7% GDP growth per annum.

In relation to the iron and steel industry a stated aim of the provincial government is to develop the state-owned Shandong Steel Group to be a top 10 global steel group with 38 million tonnes per annum of crude steel production. Shandong Steel Group produced 23.2 Mt of steel in 2010, making Shandong Steel Group the 9th largest steel producer in the world. The provincial government also plans to develop several specialised steel groups with 1-5 Mt per annum of crude steel capacity.

Other developments in the industry refer to modernising and reducing the environmental impact. These include upgrading over 70% of blast furnaces to be larger than 1,000 m³ and converters larger than 120 tonnes; production of flat rolled products to reach over 55% of the total crude steel production; coal consumption to be reduced to 596kg/tonne; waste gas emission to be reduced to below 1kg/tonne and SO₂ emission to be reduced to below 1.8kg/tonne.

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The table below shows comparative provincial GDP levels and growth rates over the past ten years. At 12.2% CAGR Shandong province has witnessed the fourth fastest rate of growth and the third largest increase in total GDP growth within the PRC.

PRC Provincial GDP Growth (Bn 2005 RMB)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Net- Growth 2000- 2010 | CAGR 2000- 2010 |
|------------------|------|------|------|------|------|------|------|------|------|------|------|---------------------------------|-----------------------|
| Guangdong | 1121 | 1239 | 1393 | 1599 | 1835 | 2094 | 2379 | 2723 | 2943 | 3158 | 3458 | 2337 | 11.9% |
| Jiangsu | 939 | 1035 | 1156 | 1314 | 1508 | 1727 | 1963 | 2247 | 2479 | 2726 | 2996 | 2056 | 12.3% |
| Shandong | 922 | 1014 | 1133 | 1285 | 1483 | 1705 | 1935 | 2202 | 2414 | 2650 | 2909 | 1987 | 12.2% |
| Zhejiang | 675 | 747 | 841 | 964 | 1104 | 1246 | 1404 | 1604 | 1729 | 1842 | 2010 | 1335 | 11.5% |
| Henan | 573 | 624 | 684 | 757 | 861 | 983 | 1113 | 1270 | 1394 | 1512 | 1656 | 1083 | 11.2% |
| Hebei | 546 | 594 | 651 | 726 | 820 | 929 | 1043 | 1172 | 1263 | 1359 | 1489 | 942 | 10.5% |
| Shanghai | 489 | 540 | 601 | 675 | 771 | 859 | 957 | 1099 | 1180 | 1249 | 1340 | 851 | 10.6% |
| Liaoning | 439 | 478 | 527 | 588 | 663 | 747 | 844 | 967 | 1074 | 1188 | 1323 | 884 | 11.7% |
| Sichuan | 404 | 440 | 485 | 540 | 609 | 686 | 770 | 878 | 954 | 1069 | 1201 | 797 | 11.5% |
| Hunan | 374 | 408 | 444 | 487 | 546 | 612 | 684 | 783 | 873 | 971 | 1085 | 711 | 11.2% |
| Hubei | 376 | 410 | 447 | 491 | 546 | 612 | 685 | 782 | 869 | 964 | 1080 | 704 | 11.1% |
| Fujian | 365 | 397 | 437 | 488 | 545 | 609 | 691 | 793 | 878 | 964 | 1071 | 706 | 11.4% |
| Beijing | 366 | 409 | 456 | 506 | 577 | 647 | 723 | 825 | 881 | 950 | 1022 | 656 | 10.8% |
| Anhui | 302 | 329 | 361 | 395 | 447 | 497 | 553 | 629 | 694 | 767 | 857 | 554 | 11.0% |
| Heilongjiang | 309 | 338 | 373 | 411 | 459 | 512 | 568 | 634 | 693 | 756 | 830 | 521 | 10.4% |
| Inner Mongolia | 165 | 182 | 206 | 243 | 293 | 363 | 427 | 507 | 585 | 669 | 750 | 586 | 16.4% |
| Tianjin | 188 | 211 | 237 | 273 | 316 | 363 | 412 | 474 | 540 | 615 | 705 | 517 | 14.1% |
| Shaanxi | 209 | 229 | 254 | 284 | 321 | 365 | 412 | 475 | 541 | 601 | 672 | 463 | 12.4% |
| Guangxi | 222 | 240 | 265 | 293 | 327 | 370 | 416 | 477 | 526 | 587 | 654 | 432 | 11.4% |
| Jiangxi | 217 | 236 | 261 | 295 | 334 | 377 | 419 | 472 | 523 | 579 | 644 | 427 | 11.5% |
| Jilin | 203 | 221 | 242 | 267 | 300 | 336 | 382 | 442 | 502 | 558 | 619 | 417 | 11.8% |
| Shanxi | 210 | 232 | 261 | 300 | 346 | 393 | 438 | 506 | 538 | 554 | 616 | 406 | 11.3% |
| Chongqing | 192 | 209 | 230 | 257 | 288 | 322 | 358 | 413 | 463 | 521 | 595 | 403 | 12.0% |
| Yunnan | 209 | 224 | 244 | 265 | 295 | 321 | 355 | 397 | 430 | 471 | 516 | 307 | 9.4% |
| Xinjiang Weiwuer | 150 | 163 | 176 | 196 | 218 | 242 | 266 | 297 | 323 | 341 | 368 | 218 | 9.4% |
| Guizhou | 113 | 123 | 135 | 148 | 165 | 186 | 208 | 238 | 259 | 282 | 311 | 197 | 10.6% |
| Gansu | 108 | 118 | 130 | 144 | 161 | 180 | 198 | 222 | 239 | 258 | 281 | 173 | 10.1% |
| Hainan | 52 | 56 | 62 | 68 | 75 | 83 | 93 | 108 | 116 | 127 | 144 | 92 | 10.8% |
| Ningxia | 34 | 37 | 41 | 46 | 51 | 57 | 63 | 71 | 78 | 86 | 95 | 61 | 10.9% |
| Qinghai | 29 | 32 | 36 | 40 | 45 | 50 | 57 | 64 | 71 | 77 | 86 | 58 | 11.7% |
| Tibet (Xizang) | 13 | 15 | 16 | 18 | 21 | 23 | 26 | 29 | 32 | 35 | 38 | 25 | 11.5% |

Data: CRU, NBS

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INTRODUCTION TO TITANIUM MINERALS

Titanium minerals and their main use

Around 95% of titanium minerals are used in the production of pure titanium dioxide, TiO₂, according to the International Titanium Association. Titanium dioxide can be used as a pigment to provide whiteness and brightness to paints, ink, papers, cosmetics, plastics, food products, and other materials. It is also used as a strengthening agent in graphite composite sport instruments, such as fishing rods and golf clubs.

Titanium dioxide pigments are expected to continue to dominate the titanium market for the foreseeable future. Demand for titanium dioxide pigments is broadly expected to track total GDP growth on a country by country basis, as the titanium dioxide pigments are used as coating or colourant in a range of applications, from children's toys to car paint. As a result, titanium demand is set to benefit from the gradual recovery in world economic growth after the negative effects of the global downturn in 2009.

Only around 5% of titanium minerals are used to manufacture titanium metal (often referred to as titanium sponge metal due to its porous appearance), according to the International Titanium Association. Titanium offers strength and resistance to corrosion, whilst also being lightweight. As a result, it is used as an alloying element with other metals, such as iron, aluminium, molybdenum, and vanadium, to produce strong and lightweight mill products. The alloys produced are utilised in applications where their high strength to weight ratio is crucial including sectors of aerospace and defence (for example aircraft parts or armoured vehicles), automotive, and medicine and other applications.

Another use of titanium minerals are used to produce titanium-iron pellets, which can be used in steel making blast furnaces to temporarily increase the temperature of the furnace. While this reduces the efficiency of the furnace for that particular melt it has the benefit of helping to clean the refractory lining of the furnace, therefore increasing efficiency in future melts and reducing the need for maintenance or replacement of refractory linings and the associated downtime.

Titanium supply

The two titanium ore forms which are most common and commercially exploitable occurring in nature are rutile and ilmenite. Ilmenite supplies about 91% of the world's demand for titanium minerals.

USGS estimates that the world's ilmenite and rutile reserves totalled to 690 Mt of contained titanium dioxide, whilst world resources of anatase, ilmenite, and rutile total to more than 2 billion tonnes of contained titanium dioxide. The countries endowed with most titanium minerals reserves are China, Australia, India, South Africa, and Brazil.

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The following chart sets forth the estimated global distribution of titanium minerals production and reserves in terms of ilmenite and rutile:

World Titanium Production and Reserves in 2010 by country

| | Ilmenite | | Rutile | |
|------------------------------|--|----------------------------------|--|----------------------------------|
| | Mine production (thousand tonnes) | Reserves (thousand tonnes) | Mine production (thousand tonnes) | Reserves (thousand tonnes) |
| United States | 200 | 2,000 | Note | Note |
| Australia | 1,070 | 100,000 | 280 | 18,000 |
| Brazil | 43 | 43,000 | 3 | 1,200 |
| Canada | 700 | 31,000 | N/A | N/A |
| China | 600 | 200,000 | N/A | N/A |
| India | 420 | 85,000 | 20 | 7,400 |
| Mozambique | 350 | 16,000 | 2 | 480 |
| Norway | 320 | 37,000 | N/A | N/A |
| South Africa | 1,120 | 63,000 | 130 | 8,300 |
| Sierra Leone | N/A | N/A | 67 | 3,800 |
| Ukraine | 300 | 5,900 | 57 | 2,500 |
| Vietnam | 410 | 1,600 | N/A | N/A |
| Other countries | 225 | 66,000 | 18 | 400 |
| World Total (rounded) | 5,800 | 650,000 | 580 | 42,000 |

Note 1: United States rutile production and reserves data are included with ilmenite

Note 2: Relevant data for 2011 is not yet available

Source: USGS

Global mine production is estimated by the USGS to have totalled about 6.3 Mt of contained titanium dioxide in 2010, up 9% from 2009. The main producing countries in 2010 were Australia and South Africa, accounting for around one-fifth each. Other producing countries were Canada, China, India, Mozambique, Norway, Vietnam, and the Ukraine.

The largest importer of titanium ores and concentrates was China, which imported about 2 Mt in 2010³. The second largest importer was the USA which imported about 0.8 Mt of titanium ores and concentrates in 2010, primarily from Australia, South Africa and Mozambique. The largest exporter of titanium ores and concentrates was South Africa which exported about 1 Mt of titanium ores and concentrates in 2010. Other important exporters were Australia⁴, India, Ukraine, and Mozambique.

³ Trade data for titanium ores and concentrates is based on data from Global Trade Information Services under the HS code of 261400.

⁴ CRU notes that exports of ores and concentrates reported by Australia are less than 55,000 tonnes, but imports reported by other countries from Australia are far in excess of this level. For example, the cumulative reported imports into China, Japan, the USA from Australia equal 0.8 Mt in 2010. In reality CRU believes it is a significant exporter of titanium minerals.

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Global titanium sponge metal production is estimated to have totalled around 145,000 tonnes in 2010, based on USGS. This resulted in a global utilisation rate of around 61%. China accounted for around 37% of this production, whilst Russia and Japan represented around a fifth of production each. Other countries producing titanium sponge metal include the USA, Kazakhstan and the Ukraine.

Global titanium dioxide pigment capacity is estimated to have been 5.7 Mt in 2010. Over a quarter (26%) of this capacity was located in the USA. China is also an important pigment producer, with a production capacity of about 1.1 Mt in 2010. Other important countries/countries for the manufacture of titanium pigments include Japan, Australia, Western Europe, Mexico, Ukraine and Russia.

The table below sets forth the world's titanium sponge metal production and titanium sponge metal and titanium dioxide pigment production capacity in 2010:

World's sponge metal production and sponge and pigment production capacity in 2010 (tonnes)

| | Sponge metal production | Sponge metal production capacity | Pigment production capacity |
|-----------------|-------------------------|----------------------------------|-----------------------------|
| USA | 13,250 | 24,000 | 1,480,000 |
| Australia | – | – | 281,000 |
| Belgium | – | – | 74,000 |
| Canada | – | – | 90,000 |
| China | 53,000 | 80,000 | 1,100,000 |
| Finland | – | – | 130,000 |
| France | – | – | 125,000 |
| Germany | – | – | 440,000 |
| Italy | – | – | 80,000 |
| Japan | 30,000 | 60,000 | 309,000 |
| Kazakhstan | 15,000 | 26,000 | 1,000 |
| Mexico | – | – | 130,000 |
| Russia | 27,000 | 38,000 | 20,000 |
| Spain | – | – | 80,000 |
| Ukraine | 6,500 | 10,000 | 120,000 |
| UK | – | – | 300,000 |
| Other Countries | – | – | 900,000 |
| Total | 144,750 | 238,000 | 5,660,000 |

Note 1: US sponge metal production is based on apparent production derived from USGS figures, as actual production data is withheld. This figure represents and implied utilisation of around 61%.

Note 2: Relevant data for 2011 is not yet available.

Data: USGS, compiled by CRU

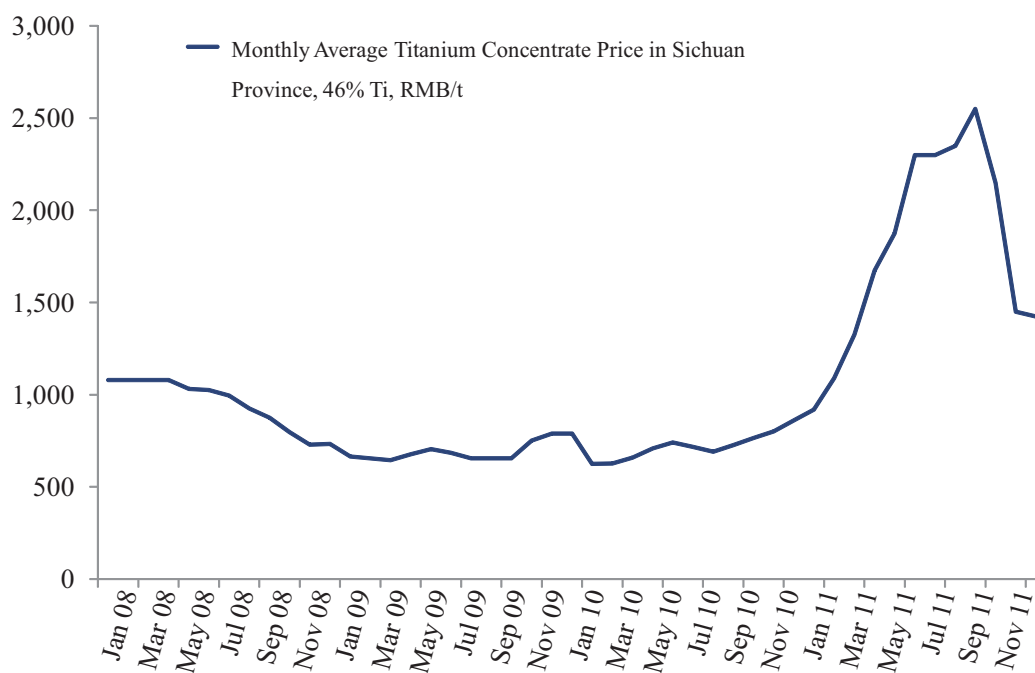
INDUSTRY OVERVIEW

Titanium prices

Titanium prices are based on spot market transactions and longer term contracts, and there is no exchange market to determine benchmark prices. Spot price transactions are published by various market research bodies such as Asian Metal and Metal Bulletin.

Concentrates prices for rutile are generally higher than those for ilmenite because rutile has a higher titanium content and requires less processing. The charts below show a selection of titanium prices for titanium concentrates and also for high purity titanium sponge metal.

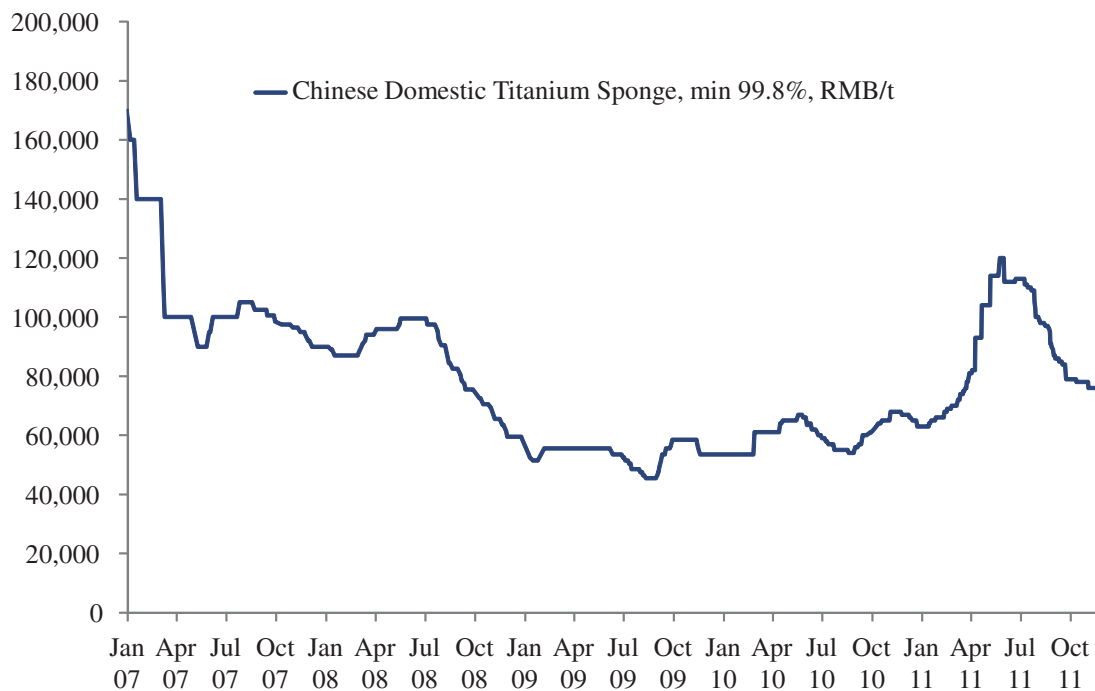
Titanium concentrates price, RMB/t



Source: Asian Metals

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Chinese titanium sponge metal prices, RMB/t



Source: Asian Metals

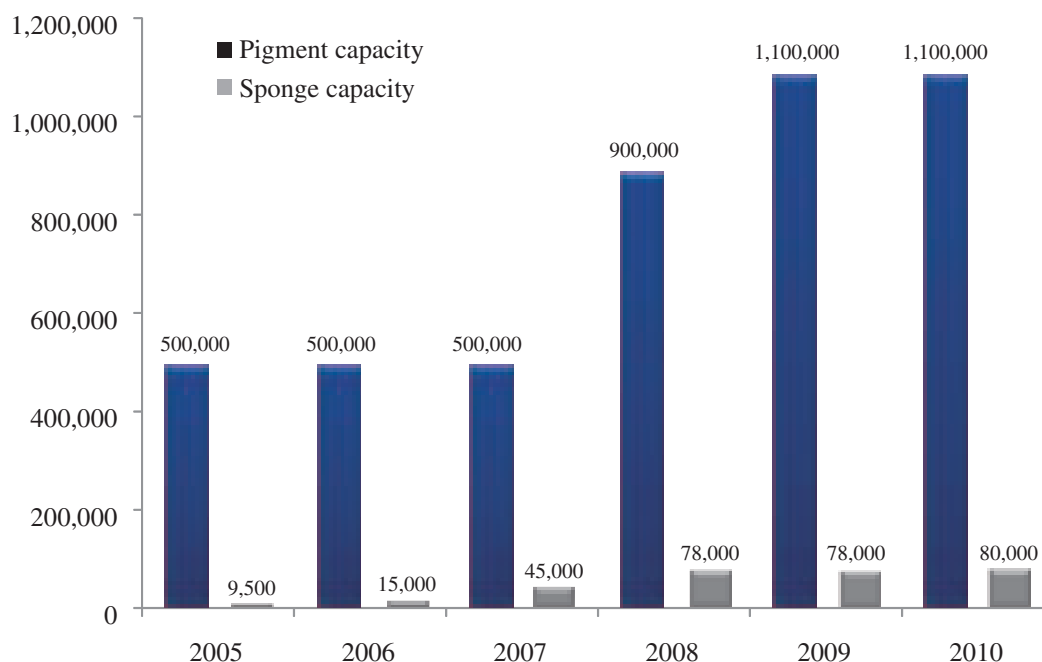
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Overview of the Chinese titanium market

Chinese ilmenite mine production totalled 600,000 tonnes of contained titanium (Ti) in 2010, according to USGS. Prior to 2009, Chinese mine production had been steadily growing, for example, ilmenite output was 400,000 tonnes Ti in 2003, and by 2008 had reached 600,000 tonnes Ti, according to USGS estimates. In 2009, however, a reduction in global demand for titanium products led to a reduction in output to 500,000 tonnes Ti, but with improvements in demand output is believed to have recovered to 600,000 tonnes Ti in 2010.

The charts below set forth the titanium sponge metal and titanium dioxide pigment production capacity of China from 2005 to 2010 and Chinese mine production during the same period:

Chinese titanium sponge metal and titanium dioxide pigment capacity, tonnes, 2005-2010

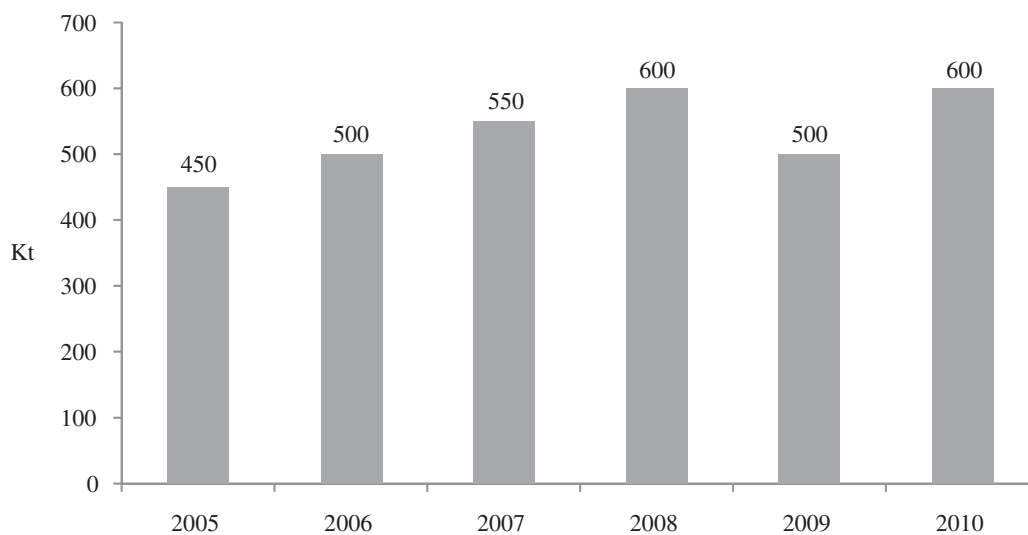


Source: USGS

Note: Relevant data for 2011 is not yet available

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**Chinese titanium mine production (ilmenite only),
contained TiO₂, 2005-2010**



Source: USGS

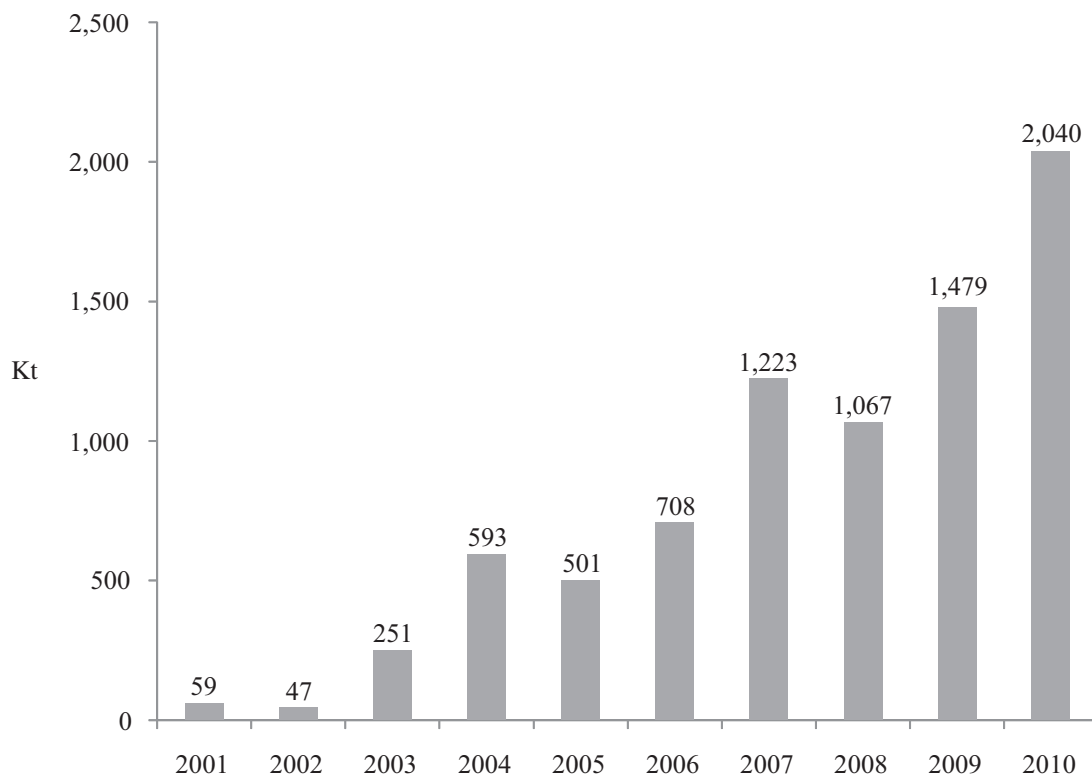
Note: Relevant data for 2011 is not yet available

Chinese imports of titanium ores and concentrates have increased markedly in recent years, rising fourfold from about 0.5 Mt in 2005 to about 2 Mt in 2010. Its main sources of ores and concentrates were from Vietnam (0.8 Mt in 2010), Australia (0.4 Mt in 2010), and India (0.4 Mt in 2010).

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The chart below shows the growth in Chinese reliance on imported titanium concentrates from 2001 to 2010:

Chinese imports of titanium concentrates, 2001-2010



Source: CRU, GTIS

Note: Relevant data for 2011 is not yet available

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PRC LAWS AND REGULATIONS

Overview

With the aim of promoting industrial restructuring, the State Council and the National Development and Reform Commission promulgated the “Interim Provisions on Promoting Adjustment to Industrial Structure” and the “Guiding Catalogue for the Adjustment of Industrial Structure” on 2 December 2005. According to the above-mentioned catalogue, related enterprises are categorised into three types of industries: encourage, restricted and prohibited. Industries that have not been included in the above three categories of the “Guiding Catalogue for the Adjustment of Industrial Structure” (such as iron ore mining industry) as confirmed by relevant laws, regulations and policies of China are considered to be permitted.

Mining Laws

“Mining Resources Law” and its implementation rules

In accordance with the “Mining Resources Law” 《礦產資源法》 which was promulgated on 19 March 1986, officially implemented on 1 October 1986 and revised on 29 August 1996 and the “Rules for Implementation of the Mining Resources Law” 《礦產資源法實施細則》 promulgated on 26 March 1994, (a) the ownership of mining resources belongs to the State and is to be exercised by the State Council on the behalf of the State; (b) departments that are responsible for geology and mining resources under the State Council may supervise and manage the exploration and exploitation of mining resources nationwide upon authorisation of the State Council. Departments which are responsible for geology and mining resources in the provinces, autonomous regions and municipalities directly under the Central Government shall supervise and manage the exploration and exploitation of mining resources within their respective scope of administration; and (c) any enterprise must apply for various prospecting and mining rights in accordance with relevant laws, regulations and policies of China prior to the exploration and exploitation of mining resources. Mining enterprises may undertake survey within specified mining areas that have obtained mining rights as according to their proposed production.

“Provision on the Administration of the Collection of Mining Resources Compensation Fees”

In accordance with the “Provision on the Administration of the Collection of Mining Resources Compensation Fees” 《礦產資源補償費徵收管理規定》 which was promulgated on 27 February 1994, officially implemented on 1 April 1994 and revised on 3 July 1997, in the case that a mining right holder decides to exploit mining resources within the territory of China and in the sea areas under its jurisdiction, unless otherwise as specially provided in the laws or administrative regulations of China, the mining resources compensation fees shall be paid by the mining right holder.

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“Measures for the Registration and Administration of Mining Resources Exploitation”

The “Measures for the Registration and Administration of Mining Resources Exploitation” 《礦產資源開採登記管理辦法》 (“State Council Document No. 241”) was promulgated by China’s State Council and was officially implemented on 12 February 1998. According to the essence in State Council Document No. 241, for any change in relation to the scope of mining area, key mining minerals, exploitation method and the name of mining enterprise and/or any transfer of mining rights as approved in accordance with the laws, mining right holders must submit registration applications in respect of the changes to relevant registration authorities within the term of the mining permit. In the case that exploitation has still to be continued upon expiry of the mining permit, mining right holders must submit applications to the registry for extension within 30 days prior to the expiry of the mining permit. In the case that a mining right holder fails to submit application for extension prior to the expiry of the mining permit, the mining permit will be automatically terminated.

“Measures for the Administration of the Transfer of Prospecting and Mining Rights”

In accordance with the “Measures for the Administration of the Transfer of Prospecting and Mining Rights” 《探礦權採礦權轉讓管理辦法》 promulgated by the State Council of the People’s Republic of China on 12 February 1998, prospecting and mining rights cannot be transferred except for the following circumstances, (a) prospecting right holders have the right to carry out specified explorations in the designated areas and the priority to obtain mining rights for mining resources within the exploration areas. Prospecting right holders may transfer the prospecting right to other parties after fulfilling the specified minimum input to exploration and obtaining approval; (b) in the case that mining enterprises which have obtained mining rights are required to change the entity of the mining right as a result of the change in the ownership of the enterprise’s assets arising from the enterprise’s merger, separation, joint venture or cooperative operation with other parties, asset disposal or other circumstances, they may transfer the mining right to other parties for exploitation upon approval. In respect of the applicant applying for the transfer of prospecting or mining right, the review and approval authorities shall decide on whether to approve the transfer or not within 40 days starting from the date of receipt of the application.

“Measures for the Administration of the Royalties and Fees of Prospecting and Mining Rights”

In accordance with the “Measures for the Administration of the Royalties and Fees of Prospecting and Mining Rights” 《探礦權採礦權使用費和價款管理辦法》 promulgated by the Ministry of Finance and the Ministry of Land and Resources on 7 June 1999, entities that carry out mining resources exploration and exploitation activities within the territory of China and in the sea areas under its jurisdiction must pay royalties and fees for prospecting and mining rights. Royalties for prospecting rights are calculated according to the size of the block on a prospecting year basis, that is, RMB100 per year for every square kilometer for the period from the first to third year of exploration and an increase of RMB100 per year for every square kilometer from the fourth year of exploration onwards but the maximum amount shall not

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exceed RMB500 per year for every square kilometer. Royalties for mining rights are calculated yearly according to the size of the mining area, that is, RMB1,000 per year for every square kilometer. In respect of the standards for receiving fees for prospecting and mining rights, the fees concerned, with the assessed prices as confirmed by the department in charge of geology and mineral resources under the State Council as the basis, must be settled at one time or by installment. However, the maximum payment period of the fees for prospecting rights shall not exceed two years while that for mining rights shall not exceed six years. Royalties and fees for prospecting and mining rights are to be paid by holders of prospecting and mining rights at the time of exploration and exploitation registration or annual inspection. Holders of prospecting and mining rights will pay royalties and fees for prospecting and mining rights directly to the “special account for royalties and fees for prospecting and mining rights” opened by the finance department in accordance with the standards as confirmed by the registration authorities at the time of exploration and exploitation registration or annual inspection.

“Notice on Relevant Issues Concerning the Deepening of Reforms on the System of Requiring Compensation for the Acquisition of Prospecting and Mining Rights” and supplementary notice”

In accordance with the “Notice of the Ministry of Finance and the Ministry of Land and Resources on Relevant Issues Concerning the Deepening of Reforms on the System of Requiring Compensation for the Acquisition of Prospecting and Mining Rights” 《關於深化探礦權採礦權有償取得制度改革有關問題的通知》 and the “Supplementary Notice of the Ministry of Finance and the Ministry of Land and Resources on Relevant Issues Concerning the Deepening of Reforms on the System of Requiring Compensation for the Acquisition of Prospecting and Mining Rights” promulgated by the Ministry of Finance and the Ministry of Land and Resources on 25 October 2006 and 28 February 2008 respectively, prospecting and mining rights must, in principle, be granted for a fee and any holder of prospecting and mining rights for proven mineral resources but without making compensation must pay the fees of such rights to the State. Unless otherwise approved, all prospecting and mining rights must be granted through public tender, auction or listing. Holders of prospecting and mining rights must settle the full amount of payment required on time.

If it is difficult to settle the fees of prospecting and mining rights for once, the fees may be paid by installment within the term of the prospecting and mining rights upon approval of the prospecting and mining rights approval and registration authorities, of which the fees for prospecting rights may be paid within two years with the payment in the first year not less than 60% of the total while the fees for mining rights may be paid within ten years with the payment in the first year not less than 20% of the total. Holders of prospecting and mining rights paying by installment will bear fund possession costs not lower than the levels of bank loan interest rates for the same period.

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“Provisions on the Administration of the Collection of Mineral Resources Compensation Fees”

In accordance with the “Provisions on the Administration of the Collection of Mineral Resources Compensation Fees” 《礦產資源補償費徵收管理規定》 promulgated by the State Council on 27 February 1994 and revised on 3 July 1997, mineral resources compensation fees are calculated at a certain proportion of the sales revenue of mineral products. Mineral resources compensation fees are included in the management fees of enterprises and are calculated according to the following formula:

$$\begin{array}{ccccccc} \text{Resources} & & \text{Sales revenue} & & \text{Compensation} & & \text{Coefficient of} \\ \text{compensation fees} & = & \text{of mineral} & \times & \text{rate} & \times & \text{Mining} \\ & & \text{products} & & & & \text{recovery rate} \end{array}$$

Any adjustment in mineral resources compensation fees shall be jointly confirmed by the Ministry of Finance, the Ministry of Land and Resources and the National Development and Reform Commission and shall be implemented upon approval of the State Council. Mineral resources compensation fees are to be collected by the department of land and resources together with the finance department. Mining right holders shall pay mineral resources compensation fees for the first half year on or before 31 July of each year and fees for the second half year on or before 31 January of the following year. In accordance with the “Reply on Issues Concerning the Collection of Mineral Resources Compensation Fees” (Ministry of Land and Resources Letter No. 259 dated 5 October 1998) issued by the Ministry of Land and Resources, those exploiting mining resources within China and other sea areas under her jurisdiction shall, irrespective of purpose, pay mineral resources compensation fees in accordance with the national provisions and the rate is 2%.

Under specific circumstances, mineral resources compensation fees may be reduced or exempted upon joint approval of the department of land and resources and the finance department at the provincial level. In the case that the reduction in mineral resources compensation fees exceeds 50% of the payable mineral resources compensation fees, the approval of the provincial people’s government is required. Any approval for the reduction of mineral resources compensation fees must be reported to the Ministry of Finance and the Ministry of Land and Resources for record-keeping.

“Interim Measures on the Supervision and Control of Mineral Resources”

The State Council promulgated and implemented the “Interim Measures on the Supervision and Control of Mineral Resources” 《礦產資源監督管理暫行辦法》 on 29 April 1987 with the aim of strengthening the supervision and control of the development, utilization and safeguard of mineral resources of mining enterprises. Provisions are formulated with regard to the responsibilities of the department in charge of geology and mineral resources under the State Council, the responsibilities of the department in charge of geology and mineral resources under the provincial people’s government, the responsibilities of relevant authorities under the State Council and the provincial people’s government, the internal supervision and

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administration responsibilities of geological survey organizations of mining enterprises and the responsibilities of mining enterprises and mineral fields and legal sanction, etc. It is provided that: the recovery, dilution and recycling rates as required in mining design shall be the important annual planning indicators for assessing mining enterprises; while exploiting major minerals, symbiotic and associated minerals with industrial value must be recycled comprehensively under technically feasible and economically reasonable conditions; effective safeguard measures shall be adopted for minerals that cannot be comprehensively utilised for the time being; mining enterprises shall strengthen the control of unmarketable ore, powder ore, middlings, tailings, waste rock and gangue and study their way of usage in a positive manner; those that cannot be utilised for the time being shall be properly stacked and stored under the principle of land conservation to prevent their outflow and pollution to the environment; the provincial people's government shall formulate measures for the supervision and control of the development, utilization and safeguard of mineral resources of township collective mining enterprises and individual mining businesses and shall organize for implementation.

“Measures on the Registration and Management of Areas for Surveying Mineral Resources”

The State Council promulgated the “Measures on the Registration and Management of Areas for Surveying Mineral Resources” 《礦產資源勘查區塊登記管理辦法》 with Decree No. 240 on 12 February 1998 under which a unified system of mineral resource exploration block registration and management is implemented by the State and specific provisions are made with regard to several key aspects as follows: the system of mineral resources exploration block registration and management; the system of restricting maximum surveying area; the system of requiring compensation for the acquisition of prospecting rights; the system of exploration investors; the system of exclusive exploration; the system of minimum exploration input; the system for fees of prospecting right; the system of prospecting right extension and reservation; and the special system of petroleum and natural gas exploration.

Special Provisions for Industry Access

China has formulated special provisions with regard to the integration and industry of mineral resources: the “Notice of the State Council on the Rectification of the Order of the Mining Industry to Safeguard the State Ownership of Mineral Resources”, the “Notice of the General Office of the State Council on the Opinion Concerning Further Governance and Rectification of the Mineral Resources Management Order as Transferred to the Ministry of Land and Resources”, the “Notice of the State Council on Comprehensive Rectification and Specification of the Order of Mineral Resources Development”, the “Notice of the General Office of the State Council on the Opinion Concerning the Integration of Mineral Resources Development as Transferred to Departments such as the Ministry of Land and Resources” and the “Notice on Further Promotion of the Consolidation of Mineral Resources Development”, etc.

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PRC Laws in Relation to Products

In accordance with the “Regulations of the People’s Republic of China on the Administration of Production Permits for Industrial Products” 《中華人民共和國工業產品生產許可証管理條例》 promulgated by China’s State Council on 9 July 2005 and officially implemented on 1 September 2005 and the related “Implementation Measures” promulgated by the State Administration of Quality Supervision on 15 September 2005 and officially implemented on 1 November 2005, products in the “Product Catalogue of the Nationally-Implemented Production Permit System” must comply with the production permit system. Enterprises are not allowed to produce any product in the “Product Catalogue of the Nationally-Implemented Production Permit System” without obtaining the production permit. The production of iron ore concentrates, iron ore pellets and ilmenite concentrates has not yet been included in the “Product Catalogue of the Nationally-Implemented Production Permit System”.

PRC Laws in Relation to Foreign Investments in the Mining Industry

In accordance with the “Catalogue for the Guidance of Foreign Investment Industries (Revision in 2007)” 《外商投資產業指導目錄》 officially implemented on 1 December 2007, foreign investments in the exploration, exploitation and design of iron ore mines are considered as encouraged investments. According to the “Opinion on Further Encouragement of Foreign Investments” and the “Provisions on Guidance of Foreign Investments” officially implemented on 3 August 1999 and 1 April 2002 respectively, encouraged foreign investments may obtain a number of interests granted by the Chinese government primarily as encouragement.

PRC Laws in Relation to Foreign Exchange

In accordance with provisions of the “Regulations of the People’s Republic of China on the Administration of Foreign Exchange” 《中華人民共和國外匯管理條例》 promulgated on 29 January 1996, officially implemented on 1 April 1996 and revised on 5 August 2008, international transactions arising from the sale of goods and others which are paid in foreign currency will not be subject to the constraints and control of the Chinese government. Some specified organizations in China, including foreign investment companies, may buy, sell and/or remit foreign currency at certain banks authorised for foreign exchange under circumstances where valid business documents are provided to such banks. However, in the case of overseas investments of domestic enterprises, relevant capital account transactions have to be approved by the State Administration of Foreign Exchange.

In accordance with the “Notice on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Corporate Financing and Roundtrip Investment through Offshore Special Purpose Vehicles” 《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》 (“State Administration of Foreign Exchange Document No. 75”) promulgated on 21 October 2005 and officially implemented on 1 November 2005, it is provided for the change in capital that, (a) a Chinese citizen (“Chinese resident”) must apply to the local branch of the State Administration of Foreign Exchange for the registration of an overseas special

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purpose company established or held for the purpose of raising funds through overseas share offering before setting up or holding our Company; (b) in the case that the Chinese resident provides assets or equities to the overseas special purpose company or participates in the overseas financing of the overseas special purpose company after providing assets or equities via a domestic enterprise, the Chinese resident must register with the local branch of the State Administration of Foreign Exchange for his/her equities or any change in his/her equities in the overseas special purpose company; and (c) when there is a material change in the capital of the overseas special purpose company outside China, such as the change in equity or merger and acquisition, the Chinese resident must register such change with the local branch of the State Administration of Foreign Exchange within 30 days upon commencement of project. According to the essence of the State Administration of Foreign Exchange Document No. 75, enterprises and businesses that fail to comply with such registration procedures will be subject to punishment, including restrictions on the foreign exchange activities of their affiliates in China and their capability to distribute dividends to other overseas special purpose companies.

Mr. Li, as one of the Controlling Shareholders and a Chinese resident, is required to file foreign exchange registrations of overseas investments with State Administration of Foreign Exchange of the PRC under the State Administration of Foreign Exchange Document No. 75 for his establishment of offshore companies and conducting return investment activities, details of which are set out in the section headed “History and development” in this prospectus.

Our PRC Legal Advisers confirmed that Mr. Li has completed the relevant registration procedures required under the State Administration of Foreign Exchange Document No. 75 with the State Administration of Foreign Exchange of the PRC (Shandong Province Branch) (國家外匯管理局山東省分局).

On 21 July 2005, the People’s Bank of China promulgated the “Public Announcement of the People’s Bank of China on Improving Reforms on the Renminbi Exchange Rate Formation Mechanism” announcing that China would achieve reforms of the exchange rate mechanism by controlling the fluctuations in exchange rate and this would not be limited to the US dollar but including a basket of currencies.

The State Administration of Foreign Exchange promulgated the “Notice of the State Administration of Foreign Exchange on Relevant Business Operational Issues Concerning Improving the Administration of the Payment and Settlement of Foreign Exchange Capital of Foreign-Funded Enterprises” (Document No. 142) on 29 August 2008. According to Document No. 142, foreign-funded enterprises shall undertake capital verification in advance through an accounting firm when applying for the settlement of foreign exchange capital. Funds obtained from the settlement of foreign exchange capital shall only be employed for purposes within the scope of business as approved by relevant authorities and, unless otherwise provided, shall not be used for equity investments. Except foreign-funded real estate enterprises, it is not allowed to use funds obtained from the settlement of foreign exchange capital to purchase domestic real estate not for own use. Moreover, foreign-funded enterprises shall not make any unauthorised change in the purpose of funds obtained from the settlement of foreign exchange capital without the permission of the State Administration of Foreign Exchange and shall not use the funds to repay Related Renminbi loans if the funds obtained from such loans have not been used.

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As advised by our PRC Legal Advisers, there are two ways to transfer the net proceeds from the Share Offer to the PRC, namely, by way of shareholders loan to Shandong Ishine or by way of capital injection into Shandong Ishine. As advised by our PRC Legal Advisers, under PRC laws, foreign invested enterprise can either (i) accept loan of foreign currency of an amount up to the difference between the amount of its total investment and the amount of its registered capital without having to obtain any government approval, or (ii) by way of capital injection i.e. to increase its registered capital. Subject to submission of all necessary information to the relevant PRC authorities in accordance with PRC laws and regulations, our PRC Legal Advisers consider there is no legal impediment to transfer the net proceeds from the Share Offer to the PRC by way of accepting loan of foreign currency of an amount up to the difference between the amount of its total investment and the amount of its registered capital, and/or capital injection into Shandong Ishine.

PRC Laws in Relation to Quality

The revised “Product Quality Law of the People’s Republic of China” was promulgated on 8 July 2000 and was officially implemented on 1 September 2000. The department in charge of quality supervision under the State Council is responsible for the supervision of product quality nationwide while the local quality supervisory bureaus at or above the county level are responsible for the supervision of product quality within their respective administrative areas. Producers and distributors must establish an internal quality management system for the strict implementation of quality standards and corresponding quality assessment procedures. Enterprises are encouraged by the State to ensure that the quality of their products has reached and surpassed the industrial, national and international standards.

PRC Laws in Relation to Environmental Protection

China’s laws and regulations relating to environmental protection include: the “Environmental Protection Law of the People’s Republic of China” promulgated and officially implemented on 26 December 1989; the “Air Pollution Prevention Law of the People’s Republic of China” revised on 29 April 2000 and officially implemented on 1 September 2000; the “Water Pollution Prevention Law of the People’s Republic of China” revised on 28 February 2008 and officially implemented on 1 June 2008 and relevant “Implementation Rules of the Water Pollution Prevention Law of the People’s Republic of China” promulgated and officially implemented on 20 March 2000; the “Regulations on Environmental Protection of Construction Projects” promulgated and officially implemented on 29 November 1998 and the “Measures for the Administration of Environmental Acceptance Check of Construction Projects Upon Completion” promulgated on 27 December 2001 and officially implemented on 1 February 2002.

According to the “Environmental Protection Law of the People’s Republic of China”, the competent department for the administration of environmental protection under the State Council is to assess national environmental quality standards and the country’s economic and technological conditions to formulate national emission standards. Provincial, autonomous region and municipal people’s governments under the Central Government may formulate local

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emission standards for projects that have not been expressly provided in the national emission standards and may formulate stricter local emission standards for projects that have been provided in the national emission standards. Local emission standards must be declared to the State Environmental Protection Administration. All enterprises that discharge pollutants in regions where local emission standards are formulated shall comply with relevant local standards.

Companies causing environmental pollution and other hazards must incorporate environmental protection into their plans, establish an environmental protection responsibility system, adopt effective measures and prevent and control the impact of environmental pollution and hazards arising from waste gas, wastewater, water residues, dust, malodorous gases, radioactive materials, noise, vibration, electromagnetic radiation and others in the course of production, construction and other activities.

Enterprises must register and submit environmental impact assessment report to local environmental protection bureaus for approval prior to the construction of new production facilities or the implementation of major expansion or reconstruction of existing production facilities. In the construction project, facilities for the prevention and control of pollution must be designed, constructed and operated simultaneously with the main project. The construction project can only be operated for production or used only after the installation of facilities for the prevention and control of pollution has passed the acceptance check of the environmental protection department which has reviewed and approved its environmental impact assessment report.

In accordance with the “Regulations for the Administration of the Collection and Usage of Fees for Pollutant Discharge” promulgated on 2 January 2003 and entered into force on 1 July 2003 and the “Measures for the Administration of Standards for the Collection of Fees for Pollutant Discharge” and the “Regulations for the Administration of the Collection and Usage of Fees for Pollutant Discharge” (effective from 1 July 2003) jointly promulgated by the State Development Planning Commission, the State Environmental Protection Administration, the Ministry of Finance and other relevant government departments, any company that directly discharges pollutants to the environment must pay fees for pollutant discharge in accordance with the laws. The type and amount of fees for pollutant discharge is to be approved by the environmental protection departments under the local people’s government at or above the county level in accordance with the right of approval as provided by the State Environmental Protection Administration and companies discharging pollutants will be notified of the type and amount of the fees.

Companies discharging pollutants are to pay fees for pollutant discharge in accordance with applicable environmental protection laws and regulations, such as the “Air Pollution Prevention Law of the People’s Republic of China”, the “Marine Environmental Protection Law of the People’s Republic of China”, the “Water Pollution Prevention Law of the People’s Republic of China”, the “Solid Waste Pollution Prevention Law of the People’s Republic of China” and the “Environmental Noise Pollution Prevention Law of the People’s Republic of China”.

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“Regulations for the Prevention and Control of Pollution from Tailings”

The “Regulations for the Prevention and Control of Pollution from Tailings” promulgated by the State Environmental Protection Administration on 17 August 1992 and amended on 22 December 2010 by 《關於廢止、修改部分環保部門規章和規範性文件的決定》 was implemented starting from 1 October 1992, and was revised on 22 December 2010.

Tailings in the Regulations were referred to as waste produced in the dressing and hydrometallurgical processes. A unified supervision and management is implemented by the environmental protection departments under the local people’s government at or above the county level to prevent and control pollution from tailings within their own jurisdiction. Enterprises producing tailings must undergo pollutant discharge declaration and registration with local environmental protection departments in accordance with the provisions. The utilization of disposed tailings or other facilities has to be approved by the local and municipal environmental protection departments and has to be reported the provincial environmental protection department for record.

PRC Laws in Relation to Geology and Environmental Protection

In accordance with the “Interim Measures for the Administration of Guarantee Money for the Geological and Environmental Governance at Mines in the Shandong Province” promulgated on 28 November 2005 and officially implemented on 1 January 2006, (a) guarantee money for the geological and environmental governance at mines (herein referred to as guarantee money) is a reserve fund paid by a person with mining right for the geological and environmental governance at mines; (b) a person with mining right shall pay the guarantee money in full at one time within the three-year (including three years) term of the mining permit. In the case that the term of the mining permit is over three years, a person with mining right may pay the guarantee money by installment. The amount of the first payment shall not be lower than 30% of the total amount payable and the remaining may be paid once every three years with the amount of each payment not lower than 50% of the remaining amount but the total amount to be cleared one year prior to the expiry of the mining permit. A person with mining right shall sign a “Responsibility Document on the Geological and Environmental Governance at Mines” with the department of land and resources in charge of the collection of guarantee money within one month upon receipt of the mining permit and settle the payment of guarantee money; (c) a “check and fund separation” system is implemented for the receipt and payment of guarantee money under which the money is centralized at a special financial account and is treated as current funds; (d) a person with mining right shall complete the geological and environmental governance and apply to the department of land and resources in charge of the collection of guarantee money in writing for acceptance check prior to the termination, shutdown or closure of the mines; and (e) if the requirements of Article 13 of the “Regulations on the Geological and Environmental Governance at Mines in the Shandong Province” are fulfilled as confirmed by the acceptance check, the department of land and resources in charge of the collection of guarantee money shall issue a notification on the passing of the acceptance check on the geological and environmental governance and return the principal and interests of the guarantee money to the concerned party in a timely manner. In

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the case of failure to fulfill the requirements, the department of land and resources in charge of the collection of guarantee money shall order the concerned party for governance to be completed within a specified period of time. In the case of failure to perform geological and environmental governance or the requirements have still not been reached, the department of land and resources in charge of the collection of guarantee money shall, by way of methods including public tender, organize relevant companies for governance using the guarantee money. Any fee in excess of the guarantee money paid (including interests) shall be borne by the person with mining right.

Laws in Relation to Production Safety

In accordance with the “Production Safety Law of the People’s Republic of China” promulgated on 29 June 2002 and officially implemented on 1 November 2002 and the “Mine Safety Law of the People’s Republic of China” promulgated on 7 November 1992 and officially implemented on 1 May 1993 and its “Implementation Rules” promulgated and officially implemented on 30 October 1996, mine safety are supervised and controlled by the departments in charge of labor affairs and mining enterprises.

Mining enterprises must set up facilities to ensure production safety, establish a sound safety management system, adopt effective measures to improve working conditions and strengthen the control over mine safety to ensure that the process of production is safe. The design of a mine construction project must comply with the safety rules and technical standards of the mining industry and must be approved by the department in charge of mining enterprises. A mine construction project must be constructed in accordance with the design as approved by the department in charge of mining enterprises. The design of the safety facilities of a mine construction project must be checked by the departments in charge of labor affairs and must be commenced simultaneously with the main project. Safety facilities of a mine construction project must be reviewed and approved by the departments in charge of mining enterprises and labor affairs upon completion. In the case of failure to fulfill the safety rules and technical standards of the mining industry, the project’s application for approval and operation will then be rejected.

Mining businesses must fulfill several conditions to ensure production safety. Mining enterprises must comply with various safety rules and technical standards of the mining industry (depending on the type of mineral to be exploited), establish and improve production safety responsibility systems and provide safety education and training to employees. The head of the mine is responsible for the production safety work of the enterprise concerned.

“Regulations on Production Safety Permit”

The “Regulations on Production Safety Permit” was promulgated and officially implemented on 13 January 2004. According to the provisions of the Regulations, (a) production safety permit is applicable to enterprises and businesses engaged in mining and companies without production safety permit are prohibited to produce any product; (b) mining companies must obtain a production safety permit valid for three years prior to the production of any product; and (c) in the case of the need to extend the permit, companies must apply to local administration and certification bodies for extension three months prior to the expiry of the original permit.

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“Measures on the Implementation of Production Safety Permit for Non-Coal Mining Enterprises”

In accordance with the “Measures on the Implementation of Production Safety Permit for Non-Coal Mining Enterprises” promulgated by the State Administration of Work Safety on 8 June 2009 and the “Regulations on Production Safety Permit” promulgated by the State Council on 13 January 2004, non-coal mining enterprises must obtain production safety permit according to relevant provisions and are prohibited from engaging in any production activities without obtaining the permit. The State Administration of Work Safety is responsible for the guidance and supervision on the production safety permit for non-coal mining enterprises in China. It also takes charge of the issuance of production safety permit to non-coal mining enterprises managed by the Central Government (including group companies, corporations and listed companies) and offshore oil and gas companies. The provincial coal mine safety administration department is responsible for the issuance and administration of production safety permit for non-coal mining enterprises other than those mentioned above and other non-mining enterprises with non-coal mines or tailing facilities.

Non-coal mining enterprises must fulfill several production safety requirements to obtain production safety permit. The department in charge of the issuance and administration of production safety license shall issue production safety permit to enterprises that meet the production safety requirements in accordance with relevant provisions. In respect of metal and non-metal miners, whether a production safety permit can be obtained or not depends on their respective production systems. The enterprises concerned must renew production safety permit once every three years and must submit application to the department in charge of the issuance and administration of production safety license three months upon prior to the expiry of the permit.

In the case that the mining permit expires within the term of the production safety permit, non-coal mining enterprises shall report to the authority in charge of the issuance of production safety permit within 15 days prior to the expiry of the mining permit and return the original and copies of the production safety permit.

“Program on the Implementation of Production Safety Permit for Non-Coal Mining Enterprises in the Shandong Province”

The Shandong Provincial Administration of Work Safety promulgated the “Program on the Implementation of Production Safety Permit for Non-Coal Mining Enterprises in the Shandong Province” (Shandong Provincial Administration of Work Safety Circular No. 2009-133) on 31 December 2009 providing more specific provisions in accordance with the “Regulations on Production Safety Permit” and “Measures on the Implementation of Production Safety Permit for Non-Coal Mining Enterprises” in combination with the conditions of the Shandong Province. Metal and non-metal miners engaged in blasting operations shall submit the “Blasting Permit” or the “Explosive Materials Permit”.

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“Interim Measures on the Financial Management of Safety Production Fees of High Risk Enterprises”

The Ministry of Finance and the State Administration of Work Safety promulgated the “Interim Measures on the Financial Management of Safety Production Fees of High Risk Enterprises” on 8 December 2006. Safety production fees are the cost of enterprises specially used for improving production environment according to standard requirements.

Enterprises engaged in mining in China shall make a provision for production safety fees. The standard amount of provisioning for metal mines is RMB4 per tonne for open-pit mine and RMB8 per tonne for underground mine. For coal mines and coal-related non-metal mines, underwater mines, mines susceptible to spontaneous combustion, underground mines below protected buildings and railways and other mines with special production safety requirements, the standard amount of provision may be increased to not more than 50% upon joint approval of the provincial bureaus for the administration of work safety and finance.

“Regulations on Civil Explosives Safety Management”

The “Regulations on Civil Explosives Safety Management” was promulgated by the State Council on 26 April 2006 and has been implemented since 1 September 2006. These Regulations are applicable to the production, sale, purchase, import and export, transport, blasting and storage of civil explosives and the sale and purchase of ammonium nitrate.

Public security bodies are responsible for the management of civil explosives safety, the purchase and transport of civil explosives, the supervision and management of blasting safety and the monitoring of the flow of civil explosives.

The person-in-charge of a company engaged in the production, sale, purchase and transport of civil explosives and blasting operations (herein referred to as civil explosives company) is the person in charge of the management of civil explosives safety in our Company and takes full responsibility for the management of the safety of civil explosives of our Company.

A company which applies for the undertaking of blasting operations shall submit application to relevant public security bodies of the people’s government in accordance with the provisions of the public security department under the State Council and shall provide relevant proofs of its compliance with the terms as provided in Article 31 of these Regulations. Public security bodies that have accepted the application shall review it within 20 days starting from the date of acceptance of the application. In the case that the terms are fulfilled, a “Blasting Permit” will be issued. Otherwise, no “Blasting Permit” will be issued and the applicant will be notified of the reasons in writing.

A company engaged in blasting operations shall implement professional and technical training of its staff dealing with blasting operations, safety control and warehouse management. Staffs dealing with blasting operations are only allowed to undertake blasting operations after passing the assessment of the district’s public security bodies under the municipal people’s government and obtaining the “Blasting Worker Permit”.

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Samples for the “Civil Explosives Production Permit” and the “Civil Explosives Sale Permit” are provided by the department in charge of defense science, technology and industry under the State Council while samples for “Civil Explosives Purchase Permit”, “Civil Explosives Transport Permit”, “Blasting Permit” and “Blasting Worker Permit” are provided by the public security department under the State Council.

“Interim Measures on the Supervision and Administration of the Construction Safety of Non-Coal Contract Mining Projects in the Shandong Province”

The Shandong Provincial Administration of Work Safety promulgated the “Interim Measures on the Supervision and Administration of the Construction Safety of Non-Coal Contract Mining Projects in the Shandong Province” on 31 May 2005 stipulating provisions on the construction safety of contract mining projects.

Enterprises engaged in excavation or geological prospecting shall obtain production safety permit in accordance with the provisions of the “Regulations on Production Safety Permit” and “Measures on the Implementation of Production Safety Permit for Non-Coal Mining Enterprises”. Those that have not obtained a production safety permit are prohibited to engage in production and prospecting activities. A production safety permit is to be issued by the provincial bureau for the administration of work safety of the location where the enterprise concerned is situated (place of business registration).

Enterprises engaged in contract engineering, excavation or geological prospecting must sign a special production safety management agreement simultaneously with the conclusion of the subcontracting contract in order to specify production safety management responsibilities and obligations and safety measures that shall be adopted in terms of excavation, power supply, drainage, ventilation, transport and the installation, repair, maintenance and alternation of related safety equipments and facilities, etc. The production safety management agreement must be signed by the key person-in-charge of the entrusting enterprise and the contractor and must be sealed by both enterprises.

The person in charge of the construction of a contract excavation or geological prospecting project must possess a letter of assignment or appointment documents issued by the excavation or geological prospecting company. Upon conclusion of the subcontracting contract and the production safety management agreement with the entrusting enterprise, the excavation or geological prospecting company shall register at the bureau for the administration of work safety of the location where the entrusting party is situated.

The person in charge of the construction of a contract excavation or geological prospecting project and staffs dealing with safety management of the project must receive professional training and obtain corresponding safety certificates in accordance with the provisions. Staffs dealing with special operations in the construction of a contract excavation or geological prospecting project shall only come to work upon the receipt of special operations permit. The number of staffs with special operations permit shall be in line with the construction safety requirements.

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“Regulations on Tailings Pond Safety Supervision and Management”

The “Regulations on Tailings Pond Safety Supervision and Management” was promulgated by the State Administration of Work Safety on 18 April 2011 and has been implemented since 1 July 2011. The in-charge persons of production and operation entities and work safety administration personnel shall be assigned only after taking training examination and having acquired the safety certificate in accordance with Provisions.

The production and operation entities engaging in tailing pond shall establish and complete the work safety accountability systems of tailing pond; establish and complete rules and regulations on work safety and technical operating rules for work safety, and conduct effective safety administration over tailing pond.

Specific provisions are stipulated with regard to the safety management of tailing ponds in terms of areas such as, the management of tailings ponds, tailings discharge and dam construction, the control of the level of tailings ponds and flood, the management of drainage and seepage control facilities, the earthquake and seismic safety of tailing ponds, the safety inspection of flood control at tailings ponds, drainage structures, tailings dams and tailings reservoir and the assessment, management and supervision of the safety of tailings ponds.

“(Trial) Measures on the Supervision and Management of the Safety of Tailings Facilities”

The “(Trial) Measures on the Supervision and Management of the Safety of Tailings Facilities” was promulgated and implemented by the former Ministry of Labor on 21 April 1995. Tailings facilities are facilities found at the concentrators (workshops) of mining enterprises and other production processes, such as tailings storage facilities, slurry transport system, water clarification and recycling system, water infiltration and recovery system and drainage system.

Mining enterprises shall be responsible for the safety of tailings facilities and must ensure: (a) the implementation of design review and final acceptance report as participated and approved by the labor administration department; (b) the availability of tailings facility safety assessment and materials categorised by the level of hazards from relevant departments and experts; (c) the availability of assessment compliance report issued by the tailings facility safety technical inspection agencies as authorised by the labor administration department; (d) the allocation of a person in charge of the safety of tailings facilities; (e) the preparation of safety management rules and necessary technical materials; (f) the frequent check of original records; (g) the preparation of records on the inspections of departments in charge of labor administration and mining enterprises and the governance programs and rectifications on hidden danger as identified by the enterprises and (h) the preparation of disaster preparedness plans and measures.

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PRC Laws in Relation to Labor

In accordance with the “Labor Law of the People’s Republic of China” promulgated on 5 July 1994 and officially implemented on 1 January 1995 and the “Labor Contract Law of the People’s Republic of China” promulgated on 29 June 2007 and officially implemented on 1 January 2008, in the case that an employment relationship is established between an enterprise and its staff, a written employment contract must be signed. The maximum total working hours per day and per week are stipulated respectively in the laws. The laws have also provided for the minimum wage standards. Enterprise entities must establish and develop an occupational safety and health system, implement the national occupational safety and health regulations and standards, provide employees with occupational safety and health training in order to prevent operational accidents and to reduce occupational diseases.

In accordance with the provisions of the “Regulations on Work-Related Injury Insurance” promulgated on 27 April 2003, officially implemented on 1 January 2004 and revised on 1 January 2011 and the “Trial Measures for Maternity Insurance of Enterprise Employees” promulgated on 14 December 1994 and officially implemented on 1 January 1995, Chinese enterprises must purchase work-related injury and maternity insurances for their employees.

In accordance with the provisions of the “Interim Regulations on the Collection and Payment of Social Insurance Premiums” promulgated and officially implemented on 22 January 1999 and the “Interim Measures on the Registration of Social Insurance Premiums” promulgated and officially implemented on 19 March 1999, basic pension insurance, medical insurance and unemployment insurance are incorporated into social insurance. In China, all companies and employees must contribute to the social insurance scheme.

In accordance with the provisions of the “Social Insurance Law of the People’s Republic of China” promulgated on 28 October 2010 and implemented on 1 July 2011, the State has established a social insurance system which includes basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance, ensuring that citizens have the right to material assistance as provided by the State and the community in accordance with the laws under circumstances related to old age, illness, work-related injury, unemployment, maternity and others. Individuals shall enjoy social insurance benefits under the laws and have the right to supervise their employers on the payment of premiums.

In accordance with the provisions of the “Regulations on Housing Provident Fund Management” promulgated and officially implemented on 3 April 1999 and revised on 24 March 2002, Chinese companies must register at the Housing Provident Fund Management Centre and open a housing fund management account at their entrusted banks. In China, all companies and employees must contribute to the housing provident fund and the amount of their respective contributions shall not be lower than 5% of the average salary of each employee in the previous year.

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PRC Laws in Relation to Taxation

Enterprise Income Tax

The new tax law was officially implemented on 1 January 2008 to replace the original “Income Tax Law of the of the People’s Republic of China on Enterprises with Foreign Investment and Foreign Enterprises” and “Interim Regulations on Enterprise Tax Law of the of the People’s Republic of China”. Under the new tax law, the majority of domestic enterprises and enterprises with foreign investment shall be subject to a uniform 25% enterprise income tax rate and several transitional periods and measures are planned. The “Notice of the State Council on the Implementation of Preferential Policies on the Transition of Enterprise Income Tax” (the Notice) promulgated and officially implemented on 26 December 2007 further explained that, starting from 1 January 2008, enterprises originally enjoying the “two-year exemption and three-year reduction by half” enterprise income tax concession and other regular tax exemptions and reductions in accordance with the governing tax laws, administrative provisions and relevant documents at that time shall continue to enjoy such concessions until expiry upon implementation of the new tax law. However, for enterprises which have not enjoyed such concessions due to the absence of profit prior to 2008, their tax holidays shall be calculated starting from 1 January 2008 until expiry.

Resource Tax

In accordance with the provisions of the “Interim Regulations on Resource Tax of the People’s Republic of China” promulgated on 25 December 1993 and officially implemented on 1 January 1994, all enterprises engaged in the exploitation of mineral products within China must pay resource tax. The taxable items and amount of resource tax shall be implemented in accordance with the “Table of Resource Taxable Items and Range of Tax Rates” attached to these Regulations and relevant provisions of the Ministry of Finance. The adjustment of taxable items and range of tax rates is to be determined by the State Council. Tax rates for ferrous metal ores range from RMB2 to RMB30 per tonne.

In accordance with the provisions of the “Notice of the Ministry of Finance and the State Administration of Taxation on the Adjustment of Resource Tax Policy for Taxable Items such as Molybdenum Ore” promulgated on 12 December 2005 and officially implemented on 1 January 2006, the resource tax rate for molybdenum ore would be lowered to 60% of the standard tax rate for the time being. In accordance with the provisions of the “Notice of the Ministry of Finance and the State Administration of Taxation on the Applicable Resource Tax Rate Standard for Taxable Items such as Tin Ore” 《財政部國家稅務總局關於調整錫礦石等資源稅適用稅率標準的通知》 officially implemented on 1 February 2012, the resource tax rate for iron ore would be adjusted from 60% to 80% of the standard tax rate for the time being.

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Value-Added Tax

In accordance with the provisions of the “Notice on the Value-Added Tax Rates for Mining and Dressing Products of Metal Ores and Non-Metallic Minerals” 《關於金屬礦非金屬礦採選產品增值稅稅率的通知》 promulgated on 19 December 2008 and officially implemented on 1 January 2009, starting from 1 January 2009, the value-added tax rates for mining and dressing products of metal ores and non-metallic minerals (including iron ore) would be adjusted to 17% from 13%.

PRC Laws in Relation to the Distribution of Dividends

In accordance with the “Implementation Rules for the Wholly Foreign Owned Enterprise Law of the People’s Republic of China” promulgated and officially implemented on 20 December 1990 and revised on 12 April 2001 based on the modification of the Implementation Rules for the Wholly Foreign Owned Enterprise Law of the People’s Republic of China, it is provided that foreign enterprises must pay a certain amount of tax prior to the distribution of dividends and reallocate their proceeds as reserve fund, staff bonus and welfare fund. The proportion of the amount allocated to staff bonus and welfare fund is to be determined by the enterprises themselves.

In accordance with the “Notice of the Ministry of Finance and the State Administration of Taxation on the Several Preferential Policies on Enterprise Income Tax”, the undistributed profits earned by enterprises with foreign investment prior to 1 January 2008 and distributed to foreign investors later may be exempted from China’s withholding tax whereas the profits earned and distributed after 1 January 2008 shall be subject to China’s withholding tax in accordance with the new enterprises tax law.

It is provided in the new enterprises tax law that dividends and other China-derived passive income of non-resident enterprises shall be subject to a withholding tax at the rate of 20% of standard tax rate. Under the implementation regulations, the tax rate would be lowered from 20% to 10% with effect from 1 January 2008. China and Hong Kong signed the “Arrangement for the Avoidance of Double Taxation on Income and Prevention of Fiscal Evasion with respect to Taxes on Income” on 21 August 2006. According to the arrangement, the applicable withholding tax rate for dividends distributed by Chinese companies to Hong Kong residents shall not exceed 5% under the condition that the recipient must be a company holding at least 25% of the capital of the Chinese company concerned for 12 months prior to the distribution of dividends. If the recipient is a company holding less than 25% of the capital of the Chinese company, the applicable withholding tax rate for dividends distributed by the Chinese company to the Hong Kong resident shall be 10%.

According to the “Notice of the State Administration of Taxation on How to Understand and Identify the “Beneficial Owner” in Tax Agreements”, a beneficial owner is a person who has the ownership and control over income, or over the rights or assets that generate such income, and must generally engage in substantive business activities. A Hong Kong resident is also required to be a beneficial owner to enjoy the tax concessions.

REGULATORY OVERVIEW

PRC Laws in Relation to Land

In accordance with the provisions of the “Land Administration Law of the People’s Republic of China” promulgated on 25 June 1986, officially implemented on 1 January 1987 and revised on 28 August 2004, land owned by the State and collective economic entities may be allocated and used by companies and individuals in accordance with the laws. Both the ownership and usage right of land registered in accordance with the laws are subject to the protection of the laws. In the case of the need to use land owned by the State or collective economic entities temporarily for the purpose of construction planning or geological survey, the approval of the administrative department at or above the county level is required. Land users shall sign contracts with relevant land administration department, rural collective organization or village committee on the temporary use of land and obtain the temporary land use right and pay land compensation fees in accordance with the provisions of the contract. The period of temporary use of land shall not exceed two years.

In accordance with the provisions of the “Implementation Rules on Mineral Resources Law of the People’s Republic of China” promulgated and officially implemented on 26 March 1994, holders of mining right have the right to obtain land use right for the purpose of production and construction in accordance with relevant laws in China.

In accordance with the “Regulations on Land Reclamation” promulgated by the State Council on 8 November 1988 and entered into force on 1 January 1989, in the case of the creation of damage to arable land, grassland or forests as a result of mining activities, miners must adopt measures to recover the land to a usable condition within a specified period of time. Land after reclamation must meet reclamation standards as provided in the laws and can only be delivered for use after passing the acceptance check of the land administration department and relevant administrative authorities. The local land and resources bureau may punish entities or individuals that fail to perform the reclamation obligations and may request for the payment of reclamation fees and/or cancel their applications for construction land use right.

In accordance with the “Interim Measures on the Administration of the Circulation of Collective Construction Land Use Right in Linyi” (Linyi Municipal People’s Government Circular No. 2001-66) promulgated by the Linyi Municipal People’s Government on 25 December 2001, the Measures are applicable to the administration of collective construction land of small towns as confirmed in the overall rural land use planning outside the city planning of Linyi and the administration of the circulation of construction land use rights collectively owned by peasants. The behaviors as incurred in the circulation of construction land use rights collectively owned by peasants include the transfer, lease, appraisal and funding (purchase of shares), joint operation and construction, and pledge of land use rights collectively owned by peasants. Approved collective construction land in small towns may be centralised by the township people’s government for development by granting land use rights to land users through methods such as tender and auction in the land market. Land users shall undergo registration and obtain the “Collective Land Use Permit” in accordance with the laws. Specific provisions are stipulated in the Measures on procedures for the first-time transfer and re-transfer of construction land use rights collectively owned by peasants.

REGULATORY OVERVIEW

Government Incentives

In accordance with the “National Plan for Mineral Resources (2008-2015)” promulgated by the Ministry of Land and Resources on 31 December 2008, iron ore mines are to be continued as the major insufficient mineral encouraged to be explored and developed while significant breakthroughs in prospecting are required to be achieved by miners during the period of the plan to increase iron ore reserves to 9 billion tonnes. The capacity to continuously supply iron ore resources is being improved in a bid to reach an iron ore production of 1.1 billion tonnes in 2015.

In accordance with the “Details on the Iron and Steel Industry Restructuring and Revitalization Plan” promulgated by the General Office of the State Council on 20 March 2009, the degree of domestic iron ore resources exploration is to be intensified along with reasonable allocation and development of domestic iron ore resources to increase resources reserve. Large enterprises with potentials are encouraged to set up wholly-owned or joint venture mines overseas and to properly organize and implement overseas mineral resources projects where preliminary work has been undertaken.

In accordance with the “Notice of the Shandong Municipal People’s Government on the Issuance of the Shandong Province’s Iron and Steel Industry Restructuring and Revitalization Plan” (Shandong Municipal People’s Government Circular No. 2009-45), the capability to secure resources is improved. Key iron and steel enterprises are encouraged to actively implement the “going global” strategy for the development of the international resources market and to establish a mineral resources security system. The provincial iron ore resources are to be allocated and developed in a reasonable manner and those in large reserves (over 30 million tonnes) are to be allocated first to large-sized iron and steel enterprises of the province.

As expressed in the NPC and CPPCC Sessions 2011, China will invest approximately RMB1.3 trillion on building 10 million units of affordable homes in 2011 and 2012, and a total of 36 million affordable homes will be built from 2011 to 2015. Also, a new railway line will be built from 2011 to 2015 between Golmud in northwestern Qinghai Province and Korla in Xinjiang, and two other railway lines would be built between Golmud and Dunhuang in Gansu Province, and between Golmud and Chengdu in Sichuan Province during the five year period. The construction of affordable homes and railways would contribute to the increase of demand for steel, the ultimate end product of our iron ore concentrates products. Therefore, there would ultimately be an increase in demand for iron ore concentrates from the steel manufacturers, who are our customers. We believe that the general projected economic growth and the specific plans for construction projects for homes and railways are both favourable factors to the market demand of our products and would further enhance our general business development in the coming years.

REGULATORY OVERVIEW

The Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors in the PRC

Under the Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors in the PRC (關於外國投資者併購境內企業的規定) (the “M&A Rules”), which was issued by the Ministry of Commerce of the PRC (中華人民共和國商務部), State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), State Administration of Taxation (國家稅務總局), State Administration for Industry and Commerce (國家工商行政管理總局), China Securities Regulatory Commission (中國證券監督管理委員會) and State Administration of Foreign Exchange (國家外匯管理局) on 8 August 2006, effective on 8 September 2006 and further amended on 22 June 2009 by the Ministry of Commerce of the PRC (中華人民共和國商務部), a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise (the “domestic company”) thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic company via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise.

Our PRC Legal Advisers advised that the acquisition of 25% interest in Shandong Ishine by SMI from Mr. Li and Mr. G.H. Li, details of which are set out in the paragraph headed “History and Development – Our Corporate History – Shandong Ishine – Introduction of Mr. Lang and conversion into a sino-foreign joint venture company”, is subject to the M&A Rules. On 7 January 2011, the Bureau of Commerce of Shandong Province (山東省商務廳) approved the aforesaid acquisition and the People’s Government of Shandong Province (山東省人民政府) granted the relevant approval certificate to Shandong Ishine. On 14 January 2011, the Administration for Industry and Commerce of Shandong Province (山東省工商行政管理局) granted a new business license to Shandong Ishine for conversion of Shandong Ishine into a sino-foreign joint venture enterprise. As advised by our PRC Legal Advisers, the acquisition of 25% interest in Shandong Ishine by SMI has obtained approval from all relevant authorities and fully complied with the requirements under the M&A Rules.

For the acquisition of 75% interests in Shandong Ishine by Ishine Mining from Mr. Li, details of which are set out in the paragraph headed “History and Development – Reorganisation – Acquisition of the equity interests in Shandong Ishine”, our PRC Legal Advisers advised that since Mr. Li transferred his 75% equity interest in Shandong Ishine to Ishine Mining after transformation of Shandong Ishine into a sino-foreign joint venture enterprise, the aforesaid acquisition is an acquisition of equity in a foreign invested enterprise, and as such, the M&A Rules is not applicable and approval from the China Securities Regulatory Commission is not required. Instead, the acquisition shall comply with the Rules on the Changes of Shareholding of Foreign-invested Enterprise Investor (外商投資企業投資者股權變更的若干規定) (the “Rules”), which requires approval of the original approving authority i.e. the Bureau of Commerce of Shandong Province (山東省商務廳). Our PRC Legal Advisers further advised that the aforesaid acquisition has obtained approval from all relevant authorities and fully complied with the requirements under the Rules.

REGULATORY OVERVIEW

AUSTRALIA LAWS AND REGULATIONS

COMMONWEALTH REGULATION

Environmental Requirements

Under the *Environment Protection and Biodiversity Conservation Act 1999* (Cth) (**Cth Environment Protection Act**), actions that are likely to have a significant impact on a “matter of national environmental significance” may be subject to a rigorous assessment and approval process. “Matters of national environmental significance” include world and national heritage properties, wetlands, listed threatened species and ecological communities and migratory species.

Proposed actions that are likely to have a significant impact on a matter of national environmental significance must be referred to the relevant Commonwealth Minister who may determine that assessment under the Cth Environment Protection Act will be required.

Native Title and Aboriginal Heritage

The *Native Title Act 1993* (Cth) (**Native Title Act**) recognises and protects common law native title in Australia over land and water. Where native title claims exist, certain procedures in the Native Title Act (known as future act procedures) must be followed to ensure the validity of the grant or renewal of a mining tenement. These procedures can include the requirement for an applicant to negotiate or consult with the relevant claimant groups. In relation to a mining lease, any agreement reached will typically involve the payment of compensation to the native title holders for impairment of native title rights and interests as a result of the grant of the mining tenement or any activities carried out by the holder of the tenement.

Important Aboriginal sites are also potentially protected by the *Aboriginal and Torres Strait Islander Heritage Protection Act 1984* (Cth) (**ATSI Act**). Protection under this ATSI Act effectively prevents disturbance of the site.

OVERVIEW OF THE MINING LAW REGIME IN WESTERN AUSTRALIA

General

The *Mining Act 1978* (WA) (**WA Mining Act**) regulates the use of mineral resources in Western Australia. In Western Australia, the Crown owns all minerals on or below the surface of the land, except in certain limited circumstances, and, through the relevant Minister and the Department of Mines and Petroleum, grants mining tenements that confer rights to explore for and mine minerals. The WA Mining Regulations set out different royalties that are payable in respect of specified minerals when mining occurs.

A transfer or mortgage of a legal interest in a mining tenement does not pass any legal interest in a mining tenement until it is registered under the WA Mining Act.

REGULATORY OVERVIEW

Ishine International holds 11 granted exploration licences and 12 exploration licence applications in Western Australia. An explanation of these licenses is set out below.

Exploration Licence

The holder has a right to explore for minerals specified in the grant within the licence area. The holder may extract mineral bearing substances up to a maximum volume of 1,000 tonnes (or another amount approved by the Minister) during the term of the licence (except in respect of iron ore unless expressly authorised by the Minister).

Exploration licences applied for on or after February 10, 2006 will remain in force for five years from the date of grant and may be renewed for five years (plus further renewals of two years each) if prescribed grounds exist. The holder is required to surrender 40% of the licence area at the end of the initial term (unless exempted on certain prescribed grounds). During the first year of its term, an exploration licence granted may not be transferred without the prior written consent of the Minister.

The holder of an exploration licence generally has a priority right to convert the licence to a mining lease. An applicant for a mining lease must show that exploration results in respect of a deposit of minerals located in the area to which the mining lease application relates indicate that there is a reasonable prospect of minerals being obtained by mining operations.

Prospecting Licence

The holder has a right to prospect for minerals within the licence area, and may extract mineral bearing substances not exceeding 500 tonnes (or larger tonnage approved by the Minister) during the term of the licence.

Prospecting licences applied for on or after February 10, 2006 remain in force for a period of four years from the date of grant and may be renewed for four years (and further four year periods if the licence has “retention status”, which is obtainable where an identified mineral resource exists that is impracticable to mine at the time for certain prescribed reasons). Prospecting licences may be transferred without any approvals.

The holder of a prospecting licence also has a priority right to the grant of a mining lease. An applicant for a mining lease must show that exploration results in respect of a deposit of minerals located in the area to which the mining lease application relates indicate that there is a reasonable prospect of minerals being obtained by mining operations.

Iron Ore

The holder of a prospecting licence, exploration licence, retention licence or mining licence may not prospect, explore or mine the land for iron ore (as the case may be) without written authorisation from the Western Australian Minister for Mines and Petroleum. In Western Australia, tenements which are authorised for iron ore exploration and/or mining are identified by an “I” suffix following the respective tenement number.

REGULATORY OVERVIEW

Crown land and pastoral leases

Section 20(5) of the WA Mining Act provides that the holding of a mining tenement does not entitle the holder to prospect, explore or mine on any Crown land that is used for, or within 100 m of, cropping land, stockyards, plantations, airstrips, occupied land, housing and other buildings and cemeteries; or land that is used for, or within 400 m of, any pastoral leases which is the site of any water works, race, dam, well or bore, without the written consent of the owner or occupier of the land, unless mining is only carried out at a depth below 30 m from the natural surface of the land.

The owners and occupiers of any land where mining takes place are entitled according to compensation for loss and damage suffered or likely to be suffered by them resulting or arising from the mining. Where consent cannot be agreed, the warden may determine the amount for compensation.

Reserves and other land interests

Where mining tenements cover areas which are in “reserves”, the consent of the Minister or of both Houses of Parliament may be required before mining activities are permitted and conditions may be imposed on such activities.

Private land

Private land which is not already subject to a mining tenement is generally considered open for mining under the WA Mining Act (subject to certain exceptions), and a mining tenement may be issued in relation to such land. However, a tenement may not be granted in respect of private land which is the site of, or within 100 m of, a yard, stockyard, garden, orchard, vineyard, plant nursery, plantation, cemetery, dam, bore, well, spring, building or a parcel of land with an area of 2,000 square metres or less, unless the consent of the private landholder and any other occupier is obtained or the tenement is only granted in respect of the land below 30 m from the surface of the private land.

The owners and occupiers of any land where mining takes place are entitled to compensation for all loss and damage suffered or likely to be suffered by them resulting from the mining. The tenement holder may not commence mining on the surface or within a depth of 30 m from the surface until compensation has been agreed with the private landowner or paid in accordance with the WA Mining Act. Compensation may be determined by agreement between the tenement holder and private landowner or occupier, or by the warden.

Environmental requirements

Under Part IV of the Environmental Protection Act 1986 (WA) (**WA Environmental Protection Act**), mining operations that are likely to have a significant impact on the environment must be referred to the Western Australian Environmental Protection Authority for assessment, and approved by the Western Australian Minister for Environment. Proposals may

REGULATORY OVERVIEW

be subject to conditions which dictate how the proposal is to be implemented. A breach of conditions may result in the issue of a stop order requiring operations to cease and for action to be taken to rectify the breach.

Other environmental approvals may be required to develop a mining operation, including licences for construction and operation of ore processing facilities, on-site effluent disposal systems and power generating facilities, groundwater extraction licences, native vegetation clearing permits and dangerous goods, handling, transport and storage licences.

Aboriginal heritage

The *Aboriginal Heritage Act 1972* (WA) protects sites and areas of significance to Aboriginal persons. Consent of the Minister for Indigenous Affairs is required where any use of the land is likely to result in damage to, or destruction of, an Aboriginal site or objects.

OVERVIEW OF THE MINING LAW REGIME IN QUEENSLAND

General Mining Law in Queensland

The *Mineral Resources Act 1989* (Qld) regulates exploration and development of mineral resources in Queensland, and is administered by the Minister for Employment, Skills and Mining and the Queensland government's Department of Employment, Economic Development and Innovation (Mining and Safety). Mining royalties are imposed through the *Mineral Resources Regulations 2003* (QLD).

Ishine International holds one application for an exploration permit, and has a contractual interest in three granted exploration permits in Queensland. An explanation of an exploration permit is set out below.

Exploration Permit

An exploration permit allows the holder to explore the permit area for minerals. The maximum term of an exploration permit is five years (unless otherwise determined by the Minister). The holder may apply to renew the permit for a maximum of five years.

Generally, an exploration permit will be granted either in respect of all minerals other than coal (referred to as an exploration permit for minerals, "EPM"); or solely for coal (referred to as an exploration permit for coal, "EPC"). It is possible for an EPC and an EPM to overlap and be granted over the same areas.

Unless the Minister decides otherwise, the holder of an EPM must relinquish half of the permit area within two years after its grant, and a further half of the remaining area by the end of each subsequent year.

REGULATORY OVERVIEW

Holders of an exploration permit may apply for a mineral development licence to conduct more intensive studies to prove the existence of a resource. Unless otherwise approved by the Minister, a person must hold either a prospecting permit, exploration permit or mineral development licence over an area as a condition to applying for a mining lease over that area.

Environmental requirements

Under the *Environmental Protection Act 1994* (Qld), the Department of Environment and Resource Management administers the regulation of the key environmental impacts of exploration and mining activities. The holder of a mining tenement must obtain an environmental authority before mining activities can be carried out on the tenement.

Aboriginal heritage

The *Aboriginal Cultural Heritage Act 2003* (Qld) (**ACH Act**) provides for the recognition and protection of Aboriginal cultural heritage. Tenement holders have a duty of care to protect Aboriginal cultural heritage when carrying out their activities.

This duty of care may be complied with in a number of ways including:

- at minimum, adhering to the Duty of Care Guidelines in the ACH Act; or
- entering into a voluntary cultural heritage management agreement, developing a Cultural Heritage Management Plan, or entering into an indigenous land use agreement or other native title agreement with the Aboriginal party.

The unlawful harm of and excavation, relocation and taking away of any object of Aboriginal cultural heritage is prohibited.

Aboriginal sites may be registered under the **ACH Act**. However, there is no requirement for a site to be registered and the **ACH Act** protects all registered and unregistered sites.

OVERVIEW OF THE MINING LAW REGIME IN SOUTH AUSTRALIA

General Mining law in South Australia

The *Mining Act 1971* (SA) (**SA Mining Act**) regulates the exploration and development of minerals in South Australia. The South Australian Minister for Mineral Resources and Energy administers the SA Mining Act through the new Department of Manufacturing, Innovation, Trade, Resources and Energy, Primary Industries and Resources South Australia.

There is a royalty payable by the tenement holder to the South Australian government on certain minerals removed from certain areas under the SA Mining Act.

REGULATORY OVERVIEW

Our Company has an interest in seven granted Exploration Licences, and three applications for Exploration Licences, in South Australia. An explanation of an exploration licence is set out below.

Exploration Licence

The holder is authorised to carry out exploratory operations of a kind described in the licence in respect of the licence area subject to the conditions set out in the licence. An exploration licence is granted for a term of up to five years. If an exploration licence is granted for a term of less than five years, the licence may include a right of renewal but the aggregate term of the licence cannot exceed five years.

An exploration licence may not be assigned, transferred, mortgaged, or otherwise dealt with without the written consent of the Minister.

Environmental requirements

In South Australia, the *Environment Protection Act 1993* (SA) applies to mining operations and is administered by the South Australian Environment Protection Authority.

The legislation imposes a duty on all persons not to undertake an activity that pollutes, or might pollute, the environment unless the person takes all reasonable and practicable measures to prevent or minimise any resulting environmental harm.

Aboriginal heritage

The *Aboriginal Heritage Act 1988* (SA) (**SA Heritage Act**) applies to the South Australian tenements and makes it an offence to damage or interfere with sites or objects of significance to Aboriginal tradition, archaeology, anthropology or history.

Aboriginal sites need not be registered under the SA Heritage Act, however all registered and unregistered sites are protected. The SA Heritage Act imposes obligations on the holder to report the discovery of Aboriginal sites, objects or remains.

HISTORY AND DEVELOPMENT

OUR CORPORATE HISTORY

Shandong Ishine

Establishment of our principal operating subsidiary, Shandong Ishine

Shandong Ishine, being our Group's principal operating subsidiary was established as a company with limited liability in Yishui, Shandong on 4 December 2001 with a registered capital of RMB1,180,000 which was contributed in fixed assets and cash by Mr. Li and in cash by Mr. G.H. Li as to RMB1,000,000 and RMB180,000, respectively. At the time of its establishment, the shareholding structure of Shandong Ishine was as follows:

| Name of shareholders | Approximate equity interest |
|-----------------------------|------------------------------------|
| Mr. Li | 84.75% |
| Mr. G.H. Li | 15.25% |
| Total | 100% |

On 4 December 2001, the Administration for Industry and Commerce of Yishui, Shandong Province (山東省沂水縣工商行政管理局) granted a business license to Shandong Ishine. As confirmed by the capital verification report issued by a PRC accounting firm on 19 September 2001, as at 19 September 2001, a total of RMB1,180,000, representing 100% of the registered capital of Shandong Ishine, had been contributed by its then shareholders.

Increase in registered capital of Shandong Ishine

On 4 January 2005, the registered capital of Shandong Ishine was increased from RMB1,180,000 to RMB51,800,000. The additional capital contribution of RMB50,620,000 was contributed by conversion of RMB25,144,000 from capital reserve and RMB25,476,000 from undistributed profit of Shandong Ishine and as agreed between Mr. Li and Mr. G.H. Li was deemed as contributed by Mr. Li and Mr. G.H. Li as to RMB45,620,000 and RMB5,000,000, respectively. As confirmed by the capital verification report issued by a PRC accounting firm on 25 December 2004, as at 31 October 2004, Shandong Ishine had converted its capital reserve in the amount of RMB25,144,000 and undistributed profit in the amount of RMB25,476,000 into registered capital. After the aforesaid increase of registered capital, the shareholding structure of Shandong Ishine was as follows:

| Name of shareholders | Approximate equity interest |
|-----------------------------|------------------------------------|
| Mr. Li | 90% |
| Mr. G.H. Li | 10% |
| Total | 100% |

HISTORY AND DEVELOPMENT

The aforesaid increase of registered capital was not made in proportion to the equity interests held by Mr. Li and Mr. G.H. Li before such increase of registered capital. On 15 November 2011, Mr. Li and Mr. G.H. Li executed a confirmation letter to confirm that they had agreed to the aforesaid increase of registered capital as recognition of Mr. Li's contribution to Shandong Ishine and that Mr. G.H. Li has no claim against Mr. Li, Shandong Ishine and the existing shareholders of Shandong Ishine in respect of the increase of registered capital.

As advised by our PRC Legal Advisers, capital reserve, undistributed profit and registered capital are interests of stakeholders i.e. Mr. Li and Mr. G.H. Li at the time of the aforesaid increase of registered capital. The conversion of capital reserve and undistributed profit into registered capital in accordance with the agreement between Mr. Li and Mr. G.H. Li was in compliance with the PRC Company Laws in force at that time which did not provide for the mandatory requirement that conversion of capital reserve and undistributed profit into registered capital should be made in proportion to the equity interests held by the shareholders. As advised by our PRC Legal Advisers, the aforesaid increase of registered capital was legal and valid.

Save as disclosed above and as a member of the board of directors of Shandong Ishine during January 2008 and November 2010, Mr. G.H. Li is an Independent Third Party.

Introduction of shareholders and transformation into a joint stock company

In contemplation of a proposed listing of Shandong Ishine in the PRC and accordingly to enlarge the shareholders' base, on 26 December 2007, Mr. Li entered into a transfer of equity interest agreement with each of Zhao Hong Yi (趙洪義) and Shandong Xiang Long Steel Co., Ltd. (山東翔龍鋼鐵有限公司) pursuant to which: (i) Mr. Li transferred his 5% equity interests in Shandong Ishine to Zhao Hong Yi (趙洪義) at a consideration of RMB2,590,000; and (ii) Mr. Li transferred his 10% equity interests in Shandong Ishine to Shandong Xiang Long Steel Co., Ltd. (山東翔龍鋼鐵有限公司) at a consideration of RMB5,180,000. On 26 December 2007, Mr. G.H. Li entered into a transfer of equity interest agreement with Lu Ling (呂玲) pursuant to which Mr. G.H. Li transferred his 5% equity interests in Shandong Ishine to Lu Ling (呂玲) at a consideration of RMB2,590,000. The considerations under the aforesaid transfers of equity interests were determined based on the registered capital of Shandong Ishine. On 29 December 2007, the Administration for Industry and Commerce of Yishui, Shandong Province (山東省沂水縣工商行政管理局) granted a new business license to Shandong Ishine. After the aforesaid transfers of equity interests, the shareholding structure of Shandong Ishine was as follows:

| Name of shareholders | Approximate equity interest |
|--|------------------------------------|
| Mr. Li | 75% |
| Mr. G.H. Li | 5% |
| Lu Ling (呂玲) | 5% |
| Shandong Xiang Long Steel Co., Ltd. (山東翔龍鋼鐵有限公司) | 10% |
| Zhao Hong Yi (趙洪義) | 5% |
| Total | 100% |

HISTORY AND DEVELOPMENT

Lu Ling (呂玲) had been a director of Ishine International from September 2009 to November 2010. The director of Shandong Xiang Long Steel Co., Ltd. (山東翔龍鋼鐵有限公司), namely Mr. Xie Yongjun (解永軍), has been a director of Shandong Ishine since January 2008. Zhao Hong Yi (趙洪義) had been a supervisor of Shandong Ishine from January 2008 to March 2010. Save as disclosed above, each of Lu Ling (呂玲), Shandong Xiang Long Steel Co., Ltd. (山東翔龍鋼鐵有限公司), the ultimate beneficial owners of Shandong Xiang Long Steel Co., Ltd. (山東翔龍鋼鐵有限公司) and Zhao Hong Yi (趙洪義) is an Independent Third Party.

On 16 January 2008, all the then shareholders of Shandong Ishine resolved to transform Shandong Ishine from a company with limited liability into a joint stock company with limited liability. On 22 January 2008, Mr. Li, Mr. G.H. Li, Lu Ling (呂玲), Zhao Hong Yi (趙洪義) and Shandong Xiang Long Steel Co., Ltd. (山東翔龍鋼鐵有限公司) entered into a promoter agreement for transforming Shandong Ishine from a company with limited liability into a joint stock company with limited liability. Based on an audit report issued by a PRC accounting firm on 16 January 2008, the net asset of Shandong Ishine as at 31 December 2007 amounted to RMB153,858,921.98. Based on a capital verification report issued by a PRC accounting firm on 22 January 2008, as at 22 January 2008, the total registered capital of Shandong Ishine contributed by its then shareholders was RMB112,500,000. RMB112,500,000 of the net asset of Shandong Ishine as at 31 December 2007 was converted into 112,500,000 shares at RMB1 each in Shandong Ishine and the remaining RMB41,358,921.98 was transferred to capital reserve of Shandong Ishine. After transforming into a joint stock company with limited liability, the total share capital of Shandong Ishine was RMB112,500,000 divided into 112,500,000 shares at RMB1 each.

As advised by our PRC Legal Advisers, the aforesaid transformation of Shandong Ishine into a joint stock company with limited liability was in compliance with the PRC Company Law and the PRC Securities Law. On 25 January 2008, the Administration for Industry and Commerce of Shandong Province (山東省工商行政管理局) granted a new business license to Shandong Ishine for approval of its transformation of corporate nature. After the aforesaid transformation of corporate nature, the shareholding structure of Shandong Ishine remained unchanged.

The proposed listing plan of Shandong Ishine in the PRC was aborted and did not proceed after further consideration of the adverse impact on the financial performance of Shandong Ishine caused by the financial tsunami in 2008. No formal listing application regarding Shandong Ishine had been made to the responsible PRC authority.

HISTORY AND DEVELOPMENT

Exit of shareholders

As a result of the abortion of the listing plan of Shandong Ishine in the PRC, on 15 November 2010, each of Lu Ling (呂玲), Zhao Hong Yi (趙洪義) and Shandong Xiang Long Steel Co., Ltd. (山東翔龍鋼鐵有限公司) entered into a share transfer agreement with Mr. Li pursuant to which: (i) Lu Ling (呂玲) transferred her 5,625,000 shares (which represented 5% equity interests in Shandong Ishine) in Shandong Ishine to Mr. Li at a consideration of RMB5,625,000; (ii) Zhao Hong Yi (趙洪義) transferred his 5,625,000 shares (which represented 5% equity interests in Shandong Ishine) in Shandong Ishine to Mr. Li at a consideration of RMB5,625,000; and (iii) Shandong Xiang Long Steel Co., Ltd. (山東翔龍鋼鐵有限公司) transferred its 11,250,000 shares (which represented 10% equity interests in Shandong Ishine) in Shandong Ishine to Mr. Li at a consideration of RMB11,250,000. The considerations under the aforesaid share transfers were determined based on the capital contribution by the relevant transferors to Shandong Ishine. After the aforesaid share transfers, the shareholding structure of Shandong Ishine was as follows:

| Name of shareholders | Approximate equity interest |
|-----------------------------|------------------------------------|
| Mr. Li | 95% |
| Mr. G.H. Li | 5% |
| Total | 100% |

On 24 November 2010, all the then shareholders of Shandong Ishine resolved to transform Shandong Ishine from a joint stock company with limited liability into a company with limited liability. On 26 November 2010, the Administration for Industry and Commerce of Shandong Province (山東省工商行政管理局) granted a new business license to Shandong Ishine for approval of the aforesaid transformation of corporate nature.

Introduction of Mr. Lang and conversion into a sino-foreign joint venture company

On 1 December 2010, Mr. Li, Mr. G.H. Li and SMI entered into a transfer of equity interest agreement pursuant to which: (i) Mr. Li transferred his 20% equity interest in Shandong Ishine to SMI at a consideration of US\$8,877,742.37; and (ii) Mr. G.H. Li transferred his 5% equity interests in Shandong Ishine to SMI at a consideration of US\$2,219,435.59. The considerations in the aforesaid transfers of equity interests were determined based on 25% of the net asset value of Shandong Ishine as at 30 November 2010 which amounted to RMB74,086,979.54 in a valuation report issued by a PRC valuer on 1 December 2010.

HISTORY AND DEVELOPMENT

On 7 January 2011, the Bureau of Commerce of Shandong Province (山東省商務廳) approved the aforesaid transfers of equity interests. The People's Government of Shandong Province (山東省人民政府) granted an approval certificate to Shandong Ishine for the above transfers of equity interests on the same date. On 14 January 2011, the Administration for Industry and Commerce of Shandong Province (山東省工商行政管理局) granted a new business license to Shandong Ishine for conversion of Shandong Ishine into a sino-foreign joint venture enterprise. After the aforesaid transfers of equity interest, the shareholding structure of Shandong Ishine was as follows:

| Name of shareholders | Approximate equity interest |
|-----------------------------|------------------------------------|
| Mr. Li | 75% |
| SMI | 25% |
| Total | 100% |

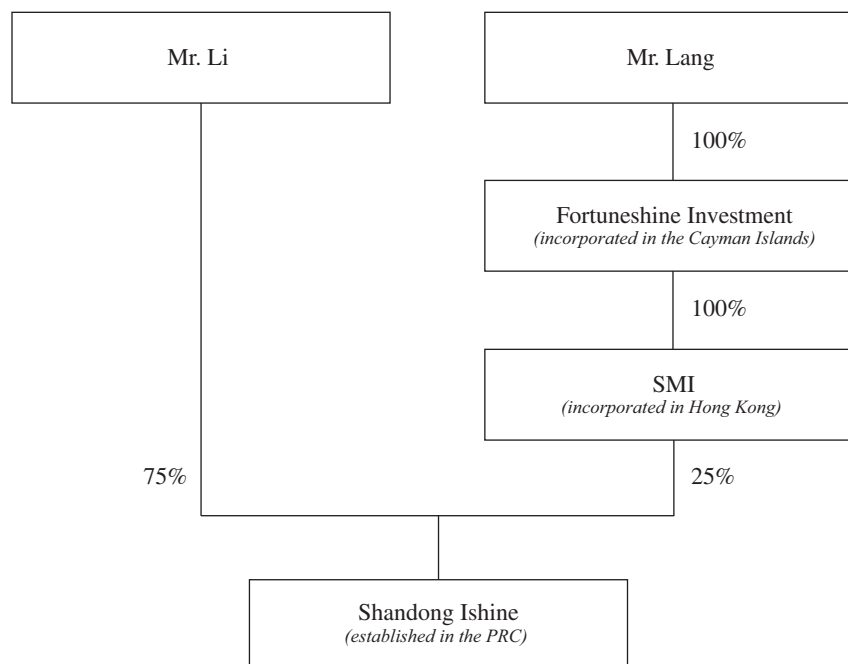
Before the Reorganisation, SMI was wholly-owned by Fortuneshine Investment which in turn, was wholly-owned by Mr. Lang. Mr. Lang is an executive Director and has years of experience in investment and has management experiences in the mining industry. Further details of Mr. Lang's biographies are set out in the section headed "Directors, senior management and staff" in this prospectus.

During the course of preparation to attend a mining conference in Canada, Mr. Li got to know Mr. Lang in Beijing in March 2009. After the introduction of Shandong Ishine to Mr. Lang by Mr. Li, Mr. Lang expressed interests in investing in Shandong Ishine and was then invited to conduct several visits to Shandong Ishine. As confirmed by Mr. Lang, in order to make a sound investment decision, he has undertaken certain due diligence work, including researched on the prospect of the iron ore industry in the PRC, particularly in Shandong Province, and the laws and regulations governing the industry, and reviewed the reserve reports for our Yangzhuang Iron Mine, Zhuge Shangyu Ilmenite Mine and Qinjiazhuang Ilmenite Project prepared in accordance with PRC standards. After such due diligence and review, he considered that Shandong Ishine has good management, good industry prospect and possesses large amount of reserves. This together with his experience and knowledge of the mining industry affirmed his investment in Shandong Ishine as aforesaid.

Subsequent to several rounds of negotiations between Mr. Li, who also negotiated on behalf of Mr. G.H. Li, and Mr. Lang, to discuss, among others, the percentage of interest in Shandong Ishine to be acquired and the consideration for the acquisition, Mr. Lang made his investment in Shandong Ishine in December 2010 as detailed above.

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Set out below is the shareholding structure of Shandong Ishine immediately after completion of the above-mentioned transfers of equity interests:



Ishine International

As to diversify our business overseas and to explore other business opportunities in the mining industry for the long-term development of our Group, Ishine International was incorporated in Western Australia, Australia on 18 September 2009 under the Corporations Act as a company limited by shares and was admitted to the official list of ASX on 18 December 2009. Ishine International is principally engaged in the business of the exploration of mineral prospects. As at the Latest Practicable Date, Ishine International had interests in various tenements and exploration licenses in Australia, further details of which are set out in the section headed “Business” of this prospectus.

From the date of its incorporation to the Latest Practicable Date, Ishine International has allotted and issued the following shares:

- (i) on 18 September 2009, one share in Ishine International was issued and allotted to Shandong Ishine at the consideration of AUD1.00;
- (ii) on 30 October 2009, 59,599,999 shares and 10,000,000 shares in Ishine International were issued at AUD0.05 each to Shandong Ishine and Mr. Li, our Chairman, an executive Director and the chairman of the board of directors of Ishine International, respectively;
- (iii) on 9 December 2009, 15,000,000 shares in Ishine International were issued at AUD0.20 each to public shareholders;

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- (iv) on 9 December 2009, 80,000 shares and 20,000 shares in Ishine International were issued at AUD0.20 each to Graham Anderson and Leonard Math, respectively. The issue of shares to Mr. Anderson was as consideration for his accounting and administration services provided to Ishine International during the listing process and the issue of shares to Mr. Math was as consideration for his services as the company secretary to Ishine International during the listing process;
- (v) on 9 December 2009, 2,000,000 shares in Ishine International were issued at nil paid to Kabiri Resources Pty Ltd (“**Kabiri**”) pursuant to the terms of two agreements between Ishine International and Kabiri;
- (vi) on 2 November 2010, 100,000 shares in Ishine International were issued at AUD0.20 each pursuant to the exercise of options granted to a consultant as consideration for providing consultancy services;
- (vii) on 9 December 2010, 500,000 shares in Ishine International were issued at nil paid as consideration under the service agreement between Ishine International and Dr Caigen Wang, the former managing director of Ishine International. Dr Caigen Wang had been the managing director of Ishine International since its listing on ASX and resigned as the managing director of Ishine International on 9 December 2011.

As advised by the Australian legal advisers to our Company, pursuant to listing rules of ASX, 44,700,000 shares and 7,500,000 shares in Ishine International held by Shandong Ishine and Mr. Li, respectively in item (ii) above and all the shares in Ishine International as mentioned in item (iv) above were subject to escrow until 18 December 2011 as such issue of shares occurred prior to Ishine International’s listing on ASX and are classified as issue of shares to related parties (in relation to item (ii) above) or consultants to Ishine International (in relation to item (iv) above). As advised by the Australian legal advisers to our Company, all the aforesaid shares under escrow have been released from escrow as of 19 December 2011.

Kabiri is a proprietary company limited by shares incorporated in Western Australia, the 2,000,000 shares in Ishine International as mentioned in item (v) above were issued and allotted as part of the consideration under two agreements entered into between Ishine International and Kabiri on 9 October 2009. Pursuant to the aforesaid agreements, Ishine International has the right to acquire up to 70% interest in three exploration permits for minerals held by Kabiri.

As at the Latest Practicable Date, Ishine International had a total of 87,300,000 shares in issue, being fully paid ordinary shares. As at the Latest Practicable Date, Shandong Ishine held 59,600,000 shares in Ishine International, which represented approximately 68.27% of the issued share capital of Ishine International. Mr. Li held 10,000,000 shares in Ishine International, which represented approximately 11.45% of the issued share capital of Ishine International.

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REORGANISATION

Our Company undertook the Reorganisation in preparation for the Listing pursuant to which our Company became the ultimate holding company of our Group. The major steps involved in the Reorganisation include the incorporation of our Company and other holding companies, and acquisition of the entire equity interest in Shandong Ishine:

(1) Incorporation of holding companies

On 8 February 2011, our Company was incorporated under the laws of the Cayman Islands as an exempted company and one Share was allotted and issued fully paid to the subscriber to the memorandum and articles of association of our Company, on 8 February 2011, which was subsequently transferred to Hongfa Holdings at a consideration of HK\$0.01 on the same date.

On 29 November 2010, Alliance Worldwide was incorporated in the BVI with limited liability with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, all of which were allotted and issued fully paid to Mr. Li on 29 November 2010.

On 22 December 2010, Ishine Mining was incorporated in Hong Kong with limited liability with an authorised capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, all of which were allotted and issued fully paid to Alliance Worldwide on 22 December 2010.

On 18 February 2011, Mr. Li transferred the 50,000 shares he held in Alliance Worldwide, which represented the entire issued share capital of Alliance Worldwide, to our Company at a consideration of US\$1.00.

On 18 February 2011, 749,999 Shares were allotted and issued fully paid to Hongfa Holdings which is wholly-owned by Mr. Li.

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Set out below is the corporate structure of our Company immediately after completion of the above-mentioned incorporation of holding companies and various share transfers, and allotments of shares in various companies:



(2) Acquisition of the equity interests in Shandong Ishine

As part of the Reorganisation, on 20 February 2011, Ishine Mining entered into an equity transfer agreement with Mr. Li pursuant to which Mr. Li transferred his 75% equity interests in Shandong Ishine to Ishine Mining at a consideration of US\$27,853,200, which was determined with reference to the net asset value of approximately RMB326,409,000 of Shandong Ishine as at 31 December 2010 as stated in its PRC audited account with adjustment in respect of the distribution of dividends to the shareholders of Shandong Ishine of RMB80,000,000 in January 2011. The consideration had been fully settled by Ishine Mining.

On 1 March 2011, the Bureau of Commerce of Shandong Province (山東省商務廳) approved the aforesaid equity transfer. On 17 August 2011, the People's Government of Shandong Province (山東省人民政府) granted an approval certificate to Shandong Ishine for the equity transfer mentioned above. On 19 August 2011, the Administration for Industry and Commerce of Shandong Province (山東省工商行政管理局) granted a new business license to Shandong Ishine.

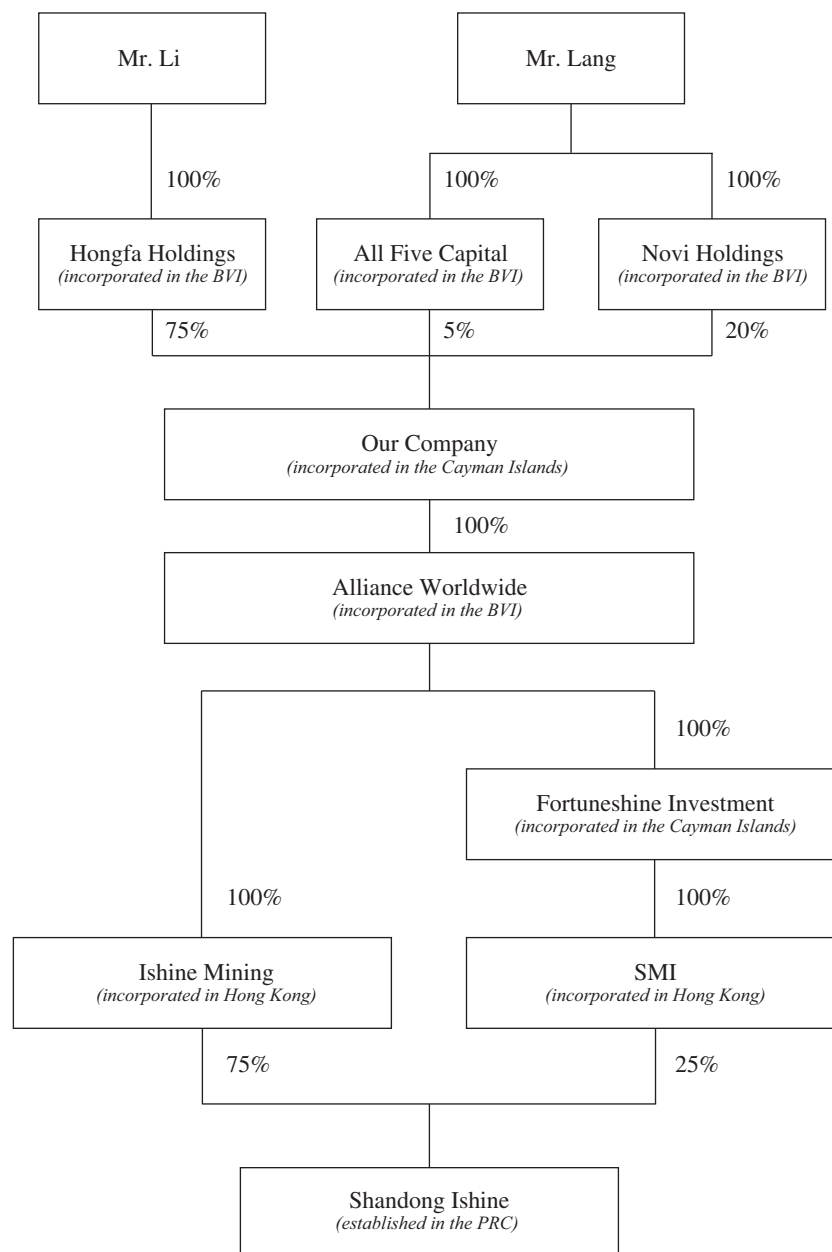
As part of the Reorganisation, on 2 September 2011, Mr. Lang entered into a share transfer agreement with Alliance Worldwide pursuant to which Mr. Lang transferred the 50,000 shares in Fortuneshine Investment held by him, which represented the entire issued share capital of Fortuneshine Investment to Alliance Worldwide and as consideration, 200,000 shares

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and 50,000 shares, all credited as fully paid, were allotted and issued to Novi Holdings and All Five Capital, respectively. Novi Holdings and All Five Capital are wholly-owned by Mr. Lang. As confirmed by Mr. Lang, Novi Holdings and All Five Capital are investment holding companies, the only business of which are holding of our Shares.

After the aforesaid transfers of equity interest and shares, and allotment of Shares, Shandong Ishine became a wholly-owned subsidiary of our Company.

Set out below is the shareholding structure of Shandong Ishine immediately after the equity and share transfers, and allotment of Shares as detailed in this paragraph:



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(3) Disposal of interests in relevant companies

Shandong Ishine had disposed of its beneficial interests in the following companies namely, Ausrich, Thailand Chang Sheng and Shengrong Small Loans, because (i) the businesses held by such companies had historically been managed by separate management teams different from us; and (ii) such businesses were dissimilar from our principal business in terms of business risks and rewards and customer bases. No gain or loss on disposals of Ausrich, Thailand Chang Sheng and Shengrong Small Loans were recorded in the financial statements of our Group during the Track Record Period.

Ausrich – wholly-owned by Shandong Ishine before the Reorganisation

Ausrich was incorporated in Western Australia on 23 September 2009 by Shandong Ishine under the Corporations Act as a proprietary company limited by shares. Save as holding of an investment property in Australia, Ausrich did not have other substantial operations since its incorporation up to the disposal of interests in Ausrich by us as detailed below. Based on the management accounts of Ausrich, Ausrich recorded an unaudited net loss of approximately AUD0.3 million from the date of its incorporation to the date of its disposal by Shandong Ishine on 2 May 2011.

On 23 September 2009, one share of AUD1.00 in Ausrich was issued and allotted to Shandong Ishine. On 2 May 2011, Shandong Ishine entered into a share sale agreement with Hesheng Minerals pursuant to which Shandong Ishine transfer its entire interests in Ausrich to Hesheng Minerals at the consideration of US\$6,350,000 which was determined with reference to the total investment costs of Shandong Ishine in Ausrich. Hesheng Minerals was one of our major customers and suppliers during the Track Record Period and is an Independent Third Party.

As advised by the Australian legal advisers to our Company, the incorporation of Ausrich was in compliance with all applicable Australian laws and regulations. As advised by our PRC Legal Advisers, Shandong Ishine's foreign investment in Ausrich, including the incorporation of Ausrich, has obtained the necessary approvals from the PRC authorities, and was in compliance with all applicable PRC laws and regulations.

Thailand Chang Sheng – 49% owned by Shandong Ishine before the Reorganisation

Thailand Chang Sheng was registered on 26 October 2010 as a limited liability company under the laws of Thailand with registered capital of Baht 30,000,000. Since its incorporation and up to Shandong Ishine's disposal of its entire interests in Thailand Chang Sheng as detailed below, Thailand Chang Sheng had been engaged in the preliminary construction of an iron ore processing plant in Thailand, and accordingly, did not have any substantial operation. Save for the investment in and that Mr. Li was one of the directors of Thailand Chang Sheng, there was no other major involvement of our Group in the operation of Thailand Chang Sheng prior to our disposal of its interests. As Thailand Chang Sheng was at its preliminary set-up stage, our Group did not receive the

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management accounts of Thailand Chang Sheng from its date of incorporation to the date of disposal of our interests in Thailand Chang Sheng. Our Directors, after having made all reasonable enquiries, believe that Thailand Chang Sheng should only have insignificant profit and loss items from its date of incorporation up to the date of our disposal of its interests as it was at its preliminary development stage.

Thailand Chang Sheng's share capital was initially registered as Baht 30,000,000 consisting of 30,000 shares having par value of Baht 1,000, 25% of which were paid-up. There has been no change in the registered or paid-up capital of Thailand Chang Sheng since its incorporation up to the date of our disposal of its interests.

On 26 October 2010, 15,297 shares, 14,700 shares, one share, one share and one share were issued and allotted at par to Changthae Mining Development Ltd, Shandong Ishine, Mr. Vinai Sae Hun, Mrs. Thatsana Sae Chean and Ms. Sureerat Chantawong, respectively. Each of Changthae Mining Development Ltd, Mr. Vinai Sae Hun, Mrs. Thatsana Sae Chean and Ms. Sureerat Chantawong is an Independent Third Party.

On 2 May 2011, Shandong Ishine and Hesheng Minerals entered into a sale and purchase agreement pursuant to which, Shandong Ishine transferred its entire interests in Thailand Chang Sheng to Hesheng Minerals at the consideration of RMB9,955,865 which was determined with reference to the total investment costs of Shandong Ishine in Thailand Chang Sheng.

As advised by the Thailand legal advisers to our Company, the incorporation of Thailand Chang Sheng was in compliance with all applicable Thailand laws and regulations. As advised by our PRC Legal Advisers, Shandong Ishine's foreign investment in Thailand Chang Sheng, including the incorporation of Thailand Chang Sheng, has obtained the necessary approvals from the PRC authorities, was in compliance with all applicable PRC laws and regulations.

Shengrong Small Loans – 20% owned by Shandong Ishine before the Reorganisation

Shengrong Small Loans is a joint stock company with limited liability established under the laws of the PRC on 28 July 2010. As at 28 July 2010, it was owned by Shandong Ishine (20%) and the other shareholders of Shengrong Small Loans (80%), who were Independent Third Parties as at the Latest Practicable Date. Shengrong Small Loans is principally engaged in finance and loan business. Based on the management accounts of Shengrong Small Loans, Shengrong Small Loans recorded an unaudited net profit of approximately RMB0.2 million from the date of its establishment to the date of its disposal by Shandong Ishine on 26 February 2011. During the Track Record Period, Shengrong Small Loans did not have any business activities with our Group.

As advised by our PRC Legal Advisers, pursuant to Interim Management Measures for Small Loan Companies in Shandong Province (山東省小額貸款公司試點暫行管理辦法), Shandong Ishine, as the main promoter of Shengrong Small Loans, shall not transfer its interests in Shengrong Small Loans within three years from the date of its establishment.

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On 26 February 2011, Shandong Ishine and Mr. Li entered into an equity transfer agreement with Linyi Runxing pursuant to which Shandong Ishine transferred its 20% beneficial equity interest in Shengrong Small Loans to Linyi Runxing at the consideration of RMB20,000,000 which was equivalent to the capital contribution of Shandong Ishine in Shengrong Small Loans. However, the legal title of the 20% equity interest in Shengrong Small Loans has not been transferred to Linyi Runxing due to the restriction of the aforesaid measures.

Under the aforesaid equity transfer agreement (among other matters): (i) Shandong Ishine shall exercise its rights in Shengrong Small Loans in accordance with the instructions of Linyi Runxing subject to applicable laws and regulations, and the articles of Shengrong Small Loans; (ii) if Shandong Ishine is required to comply with any procedure or obtain any approval under any applicable laws and regulations (including any rules of the exchange to which the holding companies or subsidiaries of Shandong Ishine are subject) to exercise the instructions of Linyi Runxing, Shandong Ishine shall only act in accordance with the instructions after such procedures have been performed or such approvals have been obtained; (iii) all the risks, liabilities and obligations arising from Shandong Ishine as a shareholder of Shengrong Small Loans shall be borne by Linyi Runxing; and (iv) Mr. Li shall procure Linyi Runxing to be qualified as a transferee to the equity interests in Shengrong Small Loans when the aforesaid three years' lock-up period ends or otherwise, shall procure a qualified third party to acquire the equity interest in Shengrong Small Loans to be transferred from Shandong Ishine.

As advised by our PRC Legal Advisers, the aforesaid equity transfer agreement is legal and enforceable and from the date of such agreement, Shandong Ishine has no effective control on Shengrong Small Loans.

(4) Introduction of strategic investor

On 19 October 2011, our Company, Hongfa Holdings and Mr. Li entered into the Jiuding Subscription Agreement with Jiuding Callisto pursuant to which, Jiuding Callisto agreed to subscribe for 111,111 Shares (the “**Jiuding Shares**”), representing approximately 10% of the enlarged issued share capital of our Company immediately upon subscription of the Jiuding Shares at a total subscription price of US\$11,250,000 (the “**Subscription Price**”) (the “**Jiuding Investment**”). The Subscription Price was arrived at after arm's length negotiations among the parties to the Jiuding Subscription Agreement. The Jiuding Investment was completed on 25 October 2011, the proceeds from which have been applied to settle part of the consideration for our acquisition of 75% interests in Shandong Ishine from Mr. Li.

Jiuding Callisto is a limited liability company incorporated under the laws of Hong Kong which is wholly-owned by Jiuding China Growth Fund, L.P., a limited partnership registered in the Cayman Islands and an Independent Third Party.

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The following table sets out the details of the Jiuding Investment:

| Pre-IPO Subscribers | Date of subscription/ transfer agreements | Number of our Shares subscribed/ purchased | Settlement date of consideration | Total consideration paid (US\$) | Approximate percentage shareholding in the enlarged issued share capital of our Company immediately upon completion of the relevant agreements | Number of our Shares to be held upon Listing | Percentage shareholding in the enlarged issued share capital of our Company immediately upon Listing assuming no exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme | Approximate cost per Share paid (HK\$) | Premium to the Offer Price based on the mid-point of the Offer Price of HK\$1.27 |
|------------------------|--|---|--|--|---|---|--|---|---|
| Jiuding Callisto | 19 October 2011 | 111,111 | 25 October 2011 | 11,250,000 (or approximately HK\$87,368,000) | 10% | 59,111,052 | 8.2 | 1.48 | 16.5% |

Right of repurchase

Pursuant to the Jiuding Subscription Agreement, Jiuding Callisto has the right to require Mr. Li (or his nominee) to repurchase the whole or any part of the Jiuding Shares (the “**Repurchased Jiuding Shares**”) upon the occurrence of any of the following events:

- (a) the Listing is not successful on or before 31 December 2013;
- (b) the new accumulated loss of our Group after completion of the Jiuding Investment amounts to 20% of the net asset of our Group as of the date of the Jiuding Subscription Agreement;
- (c) there is any undisclosed off-book sale income in cash of our Company; or
- (d) there is a change of our Company’s principal business.

The price to be paid by Mr. Li (or his nominee) to Jiuding Callisto for repurchase of the Repurchased Jiuding Shares (the “**Repurchase Price**”) is calculated as follows:

The Repurchase Price = (the investment amount paid by Jiuding Callisto for the relevant Repurchased Jiuding Shares) + (the total interest at a compound rate of 8% per annum on such investment amount paid by Jiuding Callisto calculated from completion of the Jiuding Investment to the date of registration of transfer of the relevant Repurchased Jiuding Shares) – (the dividend after tax received by Jiuding Callisto regarding the relevant Repurchased Jiuding Shares from our Company during the period which Jiuding Callisto is the holder of such Repurchased Jiuding Shares).

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In the event that Mr. Li refuses to repurchase the Repurchased Jiuding Shares, Jiuding Callisto is entitled to transfer the Repurchased Jiuding Shares to other third parties at any price to be determined by Jiuding Callisto, subject to the pre-emption of Hongfa Holdings, Novi Holdings and All Five Capital to acquire the Repurchased Jiuding Shares under the same terms. Mr. Li shall pay to Jiuding Callisto the difference between such transfer price and the Repurchase Price.

Right of co-sale

If any of Hongfa Holdings, Novi Holdings and All Five Capital (the “**Selling Shareholder**”) transfers its Shares (the “**Sale Shares**”) during completion of the Jiuding Investment and the Listing, Jiuding Callisto is entitled to the pre-emption right of acquiring the Sale Shares under the same terms or require the Selling Shareholder to have the Jiuding Shares (in whole or in part), in proportion to the shareholding of the Selling Shareholder and Jiuding Callisto in our Company, transferred to the proposed transferee(s) of the Sale Shares under the same terms (the “**Co-sale Right**”). If Jiuding Callisto elects to exercise the Co-sale Right: (i) the Selling Shareholder shall ensure that the proposed transferee(s) to accept transfer of the Jiuding Shares and the consideration for transfer of the Jiuding Shares shall be received by Jiuding Callisto within 15 days upon signing of the relevant Shares transfer agreement or otherwise, the Selling Shareholder shall not transfer the Sale Shares to the proposed transferee(s); and (ii) Jiuding Callisto shall notify Hongfa Holdings, Novi Holdings and All Five Capital and the same shall have the pre-emption rights to acquire the Jiuding Shares under the same terms.

Warranted profits

Under the Jiuding Subscription Agreement, Mr. Li has warranted and undertaken to Jiuding Callisto the following warranted profits of Shandong Ishine (collectively, the “**Warranted Profits**” and each a “**Warranted Profit**”) for the period from 2011 to 2015 (collectively, the “**Relevant Financial Years**” and each a “**Relevant Financial Year**”):

- (a) the net profit of Shandong Ishine after tax for 2011 will not be less than RMB120,000,000;
- (b) the net profit of Shandong Ishine after tax for 2012 will not be less than RMB156,000,000;
- (c) the net profit of Shandong Ishine after tax for 2013 will not be less than RMB202,800,000;
- (d) the net profit of Shandong Ishine after tax for 2014 will not be less than RMB263,640,000; and
- (e) the net profit of Shandong Ishine after tax for 2015 will not be less than RMB342,730,000.

The net profits of Shandong Ishine after tax for the Relevant Financial Years will be determined based on the audited financial statements of Shandong Ishine prepared in accordance with Hong Kong Financial Reporting Standards audited by a practicing

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accounting firm in Hong Kong appointed by our Company (the “**Financial Statements**”). For the avoidance of doubts, the audited financial statements of Shandong Ishine for 2011 will only state the relevant financial figures of Shandong Ishine itself without any consolidation.

If any of the Warranted Profits cannot be achieved, Mr. Li shall compensate Jiuding Callisto in cash by his own fund (the “**Cash Compensation**”) for each Relevant Financial Year as follows:

The Cash Compensation = the Subscription Price x (1 – (actual net profit after tax of Shandong Ishine for the Relevant Financial Year/ the Warranted Profit for the Relevant Financial Year))

In calculating the Cash Compensation, if Jiuding Callisto has the Jiuding Shares repurchased or transferred as mentioned under the sub-paragraphs headed “Right of repurchase” and “Right of co-sale” above (the “**Adjustment Events**”), the Cash Compensation for the Relevant Financial Years shall be adjusted as follows:

The Cash Compensation = the Subscription Price x (1 – (actual net profit after tax of Shandong Ishine for the Relevant Financial Year/ the Warranted Profit for the Relevant Financial Year)) x (shareholding of Jiuding Callisto in our Company after the Adjustment Events for the Relevant Financial Year/ shareholding of Jiuding Callisto in our Company before any Adjustment Events)

In any event, if the Cash Compensation for a Relevant Financial Year is less than the Cash Compensation for the preceding Relevant Financial Year, Mr. Li shall not be responsible for any Cash Compensation for that Relevant Financial Year. If the Cash Compensation for a Relevant Financial Year is greater than the Cash Compensation for the preceding Relevant Financial Year, then Mr. Li shall only be responsible for the payment of the difference between the Cash Compensation of the said two Relevant Financial Years. In case that the average sale price (without tax) of iron concentrates (with 65% of iron content) is less than RMB1,000/tonne for any Relevant Financial Year as calculated from the Financial Statements, the Cash Compensation will not be applicable for that Relevant Financial Year.

The Warranted Profits were negotiated between Mr. Li and Jiuding Callisto for consideration adjustment purpose and arrived at after the discussions between Mr. Li and Jiuding Callisto with reference to the historical operating and financial performance and future business prospects of Shandong Ishine. The actual amount of our Group’s profit for each of the Relevant Financial Years will be subject to risks and uncertainty relating to future events and circumstances some of which may be beyond the control of our Group, and may differ materially from the Warranted Profits. The Warranted Profits do not constitute profit forecasts of our Company under the Listing Rules and such amounts should not be regarded in any way as an indication of our Group’s projected profits for the Relevant Financial Years. Shandong Ishine has achieved the Warranted Profit for 2011 with a net profit of not less than RMB120,000,000. There is no assurance that Shandong Ishine can achieve the Warranted Profits for the other Relevant Financial Years.

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In the event that Mr. Li fails to settle the Cash Compensation for any Relevant Financial Year, our Directors consider that there will not be any direct impact on our operations and we will not bare any liabilities and responsibilities in respect of the Cash Compensation as the Cash Compensation is a personal undertaking made by Mr. Li to Jiuding Callisto under the Subscription Agreement.

All the rights of Jiuding Callisto mentioned in the sub-paragraphs headed “Right of repurchase”, “Right of co-sale” and “Warranted profits” above and other rights of Jiuding Callisto as provided in the Jiuding Subscription Agreement including, among others, the rights to be provided with our Company’s monthly, half-year and annual financial reports and the rights to access to our accounting books and records will be terminated upon Listing or the date on which Jiuding Callisto ceases to hold any Shares (whichever is earlier).

Under the Jiuding Subscription Agreement, Jiuding Callisto has undertaken that save as stated in the Jiuding Subscription Agreement or for the Listing, it will not transfer by whatever manner any Share held by it during completion of the Jiuding Investment and the Listing from completion of the Jiuding Investment to a period of six months after the Listing or as required by the Stock Exchange or other relevant regulatory bodies. Mr. Li has warranted to indemnify our Company for any debt or liability arisen from (i) non-disclosure to Jiuding Callisto before completion of the Jiuding Investment; and (ii) any non-compliance matters regarding our Company’s operation before completion of the Jiuding Investment.

The Sponsor confirmed that the Jiuding Investment is in compliance with the “Interim Guidance on Pre-IPO Investments” issued by the Listing Committee as the consideration under the Jiuding Subscription Agreement was settled on 25 October 2011, when was more than 28 clear days before the date of our first submission of the listing application form to the Listing Division of the Stock Exchange in relation to the Listing.

Jiuding Callisto is not a connected person of our Company under the Listing Rules, it did not acquire interests in our Company with finance provided directly or indirectly by our connected person(s) and it does not take instructions from our connected person(s) in relation to the acquisition, disposal, voting or other disposal of our Shares registered in its name; it should be regarded as members of the public upon the Listing pursuant to Rule 8.24 of the Listing Rules.

(5) Subscription of Share

In order to finance the settlement of the remaining consideration under the acquisition of 75% interests in Shandong Ishine by Ishine Mining from Mr. Li, on 15 November 2011, Hongfa Holdings subscribed for one Share at the subscription price of US\$16,603,200. Our Company then injected US\$16,603,200 to Ishine Mining, through a shareholder’s loan to Alliance Worldwide and then as a shareholder’s loan to Ishine Mining from Alliance Worldwide, for full settlement of the consideration under the acquisition of 75% interests in Shandong Ishine on

HISTORY AND DEVELOPMENT

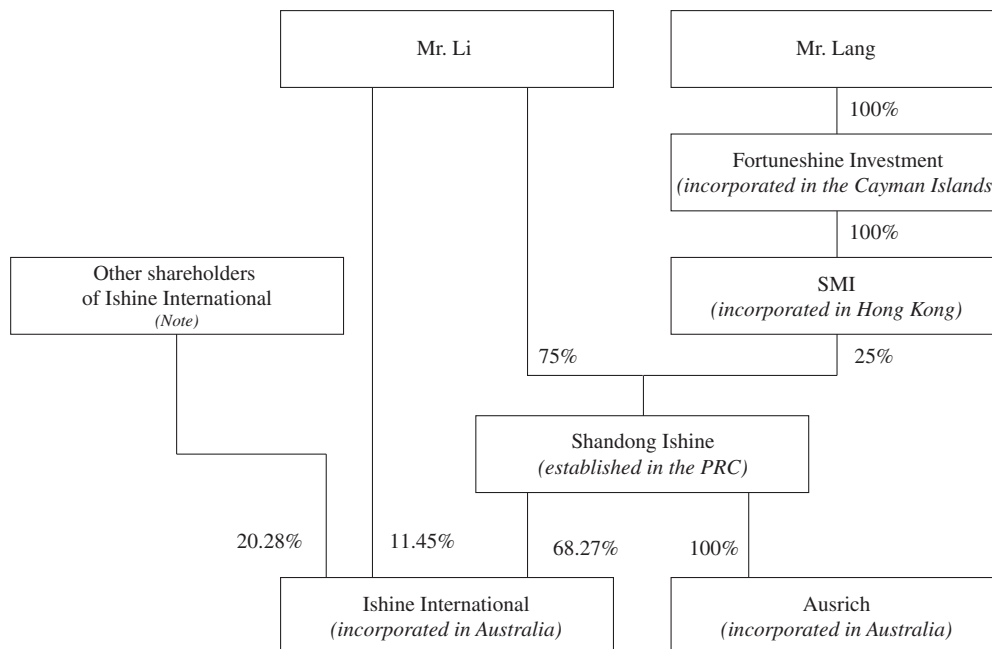
16 November 2011. As one of the objectives of the Reorganisation is to make Shandong Ishine being wholly and indirectly held by our Company in preparation for Listing, it was agreed that the effective shareholdings of Mr. Li and Mr. Lang in Shandong Ishine should be materially the same (save for the effect of the introduction of strategic investor) after completion of the Reorganisation. Therefore, after taking into account the aforesaid and the funding need to complete the acquisition of 75% interests in Shandong Ishine, it was agreed that only one Share should be issued for the aforesaid subscription by Hongfa Holdings.

Our PRC Legal Advisers has confirmed that we have obtained all necessary approvals, licenses and permits under relevant PRC laws and regulations in connection with the Reorganisation.

Mr. Li and Hongfa Holdings, our Controlling Shareholders, have undertaken that they would indemnify us for all costs and damages as a result of or otherwise arising from, whether directly or indirectly, or in connection with (i) the implementation of the Reorganisation; (ii) disposal or acquisition of the equity interest in or any distribution (including but not limited to dividend) or change of corporate nature of Shandong Ishine since its establishment and up to the date on which the Share Offer become unconditional (including but not limited to, any tax payment borne by or to be borne by any of the former or existing holders of equity interest in Shandong Ishine), except that provision, reserve or allowance has been made for such liabilities in the audited consolidated accounts of our Company for the Track Record Period.

Further details of the Reorganisation are set out in the paragraph headed “Corporate Reorganisation” in Appendix VI to this prospectus.

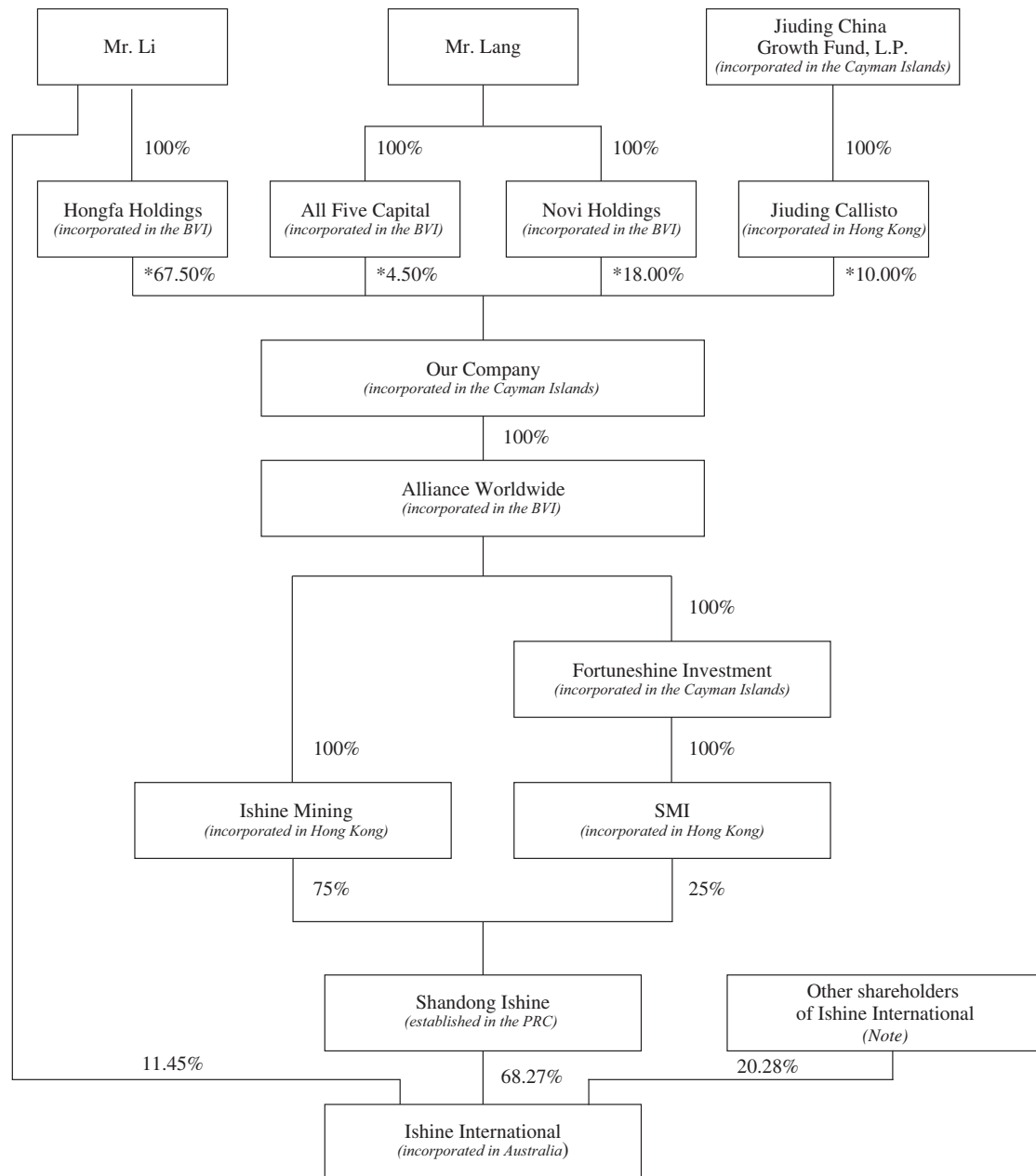
Corporate and shareholding structure of our Group immediately before the Reorganisation



Note: As at 29 November 2010, save and except for Mr. Li and Shandong Ishine, no other shareholders of Ishine International held more than 5% of the issued share capital of Ishine International.

HISTORY AND DEVELOPMENT

Corporate and shareholding structure of our Group upon completion of the Reorganisation



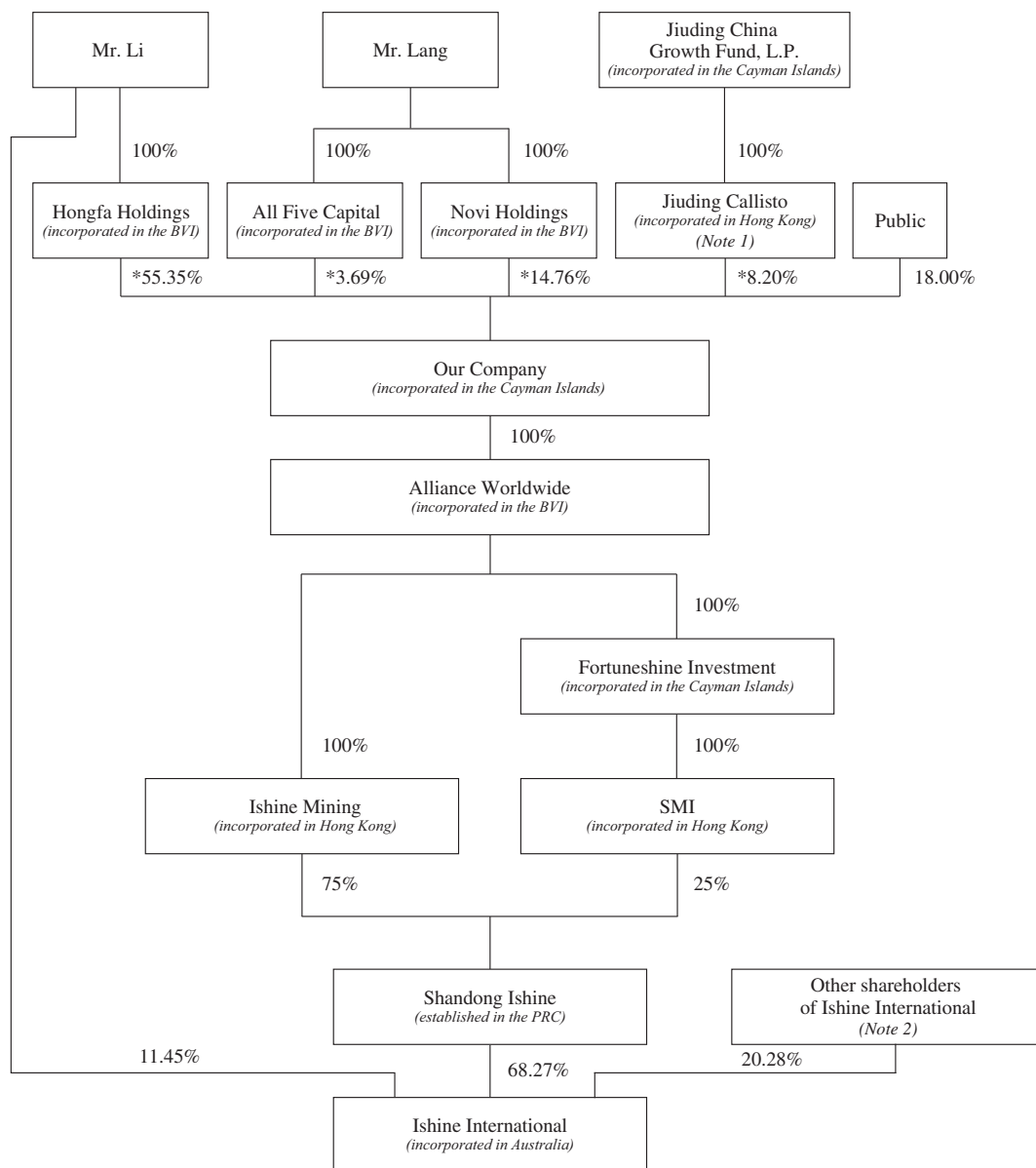
* approximate percentage

Note: As at 15 November 2011, save and except for Mr. Li and Shandong Ishine, no other shareholders of Ishine International held more than 5% of the issued share capital of Ishine International.

HISTORY AND DEVELOPMENT

Corporate structure of our Group upon completion of the Capitalisation Issue and the Share Offer

The following chart sets forth the shareholding and corporate structure of our Group immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme or pursuant to exercise of the Over-allotment Option):



* approximate percentage

Notes:

1. Jiuding Callisto is not a connected person of our Company under the Listing Rules, it should be regarded as members of the public upon the Listing pursuant to Rule 8.24 of the Listing Rules.
2. As at the Latest Practicable Date, save and except for Mr. Li and Shandong Ishine, no other shareholders of Ishine International held more than 5% of the issued share capital of Ishine International.

HISTORY AND DEVELOPMENT

OUR BUSINESS HISTORY

Our history began in 2001, when Shandong Ishine was established to engage in, amongst others, the processing of iron ore in Shandong Province.

Mining rights of Yangzhuang Iron Mine

In September 2001, we acquired from an iron ore processing plant, an Independent Third Party, the processing facility at our Yangzhuang Iron Mine together with the rights of such vendor to a mining permit with an area of approximately 0.6883 sq. km. in our Yangzhuang Iron Mine, which signified the beginning of our business development. The consideration paid by our Group for the acquisition amounted to RMB4.62 million, which was determined through arm's length negotiation between the parties with reference to a valuation conducted by a PRC accounting firm. The vendor, Shandong Province Yishui County Iron Ore Processing Plant, was an enterprise owned by the Yangzhuang Town government. Our Yangzhuang Iron Mine is an iron mine and its current mining permit has a term of up to June 2019, with a mining area of approximately 3.9093 sq. km. and an approved production scale of 2.3 Mt of iron ore each year.

Exploration rights of Yangzhuang Iron Mine and Qinjiazhuang Ilmenite Project

In 25 September 2002, an exploration permit with an area of 6.25 sq. km. area of our Yangzhuang Iron Mine was granted to us by the Shandong Provincial Department of Land and Resources (山東省國土資源廳) for a term from 25 September 2002 to 30 September 2003. The exploration permit was extended various times subsequently with the latest renewal in 2010 from 16 August 2010 to 31 December 2010 during which no exploration activity had been conducted.

In January 2005, we obtained the exploration rights to our Qinjiazhuang Ilmenite Project with an area of approximately 11.63 sq. km.. An exploration permit was granted to us by the Shandong Provincial Department of Land and Resources (山東省國土資源廳) in January 2005 for a term from 18 January 2005 to 17 January 2006. The exploration permit was subsequently extended various times with the latest renewal in May 2010 for a term from 17 May 2010 to 31 March 2012.

In order to consolidate and integrate mineral resources with a view to developing mineral resources in a more efficient manner, optimizing mineral resource allocation and promoting large-scale operation and centralized management in mining business, the exploration area of our Yangzhuang Iron Mine and Qinjiazhuang Ilmenite Project was requested by relevant government authority to be combined. In January 2011, an exploration permit was renewed for the Yangzhuang Qinjiazhuang Combined Exploration Right Area of 17.88 sq. km. for a term from 4 January 2011 to 31 December 2012 and this area covers our Yangzhuang Iron Mine of 6.25 sq. km. and our Qinjiazhuang Ilmenite Project of 11.63 sq. km..

HISTORY AND DEVELOPMENT

Mining and exploration rights at Zhuge Shangyu Ilmenite Mine

On 18 January 2004, we also obtained the exploration rights to our Zhuge Shangyu Ilmenite Mine with an area of approximately 7.30 sq. km.. An exploration permit was granted to us by the Shandong Provincial Department of Land and Resources (山東省國土資源廳) on 18 January 2004 for a term from 18 January 2004 to 17 January 2006, which was subsequently extended various times with the latest renewal in July 2010 for a term from 19 July 2010 to 30 June 2012.

In May 2008 we obtained a mining permit for our Zhuge Shangyu Ilmenite Mine with a mining area of approximately 0.356 sq. km. and an approved production scale of 400,000 cubic metres of titanium ore and iron ore each year. We are preparing for the application for the renewal of the mining permit of our Zhuge Shangyu Ilmenite Mine and have submitted to the MLR certain documents in respect of the application. We expect to make the formal application to renew the mining permit to increase the mining area and the approved production scale of our Zhuge Shangyu Ilmenite Mine from 400,000 cubic metres per annum to 8.0 Mt per annum in the second quarter of 2012 and expect to obtain the new mining permit by the third quarter of 2012.

Although we obtained the mining permit in May 2008, we have not yet proceeded to commercial production of our Zhuge Shangyu Ilmenite Mine as of the Latest Practicable Date as such development would involve significant capital expenditure for which we require further funding. Please refer to the section headed “Business – Business Strategies” of this prospectus for details of the funding requirement and source of funding for development of our Zhuge Shangyu Ilmenite Mine. Based on our mining experience and feasibility report on the mine, we consider there is no major obstacle in carrying out mining activities at our Zhuge Shangyu Ilmenite Mine.

Exploration rights of Gaozhuang Shangyu Ilmenite Project

In April 2008, we acquired from an Independent Third Party, the exploration rights to our Gaozhuang Shangyu Ilmenite Project with an area of approximately 7.66 sq. km.. The consideration paid by our Group for the acquisition amounted to RMB4.75 million, which was determined based on arm’s length negotiation between both parties, which our Directors believed was also based on the respective parties’ experience and knowledge in the industry and their respective assessment on the consideration acceptable to them. The vendor was a mine surveying and exploration team, which to our Directors’ best knowledge, was principally engaged in mine exploration, surveying, mapping and safety evaluation. An exploration permit was granted to us by the Shandong Provincial Department of Land and Resources (山東省國土資源廳) on 6 October 2008 for a term from 6 October 2008 to 30 September 2009. The exploration permit was subsequently extended and the current exploration right is for a term up to March 2013.

HISTORY AND DEVELOPMENT

Mining rights at Bashan Iron Project

In May 2008, we obtained a mining permit for our Bashan Iron Project with a mining area of approximately 0.4307 sq. km. and an approved production scale of 40,000 tonnes of iron ore each year, which was subsequently extended and the latest mining permit for our Bashan Iron Project has a term from 21 February 2011 to 21 February 2016.

Other business developments

Iron ore processing were carried out throughout the Track Record Period at our Second Yangzhuang Processing Facility and Third Yangzhuang Processing Facility. Since December 2008, our First Yangzhuang Processing Facility has ceased to be in operation and is currently being used for storage purposes. We commenced expansion of the Third Yangzhuang Processing Facility by (i) setting up one new iron ore processing line at our Third Yangzhuang Processing Facility, which brings an additional planned ore processing capacity of approximately 0.71 Mt per annum following completion of the installation of the new production line in July 2011; and (ii) setting up a new Dry Grinding Workshop in March 2011 for processing non-magnetic coarse iron powder we purchased from other suppliers or from our tailings.

In October 2009, we were accredited with 安全標準化二級企業證書 (Safety Standard Second Grade Corporation Certificate*) issued by 山東省安全生產監督管理局 (Shandong Province Administration of Work Safety*), which demonstrated our outstanding safety policy and administration in the years was recognised by the community.

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

In September 2009, we expanded our business outside of China and established Ishine International, our subsidiary in Australia; the principal business activity of Ishine International is the exploration of mineral resources. In December 2009, the shares of Ishine International were listed on ASX which signified another milestone of the corporate development of our Group. As at the Latest Practicable Date, Ishine International owned 11 granted exploration licences located in Western Australia and 7 granted exploration licences located in South Australia, and it did not own any mining licence. In addition, Ishine International had a 49% beneficial interest in three granted exploration licences in Queensland, with the right to acquire up to a 70% interest in these licences. Up to the Latest Practicable Date, Ishine International has made 12 exploration licence applications in Western Australia, 3 exploration licence applications in South Australia and 1 application for an exploration permit for minerals in Queensland. The potential mineralisation covered by Ishine International's projects includes nickel, copper-gold, iron ore, lead, zinc, etc..

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Ishine International is considered to be a long term investment of our Group and has no short term impact of our Group's performance since it has no relationship with our Group's existing principal business in Shandong. The principal focus of Ishine International is to explore other mineral opportunities in Australia. The assets of Ishine International are immaterial to our Group's total assets.

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

OVERVIEW

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

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

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

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

BUSINESS

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

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

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

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

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

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

BUSINESS

Notes:

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

BUSINESS

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

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

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

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

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

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

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

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

COMPETITIVE STRENGTHS

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

We have significant reserves and resources of iron and titanium ore

Our mines and projects have significant iron and titanium ore reserves and resources. According to CRU, we have the largest known iron ore reserves in the Shandong Province, which accounted for approximately 47.8% of the province's total known iron ore reserves as of 2010. We also own approximately 2.9% of the total known iron ore reserves of the PRC according to CRU as of 2010. According to the Report of the Independent Technical Adviser, as of November 2011, the total aggregate proved and probable reserve of ore in our Yangzhuang Iron Mine was approximately 43.93 Mt at an average grade of approximately 24.58% TFe (total iron); the total proved and probable reserve of ore in our Zhuge Shangyu Ilmenite Mine was approximately 546.29 Mt at an average grade of approximately 5.69% TiO₂ and approximately 12.81% TFe (total iron); whereas the total proved and probable reserve of ore in our Qinjiazhuang Ilmenite Project was approximately 86.63 Mt at an average grade of approximately 4.50% TiO₂ and approximately 13.56% TFe (total iron). We will be able to benefit from our significant iron and titanium ore resources and reserves which we believe will allow our production to sustain.

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

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

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

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

Established relationships with reputable state-owned and private steel manufacturers

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

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

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

According to CRU, demand for titanium concentrates and titanium-related products has grown rapidly in the PRC in recent years, with China being the largest importer of titanium ores and concentrates in 2010. According to the Report of the Independent Technical Adviser, as of November 2011, the total aggregate proved and probable reserve of ore in our Zhuge Shangyu Ilmenite Mine and Qinjiazhuang Ilmenite Project were approximately 546.29 Mt at an average grade of approximately 5.69% TiO₂ and approximately 86.63 Mt at an average grade of approximately 4.50% TiO₂ respectively. Our titanium ore reserves enable us to engage in selling titanium ore products as soon as our mining and titanium ore processing facilities at these ilmenite mine and project are ready for operation.

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

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

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

We are in close proximity to our customers

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

Our Directors and senior management possess extensive industry experience

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

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

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

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

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

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

BUSINESS STRATEGIES

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

1. Expand the mining capacity of our Yangzhuang Iron Mine

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

Steps to increase the mining capacity of our Yangzhuang Iron Mine

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

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

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

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

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

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

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

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

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

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

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

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

First Stage

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

Mining

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

Processing

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

Second Stage and Third Stage

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

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

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

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

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

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

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

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

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

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

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

4. Expand our iron ore and titanium ore reserves

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

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

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

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

5. Strengthen our customer relationships and broaden our customer base

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

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

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

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PRODUCTS

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

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

Iron concentrates produced by us

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

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

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

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

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

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

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

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

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

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

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

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Trading products

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

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

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

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

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

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

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

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

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

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

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

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

OUR MINERAL RESOURCES AND MINING RIGHTS

Overview

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

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

| | Yangzhuang Iron Mine | Zhuge Shangyu Ilmenite Mine | Qinjiazhuang Ilmenite Project |
|---------------------------|---------------------------------|--|--|
| Ore reserves (Mt) | | | |
| – proved | 11.00 | 200.08 | 45.33 |
| – probable | 32.94 | 346.20 ^(Note) | 41.30 |
| Total ore reserves | 43.93 | 546.29 | 86.63 |

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

Note:

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

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

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

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

Yangzhuang Iron Mine

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

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

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

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

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

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

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

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

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

Zhughe Shangyu Ilmenite Mine

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

Qinjiazhuang Ilmenite Project

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

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

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

Gaozhuang Shangyu Ilmenite Project

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

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

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

Bashan Iron Project

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

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

Mining Contracting

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

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

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

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

Mining rights, exploration permits and safety production permits

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

Mining rights and renewal of mining rights

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

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

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

Exploration permits

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

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

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

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

Safety production permits

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

Explosive storage/Blasting permits

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

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

Exploration licences in Australia

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Western Australian Tenements

Key: E denotes Exploration Licence

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

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

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

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

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

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

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

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South Australian Tenements

Key: EC denotes exploration licence

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

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

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

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

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Queensland Tenements

Key: EPM denotes exploration permit for minerals

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

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

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

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

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

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

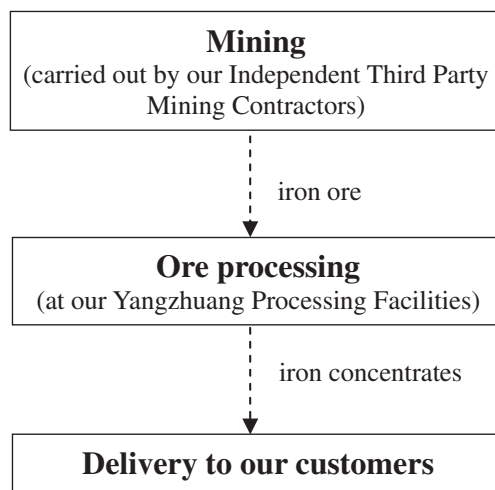
Our Group is subject to foreign exchange risk as one of our subsidiaries Ishine International operates its business in Australia and its functional currency is AUD, and as our Group's presentational currency is RMB, depreciation in AUD against RMB might have an adverse effect to our assets denominated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

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OUR PRODUCTION OPERATIONS AND FACILITIES

Overview

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



Production Process

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

Mining

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

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

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

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

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

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

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

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

Iron Ore Processing

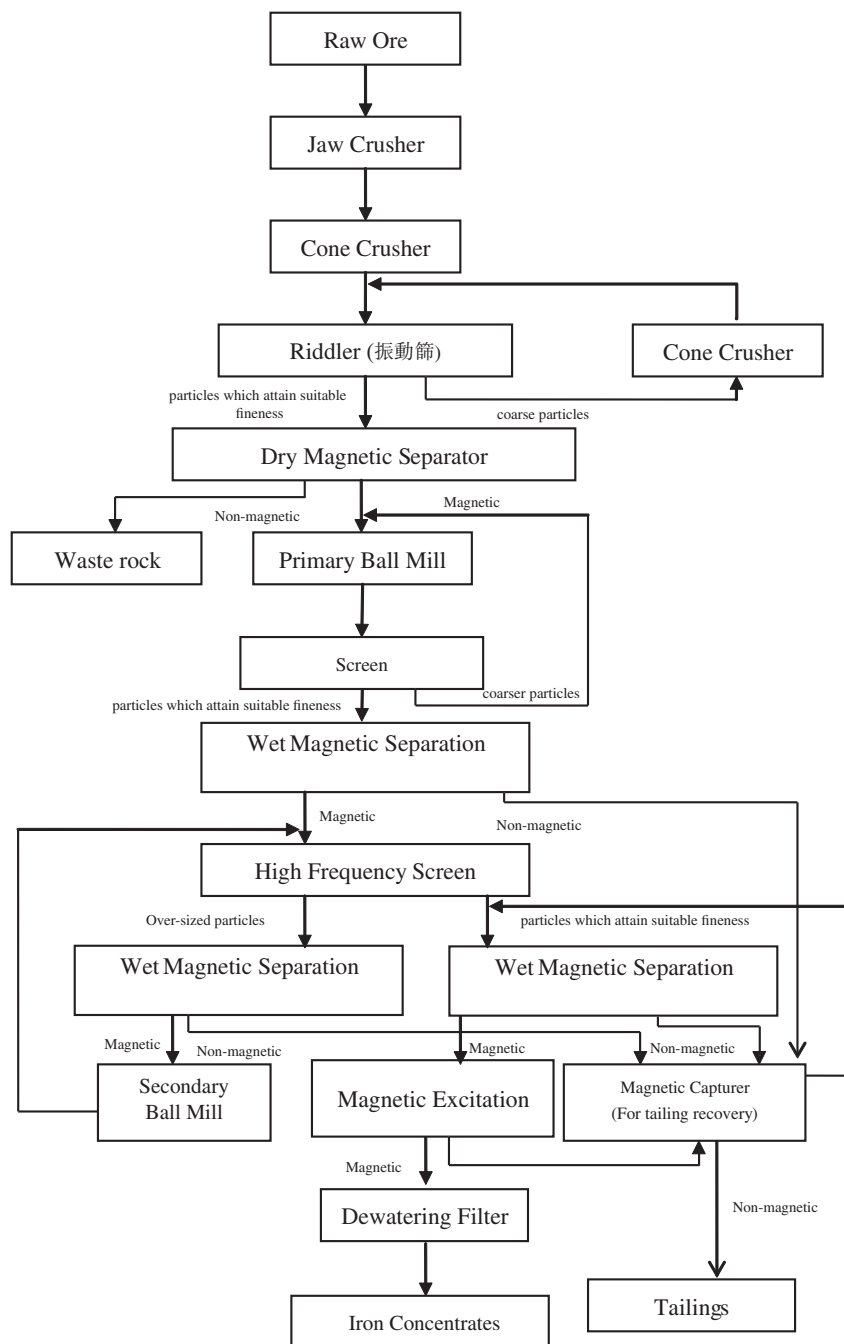
Our iron ore processing are carried out at our Yangzhuang Processing Facilities. During the Track Record Period, iron ore processing were carried out at our Second Yangzhuang Processing Facility and Third Yangzhuang Processing Facility. As part of the 2011 Processing Facility Expansion, in January 2011,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

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

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

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



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The main phases of our ore processing operations are:

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

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

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

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

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

Coarse iron powder processing

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

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

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

The 2011 Processing Facility Expansion

Setting up of new iron concentrates production line

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

Setting up of the Dry Grinding Workshop

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

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Processing Capacity

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

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

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

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Notes:

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

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

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

Notes:

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

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INDEPENDENT THIRD PARTY CONTRACTORS

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

Our Independent Third Party contractors

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

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

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

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

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

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

Long term contracts with our Independent Third Party contractors

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

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

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

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

Geological surveying and exploration

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

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

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

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

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

Mining contractor

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

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

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

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

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

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

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

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

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

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

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

Blasting contractor

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

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

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UTILITIES AND RAW MATERIALS

Coarse iron powder

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

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

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

Iron concentrates

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

Electricity and water

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

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

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

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

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

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

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

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MAJOR SUPPLIERS

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

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

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

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

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

INVENTORY AND QUALITY CONTROL

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

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

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

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

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

SALES AND CUSTOMERS

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

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

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

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Customers

Customers for iron concentrates produced by us

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

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

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

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

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

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

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

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

Laiwu Steel, Lunan Mining and Laiwu Mine Construction

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

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

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

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

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

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

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

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

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

Hesheng Minerals

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Luxing Titanium

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

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

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

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

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

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

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

Logistics arrangement

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

COMPETITION

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

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

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

REGULATORY COMPLIANCE ISSUES

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

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

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

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

BUSINESS

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

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

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

INSURANCE

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

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

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

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

OCCUPATIONAL HEALTH AND SAFETY

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

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

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

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

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

ENVIRONMENTAL PROTECTION

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

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

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

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

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

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

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

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

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

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

Land rehabilitation

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

REAL PROPERTIES**Our lands and buildings**

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

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

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

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

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

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

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

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

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

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

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

Our leased lands

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

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

Short-term land use rights granted by competent government authority

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

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

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

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

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

Land use agreements with village committees

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

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

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

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

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

- From legal perspective:

As advised by our PRC Legal Advisers,

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

BUSINESS

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

- From commercial perspective:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our leased property

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

Applications for our future short-term land use rights

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

BUSINESS

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

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

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

INTELLECTUAL PROPERTY

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

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

BUSINESS

EMPLOYEES

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

Function

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

Social insurance and housing provident fund contributions

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

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

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

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

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

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

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

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

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

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

LEGAL PROCEEDINGS

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

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the Share Offer, Mr. Li and Hongfa Holdings will control more than 50% of our issued share capital, assuming no exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme. For the purpose of the Listing Rules, Mr. Li and Hongfa Holdings are our Controlling Shareholders. Each of Mr. Li and Hongfa Holdings confirms that he/it does not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with our business.

INDEPENDENCE OF OUR GROUP

In the opinion of our Directors, our Group is capable of carrying on our businesses independently of, and does not place undue reliance on, the Controlling Shareholders and their respective associates, taking into account the following factors:

- (i) *Financial independence*: Our Group has an independent financial system and relies principally on cash from operations to carry on its business during the Track Record Period. This is expected to continue after the Listing. Our Group has procured the release of all guarantees provided to us by Mr. Li upon the Listing.
- (ii) *Operational independence*: We have established our own organisational structure comprising of individual departments, each with specific areas of responsibilities. Our Group has not shared its operational resources, such as suppliers, customers, marketing, sales and general administration resources with the Controlling Shareholders and/or their associates.
- (iii) *Management independence*: Our Board comprises three executive Directors and three independent non-executive Directors. Mr. Li, a Controlling Shareholder, is an executive Director and our Chairman. He is also the sole director of Hongfa Holdings which is another Controlling Shareholder. Save as disclosed above, none of our executive Directors or senior management serves any executive or management role in our Controlling Shareholders or any of their respective associates.

Each of our Directors is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum so far as required by the Listing Rules or other applicable laws and regulations. Furthermore, Mr. Li and his associates will not attend, or be counted as quorum of, any meeting of our Shareholders for consideration and approval of matters which may give rise to potential conflicts of interest so far as required by the Listing

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Rules or other applicable laws and regulations. In addition, our Group has an independent senior management team, none of whom has any managerial role or beneficial interest in our Controlling Shareholders or any of their respective associates, to carry out the business decisions of our Group independently.

Three of the members of the Board are independent non-executive Directors who are all well-educated, having extensive experience in different areas or professionals and they have been appointed pursuant to the requirements under the Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. Our Directors believe that the presence of Directors from different backgrounds provides a balance of views and opinions. Furthermore, our Board acts collectively by majority decisions in accordance with the Articles and applicable laws, and no single Director is supposed to have any decision-making power unless otherwise authorised by the Board.

RULE 8.10 OF THE LISTING RULES

The Controlling Shareholders and our Directors do not have any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

NON-COMPETITION UNDERTAKING

In order to avoid any possible future competition between our Group and each of Mr. Li and Hongfa Holdings (the "Covenantors"), each of the Covenantors have executed a deed of non-competition (collectively, the "Deeds") on 9 April 2012 in favor of us (for ourselves and for the benefit of each member of our Group). Pursuant to the Deeds, during the period that the Deeds remains effective, each of the Covenantors irrevocably and unconditionally undertakes with us (for ourselves and for the benefit of each member of our Group) that he/it shall not, and shall procure his/its associates (other than members of our Group) not to, directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of our Group or any business activity to be conducted by any member of our Group from time to time in the future save for the holding of not more than 5% shareholding interests (individually or with his/its associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/her associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Covenantor (individually or with his/its associates).

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

When business opportunities which may compete with the business of our Group arise, the respective Covenantor(s) shall, and shall procure their respective associates to, give us notice in writing and we shall have a right of first refusal to take up such business opportunities. We shall only exercise the right of first refusal upon the approval of all our independent non-executive Directors (who do not have any interest in such proposed transactions). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of our Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of our independent non-executive Directors for considering whether or not to exercise the right of first refusal. Any decision on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Deed(s) will be disclosed in the annual report of our Company, and if appropriate, our Company will consider issuing announcements.

Our Board will establish a committee comprising all of our independent non-executive Directors which will be delegated with the authority to review on an annual basis the above undertakings from the Covenantors. The Covenantors also undertake to provide all information necessary for the enforcement of the Deeds as requested by the committee from time to time, and make an annual declaration on compliance with the Deeds in the annual report of our Company.


The undertakings mentioned above are conditional upon the fulfilment of the conditions stated in the paragraph headed “Conditions of the Share Offer” under the section headed “Structure and Conditions of the Share Offer” in this prospectus. If any such condition is not fulfilled on or before the date falling 30 days after the date of this prospectus, the Deeds shall become null and void and cease to have any effect whatsoever and no party shall have any claim against the other under the Deeds.

The Deeds shall terminate on the earliest of the date on which (i) the Covenantors shall cease to hold in aggregate 30% or more of the entire issued share capital of our Company or otherwise cease to be a Controlling Shareholder; or (ii) our Shares shall cease to be listed and traded on the Stock Exchange (except for temporary suspension of trading of our Shares on the Stock Exchange due to any reason).

CONNECTED TRANSACTIONS

Following the Listing, the following transaction will be continued between our Group and the relevant connected person (as defined in the Listing Rules), which will constitute continuing connected transaction under the Listing Rules.



EXEMPTED CONTINUING CONNECTED TRANSACTIONS


On 21 March 2009, Mr. Li and Shandong Ishine entered into a trademark license agreement (the “**Original Trademark License Agreement**”) pursuant to which, among other matters, Mr. Li granted to Shandong Ishine the license to use the registered trademark  on its product packaging, corporate brand and promotion materials at nil consideration for an unspecified term.


The transactions under the Original Trademark License Agreement had been carried out by our Group and Mr. Li during the Track Record Period and if continued after the Listing, will constitute continuing connected transactions of our Company which are exempt from all reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules upon Listing.

Trademark License Agreement

Major terms

Pursuant to a trademark license agreement entered into between Mr. Li and Shandong Ishine dated 14 February 2012 to replace the Original Trademark Licence Agreement (the “**Trademark License Agreement**”), Mr. Li agreed to grant a license to Shandong Ishine to use the registered trademark  on an exclusive, sole and royalty-free basis for a term of 10 years commencing from the date of signing of the Trademark License Agreement at nil consideration. Upon expiry of the Trademark License Agreement, Shandong Ishine has the pre-emption to require Mr. Li to renew the Trademark License Agreement. According to the Trademark License Agreement, Shandong Ishine has options to acquire the registered trademark  and all the relevant rights attached thereto from Mr. Li at any time during the term of the Trademark License Agreement for a nominal consideration of RMB10.

Pursuant to the Trademarks License Agreement, Shandong Ishine may use the registered trademark  in the PRC. Our Directors are of the view that the duration of the Trademark License Agreement is beneficial to our business operations and secures long-term rights for us to use the trademark.

Save for Shandong Ishine or with the written consent by Shandong Ishine, Mr. Li cannot use, assign, sub-license, or allow the use of the registered trademark  by himself or by any of his subsidiaries and associated companies or any other third parties in any region.

CONNECTED TRANSACTIONS

Listing Rules Implications

As Mr. Li is one of our Controlling Shareholders and an executive Director, the transactions under the Trademark License Agreement constitute continuing connected transactions of our Company after the Listing. As no consideration is payable by Shandong Ishine to Mr. Li under the Trademark License Agreement, the transactions under the Trademark License Agreement constitute de minimis continuing connected transactions of our Company, which are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

GENERAL

Our Board consists of six Directors, comprising three executive Directors and three independent non-executive Directors. The following table sets forth certain information relating to our Directors:

| Name | Age | Group Position |
|--|-----|--|
| Executive Directors | | |
| Li Yunde (李運德) | 45 | Executive Director and Chairman of our Company and our Board |
| Geng Guohua (耿國華) | 42 | Executive Director and Chief Operating Officer |
| Lang Weiguo | 53 | Executive Director |
| Independent Non-executive Directors | | |
| Zhang Jingsheng (張涇生) | 66 | Independent non-executive Director |
| Li Xiaoyang (李曉陽) | 56 | Independent non-executive Director |
| Lin Chu Chang (林鉅昌) | 42 | Independent non-executive Director |

Save as disclosed in this section, none of our Directors has any other directorships in listed companies.

DIRECTORS

Executive Directors

Mr. Li Yunde (李運德) (“Mr. Li”), aged 45, was appointed as a Director in February 2011 and redesignated as an executive Director on 9 April 2012. Mr. Li is also the Chairman of our Company and our Board, a director of all of our subsidiaries, except Fortuneshine Investment and SMI, and primarily responsible for our Group’s overall strategic planning and business development. Mr. Li has over 20 years of experience in iron ore exploration, mining and processing in Shandong Province, the PRC. From 1986 to 2001, he had been a contractor for the running of ore tailing processing business for Shandong Hanwang Iron Ore (山東韓旺鐵礦), currently known as Laigang Group Lunan Mining Company (萊鋼集團魯南礦業有限公司). He is one of the founders of our Group and used the wealth accumulated from his previous engagement in mining business to establish Shandong Ishine in 2001 for a cost of RMB1,000,000. He has been a general manager of Shandong Ishine since 2001, the director of Shandong Ishine since 2005 and the chairman of the board of directors of Shandong Ishine since 2008, responsible for its general management. Since 2004, he has been involved in the field study and acquisition of our ilmenite mines, organizing the exploration plans for our ilmenite mines and participating in the research and improvement of our technique for processing of ilmenite ores. Mr. Li graduated from Shandong University (山東大學) in July 2002, majoring in Marketing (市場行銷). He has also completed the China Private Enterprise Entrepreneur Training (中國民營企業總裁研修) held by Tsinghua University (清華大學) in March 2005. He has been the Chairman of the Board of the Association of Industry and

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Commerce of Linyi City, Yishui County, Shandong Province (沂水縣工商業聯合會). Mr. Li was awarded the “Model Worker of Shandong Province (山東省勞動模範)” in April 2008 by the People’s Government of Shandong and the “Outstanding Member of the National People’s Congress of Linyi City (臨沂市優秀人大代表)” in February 2007 by the Standing Committee of the National People’s Congress of Linyi City.

Mr. Geng Guohua (耿國華), aged 42, was appointed as an executive Director and the Chief Operating Officer of our Company on 9 April 2012. He has been the chief operating officer of Shandong Ishine since 2007 and a director of Shandong Ishine since November 2010 during which he has acquired relevant experience in the operation of iron and ilmenite mines. He is primarily responsible for our Group’s overall operation. Mr. Geng began his career in 1989 and worked at different managerial levels in Shandong Liaherd Chemical Industry Co., Ltd. (山東聯合化工股份有限公司) and was responsible for the production and technical skills management. From 1999 to 2003, he worked as a management of Shandong Fuyuan Leather Group Ltd. (山東富源皮革集團有限公司) responsible for its technical services, production and sales management. He had been the deputy general manager in charge of production of Beijing Huiyuan Juice Group Limited (北京匯源果汁集團有限公司) (currently known as China Huiyuan Juice Group Limited (中國匯源果汁集團有限公司) and a company listed on the Stock Exchange (stock code: 1886)) from 2003 to 2007 responsible for its general management. Mr. Geng graduated at Correspondence Institute of the Party School of Central Committee of Communist Party of China (中共中央黨校函授學院) majoring in Law in December 2001. Mr. Geng was accredited as a Human Resources Developments and Projects Technician (Enterprise Human Resource Management) (人力資源開發管理工程技術人員(企業人力資源管理人員)) in October 2003 by the Occupational Skill Testing Authority (職業技能鑒定(指導)中心) of Shandong Province, the PRC.

Mr. Lang Weiguo, aged 53, was appointed as an executive Director on 9 April 2012. He joined our Group in 2010 and has been the vice chairman of the board of directors of Shandong Ishine since November 2010. He is primarily responsible for our Group’s business development and investment. Mr. Lang is also a director of Fortuneshine Investment and SMI, both of which are our subsidiaries. He received a bachelor degree in Engineering from Agriculture University of Heilongjiang (黑龍江八一農墾大學) in July 1982 and further obtained his master’s and doctorate degrees in Engineering from University of Saskatchewan in Canada in May 1989 and May 1993, respectively. From 1999 to 2004, he had been the president and a director of Q-Net Technologies Co., Ltd., a company which was quoted on the Over-The-Counter Bulletin Board Trading System (“OTCBB”) (symbol: QNTI) in the United States of America, responsible for its general management and business development. From 2004 to 2005, he became the chairman of the board of directors of Savoy Resources Co., Ltd., a company quoted on the National Association of Securities Dealers Over-The-Counter Bulletin Board (symbol: SVYR) in the United States of America, responsible for its business development. From 2003 to 2008, he acted as a director of Vendtek Systems Inc., a company listed on Toronto Stock Exchange Venture (symbol: VSI) in Canada, responsible for its business development. From 2007 to 2011, Mr. Lang had also been a director of Zhongrun (Tianjin) Mining Development Co., Ltd (中潤(天津)礦業開發有限公司), a PRC company principally engaged in the development and exploration of metal mines and resources, and relevant consultancy services, responsible for its business development.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Independent Non-executive Directors

Mr. Zhang Jingsheng (張涇生), aged 66, was appointed as an independent non-executive Director on 9 April 2012. He has been an independent director of Shandong Ishine since 2008. He worked as an engineer, manager, deputy dean and dean of Changsha Research Institute of Mining and Metallurgy (長沙礦冶研究院) currently known as the Changsha Research Institute of Mining and Metallurgy Limited (長沙礦冶研究院有限公司) from 1981 to 2007, and primarily responsible for human resources and financials. Mr. Zhang has been awarded various prizes in relation to ore dressing which include (among others):

- (1) the second prize of technology advancement regarding “Research on Reasonable Ore Processing Process for Lean Hematite in Qidashan District (齊大山貧紅鐵礦合理選礦工藝流程)” awarded by the Metallurgy Ministry in December 1992;
- (2) the third prize of technology advancement regarding “Research on the Techniques for Ocean Polymetallic Nodules Special Ore Processing (大洋多金屬結核特殊選礦工藝研究)” awarded by the Metallurgy Ministry in December 1996;
- (3) the first prize of science and technology regarding “Research on Grading of Controlling Iron Ore Swirler, Spinning Clay, and Anti-flotation Process in East Anshan District (東鞍山鐵礦石旋流器控制分級—脫泥—反浮選流程研究)” awarded by the Metallurgy Ministry in 1998;
- (4) “95” outstanding individual on national scientific and technological achievement and advancement (“九五”國家重點科技攻關計劃先進個人) awarded by the Scientific and Technological Ministry, Ministry of Economic Trade, Finance Ministry, and National Planning Ministry of the PRC in 2001;
- (5) the first prize for science and technology progress regarding “Research on Equipment and Technology for Ore Processing Process for Panzhihua Micro-fine Ilmenite (攀枝花微細粒級鈦鐵礦選礦工程技術及選鈦裝備研究)” awarded by the People’s Government of Sichuan in 2002; and
- (6) the special award of Metallurgy technology awarded by the Metallurgy Ministry in October 2003 regarding “Research on Technical Use of New Techniques, New Medicine and New Equipment for Ore Processing of Lean Hematite (Magnetic) in Anshan District (鞍山貧赤(磁)鐵礦選礦新工藝、新藥劑、新設備研究及工藝應用)”.

Mr. Li Xiao Yang (李曉陽), aged 56, was appointed as an independent non-executive Director on 9 April 2012. Mr. Li graduated from Central South Institute of Mining and Metallurgy (中南礦冶學院) (currently known as Central South University (中南大學)) in September 1985, majoring in Metallurgical Analytical Chemistry (冶金分析化學). He also obtained a master’s degree of Regional Economics Management (區域經濟管理) granted by Beijing Normal University (北京師範大學) in December 2002. From 1980 to 2000, he worked

DIRECTORS, SENIOR MANAGEMENT AND STAFF

in Kunming Institute of Metallurgy (昆明冶金研究院) and was appointed as an associate engineer, and a senior engineer in 1986 and 1996, respectively, focusing on the research and technical development of metallurgy.

Mr. Lin Chu Chang (林鉅昌), aged 42, was appointed as an independent non-executive Director on 9 April 2012. He graduated from The University of Hong Kong (香港大學) in November 1991 with a Bachelor of Science degree. Mr. Lin has previously held senior positions with various companies, including companies listed on the Stock Exchange, and has gained extensive experience in reviewing and analysing financial statements of public and private companies. Between 1994 and 1996, he was a China business analyst of ChinaVest Limited, a venture capital firm, responsible for conducting research and analysis for the company. From 1997 to 2001, Mr. Lin was a vice president of the research department of Merrill Lynch (Asia-Pacific Region), responsible for analyzing various listed companies. He was the chief financial officer of China Resources Land Limited, a company listed on the Stock Exchange (stock code: 01109), from 2002 to 2006 and Longfor Properties Co. Ltd., a company listed on the Stock Exchange (stock code: 00960), from 2006 to 2010, responsible for treasury and financial reporting to the board of directors of the companies. Mr. Lin had been an executive director of Longfor Properties Co. Ltd. between 2008 and 2010, responsible for its financial management and investor relationship. He has also been the independent non-executive director of Shenzhen Expressway Company Limited, a company listed on the Stock Exchange (stock code: 00548) since March 2012. With Mr. Lin's financial management experience and expertise, our Directors believe that Mr. Lin possesses adequate financial management expertise as required under Rule 3.10(2) of the Listing Rules.

SENIOR MANAGEMENT

Mr. Liu Quan Xuan (劉全軒), aged 69, is the Chief Ore Dressing Technician of our Group. From 1974 to 1997, he had been the head of the iron ore dressing factory of Shandong Hanwang Iron Ore (山東韓旺鐵礦), currently known as Laigang Group Lunan Mining Limited (萊鋼集團魯南礦業有限公司), and was responsible for technology and corporate management. Mr. Liu is a senior engineer for mining separation accredited by Senior Adjudicating Council of the Professional Metallurgy Technology of Shandong (山東省冶金工程技術職務高級評審委員會) in October 1993. In December 1991 and March 1992, Mr. Liu was awarded the first prize of technology achievement and the third prize of technology achievement granted by Shandong Metallurgical Industry Corporation (山東省冶金工業總公司), respectively. In 2001, he was employed by Shandong Ishine (formerly known as Yishui Ishine Mining Industry Co. Ltd. (沂水縣興盛礦業有限責任公司)), and was responsible for the technology and product quality improvement for Yangzhuang Iron Mine. From 2004 to 2005, he was employed by Huludao Hongyue Mine Exploration and Design Limited (葫蘆島宏躍礦山勘察設計有限責任公司) for design of the mining separation factory of Madao Iron Mine (馬道鐵礦). Mr. Liu joined our Group in 2005, and from 2005 to 2007, Mr. Liu had been the chief engineer of Shandong Ishine for mining separation. In 2008, he was appointed as the chief engineer of Shandong Huate Magnet Technology Co., Ltd. (山東華特磁電科技股份有限公司) and was responsible for sales staff training and equipment planning. In 2009, Mr. Liu worked as the chief engineer in Shandong Ishine. In 2010, he was appointed as the chief mining separation technician of Shandong Ishine.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Huang Zhaibo (黃召波), aged 48, is the Deputy Business Head of our Group. Mr. Huang joined Shandong Ishine in 2001 as the sales manager and in 2003, he was appointed as the business manager of Shandong Ishine. In 2005, he had been the deputy head and the business manager of Shandong Ishine. In 2008, Mr. Huang had been the deputy head of Shandong Ishine and in 2010, he was appointed as the deputy head in charge of delegating business of Shandong Ishine. In March 2010, he completed the research class for senior managers (高級經理人研修班) of the Beijing University.

Mr. Gao Zefu (高澤福), aged 57, is the Deputy Production Head of our Group and head of Yangzhuang Iron Mine. He had been the supervisor of the Yinan Gold Mine of Shandong Gold Group (山東黃金集團沂南金礦), currently known as Shandong Gold Mining Industry (Yinan) Ltd (山東黃金礦業(沂南)有限公司) from 1991 to 1994, and was appointed as the deputy head from 1994 to 2007, responsible for the supervision of operation. Since 2007, Mr. Gao has been the deputy head of Shandong Ishine and head of Yangzhuang Iron Mine and was responsible for overall management of the Yangzhuang Iron Mine.

Ms. Chan Wing Ki Michele (陳詠琪), aged 31, was appointed as the Financial Controller of our Company in April 2012. Ms. Chan graduated from Macquarie University, Sydney, Australia with Bachelor of Commerce (Accounting). She also obtained a Postgraduate Diploma, majoring in Commerce, granted by the University of Sydney, Sydney, Australia in October 2006. Ms. Chan was admitted as a Certified Practising Accountant of the Certified Practising Accountants, Australia in December 2009.

Ms. Chan began her career in Dell Australia Ltd as an accountant and was primarily responsible for preparing daily and monthly reports of assets, liabilities and inventories from 2006 to 2007. From 2007 to 2008, she was appointed as an assistant accountant in BEA System Pty Ltd, and was responsible for accounts receivable and payable function as well as supporting the senior accountant and finance function. From 2008 to 2010, she was appointed as a fund accountant in ING Real Estate Fund Investment Management Australia (INGREFIMA), and was primarily responsible for controlling and adjusting daily reports, and preparing cash, asset and liability forecasts. In 2010, she was appointed as a staff accountant of the Carlyle Management Hong Kong Limited and was responsible for assisting the establishment of a branch office in Australia and handling accounting duties for the branch offices located in Australia, Singapore and Korea.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

COMPANY SECRETARY

Ms. Chan Yuen Ying, Stella (陳婉縈) *ACIS, ACS, HKIoD*, aged 40, was appointed as the company secretary to our Company on 9 April 2012. Ms. Chan is an associate member of the Institute of Chartered Secretaries and Administrators and an associate member of the Hong Kong Institute of Company Secretaries. She is also a member of the Hong Kong Institute of Directors. Ms. Chan has over 15 years' experience in handling listed company secretarial matters as she worked in the company secretarial department of Century City International Holdings Limited (stock code: 00355) during March 1993 to October 1995 and had been (i) the assistant company secretary to COSCO International Holdings Limited (stock code: 00517) during August 1997 to March 1999; and (iii) the assistant company secretary to RNA Holdings Limited (stock code: 501, which was delisted in September 2005) during August 2000 to November 2002. Since November 2002, Ms. Chan has been working in a local professional firm which engages in, among other matters, providing corporate services regarding secretarial and compliance matters to companies listed in Hong Kong, and she has been appointed a director of the firm since June 2003. She has also been the company secretary to (i) China Oil And Gas Group Limited (formerly known as Nippon Asia Investment Holdings Limited) (stock code: 00603) since October 2005; (ii) Shenzhen High-Tech Holdings Limited (stock code: 00106) since November 2006; (iii) Enterprise Development Holdings Limited (formerly known as Tai-I International Holdings Limited) (stock code: 01808) since April 2008; (iv) China Corn Oil Company Limited (stock code: 01006) since November 2009; and (v) Trony Solar Holdings Company Limited (stock code: 02468) since February 2011.

COMPLIANCE WITH THE LISTING RULES AND APPENDIX 14 TO THE LISTING RULES

Our Board has reviewed relevant materials regarding the corporate governance requirements under the Corporate Governance Practices set out in Appendix 14 to the Listing Rules and the relevant amended Listing Rules to be effective on 1 April 2012 (the "Corporate Governance Requirements"). Our Board has discussed the compliance issues relating to the Corporate Governance Requirements with the advisers to our Company including the compliance advisers and prepared the action plan accordingly. Our Board will ensure that all the actions, as long as they are applicable, in the said action plan will be adopted and implemented by our Group upon or before the Listing.

We aim to achieve high standards of corporate governance which is crucial to our development and safeguard the interests of our Shareholders. To accomplish this, we intend to comply with the code provisions in Appendix 14 to the Listing Rules ("Code Provisions") after the Listing except with the following deviation.

Under Code Provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

We have not appointed any chief executive and upon the Listing, this will constitute deviations from Code Provision A.2.1. Mr. Li, an executive Director and our Chairman and Mr. Geng Guohua (耿國華), an executive Director and our Chief Operating Officer, are also responsible for overseeing the general operations of our Group. Our Board will meet regularly to consider major matters affecting the operations of our Group. Our Board considers that this structure will not impair the balance of power and authority between our Board and the management of our Company. The roles of the respective executive Directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive. Our Board believes that this structure is conducive to strong and consistent leadership which enables our Group to operate efficiently.

BOARD COMMITTEES

We have established the following committees in compliance with the corporate governance requirements under the Listing Rules, including the new rules and provisions which became effective on 1 January 2012 and those which will become effective on 1 April 2012 under the Listing Rules and the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

Audit Committee

Our Company established an audit committee pursuant to a resolution of our Directors passed on 9 April 2012 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duty of the audit committee of our Company is to review and supervise our Company's financial reporting process and internal control systems of our Group. The audit committee of our Company consists of Mr. Lin Chu Chang (林鉅昌), Mr. Li Xiaoyang (李曉陽) and Mr. Zhang Jingsheng (張涇生) (all being independent non-executive Directors). The audit committee of our Company is chaired by Mr. Lin Chu Chang (林鉅昌).

Remuneration Committee

Our Company established a remuneration committee on 9 April 2012 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee of our Company include making recommendations to the Board on our Company's structure and policy for remuneration of Directors and senior management, reviewing the terms of remuneration packages, determining the award of bonuses and considering the grant of options under the Share Option Scheme. The remuneration committee of our Company consists of Mr. Li Yunde (李運德), Mr. Lin Chu Chang (林鉅昌) and Mr. Zhang Jingsheng (張涇生), of whom Mr. Lin Chu Chang (林鉅昌) and Mr. Zhang Jingsheng (張涇生) are independent non-executive Directors. The remuneration committee of our Company is chaired by Mr. Lin Chu Chang (林鉅昌), our independent non-executive Director.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Nomination Committee

Our Company established a nomination committee on 9 April 2012 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee of our Company include reviewing the structure, size and composition of the board of Directors, assessing the independence of independent non-executive Directors and making recommendations to the board on matters relating to the appointment of Directors. The nomination committee of our Company consists of Mr. Li Yunde (李運德), Mr. Li Xiaoyang (李曉陽) and Mr. Zhang Jingsheng (張涇生), of whom Mr. Li Xiaoyang (李曉陽) and Mr. Zhang Jingsheng (張涇生) are independent non-executive Directors. The nomination committee of our Company is chaired by Mr. Li Yunde (李運德), our Chairman and an executive Director.

EMPLOYEES

For the years ended 31 December 2009 and 2010 and 2011, our total staff costs were RMB13.6 million, RMB20.0 million and RMB24.3 million, respectively, which accounted for 6.9%, 4.1% and 2.4% of our total revenue. As at 31 December 2011, we employed 406 full-time employees. We have not experienced any significant problem with our employees or disruption to our operations due to labor disputes nor have we experienced any difficulty in the recruitment and retention of suitable employees.

For a breakdown of our employees by function as at 31 December 2011, please refer to the paragraph headed “Business – Employees” in this prospectus. The Local Labor and Social Protection Bureau or the institution under its supervision and management has confirmed that no contravention of labor laws and regulations by us has been noted and we have duly paid the social insurance premium during the Track Record Period. As advised by our PRC Legal Advisers, we have complied with the relevant labor laws and regulations (including but not limited to the Employment Contracts Law of the PRC (《中華人民共和國勞動合同法》)).

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in Appendix VI to this prospectus.

RETIREMENT SCHEMES

Our employees in the PRC participate in various pension schemes organised by the government under which we are required to make monthly contributions to these plans. The local government is responsible for the planning, management and supervision of the schemes, including collecting and investing the contributions, and paying out the pensions to the retired employees.

The total amount of contributions we made for such employee pension schemes for the years ended 31 December 2009, 2010 and 2011 were RMB2.0 million, RMB2.0 million and RMB1.5 million, respectively.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our executive Directors receive, in their capacity as our employees, compensation in the form of salaries, bonuses, other allowances and benefits in kind, including our contribution to the pension scheme for our executive Directors, according to the PRC laws. We determine our Directors' (including independent non-executive Directors) salaries based on each Director's qualification, position and seniority. Having considered the additional responsibilities of a Director for managing a listed company, the remuneration of our executive Directors is expected to increase to a reasonably higher level following the Listing. In addition to salaries, our Directors may receive discretionary bonuses and/or options under the Share Option Scheme.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which was paid to our Directors for the years ended 31 December 2009, 2010 and 2011 was approximately RMB0.5 million, RMB0.6 million and RMB0.6 million, respectively. Details of the remuneration of our Directors during the Track Record Period are set out in Note 34 to the Accountant's Report in Appendix I to this prospectus.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which were paid to our five highest paid individuals for the years ended 31 December 2009, 2010 and 2011 were approximately RMB1.1 million, RMB4.0 million and RMB3.4 million, respectively.

It is estimated that remuneration and other benefits in kind equivalent to approximately HK\$1.7 million in aggregate will be paid and granted to our Directors by us in respect of the financial year ending 31 December 2012 under the arrangements in force at the date of this prospectus, which exclude any option to be granted under the Share Option Scheme and discretionary bonus to be determined by the Board.

No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office in the Track Record Period. Further information about the service agreements and letters of appointment entered into between our Company and our Directors is set out in the paragraphs headed "Particulars of service agreements" and "Directors' remuneration" in Appendix VI to this prospectus.

COMPLIANCE ADVISER

We have appointed Haitong Capital as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us on the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report (whether required by the Listing Rules or requested by the Stock Exchange or otherwise);
- (ii) where a transaction, which might be a notifiable or connected transaction under Chapter 14 or 14A of the Listing Rules, is contemplated, including share issues and share repurchases;
- (iii) where we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of us pursuant to Rule 13.10 of the Listing Rules regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment will commence on the Listing Date and end on the date on which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date and such appointment may be extended by mutual agreement.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares that may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme or the Over-allotment Option or the arrangement under the Stock Borrowing Agreement), the following persons will have interests or short positions in our Shares or underlying Shares which will fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, will be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

(i) **Long positions in our Shares**

| Name of Director | Capacity/Nature | No. of Shares held | Approximate percentage of interest (%) |
|---------------------------------------|------------------------------------|-----------------------|---|
| Hongfa Holdings | Beneficial owner | 399,000,532 | 55.35 |
| Mr. Li (<i>Note 1</i>) | Interest of controlled corporation | 399,000,532 | 55.35 |
| Mr. Lang (<i>Note 2</i>) | Interest of controlled corporation | 133,000,000 | 18.45 |
| Ms. Zhang (<i>Note 3</i>) | Family interest | 399,000,532 | 55.35 |
| Novi Holdings | Beneficial owner | 106,400,000 | 14.76 |
| Jiuding Callisto (<i>Note 4</i>) | Beneficial owner | 59,111,052 | 8.20 |

Notes:

(1) *Mr. Li beneficially holds the entire issued share capital of Hongfa Holdings which in turn, beneficially holds 399,000,532 Shares. For the purposes of the SFO, Mr. Li is deemed or taken to be interested in all our Shares held by Hongfa Holdings. Mr. Li is also the Chairman of our Company and our Board, an executive Director and the sole director of Hongfa Holdings.*

SUBSTANTIAL SHAREHOLDERS

- (2) *Mr. Lang beneficially holds the entire issued share capital of Novi Holdings and All Five Capital which in turn, beneficially hold 106,400,000 Shares and 26,600,000 Shares, respectively. For the purpose of SFO, Mr. Lang is deemed or taken to be interested in all our Shares held by Novi Holdings and All Five Capital. Mr. Lang is also an executive Director and the sole director of Novi Holdings and All Five Capital.*
- (3) *Ms. Zhang is the spouse of Mr. Li. For the purpose of SFO, Ms. Zhang is deemed or taken to be interested in all our Shares in which Mr. Li is interested.*
- (4) *Jiuding China Growth Fund, L. P. beneficially holds the entire issued share capital of Jiuding Callisto which in turn, beneficially holds 59,111,052 Shares. For the purpose of SFO, Jiuding China Growth Fund, L. P. is deemed or taken to be interested in all our Shares held by Jiuding Callisto. Jiuding China GP Limited is the general partner of Jiuding China Growth Fund, L. P. For the purpose of SFO, Jiuding China GP Limited is deemed or taken to be interested in all our Shares in which Jiuding China Growth Fund, L. P. is interested.*

(ii) Long positions in shares of other member(s) of our Group

Mr. Li holds 10,000,000 ordinary shares in Ishine International, representing approximately 11.45% of the issued share capital of Ishine International as at the Latest Practicable Date.

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option, or any options that may be granted under the Share Option Scheme or the arrangement under the Stock Borrowing Agreement), have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

SHARE CAPITAL

SHARE CAPITAL

Our authorised share capital as of the date of this prospectus is as follows:

| | |
|----------------------------------|-------------|
| <i>Authorised share capital:</i> | <i>HK\$</i> |
| 38,000,000 Shares | 0.01 |

Assuming the Over-allotment Option is not exercised and without taking into account any Share which may be issued upon exercise of any options that may be granted under the Share Option Scheme, our issued share capital immediately following the Capitalisation Issue and the Share Offer will be as follows:

Shares issued or to be issued, fully paid or credited as fully paid upon completion of the Capitalisation Issue and the Share Offer:

| | |
|--|----------------------------|
| | <i>HK\$</i> |
| 1,111,112 Shares in issue as at the date of this prospectus | 11,111.12 |
| 590,000,472 Shares to be issued pursuant to the Capitalisation Issue | 5,900,004.72 |
| <u>129,760,000</u> Shares to be issued pursuant to the Share Offer | <u>1,297,600.00</u> |
| <u><u>720,871,584</u></u> Shares | <u><u>7,208,715.84</u></u> |

Assuming the Over-allotment Option is exercised in full and without taking into account any Share which may be issued upon exercise of any options that may be granted under the Share Option Scheme, our issued share capital immediately following the Capitalisation Issue and the Share Offer will be as follows:

Shares issued or to be issued, fully paid or credited as fully paid upon completion of the Capitalisation Issue and the Share Offer:

| | |
|---|----------------------------|
| | <i>HK\$</i> |
| 1,111,112 Shares in issue as at the date of this prospectus | 11,111.12 |
| 590,000,472 Shares to be issued pursuant to the Capitalisation Issue | 5,900,004.72 |
| 129,760,000 Shares to be issued pursuant to the Share Offer | 1,297,600.00 |
| <u>19,464,000</u> Shares to be issued pursuant to the Over-allotment Option | <u>194,640.00</u> |
| <u><u>740,335,584</u></u> Shares | <u><u>7,403,355.84</u></u> |

SHARE CAPITAL

According to Rule 8.08 of the Listing Rules, at the time of the Listing and at all times thereafter, our Company must maintain the “minimum prescribed percentage” of 25% of our Company’s issued share capital in the hands of the public.

RANKING

The Offer Shares will rank *pari passu* in all respects with all Shares now in issue or to be issued as mentioned in this prospectus, and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the Listing Date other than participation in the Capitalisation Issue.

Save as disclosed in this prospectus, no share or loan capital of our Company or any of our subsidiaries is under any option or is agreed conditionally or unconditionally to be put under any option.

CAPITALISATION ISSUE

Pursuant to the resolutions of our Shareholders passed on 9 April 2012, subject to the share premium account of our Company being credited as a result of the issue of Offer Shares pursuant to the Share Offer, our Directors are authorised to allot and issue a total of 590,000,472 Shares credited as fully paid at par to the holders of Shares on the register of members of our Company at the close of business on 9 April 2012 in proportion to their respective shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalisation of the sum of HK\$5,900,004.72 standing to the credit of the share premium account of our Company, and our Shares to be allotted and issued pursuant to this resolution shall each rank *pari passu* in all respects with the existing issued Shares.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on , the principal terms of which are summarised in the paragraph headed “Share Option Scheme” in Appendix VI to this prospectus.

GENERAL MANDATE TO ISSUE NEW SHARES

A general unconditional mandate has been granted to our Directors authorising them to exercise the powers to allot, issue and deal with Shares or securities convertible into Shares and to make an offer or agreement or grant an option which would or might require such Shares to be allotted and issued, provided that the aggregate nominal value of our Shares allotted or agreed conditionally or unconditionally to be allotted shall not exceed 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option granted under the Share Option Scheme).

SHARE CAPITAL

The abovementioned mandate does not apply to situations where our Directors allot, issue or deal with our Shares by way of rights or an issue of Shares pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or any other share scheme of our Company or any Shares allotted in lieu of the whole or part of a dividend on our Shares in accordance with the Articles or pursuant to a specific authority granted by our Shareholders or pursuant to the Share Offer or the Capitalisation Issue.

The abovementioned mandate will expire:

- at the conclusion of our next annual general meeting; or
- at the expiration of the period within which our next annual general meeting is required by the Cayman Companies Law or any applicable laws of the Cayman Islands or the Articles to be held; or
- the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying such mandate,

whichever is the earliest.

Particulars of this general mandate are set forth under the paragraph headed “Written resolutions of our Shareholders passed on 9 April 2012” in Appendix VI to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

A general unconditional mandate has been granted to our Directors authorising them to exercise all the powers for and on behalf of our Company to repurchase Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option granted under the Share Option Scheme).

The abovementioned mandate only relates to repurchases made on the Stock Exchange, or on any other approved stock exchange(s) on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for that purpose, and which are made in accordance with all applicable laws and requirements of the Listing Rules or equivalent rules or regulations of any other stock exchange as amended from time to time. A summary of the relevant Listing Rules is set forth under the paragraph headed “Repurchase of our Shares by our Company” in Appendix VI to this prospectus.

SHARE CAPITAL

The abovementioned mandate will expire:

- at the conclusion of our next annual general meeting; or
- at the expiration of the period within which our next annual general meeting is required by the Cayman Companies Law or any applicable law or the Articles to be held; or
- the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying such mandate,

whichever is the earliest.

Particulars of this general mandate are set forth under the paragraph headed “Written resolutions of our Shareholders passed on 9 April 2012” in Appendix VI to this prospectus.

FINANCIAL INFORMATION

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

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

OVERVIEW

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

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

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

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RESULTS OF OPERATIONS

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

Consolidated statements of comprehensive income

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

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

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Summary consolidated statements of financial position

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

Summary consolidated statements of cash flows

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

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BASIS OF PRESENTATION

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

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

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

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

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

The consolidated financial statements of our Group have been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA. The consolidated statements of comprehensive income, consolidated cash flow statements and consolidated statements of changes in equity of our Group for each of the years ended 31 December 2009, 2010 and 2011 have been prepared using the financial information of the companies engaged

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in the Listing Businesses, under the common control of our Controlling Shareholders and now comprising our Group as if the current group structure had been in existence throughout each of the years ended 31 December 2009, 2010 and 2011, or since the respective dates of incorporation/establishment of the companies, or since the date when the companies first came under the control of our Controlling Shareholders, whichever is a shorter period. The consolidated balance sheets of our Group as at 31 December 2009, 2010 and 2011 have been prepared to present the assets and liabilities of the companies now comprising our Group, as if the current group structure had been in existence as at these dates. The net assets and results of our Group were consolidated using the existing book values from our Controlling Shareholders' perspective.

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

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

FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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

PRC economic growth and overall demand for our product

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

Price of products

The unit price of our iron concentrates is mainly based on the iron content contained in our iron concentrates. During the Track Record Period, we produced iron concentrates

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

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

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

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

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

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

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

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

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

Sales volume

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

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

Notes:

1. *During the Track Record Period, the only product which we produced was iron concentrates (65% iron content). During the Track Record Period, we produced our iron concentrates through the following ways:*
 - *during 2009, we produced iron concentrates using solely iron ores mined from our Yangzhuang Iron Mine;*
 - *during 2010, we produced iron concentrates (1) using iron ores mined from our Yangzhuang Iron Mine; and (2) by mixing (i) iron concentrates produced by us using iron ores mined from our Yangzhuang Iron Mine; and (ii) iron concentrates sourced from other suppliers with various grades of iron content, to produce iron concentrates with iron content of 65%; and*

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

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

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

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

Our mineral reserves and processing capacity

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

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Cost of sales

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

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

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Notes:

- 1. Resources tax and sales tax surcharges consist of both resources tax and urban construction and education surcharges, of which resources tax is fully attributable to production activities while urban construction and education surcharges could not be accurately attributable to production and trading activities, hence are allocated pro rata as to revenue earned from production activity, and each of the trading activities. Urban construction and education surcharges allocated to each of the trading activities were included in cost of sales of each such activity.*
- 2. Inventory movement represents aggregate cost of finished goods (excluding trading goods), iron ores, and other raw materials (explosives and detonators) as of the beginning of the year less aggregate cost of finished goods (excluding trading goods), iron ores, and other raw materials (explosives and detonators) at the end of the year.*

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

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

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

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

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

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

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Financial performance and position of Ishine International

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

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

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

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

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

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

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

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

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

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

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

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PRC taxes

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

Australian taxes

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

Mineral Resource Rent Tax

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

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

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CRITICAL ACCOUNTING POLICIES

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

Revenue recognition

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

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

- (i) for sales of goods, when the goods have been delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the goods.
- (ii) for interest income, on a time-proportion basis using the effective interest method.

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

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Property, plant and equipment

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

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

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

Mining rights

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

Exploration rights

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

Exploration and evaluation assets

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

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

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

- i. the period for which our Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- ii. substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- iii. exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- iv. sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation assets are unlikely to be recovered in full from successful development or by sale.

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

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

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

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Impairment provisions on accounts receivables, other receivables and inventory

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

Provision for close down, restoration and environmental costs

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

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

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

Income tax

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

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Current tax

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

Deferred tax

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

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

Investment in associate and other financial assets

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

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Share-based payments

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

- i. including any market performance conditions (e.g. an entity's share price);
- ii. excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- iii. including the impact of any non-vesting conditions (e.g. requirement for employees to save).

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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Description of selected Consolidated Statement of Comprehensive Income Line Items

Revenue

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

| | Year ended 31 December | | | | | |
|--|------------------------|----------------------|-----------------------|----------------------|-------------------------|----------------------|
| | 2009 | | 2010 | | 2011 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Production | | | | | | |
| – Sales of iron concentrates | | | | | | |
| <i>(Note 1)</i> | | | | | | |
| • from iron ore of Yangzhuang Iron Mine | 196,447 | 100% | 388,945 | 80.0% | 388,662 | 38.5% |
| • from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder | – | – | 43,347 | 9.0% | 298,348 | 29.5% |
| | <u>196,447</u> | <u>100%</u> | <u>432,292</u> | <u>89.0%</u> | <u>687,010</u> | <u>68.0%</u> |
| Trading | | | | | | |
| – Sales of iron concentrates | | | | | | |
| <i>(Note 2)</i> | – | – | – | – | 9,256 | 0.9% |
| – Sales of iron pellets | – | – | 48,074 | 9.9% | 50,202 | 5.0% |
| – Sales of coarse iron powder | – | – | 1,650 | 0.4% | 262,928 | 26.0% |
| – Others | – | – | 3,436 | 0.7% | 856 | 0.1% |
| | <u>–</u> | <u>–</u> | <u>53,160</u> | <u>11.0%</u> | <u>323,242</u> | <u>32.0%</u> |
| Total | <u><u>196,447</u></u> | <u><u>100.0%</u></u> | <u><u>485,452</u></u> | <u><u>100.0%</u></u> | <u><u>1,010,252</u></u> | <u><u>100.0%</u></u> |

Notes:

- During the Track Record Period, the only product which we produced was iron concentrates (65% iron grade). During the Track Record Period, we produced our iron concentrates through the following ways:
 - during 2009, we produced iron concentrates using solely iron ores mined from our Yangzhuang Iron Mine;

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

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

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

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

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Cost of sales

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

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

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

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

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

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Gross profit

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

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

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

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

Fluctuation of gross profit margin of production activities

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

Gross profit margin of iron concentrates produced by us declined by 11.8% to 35.7% in 2011 though the average selling price of iron concentrates produced by us increased from RMB1,026.6 per tonne in 2010 to RMB1,184.5 per tonne in 2011 by 15.4%, as the average cost of sales of iron concentrates produced by us increased from RMB538.5 per tonne in 2010 to RMB761.3 per tonne in 2011 by 41.4%. This was partly due to increase in average cost of sales per tonne of iron concentrates produced using ores from our Yangzhuang Iron Mine (and no mixing) from approximately RMB500.9 in 2010 to approximately RMB562.7 in 2011, as a

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result of (i) increase in cost of other raw materials by 44.5% as more spare parts were purchased as a result of the 2011 Processing Facility Expansion and the average purchase price of fuel increased in 2011; and (ii) increase in employee benefits by 56.6% due to increase in salaries in 2011. Such increase in cost of sales was also due to 43.4% of the sales volume of iron concentrates produced by us was produced by mixing various grades of iron concentrates purchased from other suppliers and iron concentrates produced from processing coarse iron powder sourced from other suppliers, and the average unit cost of iron concentrates produced by mixing amounted to approximately RMB1,020.0, which was higher than unit cost of producing iron concentrates using ores from our Yangzhuang Iron Mine.

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

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

Fluctuation of gross profit margin of trading activities

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

Gross profit/(loss) margin of trading of coarse iron powder increased from (1.2)% in 2010 to 12.2% in 2011 as the coarse iron powder originally purchased in 2010 were intended to be used for production of iron concentrates, however the iron ores mined from our Yangzhuang Iron Mine were actually sufficient to fully utilise our then processing capacity, accordingly,

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such coarse iron powder were subsequently sold with an intention to cover our original purchase costs. To the best of our Directors' knowledge, we were able to generate high gross profit margin in 2011 from trading of coarse iron powder as (i) we were able to identify a reliable supplier of quality coarse iron powder; (ii) we were financially able to purchase a significant amount of coarse iron powder in bulk from the supplier; and (iii) we were able to solicit our trading customers and satisfy their demand for coarse iron powder. Gross profit margin of trading of iron pellets decreased from 11.8% in 2010 to 3.2% in 2011 as a result of market fluctuation.

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

Fluctuation of overall gross profit margin

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

Selling and distribution costs

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

| | Year ended 31 December | | |
|----------------------|-------------------------------|-------------------|-------------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Transportation costs | 4,434 | 4,380 | 9,451 |
| Other expenses | 53 | 222 | 198 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | <u>4,487</u> | <u>4,602</u> | <u>9,649</u> |

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

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Administrative expenses

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

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

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

Other (losses)/gain, net

| | Year ended 31 December | | |
|--------------------------|-------------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Other (losses)/gain, net | (125) | (2,502) | 3,016 |

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

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

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

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

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

Finance costs, net

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

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

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

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Income tax expense

| | Year ended 31 December | | |
|--------------------|------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Income tax expense | (10,679) | (39,563) | (48,042) |

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

Cayman Island profit tax

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

BVI profit tax

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

Hong Kong profit tax

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

PRC tax

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

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

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recognize the related deferred tax liabilities of approximately RMB9.2 million as at 31 December 2011, as our Directors had confirmed that retained earnings up to 31 December 2011 of Shandong Ishine will not be distributed in the future.

Australia corporate income tax

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

RESULTS OF OPERATIONS

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

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

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

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

Revenue

Revenue increased by approximately 108.1% from approximately RMB485.5 million for the year ended 31 December 2010 to approximately RMB1,010.3 million for the year ended 31 December 2011. Such increase was mainly contributed by increase of sales of iron concentrates produced by us by approximately RMB254.7 million and increase of sales in trading activities of approximately RMB270.0 million. Increase in sales of iron concentrates produced by us was mainly due to increase in average selling price of iron concentrates produced by us from RMB1,026.6 per tonne for the year ended 31 December 2010 to RMB1,184.5 per tonne for the year ended 31 December 2011 and increase in sales volume from 421.1 Kt for the year ended 31 December 2010 to 580.0 Kt for the year ended 31 December 2011. During the year ended 31 December 2010, we produced iron concentrates (1) using iron ores mined from our Yangzhuang Iron Mine; and (2) by mixing (i) iron concentrates produced by us using iron ores mined from our Yangzhuang Iron Mine; and (ii) iron concentrates sourced from other suppliers with various grades of iron content, to produce iron concentrates with iron content of 65%. During the year ended 31 December 2011, we produced our iron concentrates (1) using iron ore mined from our Yangzhuang Iron Mine; and (2) by mixing (i) iron concentrates produced by

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us using iron ores mined from our Yangzhuang Iron Mine; (ii) iron concentrates produced by us using coarse iron powder purchased from other suppliers; and/or (iii) iron concentrates sourced from other suppliers with various grades of iron content, to produce iron concentrates with iron content of 65%. This was done in response to our client's excess demand over our processing volume.

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

Cost of sales

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

Gross profit

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

Selling and distribution costs

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

Administrative expenses

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

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Other (losses)/gain, net

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

Finance costs, net

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

Profit before income tax and income tax expense

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

Total comprehensive income

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

Non-controlling interests

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

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Dividends

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

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

Revenue

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

Cost of sales

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

Gross profit

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

Selling and distribution costs

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

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Administrative expenses

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

Other losses, net

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

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

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

Finance costs, net

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

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Profit before income tax and income tax expense

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

Total comprehensive income

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

Non-controlling interests

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

Dividends

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

Related party transactions

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

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ANALYSIS OF VARIOUS CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

Property, plant and equipment

| | Buildings and structures <i>RMB'000</i> | Mining infrastructures <i>RMB'000</i> | Motor vehicles equipment and others <i>RMB'000</i> | Construction in progress <i>RMB'000</i> | Total <i>RMB'000</i> |
|----------------------------|---|---|--|---|--------------------------------|
| 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 | <u>14,169</u> | <u>31,524</u> | <u>29,310</u> | <u>2,241</u> | <u>77,244</u> |
| 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 | <u>32,370</u> | <u>45,541</u> | <u>34,917</u> | <u>7,704</u> | <u>120,532</u> |
| 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 | <u>75,944</u> | <u>44,907</u> | <u>68,345</u> | <u>3,327</u> | <u>192,523</u> |

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

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

Intangible Assets

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

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

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

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

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

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

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

- 1) In September 2001, we acquired from an iron ore processing plant the processing facility at our Yangzhuang Iron Mine together with the rights to a mining permit with an area of approximately 0.6883 sq. km. in our Yangzhuang Iron Mine at a lump sum consideration of RMB4.62 million and it was not feasible to attribute the standalone value to the mining right. Nevertheless, the mining right so acquired was for open-pit mining at the time of the acquisition and the acquisition cost in respect of such mining right was all amortised off prior to the Track Record Period after the open-pit reserves were completely depleted and we conducted mining activities using solely underground method at our Yangzhuang Iron Mine before the commencement of the Track Record Period. The underground mining right was applied from the local government authorities with immaterial application fees and were expensed-off through income statement. Approximately RMB4.3 million of deferred exploration and evaluation assets were transferred to mining rights during 2011 as certain exploration area of Yangzhuang Iron Mine was put into production in 2011 and the corresponding exploration and evaluation assets was transferred to mining rights; and
- 2) mining rights for both Zhuge Shangyu Ilmenite Mine and Bashan Iron Project were obtained in 2008 by Shandong Ishine through application processes with local government authorities after certain amount of exploration works were conducted. The total application fees for such mining rights were immaterial and were expensed-off through income statement.

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

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

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Investment in an associate

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

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

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Available-for-sale financial assets

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

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

Other financial assets

| | As at 31 December | | |
|-----------------------|-------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Athena Options | – | 1,268 | 561 |

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

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Inventories

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

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

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

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

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

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approximately RMB13.5 million, or by 145.8% as our total sales for the year ended 31 December 2011 increased by approximately RMB524.8 million, or by 108.1% as compared to the year ended 31 December 2010. Approximately RMB27.8 million of the inventory balance as at 31 December 2011, representing 81.7% of the total outstanding inventory balance as at such date have been utilized or sold as at 29 February 2012.

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

Accounts receivables

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

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

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

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

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

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

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

Notes receivables

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

During the Track Record Period, majority of our sales were settled by bank acceptance notes which have a maturity period of 6 months. However, we can request the issuing banks of these bank acceptance notes to settle prior to their maturity periods at a discount, the magnitude of the discount depends on the length of time between the settlement date and the maturity date and the prevailing interest rate. Our Directors consider that these bank acceptance notes do not have any credit risk to our Group and are very liquid as (i) these bank acceptance notes are guaranteed by their issuing banks; and (ii) these bank acceptance notes can be settled for cash by their issuing banks at any time.

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| | As at 31 December | | |
|-------------------|-------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Notes receivables | | | |
| – within 6 months | 287,218 | 202,500 | 327,150 |

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

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

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

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

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Prepayments and other receivables

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

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

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

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

Accounts payables

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

| | As at 31 December | | |
|------------------|--------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Accounts payable | 21,496 | 42,024 | 63,280 |
| | 21,496 | 42,024 | 63,280 |

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

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

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

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

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

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

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

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

Notes payables

| | As at 31 December | | |
|-------------------------|--------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Notes payables | | | |
| – Bank acceptance notes | 6,320 | 13,490 | – |

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

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Accruals and other payables

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

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

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

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

Provision for close down, restoration and environmental costs

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

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

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

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

SHARE BASED PAYMENT

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

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

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LIQUIDITY AND CAPITAL RESOURCES

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

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

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Working capital

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

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

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

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

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Indebtedness

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

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

Notes:

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

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

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

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

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

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

Guarantee and pledge for the bank borrowings

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

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our PRC Legal Advisers: (i) according to the Entrustment Arrangement, Mr. Yang Wenxing entrusted Shandong Ishine and Mr. Li to hold his interests in Luxing Titanium, pursuant to which, the capital contribution from Shandong Ishine and Mr. Li was in fact contributed by Mr. Yang Wenxing. Mr. Li and Shandong Ishine did not have any right or entitlement in the aforesaid entrusted interests; and (ii) the termination of the Entrustment Arrangement was legal, valid and complete, and in compliance with the PRC laws. Luxing Titanium used its mining right to pledge our bank borrowings during the Track Record Period as we have good relationship with Luxing Titanium.

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

- (i) Linyi Hexing Material Trading Co., Ltd, which has been one of our suppliers during the year ended 31 December 2011, accounting for approximately 12.3% of our total purchases.
- (ii) Hesheng Minerals, which has been both our customer and supplier during the Track Record Period. For detailed information of Hesheng Minerals, please refer to the section headed “Business – Sales and customers”.
- (iii) Yishui Sanzhong Real Estate Co., which did not have any other transactions with us during the Track Record Period.
- (iv) Yishui Xinxing Building Materials Co., Ltd – Linyi Runxing, a company wholly owned by Mr. Li and his wife, is interested in 5% shareholding of this company. This company did not have any other transactions with us during the Track Record Period.
- (v) Shandong Hong Yi Technology Co., Ltd. – Zhao Hong Yi, who had been one of the shareholders and a supervisor of Shandong Ishine, is interested in 34.5% shareholding of this company. This company did not have any other transactions with us during the Track Record Period. Zhao Hong Yi had subsequently sold all his shares in Shandong Ishine but remained as the supervisor.

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

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

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

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

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

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

Securities and guarantees

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

Contingent liabilities

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

Commitments

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

Disclaimers

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

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

Cash flow data

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

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

Cash flow used in operating activities

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

In 2010, our net cash outflow from operating activities was approximately RMB152.9 million. The negative cash flow was primarily attributable from profit before tax of approximately RMB142.1 million and increase in accounts payables of approximately RMB11.8 million primarily due to increase in purchase of raw materials used in production, and offset by (a) increase of prepayments and other receivables of approximately RMB45.5 million primarily attributable to prepayments to Ausrich of RMB43.0 million and (b) the

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increase in notes receivables of approximately RMB261.5 million. We made positive profit before income tax during 2010 but recorded negative cash flow mainly due to the fact that we advanced to Mr. Li approximately RMB350.6 million in form of bank's acceptance notes. Should such bank's acceptance notes were not given to Mr. Li but became cash, our cashflow from operating activities would turn to a net cash inflow.

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

Cash flow generated from/(used in) investing activities

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

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

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

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

Cash flow generated from financing activities

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

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

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

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CAPITAL EXPENDITURE

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

Yangzhuang Iron Mine

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

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

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Zhuge Shangyu Ilmenite Mine

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

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

Gaozhuang Shangyu Ilmenite Project

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

Australia tenements

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

FINANCIAL INFORMATION

CONTRACTUAL COMMITMENTS

Exploration commitment

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

The existing tenement commitments are as follows:

| | As at 31 December | | |
|----------------------|--------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 |
| | <u>31,842</u> | <u>23,497</u> | <u>24,768</u> |

CONTINGENT LIABILITIES

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

OTHER LIABILITIES

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

FINANCIAL INFORMATION

SENSITIVITY ANALYSIS FOR NET PROFIT

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

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

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

FINANCIAL INFORMATION

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

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

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

(2) Effect of fluctuation in payment to mining contractors

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

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

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

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

FINANCIAL INFORMATION

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

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

Note: We did not purchase iron concentrates in 2009.

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

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

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

FINANCIAL INFORMATION

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

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

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

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

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

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

FINANCIAL INFORMATION

(5) Effect of fluctuation in power and utilities expenses

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

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

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

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

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

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

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

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

Notes:

1. *The audited consolidated net tangible assets attributable to equity holders of our Company as of 31 December 2011 is based on the audited consolidated net assets of our Group attributable to the equity holders of our Company as of 31 December 2011, as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus with an adjustment for intangible assets of RMB29.2 million.*
2. *The estimated net proceeds from the Share Offer are based on the indicative Offer Prices of HK\$1.01 and HK\$1.52 per share, being the lower end to higher end of the stated offer price range, after deduction of the underwriting fees and related expenses payable by our Company and takes no account of any shares which may be allotted and issued upon the exercise of the Over-allotment Option or any shares which may be issued upon the exercise of the options granted or to be granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate.*

FINANCIAL INFORMATION

3. *The unaudited pro forma adjusted net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis of 720,871,584 Shares are in issue assuming that the Share Offer and the Capitalisation Issue have been completed on 31 December 2011, but takes no account of any shares which may be allotted and issued upon the exercise of the Over-allotment Option or any shares which may be issued upon the exercise of the options granted or to be granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate.*
4. *By comparing the valuation of our Group's property interests of RMB90.3 million as set out in Appendix III to this Prospectus and the unaudited net book value of these properties as of 29 February 2012, the net revaluation surplus is approximately RMB13.2 million, which has not been included in the above net tangible assets attributable to equity holders of our Company as of 31 December 2011. The revaluation of our Group's property interests will not be incorporated in our Group's financial information. If the revaluation surplus is to be included in our Group's financial information, an additional depreciation charge of approximately RMB1.8 million per annum related to the property interests would be recorded.*
5. *No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2011.*
6. *For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at a rate of RMB1.00 to HK\$1.2311. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.*

DIVIDEND POLICY

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

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

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

FINANCIAL INFORMATION

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

SUFFICIENCY OF WORKING CAPITAL

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

MARKET RISK DISCLOSURE

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

Commodity price risk

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

Interest rate risk

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

FINANCIAL INFORMATION

Liquidity risk

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

Inflation risk

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

Foreign exchange risk

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

DISCLOSURE REQUIRED UNDER THE LISTING RULES

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

NO MATERIAL ADVERSE CHANGE

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

FINANCIAL INFORMATION

PROPERTY VALUATION AND RECONCILIATION

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

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

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

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

FUTURE PLANS AND USE OF PROCEEDS FROM THE SHARE OFFER

FUTURE PLANS AND PROSPECTS

Please refer to the section headed “Business – Business Strategies” in this prospectus for a detailed discussion of our future plans.

USE OF PROCEEDS

Assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$1.27 per Share (being the mid-point of the estimated price range), our Directors estimate that the net proceeds to us from the Share Offer will be about HK\$134.8 million, after deducting the underwriting commissions and other estimated expenses payable by us in relation to the Share Offer. Our Directors presently intend to use the net proceeds from the Share Offer as follows:

- approximately 57.0%, or HK\$76.8 million (equivalent to approximately RMB62.4 million), to finance the expansion of mining capacity of our Yangzhuang Iron Mine. Further details of such plan are set out under the paragraph headed “Business Strategies” under the section headed “Business” of this prospectus; and
- approximately 43.0%, or HK\$58.0 million (equivalent to approximately RMB47.1 million), to finance the first stage of the development plan of our Zhuge Shangyu Ilmenite Mine. Further details of such plan are set out under the paragraph headed “Business Strategies” under the section headed “Business” of this prospectus.

If the Offer Price is set above or below (as the case maybe) HK\$1.27 per Share (being the mid-point of the estimated Offer Price range), we intend to increase or decrease (as the case maybe) the amount of net proceeds allocated to the first stage of the development plan of our Zhuge Shangyu Ilmenite Mine.

In the event that the Over-allotment Option is exercised in full, the additional net proceeds of about HK\$24.7 million (assuming that the Offer Price is determined at the mid-point of the stated range) will be allocated to first stage of the development plan of our Zhuge Shangyu Ilmenite Mine.

To the extent that the net proceeds of the Share Offer are not immediately required for the above purposes, our Directors presently intend that such proceeds will be placed into interest-bearing bank accounts such as short-term savings accounts with licensed banks or financial institutions in Hong Kong or in China.

There is currently no concrete plans for us to apply the net proceeds towards the acquisition of any specific property or company to which paragraph 12 of the Third Schedule of the Companies Ordinance applies.

UNDERWRITING

UNDERWRITERS

Public Offer Underwriters

Sole Bookrunner

Haitong International Securities Company Limited

Co-lead Managers

Somerley Limited

First Shanghai Securities Ltd.

China Merchants Securities (HK) Co., Limited

China Everbright Securities (HK) Limited

Oriental Patron Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting arrangements

The Public Offer is fully underwritten by the Public Offer Underwriters and the Placing is expected to be fully underwritten by the Placing Underwriters, in each case on a several basis. The Public Offer Underwriting Agreement was entered into on 16 April 2012 and in connection with the Placing, our Company expects to enter into the Placing Underwriting Agreement with, among others, the Placing Underwriters. The Public Offer Underwriting Agreement is conditional upon (among other things) the Placing Underwriting Agreement being entered into, and the respective Underwriting Agreements are expected to be inter-conditional.

The Public Offer Underwriting Agreement

Under the Public Offer Underwriting Agreement, we have agreed to offer the Public Offer Shares to the public in Hong Kong for subscription on and subject to the terms and conditions of this prospectus and the Application Forms.

Pursuant to the Public Offer Underwriting Agreement, and conditional upon, *inter alia*, the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (subject only to allotment and/or despatch of share certificates for the Offer Shares and such other usual conditions for transaction of this nature) and certain other conditions including the Offer Price being determined by our Company and the Sole Bookrunner (on behalf of the Underwriters), the entering into of the Placing Underwriting Agreement and the Price Determination Agreement on or before the Price Determination Date, the Public Offer Underwriters have severally agreed to subscribe for, or procure subscribers to subscribe for, the Public Offer Shares which are not taken up under the Public Offer on the terms and conditions of the Public Offer Underwriting Agreement, this prospectus and the Application Forms.

UNDERWRITING

Grounds for termination

The Sole Bookrunner (on behalf of the Public Offer Underwriters) is entitled to terminate the Public Offer Underwriting Agreement by giving written notice at any time before 8:00 a.m. (Hong Kong time) on the Listing Date (“**Termination Time**”) to our Company if any of the following events shall occur prior to the Termination Time:

- (a) there comes to the notice of any of the Sole Sponsor, the Sole Bookrunner or any of the Public Offer Underwriters of any matter or event showing any of the representations, warranties or undertakings contained in the Public Offer Underwriting Agreement given by our Company or any of our executive Directors and any of the covenantors named therein (namely, Mr. Li, Mr. Lang, Hongfa Holdings, All Five Capital and Novi Holdings) (collectively, the “**Covenantors**”) to be untrue, inaccurate or misleading in any respect when given or repeated or there has been a breach of any of the warranties or any other obligations imposed on any party to the Public Offer Underwriting Agreement (other than those undertaken by the Public Offer Underwriters, the Sole Sponsor and/or the Sole Bookrunner) which, in any such cases, is considered, in the sole opinion of the Sole Bookrunner (on behalf of the Public Offer Underwriters), to be material in the context of the Share Offer; or
- (b) any statement contained in this prospectus or the Application Forms has become or been discovered to be untrue, incorrect or misleading in any respect; or
- (c) any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the sole opinion of the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters), an omission in the context of the Share Offer; or
- (d) any event, act or omission which gives or is likely to give rise to any material liability of our Company or any of our executive Directors and the Covenantors arising out of or in connection with any representations, warranties or undertakings contained in the Public Offer Underwriting Agreement; or
- (e) the Placing Underwriting Agreement is terminated pursuant to its terms; or
- (f) there shall have developed, occurred, existed or come into effect any event or series of events, matters or circumstances whether occurring or continuing before, on and/or after the date of the Public Offer Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:
 - i. any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the Cayman Islands, the BVI, the PRC, Australia, any of the jurisdictions in which our Group operates (the “**Relevant Jurisdiction**”); or

UNDERWRITING

- ii. any change in, or any event or series of events or development resulting or likely to result in any change in the local, national, regional or international financial, currency or stock market conditions or prospects, or political, military, industrial or economic conditions or prospects in the Relevant Jurisdiction; or
- iii. any change in the conditions of Hong Kong, the US, Australia, the PRC or international equity securities or other financial markets; or
- iv. the imposition of any moratorium, suspension or material restriction on trading in securities generally on any of the markets operated by the Stock Exchange due to exceptional financial circumstances or otherwise; or
- v. any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in the Relevant Jurisdiction; or
- vi. any change or prospective change in the business or in the financial or trading position or prospects of any member of our Group; or
- vii. the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by the US, the European Union (or any member thereof) on Australia, Hong Kong or the PRC; or
- viii. a general moratorium on commercial banking activities in the PRC or Hong Kong declared by the relevant authorities; or
- ix. any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, terrorism, strike or lock-out (whether or not covered by insurance); or
- x. any other change whether or not ejusdem generis with any of the foregoing,

which, in the sole opinion of the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters):

- 1. is or will be adverse, in any material respect, to the business, financial or trading condition or prospects of our Group taken as a whole or, in the case of sub-paragraph (iv) above, on any present or prospective shareholder in his/its capacity as such shareholder of our Company; or

UNDERWRITING

2. has or will have a material adverse effect on the success of the Share Offer as a whole or the level of the Offer Shares being demanded, applied for or accepted, the distribution of the Offer Shares; or
3. for any reason makes it impracticable or inadvisable or inexpedient to proceed with the Share Offer as a whole.

For the above purpose, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the US or any change of the value of Hong Kong currency under such system shall be taken as an event resulting in a change in currency conditions.

UNDERTAKINGS

Under Rule 10.08 of the Listing Rules, no further Shares or securities convertible into our equity securities (whether or not a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such an issue of Shares or our securities will be completed within six months from the Listing Date), except in certain circumstances as prescribed by Rule 10.08 of the Listing Rules.

Under the Public Offer Underwriting Agreement, our Company has undertaken to and covenanted with the Sole Sponsor, the Sole Bookrunner and the Public Offer Underwriters that, and each of the Covenantors and the executive Directors has jointly and severally undertaken to and covenanted with the Sole Sponsor, the Sole Bookrunner and the Public Offer Underwriters to procure (so far as he/it is able to do so) that:

1. without the prior written consent of the Sole Sponsor and the Sole Bookrunner (on behalf of the Public Offer Underwriters) (such consent not to be unreasonably withheld or delayed) and subject always to the requirements of the Stock Exchange, save for the Offer Shares, the Capitalisation Issue, the grant of the Over-allotment Option, the Over-allotment Shares upon the exercise of the Over-allotment Option, the grant of options under the Share Option Scheme, any Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, or otherwise than by way of scrip dividend schemes or similar arrangements in accordance with the Memorandum of Association and the Articles or any consolidation, sub-division or capital reduction our Shares, our Company shall not:
 - (a) allot and issue, accept subscriptions for, offer, sell or contract to sell, grant or agree to grant any option or other right in, directly or indirectly, conditionally or unconditionally, any shares, warrants or other convertible or exchangeable securities carrying the right to subscribe for or exchangeable into shares or other securities of our Company, or offer or agree to do any of the foregoing or announce any intention to do so:
 - i. at any time during the period commencing on the date by reference to which disclosure of the shareholding of the Covenantors is made in this prospectus and ending on the date which is six months from the Listing Date (“**First Lock-up Period**”); or

UNDERWRITING

- ii. at any time during the six months commencing on the date on which the First Lock-up Period expires (the “**Second Lock-up Period**”), so as to result in the Controlling Shareholders, taken together with the other of them, ceasing to be a group of controlling shareholders (as defined in the Listing Rules) of our Company; or

- (b) at any time during the First Lock-up Period, subject to the Listing Rules and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases, our Company shall not make or agree to make any repurchase of any Shares or other securities of our Company.

Under Rule 10.07(1) of the Listing Rules, the Controlling Shareholders shall not, and shall procure that the relevant registered holder(s) shall not:

- (a) during the First Lock-up Period, dispose of, nor enter into any agreement to dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares or our securities in respect of which they are shown by this prospectus to be the beneficial owners; or

- (b) at any time during the Second Lock-up Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Controlling Shareholders would cease to be our controlling shareholder (as defined in the Listing Rules).

In accordance with Note (3) to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has also jointly and severally undertaken to us and the Stock Exchange that, during the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is the 12 months from the Listing Date, he/it will:

- (1) when he/it pledges or charges any securities of our Company beneficially owned by him/it in favour of an authorized institution pursuant to Note (2) to Rule 10.07 (2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of securities so pledged or charged; and

- (2) when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities of our Company will be disposed of, immediately inform us of such indications.

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Under Note (3) to Rule 10.07 (2) of the Listing Rules, we are required to inform the Stock Exchange as soon as practicable after we have been informed of the matters referred to in (1) or (2) above by any of the Controlling Shareholders and disclose such matters by way of an announcement in compliance with the Listing Rules.

Under the Public Offer Underwriting Agreement, each of the Covenantors has jointly and severally undertaken to us, the Sole Sponsor, the Sole Bookrunner and the Public Offer Underwriters that, save as (i) pursuant to the Share Offer or the Stock Borrowing Agreement; or (ii) permitted under the Listing Rules:

- (a) he/it shall not, and shall procure that none of his/its associates or any company controlled by him/it or any of his/its associates, nominees or trustees holding in trust for him/it will, at any time during the First Lock-up Period, sell, transfer or otherwise dispose of (other than by way of a security for a bona fide commercial loan in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong (the “**Banking Ordinance**”)), or enter into any agreement (other than by way of a security for a bona fide commercial loan in favour of an authorised institution (as defined in the Banking Ordinance)) to sell, transfer or dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares (or any interest therein) directly or indirectly owned by him/it or in which he/it is, directly or indirectly, interested immediately after completion of the Share Offer and the Capitalisation Issue or any interest in any shares in any company controlled by him/it which is the beneficial owner of any of these Shares, or enter into any swap or other arrangements that transfer the economic consequences of ownership of such Shares or interest, whether any of the foregoing transactions or arrangement is to be settled by delivery of such Shares or other securities, in cash or otherwise, or offer or agree to do any of the foregoing or announce any intention to do so, provided that the foregoing restriction shall not apply to any Shares which any of them may acquire or become interested in following the Listing Date (save any Shares returned under the Stock Borrowing Agreement) provided further that any such acquisition would not result in any breach of Rule 8.08 of the Listing Rules;
- (b) he/it shall not, and shall procure that none of his/its associates or any company controlled by him/it or any of his/its associates, nominees or trustees holding in trust for him/it will, at any time during the Second Lock-up Period, sell, transfer or otherwise dispose of (other than by way of a security for a bona fide commercial loan in favour of an authorised institution (as defined in the Banking Ordinance), or enter into any agreement (other than by way of a security for a bona fide commercial loan in favour of an authorised institution (as defined in the Banking Ordinance)) to sell, transfer or dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares (or any interest therein) directly or indirectly owned by him/it or in which he/it is, directly or indirectly, interested immediately after completion of the Share Offer and the Capitalisation Issue or any interest in any shares in any company controlled by him/it which is the beneficial

UNDERWRITING

owner of any of these Shares, or announce any intention to do so, if, immediately following such action, the Controlling Shareholders, when taken together, would cease to be a group of controlling shareholders (as defined in the Listing Rules) of our Company; and

- (c) without prejudice to the undertakings as referred to in paragraphs (a) and (b) above, during the period commencing on the date by reference to which disclosure of his/its direct or indirect shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/it shall:
 - (i) when he/it pledges or charges or otherwise create any rights of encumbrances over any Shares or other securities of our Company or those of Hongfa Holdings, All Five Capital and, or Novi Holdings beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us, the Sole Sponsor and the Sole Bookrunner (on behalf of the Public Offer Underwriters) of such pledge or charge or creation of the rights of encumbrances together with the number of the securities so pledged or charged and all other information as requested by us, the Sole Sponsor and/or the Sole Bookrunner (on behalf of the Public Offer Underwriters); and
 - (ii) subsequent to the pledge or charge or creation of rights or encumbrances over our Shares (or interest therein) or other shares or interests as mentioned in sub-paragraph (i) above, when he/it receives any indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged or encumbered securities as referred to in sub-paragraph (i) above will be disposed of, immediately inform us of such indications, and inform the Sole Sponsor and the Sole Bookrunner (on behalf of the Public Offer Underwriters) as soon as practicable thereafter (taking into account the requirements of applicable laws, rules and regulations) of such indications.

Placing Underwriting Agreement

In connection with the Placing, it is expected that our Company and the Covenantors will enter into the Placing Underwriting Agreement with the Sole Sponsor, the Sole Bookrunner and the Placing Underwriters on or before the Price Determination Date. It is expected that under the Placing Underwriting Agreement, the Placing Underwriters will, subject to certain conditions set out therein, severally agree to subscribe or procure subscribers to subscribe for the Placing Shares to be initially being offered under the Placing (subject to reallocation) on and subject to the terms of the Placing Underwriting Agreement. The Placing Underwriting Agreement is expected to contain force majeure provisions as that contained in the Public Offer Underwriting Agreement as mentioned above. In the event that the Placing Underwriting Agreement is not entered into on or before the Price Determination Date, or does not become unconditional or is terminated in accordance with its terms, the Share Offer will not proceed and will lapse.

UNDERWRITING

It is expected that under the Placing Underwriting Agreement, our Company will grant the Over-allotment Option to the Sole Bookrunner (in its sole and absolute discretion) to require our Company at any time within a period commencing from the Listing Date and ending on the 30th day after the last date for lodging of applications under the Public Offer, to allot and issue up to an aggregate of 19,464,000 additional new Shares, representing 15% of the Offer Shares initially being offered under the Share Offer, on the same terms as those applicable to the Share Offer, to cover over-allocations in the Placing.

Commission and expenses

The Public Offer Underwriters will receive an underwriting commission of 1.5% of the aggregate Offer Price of the Public Offer Shares and the Placing Underwriters is expected to receive a Commission of 1.5% of the aggregate Offer Price of the Placing Shares, out of which they will pay any sub-underwriting commissions. Our Company may, at our sole discretion, pay to the Sole Bookrunner an incentive fee of up to 2% of the aggregate Offer Price for the Offer Shares, such amount shall be retained by the Sole Bookrunner absolutely. Assuming the Over-allotment Option is not exercised, based on an Offer Price of HK\$1.27 (being the mid-point of the indicative Offer Price range of HK\$1.01 per Offer Share and HK\$1.52 per Offer Share), such underwriting commission, together with the Stock Exchange listing fee, legal and other professional fees, applicable printing and other expenses relating to the Share Offer, are estimated to be approximately HK\$29.3 million in total (assuming the incentive fee referred to above is not payable) and are payable by the Company.

Public Offer Underwriters' interests in our Company

Save for their respective obligations and interests under the Underwriting Agreements, none of the Underwriters has any shareholding interest in our Company or any member of our Group or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in and any member of our Group.

Sole Sponsor's independence

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Sole Bookrunner (on behalf of the Underwriters) and our Company on or before the Price Determination Date, which is currently scheduled on Friday, 20 April 2012, or such later date as the Sole Bookrunner (on behalf of the Underwriters) and our Company may agree but in any event no later than 11:59 p.m. (Hong Kong time) on Friday, 20 April 2012. **If, for any reason, the Sole Bookrunner (on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by 11:59 p.m. (Hong Kong time) on Friday, 20 April 2012, the Share Offer will not become unconditional and will lapse.**

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range as stated in this prospectus. The Offer Price will not be more than HK\$1.52 per Offer Share and is expected to be not less than HK\$1.01 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer.

The Sole Bookrunner (on behalf of the Underwriters) may, where it considered appropriate, based on the level of interests expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of our Company, reduce the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer, cause to be published in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the Company's website at <http://chinazhongsheng.com.hk> notice of such a change. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Share Offer statistics as set out in the section headed "Summary" of this prospectus, and any other financial information which may change as a result of such reduction. **If applications for the Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, then even if the Offer Price range is so reduced, such applications cannot be subsequently withdrawn.** In the absence of any notice being published in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of a reduction in the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Public Offer, the Offer Price, if agreed upon with our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

We expect to announce the final Offer Price, the level of indication of interests under the Placing and the basis of allotment of the Public Offer Shares under the Public Offer on or before Thursday, 26 April 2012 in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our Company's website at <http://chinazhongsheng.com.hk> and the website of the Stock Exchange at www.hkexnews.hk.

Results of allocations in the Public Offer, including the Hong Kong identity card/passport/Hong Kong business registration certificate numbers of successful applicants (where supplied) and the number of Offer Shares successfully applied for under **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC via CCASS will be made available as described under the paragraph headed "Publication of results" under the section headed "How to apply for the Public Offer Shares" of this prospectus.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$1.52 per Offer Share and is expected to be not less than HK\$1.01 per Offer Share. Applicants under the Public Offer should pay, on application, the maximum price of HK\$1.52 per Offer Share plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy, amounting to a total of HK\$3,070.64 per board lot of 2,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum price of HK\$1.52 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest. Further details are set out in the section headed "How to apply for the Public Offer Shares" in this prospectus.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares is conditional upon the satisfaction of all of the following conditions:

1. Listing

The Listing Committee granting the approval of the listing of, and permission to deal in, our Shares in issue and our Shares to be issued pursuant to the Share Offer, the Capitalisation Issue and Shares which fall to be allotted and issued upon the exercise of the Over-allotment Option and any Shares, up to 10% of the issued share capital of our Company as at the Listing Date, which may fall to be issued upon the exercise of any options which may be granted under the Share Option Scheme (and such listing and permission not subsequently being revoked prior to the commencement of dealings in our Shares on the Stock Exchange).

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

2. Underwriting Agreements

The entering into of the Placing Underwriting Agreement between, among others, our Company and the Placing Underwriters, and the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, among other things, the Offer Price be agreed by no later than the Price Determination Date and the Price Determination Agreement has been duly entered into, and if relevant, as a result of the waiver of any conditions given by the Sole Bookrunner (for itself and on behalf of the Sole Sponsor and the Underwriters)), and not being terminated in accordance with its terms or otherwise. Details of the Public Offer Underwriting Agreement and grounds for termination are set out in the section headed “Underwriting” in this prospectus. If for any reason, the Placing Underwriting Agreement and the Price Determination Agreement are not entered into, the Share Offer will not proceed. If these conditions are not fulfilled on or before the time and date specified in the Underwriting Agreements or such later date as the Sole Bookrunner (for itself and on behalf of the Sole Sponsor and the Underwriters) may in its absolute discretion determine, the Share Offer will lapse and your application money will be refunded to you, without interest, and by post at your own risk. The terms on which your application money will be returned to you are set out under the paragraph headed “Refund of your money” in the relevant Application Forms.

In the meantime, your application money will be held in one or more separate bank accounts with the receiving banker or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE SHARE OFFER

The Share Offer comprises the Placing and the Public Offer. A total of 129,760,000 Shares will initially be made available under the Share Offer, of which 116,784,000 Shares, representing 90% of the total number of Shares initially being offered under the Share Offer, will initially be offered for subscription under the Placing. The remaining 12,976,000 Shares, representing 10% of the total number of Shares initially being offered under the Share Offer, will initially be offered for subscription under the Public Offer. The number of Shares offered for subscription under the Placing and the Public Offer will be subject to re-allocation on the basis described below and the number of Shares offered for subscription under the Placing will also be subject to the exercise of the Over-allotment Option below. No pre-emption right or right to subscribe for the Offer Shares has been granted.

THE PLACING

Our Company is initially offering, at the Offer Price, 116,784,000 Shares (subject to re-allocation as mentioned in the paragraph headed “Re-allocation of Offer Shares between the Public Offer and the Placing” below), representing 90% of the total number of Shares being initially offered under the Share Offer (before any exercise of the Over-allotment Option), for subscription by way of Placing. The Placing will be managed by the Sole Bookrunner and is expected to be fully underwritten by the Placing Underwriters. Pursuant to the Placing, it is

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

expected that the Placing Underwriters or any selling agents which they nominate will, on behalf of our Company, conditionally place the Placing Shares at the Offer Price plus 1% brokerage, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies and fund managers, whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. It is expected that the Placing Underwriting Agreement will be executed on or around the Price Determination Date.

Allocation of the Placing Shares to professional, institutional and private investors pursuant to the Placing will be based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the investor is likely to purchase further Shares, or hold or sell our Shares placed, after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on the basis which would lead to the establishment of a solid broad shareholder base to the benefit of our Company and its Shareholders taken as a whole. Investors to whom Placing Shares are offered are required to undertake not to apply for the Public Offer Shares under the Public Offer. The level of indication of interest in the Placing is expected to be published in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Thursday, 26 April 2012. The Placing is subject to the conditions stated in the paragraph headed "Conditions of the Share Offer" above.

OVER-ALLOTMENT OPTION

It is expected that under the Placing Underwriting Agreement, our Company will grant the Over-allotment Option to the Sole Bookrunner (in its sole and absolute discretion) to require our Company at any time within a period commencing from the Listing Date and ending on the 30th day after the last date for lodging of applications under the Public Offer, to allot and issue up to an aggregate of 19,464,000 additional new Shares, representing 15% of the Offer Shares initially being offered under the Share Offer, on the same terms as those applicable to the Share Offer, to cover over-allocations in the Placing. The additional Shares to be allotted and issued pursuant to the exercise of the Over-allotment Option will be allocated to the Placing and/or to satisfy the Sole Bookrunner's obligation to return Shares borrowed under the Stock Borrowing Agreement. The Sole Bookrunner may also cover any over-allocations under the Placing through the purchase of Shares in the secondary market or otherwise as may be permitted under applicable laws. Any purchases of Shares in the market to cover the over-allocations will be made at prices not exceeding the Offer Price. The number of Shares that may be over-allocated may not be greater than the number of Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option. Assuming the Over-allotment Option is not exercised, the Offer Shares will represent 18% of our Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue. If the Over-allotment Option is exercised in full, the Offer Shares (including our Shares allotted and issued pursuant to the exercise of the Over-allotment Option) will represent about 20.2% of the enlarged issued share capital of our Company immediately after completion of the Share Offer, the Capitalisation Issue and the exercise of the Over-allotment Option in full. In the event that the Over-allotment Option is exercised, an announcement will be made in English in South China Morning Post and in Chinese in the Hong Kong Economic Times.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Based on an Offer Price of HK\$1.27 per Offer Share (being the mid-point of the Offer Price range between HK\$1.52 per Offer Share and HK\$1.01 per Offer Share), the net proceeds of the Share Offer, assuming that the Over-allotment Option is not exercised and after deducting related expenses, are estimated to be about HK\$134.8 million. If the Over-allotment Option is exercised in full, our Company will receive additional net proceeds of about HK\$24.7 million, after deducting brokerages, commissions and expenses attributable to the exercise of the Over-allotment Option.

The Public Offer is open to the public as well as to institutional, professional and private investors in Hong Kong. The Placing involves selective marketing of the Placing Shares by the Placing Underwriters to professional, institutional and private investors. Investors may either apply for our Shares under the Public Offer or indicate an interest for our Shares under the Placing, and may only receive an allocation of Shares under the Public Offer or the Placing. The Offer Shares are not available for subscription by our Directors, chief executive of our Company, existing beneficial owners of our Shares or their respective associates.

THE PUBLIC OFFER

Our Company is initially offering, at the Offer Price, 12,976,000 Shares (subject to re-allocation as mentioned in the paragraph headed “Re-allocation of Offer Shares between the Public Offer and the Placing” below), representing 10% of the total number of Shares being initially offered under the Share Offer, for subscription under the Public Offer (before any exercise of the Over-allotment Option). The Public Offer is fully underwritten by the Public Offer Underwriters subject to the terms and conditions of the Public Offer Underwriting Agreement. Applicants for the Public Offer Shares are required on application to pay the Offer Price plus 1% brokerage, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee.

The Public Offer is open to all members of the public in Hong Kong. An applicant for Public Offer Shares will be required to give an undertaking and confirmation in the relevant Application Form submitted by him/her/it that he/she/it has not applied for nor taken up any Placing Shares nor participated in the Placing. Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or is untrue (as the case may be), such applicant’s application under the Public Offer is liable to be rejected.

The total number of the Offer Shares available under the Public Offer is to be divided into two pools of 6,488,000 Public Offer Shares for each of pool A and pool B, respectively, for allocation purposes:

- Pool A: The Public Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) or less; and

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- Pool B: The Public Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) and up to the value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the surplus Public Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B but not both. Multiple applications or suspected multiple applications and any application made for more than 100% of the Public Offer Shares initially available under either pool A or pool B will be rejected.

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of the Public Offer Shares validly applied for by each applicant. When there is over subscription under the Public Offer, allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares. The results of the Public Offer and basis of allotment of the Public Offer Shares (with successful applicants' identification document numbers, where appropriate) are expected to be published in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Thursday, 26 April 2012.

Applications under the Public Offer from investors receiving the Placing Shares under the Placing will be identified and rejected and investors receiving the Public Offer Shares under the Public Offer will not be offered the Placing Shares under the Placing. Multiple applications or suspected multiple applications or applications for more than 100% of the Public Offer Shares in either pool A or pool B being initially offered for public subscription under the Public Offer (i.e. to apply for more than 6,488,000 Public Offer Shares) are liable to be rejected.

The Public Offer is subject to the conditions as stated in the paragraph headed "Conditions of the Share Offer" above.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

RE-ALLOCATION OF OFFER SHARES BETWEEN THE PUBLIC OFFER AND THE PLACING

The allocation of Offer Shares between the Placing and the Public Offer is subject to re-allocation. If the number of Shares validly applied for in the Public Offer:

- (a) represents 15 times or more but less than 50 times of the number of Shares initially available for subscription under the Public Offer, then 25,952,000 Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 38,928,000 Shares will be available under the Public Offer, representing 30% of the Offer Shares initially available under the Share Offer;
- (b) represents 50 times or more but less than 100 times of the number of Shares initially available for subscription under the Public Offer, then 38,928,000 Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 51,904,000 Shares will be available under the Public Offer, representing 40% of the Offer Shares initially available under the Share Offer;
- (c) represents 100 times or more of the number of Shares initially available for subscription under the Public Offer, then 51,904,000 Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 64,880,000 Shares will be available under the Public Offer, representing 50% of the Offer Shares initially available under the Share Offer; and
- (d) in each of the above cases, the number of Shares allocated to the Placing will be correspondingly reduced, subject to the exercise of the Over-allotment Option.

In all cases, the additional Shares re-allocated to the Public Offer will be allocated, if applicable, equally between pool A and pool B and the number of Offer Shares allocated to the Placing will be correspondingly reduced.

If the Public Offer is not fully subscribed, the Sole Bookrunner (on behalf of the Underwriters) has the absolute discretion to re-allocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing in such number as it deems appropriate to satisfy the demand under the Placing. If the Placing is not fully subscribed, the Sole Bookrunner has the authority to re-allocate all or any unsubscribed Placing Shares originally included in the Placing to the Public Offer, in such number as it deems appropriate provided that there is sufficient demand under the Public Offer to take up such unsubscribed Placing Shares. Details of any re-allocation of Offer Shares between the Public Offer and the Placing will be disclosed in the results announcement, which is expected to be made on Thursday, 26 April 2012.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, agree to purchase or actually purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, to prevent a decline in the initial public offer prices of the securities. In Hong Kong, the stabilisation price will not exceed the initial public offer price.

In connection with the Share Offer, the Sole Bookrunner, as stabilising manager, or any person acting for it, (on behalf of the Underwriters and not as agent for our Company) may over-allocate Shares or effect transactions with a view to supporting the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there is no obligation on the Sole Bookrunner to conduct any such stabilisation action which, if commenced, may be discontinued at any time at the absolute discretion of the Sole Bookrunner, its affiliates or any person acting for it, and must be brought to an end after a limited period. The number of Shares that may be over-allocated will not be greater than the maximum number of Shares which may be issued upon exercise of the Over-allotment Option, being 19,464,000 Shares, which is 15% of our Shares initially available under the Share Offer.

Stabilisation action cannot be taken to support the price of the Offer Shares for longer than the stabilising period which begins on the Listing Date and ends on the 30th day after the last day for the lodging of applications under the Public Offer (the “**Stabilisation Period**”). The Stabilisation Period is expected to expire on Friday, 18 May 2012 and that after this date, when no further stabilising action may be taken, demand for our Shares, and therefore its price, could fall.

During the Stabilisation Period, the Sole Bookrunner as stabilising manager or any person acting for it, may purchase or agree to purchase, or offer, our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares, which will be effected in compliance with all applicable laws and regulatory requirements, including the Securities and Futures (Price Stabilizing) Rules made under the SFO. In connection with any such stabilisation actions as described above, the Sole Bookrunner as stabilising manager, or any person acting for it, may allocate a greater number of Shares than the number that is initially offered, or sell or agree to sell Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of our Shares. It may close out any such short position by exercising the Over-allotment Option, as described above. It may also agree to sell or sell any Shares acquired by it in the course of any stabilisation transactions in order to liquidate any position that has been established by such action.

The Sole Bookrunner may, in connection with the stabilising action, maintain a long position in our Shares. The size of the long position, and the time period for which the Sole Bookrunner will maintain such a position during the Stabilisation Period, are at the sole discretion of the Sole Bookrunner and is uncertain. In the event that the Sole Bookrunner liquidates this long position by making sales in the open market, this may lead to a decline in the market price of our Shares.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Investors should be aware that the price of our Shares cannot be assured to stay at or above its Offer Price by the taking of any stabilising action. Stabilisation bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price the investor has paid for the Offer Shares.

In order to facilitate the settlement of over-allocations, the Sole Bookrunner, as the stabilising manager, or its authorised agents may, among other means, purchase Shares in the secondary market, enter into stock borrowing arrangements with holders of Shares, exercise the Over-allotment Option, engage in a combination of these means or otherwise as may be permitted under applicable laws. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

In this connection, the Sole Bookrunner will enter into the Stock Borrowing Agreement with Hongfa Holdings whereby the Sole Bookrunner may borrow up to 19,464,000 Shares from Hongfa Holdings, equivalent to the maximum number of additional Shares to be offered upon full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. The Stock Borrowing Agreement is not subject to the restrictions of rule 10.07(1) of the Listing Rules which restricts the disposal of Shares by controlling shareholders following a new listing, provided the following requirements under rule 10.07(3) of the Listing Rules are complied with:

- the Stock Borrowing Agreement will only be effected by the Sole Bookrunner for covering any short position arising from over-allocations under the Placing prior to the exercise of the Over-allotment Option;
- the maximum number of Shares to be borrowed from Hongfa Holdings will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to Hongfa Holdings or its nominees on or before the third business day, a day that is not a Saturday, Sunday or public holiday in Hong Kong, following the earlier of (i) the last day on the Over-allotment Option may be exercised, and (ii) the day on which the Over-allotment Option is exercised in full;
- borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and
- no payments will be made to Hongfa Holdings in relation to the Stock Borrowing Agreement.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

1. CHANNELS TO APPLY FOR THE PUBLIC OFFER SHARES

You may apply for the Public Offer Shares by using one of the following channels:

- using a **WHITE** or **YELLOW** Application Form; or
- giving **electronic application instruction** to HKSCC to cause HKSCC Nominees to apply for Public Offer Shares on your behalf;
- by means of **HK eIPO WHITE Form** by submitting applications online through the designated website at www.hkeipo.hk. Use **HK eIPO WHITE Form** if you want our Shares issued in your own name.

Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may only make one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **HK eIPO WHITE Form** Service Provider.

2. WHO CAN APPLY FOR THE PUBLIC OFFER SHARES

You can apply for Public Offer Shares if you or any person(s) for whose benefit you are applying are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address; and
- are not a US Person (as defined in Regulation S of the US Securities Act);

If you wish to apply for Public Offer Shares online through the designated website at www.hkeipo.hk under the **HK eIPO WHITE Form** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **HK eIPO WHITE Form** service if you are an individual applicant. Corporations or joint applicants may not apply by means of the **HK eIPO WHITE Form** service.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the application form must be signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, the Sole Bookrunner (or its agents or nominees) may accept it at its discretion, and subject to any conditions it thinks fit, including production of evidence of the authority of the attorney.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

The number of joint applicants may not exceed four.

Our Company, the Sole Sponsor or the Sole Bookrunner (for itself and on behalf of the Underwriters) or its respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

The Public Offer Shares are not available to existing beneficial owners of Shares, our Directors, or chief executive officers or their respective associates or any other connected persons (as defined in the Listing Rules) of our Company or persons who will become connected persons of our Company immediately upon completion of the Share Offer.

You should also note that you may apply for Shares under the Public Offer or indicate an interest for Shares under the Placing, but may not do both.

3. WHICH APPLICATION CHANNEL YOU SHOULD USE

(a) **WHITE Application Forms**

Use a **WHITE** Application Form if you want the Public Offer Shares to be registered in your own name.

(b) **Apply through the designated HK eIPO WHITE Form service**

Instead of using a **WHITE** Application Form, you may apply for the Public Offer Shares by means of **HK eIPO WHITE Form** by submitting applications online through the designated website at www.hkeipo.hk. Use **HK eIPO WHITE Form** if you want the Public Offer Shares to be registered in your own name.

(c) **YELLOW Application Forms**

Use a **YELLOW** Application Form if you want the Public Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant.

(d) **By giving electronic application instruction to HKSCC Via CCASS**

Instead of using a **WHITE** or **YELLOW** Application Form or **HK eIPO WHITE Form** service, you may give **electronic application instruction** to HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf via CCASS. Any Public Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Note: Except in the circumstances permitted under the Listing Rules, the Public Offer Shares are not available to existing beneficial owners of Shares, our Directors or chief executive of our Company or any of its subsidiaries or associates or connected persons or persons who do not have a Hong Kong address.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

4. WHERE TO COLLECT THE APPLICATION FORMS

- (a) You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 17 April 2012 until 12:00 noon on Friday, 20 April 2012 from:

any of the following Public Offer Underwriters:

Haitong International Securities Company Limited
25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

Somerley Limited
10th Floor, The Hong Kong Club Building
3A Chater Road Central
Hong Kong

First Shanghai Securities Ltd.
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

China Merchants Securities (HK) Co., Limited
48th Floor, One Exchange Square
Central
Hong Kong

China Everbright Securities (HK) Limited
36th Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

Oriental Patron Securities Limited
27th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

or any of the following branches of Standard Chartered Bank (Hong Kong) Limited:

| | Branch Name | Address |
|------------------|-------------------------------|---|
| Hong Kong Island | Des Voeux Road Branch | Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central |
| | 88 Des Voeux Road Branch | 88 Des Voeux Road Central, Central |
| | Hennessy Road Branch | 399 Hennessy Road, Wanchai |
| | Quarry Bay Branch | G/F, Westlands Gardens, 1027 King's Road, Quarry Bay |
| | North Point Centre Branch | North Point Centre, 284 King's Road, North Point |
| Kowloon | Kwun Tong Branch | 1A Yue Man Square, Kwun Tong |
| | Tsimshatsui Branch | G/F, 10 Granville Road, Tsimshatsui |
| | Lok Fu Shopping Centre Branch | Shop G101, G/F., Lok Fu Shopping Centre |
| New Territories | Tsuen Wan Branch | Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan |
| | Tuen Mun Town Plaza Branch | Shop No. G047-G052, Tuen Mun Town Plaza Phase I, Tuen Mun |
| | Tai Po Branch | 23 & 25 Kwong Fuk Road, Tai Po Market, Tai Po |
| | New Town Plaza Branch | Shop 215, 222 & 223, Phase 1, New Town Plaza, Shatin |

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (b) You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 17 April 2012 until 12:00 noon on Friday, 20 April 2012 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or your broker may have **YELLOW** Application Forms and this prospectus available.

5. WHEN TO APPLY FOR THE PUBLIC OFFER SHARES

(a) **WHITE or YELLOW Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, with a cheque or banker's cashier order attached, must be lodged by 12:00 noon on Friday, 20 April 2012, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

Your completed **WHITE** or **YELLOW** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of the receiving bankers listed under the paragraph headed "Where to collect the Application Forms" in this section at the following times:

Tuesday, 17 April 2012 – 9:00 a.m. to 5:00 p.m.
Wednesday, 18 April 2012 – 9:00 a.m. to 5:00 p.m.
Thursday, 19 April 2012 – 9:00 a.m. to 5:00 p.m.
Friday, 20 April 2012 – 9:00 a.m. to 12:00 noon

(b) **Electronic application instructions to HKSCC**

CCASS Clearing Participants or CCASS Custodian Participants should input **electronic application instructions** at the following times:

Tuesday, 17 April 2012 – 9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 18 April 2012 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 19 April 2012 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, 20 April 2012 – 8:00 a.m.⁽¹⁾ to 12:00 noon

(1) *These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing Participants or CCASS Custodian Participants.*

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 17 April 2012 until 12:00 noon on Friday, 20 April 2012 (24 hours daily, except on the last application date).

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Friday, 20 April 2012 or if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(c) **HK eIPO WHITE Form**

You may submit your application to the designated **HK eIPO WHITE Form** Service Provider through the designated website at www.hkeipo.hk from 9:00 a.m. on Tuesday, 17 April 2012 until 11:30 a.m. on Friday, 20 April 2012 or such later time as described under the sub-paragraph headed “Effects of bad weather conditions on the opening of the application lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 20 April 2012, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the subparagraph headed “Effects of bad weather conditions on the opening of the application lists” below.

You will not be permitted to submit your application to the designated **HK eIPO WHITE Form** Service Provider through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(d) **Application lists**

The application lists will be opened from 11:45 a.m. to 12:00 noon on Friday, 20 April 2012, except as provided in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below.

No proceedings will be taken on applications for the Public Offer Shares and no allocation of any such Shares will be made until after the closing of the application lists.

(e) **Effect of bad weather conditions on the opening of the application lists**

The application lists will be opened between 11:45 a.m. and 12:00 noon on Friday, 20 April 2012, subject to weather conditions. The application lists will not be open in relation to the Public Offer if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 20 April 2012. Instead, the application lists will be open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon in Hong Kong.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

6. HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

- (a) Obtain a **WHITE** or **YELLOW** Application Form.
- (b) You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form.
- (c) Decide how many Public Offer Shares you want to purchase. Calculate the amount you must pay in accordance with the table of numbers and payments set out in the Application Forms on the basis of the maximum Offer Price of HK\$1.52 per Offer Share, plus brokerage of 1%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%.
- (d) Complete the Application Form and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with our company chop (bearing our company name) and signed by a duly authorised officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign on the Application Form. If it is a joint application, all applicants must sign on the Application Form. If your application is made through a duly authorised attorney, our Company, the Sole Sponsor or the Sole Bookrunner (or its agents or nominees) may accept or reject the application at their discretion, and subject to any conditions as it thinks fit, including production of evidence of the authority of your attorney. The Sole Bookrunner in its capacity as the agent of our Company has full discretion to accept or reject any application, in full or in part, without assigning any reasons therefor.
- (e) Each Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left-hand corner of the Application Form. If you pay by cheque, the cheque must:
 - be in Hong Kong dollars;
 - not be post-dated;
 - be drawn on your Hong Kong dollar bank account in Hong Kong;
 - show your account name, which must either be pre-printed on the cheque, or be endorsed on the reverse of the cheque by an authorised signatory of the bank. This account name must correspond with the name of the applicant on the Application Form (or, in the case of joint applicants, the name of the first-named applicant). If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- be made payable to “Horsford Nominees Limited – Zhongsheng Resources Public Offer”; and
- be crossed “Account Payee Only”.

Your application may be rejected if your cheque does not meet all these requirements or is dishonoured on the first presentation.

If you pay by banker’s cashier order, the banker’s cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the reverse of the banker’s cashier order by an authorised signatory of the bank on which it is drawn. The name on the reverse of the banker’s cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the reverse of the banker’s cashier order must be the same as the name of the first-named joint applicant;
- not be post-dated;
- be in Hong Kong dollars;
- be made payable to “Horsford Nominees Limited – Zhongsheng Resources Public Offer”; and
- be crossed “Account Payee Only”.

Your application may be rejected if your banker’s cashier order does not meet all these requirements.

- (f) Lodge your **WHITE** or **YELLOW** Application Forms in one of the collection boxes by the time and at one of the locations, as respectively referred to in subparagraph 4(a) above.
- (g) The right is reserved to present all or any remittance for payment. However, your cheque or banker’s cashier order will not be presented for payment before 12:00 noon on Friday, 20 April 2012. Our Company will not give you a receipt for your payment. Our Company will keep any interest accrued on your application monies (up until, in the case of monies to be refunded, the date of despatch of e-Auto Refund payment instructions/refund cheques). The right is also reserved to retain any Share certificate(s) and/or any surplus application monies or refunds pending clearance of your cheque or banker’s cashier order.
- (h) Multiple or suspected multiple applications are liable to be rejected. Please see the paragraph headed “How many applications you can make” in this section.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(i) In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form and sign on the first page of the application form. Only written signatures will be accepted.

- If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):
 - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box on the **YELLOW** Application Form.
- If the application is made by an individual CCASS Investor Participant:
 - the **YELLOW** Application Form must contain your full name and your Hong Kong Identity Card number; and
 - the CCASS Investor Participant should insert its CCASS Participant I.D. in the appropriate box on the **YELLOW** Application Form.
- If the application is made by a joint individual CCASS Investor Participant:
 - the **YELLOW** Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
 - the CCASS Participant I.D. must be inserted in the appropriate box on the **YELLOW** Application Form.
- If you are applying as a corporate CCASS Investor Participant:
 - the **YELLOW** Application Form must contain the CCASS Investor Participant's company name and Hong Kong business registration number; and
 - the CCASS Participant I.D. and company chop (bearing the CCASS Investor Participant's company name) must be inserted in the appropriate box on the **YELLOW** Application Form.
- Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of CCASS Participant I.D. or other similar matters may render the application invalid.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (j) Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are required to designate on each Application Form in the box marked “For nominees” account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner.

7. HOW TO APPLY THROUGH THE HK eIPO WHITE FORM SERVICE

- (a) You may apply through **HK eIPO WHITE Form** by submitting an application through the designated website at www.hkeipo.hk. If you apply through **HK eIPO WHITE Form**, our Shares will be issued in your own name. For the purposes of allocating Public Offer Shares, each applicant giving **electronic application instructions** through the **HK eIPO WHITE Form** service to the **HK eIPO WHITE Form** Service Provider through the designated website at www.hkeipo.hk will be treated as an applicant.
- (b) Detailed instructions for application through the **HK eIPO WHITE Form** service are set out on the designated website at www.hkeipo.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **HK eIPO WHITE Form** Service Provider and may not be submitted to our Company.
- (c) The designated **HK eIPO WHITE Form** Service Provider may impose additional terms and conditions upon you for the use of the **HK eIPO WHITE Form** service. Such terms and conditions are set out on the designated website at www.hkeipo.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (d) By submitting an application to the designated **HK eIPO WHITE Form** Service Provider through the **HK eIPO WHITE Form** service, you are deemed to have authorised the designated **HK eIPO WHITE Form** Service Provider to transfer the details of your application to our Company and the Hong Kong Branch Share Registrar.
- (e) You may submit an application through the **HK eIPO WHITE Form** service in respect of a minimum of 2,000 Public Offer Shares. Each **electronic application instruction** in respect of more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.hkeipo.hk.
- (f) You should give **electronic application instructions** through **HK eIPO WHITE Form** at the times set out in paragraph (b) of the paragraph headed “When to apply for the Public Offer Shares” of this section.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (g) You should make payment for your application made by **HK eIPO WHITE Form** service in accordance with the methods and instructions set out in the designated website at www.hkeipo.hk. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Friday, 20 April 2012, or such later time as described under the paragraph headed “Effects of bad weather conditions on the opening of the application lists” in the section headed “When to apply for the Public Offer Shares” above, the designated **HK eIPO WHITE Form** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.hkeipo.hk.
- (h) **Warning: The application for Public Offer Shares through the HK eIPO WHITE Form service is only a facility provided by the designated HK eIPO WHITE Form Service Provider to public investors. Our Company, Directors, the Sole Sponsor, the Sole Bookrunner, the Underwriters, the HK eIPO WHITE Form Service Provider and other parties involved in the Share Offer take no responsibility for such applications, and provide no assurance that applications through the HK eIPO WHITE Form service will be submitted to our Company or that you will be allotted any Public Offer Shares.**

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **HK eIPO WHITE Form** service, you are advised not to wait until the last day for submitting applications in the Public Offer to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **HK eIPO WHITE Form** service, you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** or **YELLOW** Application Form or give **electronic application instructions** to HKSCC via CCASS. See “How many applications you can make” below.

8. HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

- (a) CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for the Public Offer Shares and to arrange for payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (b) If you are a CCASS Investor Participant, you may give **electronic application instructions** to HKSCC through the CCASS Phone System by calling 2979 7888 or CCASS Internet System at <https://ip.ccass.com> (according to the procedures contained in “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

- (c) If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.
- (d) You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your designated CCASS Clearing Participant or CCASS Custodian Participant to our Company and the Hong Kong Branch Share Registrar.
- (e) You may give **electronic application instructions** in respect of a minimum of 2,000 Public Offer Shares. Each **electronic application instruction** in respect of more than 2,000 Public Offer Shares must be in one of the numbers set out in the table on the Application Form.
- (f) Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Public Offer Shares:
- (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form and/or this prospectus; and
 - (ii) HKSCC Nominees does all the things on behalf of each of such persons as stated in the paragraph headed “Effect of making any application” below.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (g) If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.
- (h) For the purpose of allocating the Public Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.
- (i) The paragraph headed “Personal data” below applies to any personal data held by the Sole Sponsor, the Sole Bookrunner, our Company and the Hong Kong Branch Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

Warning

Application for the Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Our Company, Directors, the Sole Sponsor, the Sole Bookrunner, the Underwriters and all other parties involved in the Share Offer take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit electronic application instructions, they should either:

- (a) **submit the WHITE or YELLOW Application Form (as appropriate); or**
- (b) **go to HKSCC’s Customer Service Centre to complete an application instruction input request form before 12:00 noon on Friday, 20 April 2012 or such later time as described under the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” above.**

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

9. PUBLICATION OF RESULTS

Our Company expects to publish the announcement on the Offer Price, the level of applications in the Public Offer, the level of indications of interest in the Placing and the basis of allotment of the Public Offer Shares in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the Stock Exchange's website at www.hkexnews.hk and our Company's website at <http://chinazhongsheng.com.hk> on Thursday, 26 April 2012. Results of allocations in the Public Offer, including the Hong Kong Identity Card numbers, passport numbers or Hong Kong business registration numbers of successful applicants (where supplied) and the number of Public Offer Shares successfully applied for under **WHITE** Application Forms, **YELLOW** Application Forms or the designated **HK eIPO WHITE Form** Service Provider through the designated **HK eIPO WHITE Form** website or by giving **electronic application instructions** to HKSCC via CCASS will be made available at the times and dates and in the manner specified below:

- Results of allocations for the Public Offer will be available from the results of allocations website at www.tricor.com.hk/ipo/result on a 24-hour basis from 8:00 a.m. on Thursday, 26 April 2012 to 12:00 midnight on Wednesday, 2 May 2012. A "Search by ID" function will be available on the results of allocations website at www.tricor.com.hk/ipo/result. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;
- Results of allocations will be available from the Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Public Offer Shares allocated to them, if any, by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 26 April 2012 to Wednesday, 2 May 2012 (excluding Saturday, Sunday and public holiday);
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual receiving bank branches and sub-branches from Thursday, 26 April 2012 to Monday, 30 April 2012 at all the receiving bank branches and subbranches at the addresses set out in the section headed "Where to collect the Application Forms" above.
- Results of allocations for the Public Offer can be found in the announcement to be published on our Company's website at <http://chinazhongsheng.com.hk> and the website of the Stock Exchange at www.hkexnews.hk on Thursday, 26 April 2012.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

10. HOW MANY APPLICATIONS YOU CAN MAKE

- (a) You may make more than one application for the Public Offer Shares only if:
- You are a nominee, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (ii) using a **WHITE** or **YELLOW** Application Form and lodging more than one application in your own name on behalf of different beneficial owners. In the box on the **WHITE** or **YELLOW** Application Form marked “For nominees” you must include:
 - an account number; or
 - some other identification code for each beneficial owner (or, in the case of joint beneficial owners, for each such joint beneficial owner). If you do not include this information, the application will be treated as being made for your own benefit, or

Otherwise, multiple or suspected multiple applications are liable to be rejected.

- (b) Save as referred to (a) above, all of your applications for the Public Offer Shares (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**) will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:
- make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) or to the designated **HK eIPO WHITE Form** Service Provider; or
 - both apply (whether individually or jointly with others) on one (or more) **WHITE** Application Form and one (or more) **YELLOW** Application Form or on one (or more) **WHITE** Application Form or one (or more) **YELLOW** Application Form and give **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO WHITE Form** Service Provider; or
 - apply (whether individually or jointly with others) on one (or more) **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) or to the designated **HK eIPO WHITE Form** Service Provider for more than 6,488,000 Public Offer Shares (being 50% of the 12,976,000 Public Offer Shares initially available under the Public Offer); or
 - have applied for or taken up, or indicated an interest in applying for or taking up or have been or will be placed (including conditionally and/or provisionally) any Placing Shares under the Placing.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (c) All of your applications for the Public Offer Shares are liable to be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:
- (i) the principal business of that company is dealing in securities; and
 - (ii) you exercise statutory control over that company, then the application will be deemed to be made for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control in relation to a company means you:

- (i) control the composition of the board of directors of that company; or
 - (ii) control more than half of the voting power of that company; or
 - (iii) hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).
- (d) If you apply by means of **HK eIPO WHITE Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the designated **HK eIPO WHITE Form** Service Provider to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO WHITE Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO WHITE Form** service by giving **electronic application instructions** through the designated website at www.hkeipo.hk and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **HK eIPO WHITE Form** service and one or more applications by any other means, all of your applications are liable to be rejected.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

11. EFFECT OF MAKING ANY APPLICATION

- (a) By making any application, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:
- instruct and authorise our Company and/or the Sole Bookrunner (or their agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Public Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;
 - undertake to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Public Offer Shares allocated to you, and as required by the Articles;
 - represent and warrant that you understand that the Public Offer Shares have not been and will not be registered under the US Securities Act and you are outside the United States when completing and submitting the Application Form and you are not, and none of the other person(s) for whose benefit you are applying, is a US person (as defined in Regulation S of the US Securities Act);
 - confirm that you have received and/or read a copy of this prospectus and have only relied on the information and representations contained in this prospectus (save as set out in any supplement to this prospectus) in making your application, and not on any other information or representation concerning our Company and you agree that neither our Company, our Directors, the Sole Sponsor, the Sole Bookrunner and the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Share Offer will have any liability for any such other information or representations;
 - agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not revoke or rescind it because of an innocent misrepresentation;
 - (if the application is made by an agent on your behalf) warrant that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
 - (if the application is made for your own benefit) warrant that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **HK eIPO WHITE Form** Service Provider via **HK eIPO WHITE Form** service;

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- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, or to the designated **HK eIPO WHITE Form** Service Provider via **HK eIPO WHITE Form** service, and that you are duly authorised to sign the Application Form or to give **electronic application instruction** as that other person's agent;
- agree that once your application is accepted, your application will be evidenced by the results of the Public Offer made available by our Company;
- undertake and confirm that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any Placing Shares in the Placing, nor otherwise participate in the Placing;
- warrant the truth and accuracy of the information contained in your application;
- agree to disclose to our Company, the Hong Kong Branch Share Registrar, receiving bankers, the Sole Sponsor, the Sole Bookrunner, and the Underwriters and any of their respective officers, advisers and agents any personal data and information which they require about you or the person(s) for whose benefit you have made the application;
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- undertake and agree to accept the Public Offer Shares applied for, or any less number allocated to you under the application;
- authorise our Company to place your name(s) or the name of HKSCC Nominees, as the case may be, on the register of members of our Company as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) (where applicable) and/or any refund cheque(s) (where applicable) to you or (in case of joint applicants) the first-named applicant in the application by ordinary post at your own risk to the address stated in your application (unless you have applied for 1,000,000 Public Offer Shares or more and have indicated in your application that you wish to collect your share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) in person then you can collect them from Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong between 9:00 a.m. and 1:00 p.m. on Thursday, 26 April 2012;

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- authorise our Company to despatch e-Auto Refund payment instructions to your application payment bank account if you have completed payment of the **HK eIPO WHITE Form** application monies from a single bank account; or authorise our Company to issue and despatch refund cheque(s) to the address given on the **HK eIPO WHITE Form** application if you have completed payment of the application monies from multi-bank accounts;
 - if the laws of any place outside Hong Kong are applicable to your application, you agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Bookrunner and the Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions set out in the Application Form and in this prospectus;
 - agree that our Company, the Sole Sponsor, the Sole Bookrunner and the Underwriters and any of their respective directors, officers, employees, agents or advisors and any other parties involved in the Share Offer are liable only for and that you have only relied upon, the information and representations contained in this prospectus and any supplement to the prospectus;
 - confirm that you have read the terms and conditions and application procedures set out in this prospectus and the Application Form and agree to be bound by them;
 - agree with our Company and each Shareholder that Shares are freely transferable by the holders thereof;
 - confirm that you are aware of the restrictions on the Public Offer Shares described in this prospectus;
 - understand that these declarations and representations will be relied upon by our Company, the Sole Sponsor and the Sole Bookrunner in deciding whether or not to allocate any Public Offer Shares in response to your application and that you may be prosecuted for making a false declaration; and
 - agree that the processing of your application, may be done by any of our Company's receiving banks and is not restricted to the bank at which your application was lodged.
- (b) If you apply for the Public Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above you agree that:
- any Public Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the Application Form;

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- each of HKSCC and HKSCC Nominees reserves the right (1) not to accept any or part of such allocated Public Offer Shares issued in the name of HKSCC Nominees or not to accept such allocated Public Offer Shares for deposit into CCASS; (2) to cause such allocated Public Offer Shares to be withdrawn from CCASS and transferred into your name at your own risk and costs; and (3) to cause such allocated Public Offer Shares to be issued in your name (or, if you are a joint applicant, to the first-named applicant) and in such a case, to post the share certificates for such allocated Public Offer Shares at your own risk to the address stated on your Application Form by ordinary post or to make available the same for your collection;
 - each of HKSCC and HKSCC Nominees may adjust the number of allocated Public Offer Shares issued in the name of HKSCC Nominees;
 - neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Forms; and
 - neither HKSCC nor HKSCC Nominees shall be liable to you in any way.
- (c) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to do the following additional things and neither HKSCC nor HKSCC Nominees will be liable to our Company nor any other person in respect of such things:
- instruct and authorise HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Public Offer Shares on your behalf;
 - instruct and authorise HKSCC to arrange payment of the maximum Offer Price, brokerage fee, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the final Offer Price is less than the maximum Offer Price of HK\$1.52 per Offer Share, refund the appropriate portion of the application money by crediting your designated bank account;
 - instruct and authorise HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (in addition to the confirmations and agreements set out in paragraph (a) above) instruct and authorise HKSCC to cause HKSCC Nominees to do on your behalf the following:
 - agree that the Public Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **electronic application instructions** on your behalf;
 - undertake and agree to accept the Public Offer Shares in respect of which you have given **electronic application instructions** or any lesser number;
 - **undertakes** and **confirms** that that person has not applied for or taken up any offer shares under the placing nor otherwise participated in the placing;
 - (if the **electronic application instructions** are given for that person's own benefit) **declares** that only one set of **electronic application instructions** has been given for that person's benefit;
 - (if that person is an agent for another person) **declares** that it has given only one set of **electronic application instructions** for the benefit of that other person, and that it is duly authorised to give those instructions as that other person's agent;
 - **understands** that the above declaration will be relied upon by our Company in deciding whether or not to make any allotment of shares in respect of the **electronic application instructions** given by that person and that person may be prosecuted if that person makes a false declaration;
 - **authorizes** our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the shares allotted in respect of that person's **electronic application instructions** and to send share certificates and/or refund monies in accordance with arrangements separately agreed between our Company and HKSCC;
 - **confirms** that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
 - **confirms** that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker/custodian to give **electronic application instructions** on that person's behalf;

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- **agrees** that our Company, the Underwriters and any other parties involved in the Share Offer are liable only for the information and representations contained in this prospectus;
- **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentations;
- **agrees** to disclose to our Company, the Hong Kong Branch Share Registrar, the receiving bankers, the Sole Sponsor, the Sole Bookrunner and the Underwriters and any of their respective officers, advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;
- **agrees** that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before the fifth day after the closing of the application lists under the Public Offer such agreement to take effect as a collateral contract with our Company and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that our Company will not offer any Public Offer Shares to any person before the fifth day after the closing of the application lists except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the closing of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked and that acceptance of that application will be evidenced by the results of the Public Offer made available by our Company; and
- **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC and read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Public Offer Shares.

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12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED THE PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allocated Public Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which Public Offer Shares will not be allocated to you or your application is liable to be rejected:

(a) If your application is revoked:

By completing and submitting an Application Form or submitting **electronic application instructions** to HKSCC or the **HK eIPO WHITE Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked before the expiration of the fifth day after the opening of the application lists under the Public Offer. This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your application form or submit your **electronic application instructions** to HKSCC or to the designated **HK eIPO WHITE Form** Service Provider. This collateral contract will be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the expiration of the fifth day after the opening of the application lists except by means of one of the procedures referred to in this prospectus.

However, your application or the application made by HKSCC Nominees on your behalf may only be revoked before the fifth day after the opening of the application lists under the Public Offer (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in English in the South China Morning Post and in Chinese in the Hong Kong Economic Times of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

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(b) If the allocation of the Public Offer Shares is void:

Your allocation of the Public Offer Shares (and the allocation to HKSCC Nominees, as the case may be) will be void if the Listing Committee does not grant permission to list our Shares either:

- within three weeks from the closing date of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing of the application lists.

(c) If you make applications under the Public Offer as well as the Placing:

By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO WHITE Form Service Provider**, you agree not to apply for Placing Shares under the Placing. Reasonable steps will be taken to identify and reject applications under the Public Offer from investors who have received Placing Shares in the Placing, and to identify and reject indications of interest in the Placing from investors who have received Public Offer Shares in the Public Offer.

(d) If our Company, the Sole Sponsor, the Sole Bookrunner or the HK eIPO WHITE Form Service Provider or their respective agents or nominees exercise their discretion to reject your application:

Our Company, the Sole Sponsor, the Sole Bookrunner (for itself and on behalf of the Underwriters) or the **HK eIPO WHITE Form Service Provider** (where applicable) or their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

(e) If:

- your application is a multiple or a suspected multiple application;
- your Application Form is not completed in accordance with the instructions as stated therein (if you apply by an Application Form);
- your **electronic application instructions** through the **HK eIPO WHITE Form** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at www.hkeipo.hk;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;

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- you or the person for whose benefit you are applying have applied for or taken up or indicated an interest for or have received or have been or will be placed or allocated (including conditionally and/or provisionally) the Placing Shares under the Placing;
- your application is for more than 6,488,000 Public Offer Shares (being 50% of the 12,976,000 Public Offer Shares initially available under the Public Offering);
- any of the Underwriting Agreements does not become unconditional or it is terminated in accordance with the terms thereof or otherwise; or
- our Company, the Sole Sponsor, the Sole Bookrunner (for itself and on behalf of the Underwriters) and the **HK eIPO WHITE Form** Service Provider or their respective agents believe that by accepting your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed.

13. HOW MUCH ARE THE PUBLIC OFFER SHARES

The maximum Offer Price of the Public Offer Shares is HK\$1.52 each. You must also pay a brokerage of 1%, a Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.003%. The proposed board lot for trading in our Shares is 2,000 Shares. This means that for every 2,000 Public Offer Shares, you will pay HK\$3,070.64. The Application Forms have tables showing the exact amount payable for numbers of Public Offer Shares.

You must pay the maximum Offer Price, brokerage of 1%, the Stock Exchange trading fee of 0.005% and the SFC transaction levy of 0.003% in full when you apply for the Public Offer Shares.

If your application is successful, the brokerage is paid to participants of the Stock Exchange, the Stock Exchange trading fee is paid to the Stock Exchange and the SFC transaction levy is paid to the SFC.

If the Offer Price as finally determined is less than HK\$1.52 per Share, appropriate refund payments (including brokerage of 1%, the Stock Exchange trading fee of 0.005% and the SFC transaction levy of 0.003% attributable to the surplus application monies) will be made to successful applicants, without interest. Details of the procedures for refund are set out in the paragraph headed “Refund of your money – additional information” below.

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14. IF YOUR APPLICATION FOR THE PUBLIC OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

- (a) If you are applying using a **WHITE** Application Form:
- Refund cheque(s) and Share certificate(s) for these applicants who apply for less than 1,000,000 Public Offer Shares or apply for 1,000,000 or more Public Offer Shares and have not indicated on your Application Forms that you will collect Share certificate(s) and/or refund cheque(s) (where applicable) in person are expected to be despatched on Thursday, 26 April 2012 to the same address as that for Share certificate(s), being the address specified in the relevant Application Form.
 - Applicants who have applied on **WHITE** Application Forms for 1,000,000 Public Offer Shares or more and have indicated on their Application Forms that they wish to collect Share certificate(s) and/or refund cheque(s) (where applicable) in person from the Hong Kong Branch Share Registrar may collect share certificate(s) and/or refund cheque(s) (where applicable) in person from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 26 April 2012.
 - Applicants being individuals who are applying for 1,000,000 Public Offer Shares or more and opt for personal collection cannot authorise any other person to make collection on their behalf. Corporate applicants who are applying for 1,000,000 Public Offer Shares or more and opt for personal collection must attend by their authorised representatives bearing letters of authorisation from the corporation stamped with the corporation's respective chops. Both individuals and authorised representatives (where applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.
 - Uncollected Share certificate(s) and refund cheque(s) (where applicable) will be despatched by ordinary post at the applicants' own risk to the addresses specified on the relevant Application Forms.
- (b) If: (i) you are applying on a **YELLOW** Application Form; or (ii) you are giving **electronic application instructions** to HKSCC, and in each case you elect to have allocated Public Offer Shares deposited directly into CCASS:

If your application is wholly or partly successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you (on the Application Form or electronically, as the case may be), on Thursday, 26 April 2012 or, under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees.

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- **If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a YELLOW Application Form:**

For Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allocated to you with that CCASS Participant.

- **If you are applying as a CCASS Investor Participant on a YELLOW Application Form:**

Our Company is expected to make available the results of the Public Offer, including the results of CCASS Investor Participants' applications, in the manner described above in the paragraph headed "Publication of results" on Thursday, 26 April 2012. You should check the results made available by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 26 April 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System or CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

- **If you have given electronic application instructions to HKSCC:**

Our Company is expected to make available the application results of the Public Offer, including the results of CCASS Participants' applications (and in the case of CCASS Clearing Participants and CCASS Custodian Participants, our Company shall include information relating to the beneficial owner), your Hong Kong Identity Card number or passport number or Hong Kong business registration number or other identification code (as appropriate) in the manner described above in the paragraph headed "Publication of results" on Thursday, 26 April 2012. You should check the results made available by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 26 April 2012 or any other date HKSCC or HKSCC Nominees chooses.

- **If you are instructing your CCASS Clearing Participant or CCASS Custodian Participant to give electronic application instructions to HKSCC on your behalf:**

You can also check the number of Public Offer Shares allocated to you and the amount of refund (where applicable) payable to you with that CCASS Clearing Participant or CCASS Custodian Participant.

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- **If you are applying as a CCASS Investor Participant by giving electronic application instruction to HKSCC:**

You can also check the number of the Public Offer Shares allocated to you and the amount of refund (where applicable) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 26 April 2012. Immediately following the credit of the Public Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of the Public Offer Shares credited to your stock account and the amount of refund credited to your designated bank account (where applicable).

- (c) **If you are applying through HK eIPO WHITE Form:**

If you apply for 1,000,000 Public Offer Shares or more through the **HK eIPO WHITE Form** service by submitting an electronic application to the designated **HK eIPO WHITE Form** Service Provider through the designated website at www.hkeipo.hk and your application is wholly or partially successful, you may collect your Share certificate(s) in person, at Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 26 April 2012, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **HK eIPO WHITE Form** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) will be sent to the address specified in your application instructions to the designated **HK eIPO WHITE Form** Service Provider through the designated website at www.hkeipo.hk on Thursday, 26 April 2012 by ordinary post and at your own risk.

If you paid the application monies from a single bank account and your application is wholly or partially unsuccessful and/or the final Offer Price is different from the Offer Price initially paid on your application, e-Auto Refund payment instructions (if any) will be despatched to your application payment bank account on or around Thursday, 26 April 2012.

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If you used multi-bank accounts to pay the application monies and your application is wholly or partially unsuccessful and/or the final Offer Price is different from the Offer Price initially paid on your application, refund cheque(s) will be sent to the address specified in your application instructions to the designated **HK eIPO WHITE Form** Service Provider on or around Thursday, 26 April 2012, by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated **HK eIPO WHITE Form** Service Provider set out below in “Refund of your money – additional information.”

No receipt will be issued for application monies paid. Our Company will not issue temporary documents of title.

15. REFUND OF YOUR MONEY — ADDITIONAL INFORMATION

- (a) You will be entitled to a refund (any interest accrued on refund money prior to the date of despatch of e-Auto Refund payment instructions/refund cheques will be retained for the benefit of our Company) if:
- your application is not successful, in which case our Company will refund your application money together with the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee to you, without interest;
 - your application is accepted only in part, in which case our Company will refund the appropriate portion of your application money, the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee, without interest;
 - the Offer Price (as finally determined) is less than the price per Offer Share initially paid by you on application, in which case our Company will refund the surplus application money together with the appropriate portion of the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee, without interest; and
 - the conditions of the Public Offer are not fulfilled in accordance with the paragraph headed “Conditions of the Share Offer” under the section headed “Structure and conditions of the Share Offer” of this prospectus.
- (b) If you apply on a **YELLOW** Application Form for 1,000,000 Public Offer Shares or more and have indicated on your Application Form that you wish to collect your refund cheque in person, you may collect your refund cheque (where applicable) in person from the Hong Kong Branch Share Registrar on Thursday, 26 April 2012. The procedure for collection of refund cheques for **YELLOW** Application Form applicants is the same as that for **WHITE** Application Form applicants set out in sub-paragraph (a) of the paragraph headed “If your application for the Public Offer Shares is successful (in whole or in part)” in this section.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If you have applied for 1,000,000 Public Offer Shares or above and have not indicated on your Application Form that you will collect your refund cheque (if any) in person, or if you have applied for less than 1,000,000 Public Offer Shares, your refund cheque (if any) will be sent to the address on your Application Form on the date of despatch, which is expected to be on Thursday, 26 April 2012, by ordinary post and at your own risk.

- (c) If you are applying by giving **electronic application instructions** to HKSCC to apply on your behalf, all refunds are expected to be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of your broker or custodian (if you are applying through a CCASS Clearing Participant or CCASS Custodian Participant) on Thursday, 26 April 2012.
- (d) If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Public Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **HK eIPO WHITE Form** Service Provider, the designated **HK eIPO WHITE Form** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **HK eIPO WHITE Form** Service Provider on the designated website at www.hkeipo.hk.

Otherwise, any monies payable to you due to a refund for any of the reasons set out above in this section shall be made pursuant to the arrangements described above in “If your application for the Public Offer Shares is successful (in whole or in part) – If you are applying through **HK eIPO WHITE Form**.”

- (e) Refund cheque will be crossed “Account Payee Only”, and made out to you, or if you are a joint applicant, to the first-named applicant on your Application Form. Part of your Hong Kong Identity Card number or passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number or passport number of the first-named applicant, provided by you may be printed on your refund cheque, where applicable. Such data may also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number or passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number or passport number may lead to delay in encashment of or may invalidate your refund cheque.
- (f) e-Auto Refund payment instructions/refund cheques are expected to be despatched on or around Thursday, 26 April 2012. Our Company intends to make special efforts to avoid undue delays in refunding money.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

16. PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the “**Ordinance**”) came into effect in Hong Kong on 20 December 1996. This Personal Information Collection Statement informs the applicant for and holder of the Public Offer Shares of the policies and practices of our Company and the Hong Kong Branch Share Registrar in relation to personal data and the Ordinance.

(a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to our Company and the Hong Kong Branch Share Registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the Hong Kong Branch Share Registrar.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of our Company or the Hong Kong Branch Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Public Offer Shares which you have successfully applied for and/or the despatch of Share certificate(s), and/or the despatch of e-Auto Refund payment instructions/refund cheque(s) to which you are entitled.

It is important that holders of securities inform our Company and the Hong Kong Branch Share Registrar immediately of any inaccuracies in the personal data supplied.

(b) Purposes

The personal data of the applicants and the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and e-Auto Refund payment instructions/refund cheque, where applicable and verification of compliance with the terms and application procedures set out in the Application Forms and this prospectus and announcing results of allocations of the Public Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registers of holders of securities of our Company;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of our Company, such as dividends, rights issues and bonus issues;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- distributing communications from our Company and its subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by any laws, rules or regulations;
- disclosing identities of successful applications by way of press announcement(s) or otherwise;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable our Company and the Hong Kong Branch Share Registrar to discharge their obligations to holders of securities and/or regulators and/or other purpose to which the holders of securities may from time to time agree.

(c) **Transfer of personal data**

Personal data held by our Company and the Hong Kong Branch Share Registrar relating to the applicants and the holders of securities will be kept confidential but our Company and the Hong Kong Branch Share Registrar, to the extent necessary for achieving the above purposes or any of them, make such enquiries as our Company and the Hong Kong Branch Share Registrar consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain or provide (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to or from any and all of the following persons and entities:

- our Company's appointed agents such as financial advisers, receiving bankers and its principal share registrar and the Hong Kong Branch Share Registrar;
- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Public Offer Shares to be deposited into CCASS);
- any agents, contractors or third party service providers who offer administrative, telecommunications, computer, payment or other services to our Company and/or the Hong Kong Branch Share Registrar in connection with the operation of their businesses;
- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

By signing an Application Form or by giving **electronic application instructions** to HKSCC or by applying through **HK eIPO WHITE Form**, you agree to all of the above.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(d) Access and correction of personal data

The Ordinance provides the applicants and the holders of securities with rights to ascertain whether our Company and/or the Hong Kong Branch Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the Ordinance, our Company and the Hong Kong Branch Share Registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices or the kinds of data held should be addressed to our Company for the attention of our company secretary or (as the case may be) the Hong Kong Branch Share Registrar for the attention of the Privacy Compliance Officer (for the purposes of the Ordinance).

17. MISCELLANEOUS

(a) Commencement of dealings in our Shares

- Dealings in our Shares on the Main Board of the Stock Exchange are expected to commence on Friday, 27 April 2012.
- Our Shares will be traded in board lots of 2,000 Shares.
- The stock code of our Shares is 2623.
- Any Share certificates in respect of Public Offer Shares collected or received by successful applicants will not be valid if the Share Offer is terminated in accordance with the terms of the Underwriting Agreements.

(b) Shares will be eligible for admission into CCASS

- If the Stock Exchange grants the listing of and permission to deal in our Shares and the stock admission requirements of HKSCC are complied with, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.
- All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.
- Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.
- All necessary arrangements have been made for our Shares to be admitted into CCASS

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.



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.

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

| | | As at 31 December | | |
|--|-------------|-----------------------|-----------------------|-------------------------|
| | | 2009 | 2010 | 2011 |
| | | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | <i>Note</i> | | | |
| 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 |
| | | <u>162,210</u> | <u>214,990</u> | <u>173,167</u> |
| 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 |
| | | <u>233,162</u> | <u>425,011</u> | <u>484,294</u> |
| Total liabilities | | <u><u>395,372</u></u> | <u><u>640,001</u></u> | <u><u>657,461</u></u> |
| Total equity and liabilities | | <u><u>759,104</u></u> | <u><u>962,246</u></u> | <u><u>1,095,354</u></u> |
| Net current assets | | <u><u>418,280</u></u> | <u><u>379,794</u></u> | <u><u>381,711</u></u> |
| Total assets less current liabilities | | <u><u>525,942</u></u> | <u><u>537,235</u></u> | <u><u>611,060</u></u> |

(b) Balance sheet

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

(c) Consolidated statements of comprehensive income

| | Note | Year ended 31 December | | |
|---|-----------|------------------------|-----------------|-----------------|
| | | 2009 RMB'000 | 2010 RMB'000 | 2011 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 (Note 19) | RMB'000 (Note 20) | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 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 | | <u>274,769</u> | <u>(73,815)</u> | <u>148,979</u> | <u>349,933</u> | <u>13,799</u> | <u>363,732</u> |

| | | Attributable to equity holders of the Company | | | | | |
|--|-------|---|----------------------|----------------------|----------------|----------------------------------|-----------------|
| | | Share capital and share premium | Reserves | Retained earnings | Subtotal | Non- controlling interests | Total equity |
| | Note | RMB'000 (Note 19) | RMB'000 (Note 20) | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 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 | | <u>274,769</u> | <u>(103,105)</u> | <u>139,271</u> | <u>310,935</u> | <u>11,310</u> | <u>322,245</u> |
| 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 | | <u>274,769</u> | <u>(6,956)</u> | <u>161,590</u> | <u>429,403</u> | <u>8,490</u> | <u>437,893</u> |

(e) Consolidated cash flow statements

| | Note | Year ended 31 December | | |
|---|-------|------------------------|-----------------|-----------------|
| | | 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 | | | | |
| Cash and cash equivalents at beginning of the year | | 36,210 | (80,492) | 163,362 |
| Exchange losses on cash and cash equivalents | | 86,826 | 122,539 | 39,903 |
| | | (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:

| <u>Name of subsidiary/ associates</u> | <u>Place of incorporation</u> | <u>Percentage of shareholding</u> | <u>Principal operation</u> |
|---|-------------------------------|-----------------------------------|--|
| 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 phase, 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 include 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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Year ended: | | | |
| Net profit increase/(decrease) | | | |
| – Higher 1% | (1,008) | (1,638) | (2,902) |
| – Lower 1% | 1,008 | 1,638 | 2,902 |
| | <u>1,008</u> | <u>1,638</u> | <u>2,902</u> |

(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 |
|-------------------------------|-----------------------------|------------------|------------------|--------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 | <u>225,414</u> | <u>9,504</u> | <u>162,707</u> | <u>–</u> |
| 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 | <u>391,282</u> | <u>70,297</u> | <u>172,170</u> | <u>–</u> |
| As at 31 December 2011 | | | | |
| Borrowings | 383,502 | 71,704 | 108,595 | – |
| Accounts payables | 63,280 | – | – | – |
| Other payables | 16,078 | – | – | – |
| Total | <u>462,860</u> | <u>71,704</u> | <u>108,595</u> | <u>–</u> |

(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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 of 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 |
|---|----------------------------|---------------------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 |
|---|----------------------------|---------------------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 |
|---------------------------------------|----------------|----------------|------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Total revenue for reportable segments | 196,447 | 485,452 | 1,010,252 |
| Elimination of inter-segment revenue | – | – | – |
| Group revenue | <u>196,447</u> | <u>485,452</u> | <u>1,010,252</u> |
| 2009 | | | |
| <i>RMB'000</i> | | | |
| Net profit for reportable segments | 28,729 | 102,562 | 136,406 |
| Other unallocated expenses | – | – | (6,416) |
| Net profit | <u>28,729</u> | <u>102,562</u> | <u>129,990</u> |

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 |
|--|----------------------------|---------------------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 |
|--|----------------|----------------|------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 | <u>759,104</u> | <u>962,246</u> | <u>1,095,354</u> |

(iii) *Reconciliations of reportable segments liabilities*

| | 2009 | 2010 | 2011 |
|--|----------------|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 | <u>395,372</u> | <u>640,001</u> | <u>657,461</u> |

7. PROPERTY, PLANT AND EQUIPMENT

The Group

| | Buildings and structures | Mining infrastructures | Motor vehicles equipment and others | Construction in progress | Total |
|---|--------------------------------|---------------------------|--|-----------------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 RMB'000 | 2010 RMB'000 | 2011 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 |
| | <u>14,600</u> | <u>14,519</u> | <u>19,391</u> |

8. INTANGIBLE ASSETS

| | The Group | | | |
|--|-----------------------|--|----------------|---------------|
| | Exploration rights | Exploration and evaluation assets | Mining rights | Total |
| | RMB'000 (b) | RMB'000 (c) | RMB'000 (a) | RMB'000 |
| At 1 January 2009 | | | | |
| Cost | 4,750 | 4,327 | – | 9,077 |
| Accumulated amortisation | – | – | – | – |
| Net book amount | <u>4,750</u> | <u>4,327</u> | <u>–</u> | <u>9,077</u> |
| 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 | <u>12,259</u> | <u>12,459</u> | <u>–</u> | <u>24,718</u> |
| At 31 December 2009 | | | | |
| Cost | 12,259 | 12,459 | – | 24,718 |
| Accumulated amortisation | – | – | – | – |
| Net book amount | <u>12,259</u> | <u>12,459</u> | <u>–</u> | <u>24,718</u> |
| 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 | <u>13,003</u> | <u>14,971</u> | <u>–</u> | <u>27,974</u> |

| | The Group | | | |
|---|-----------------------|--|---------------------|----------------------|
| | Exploration rights | Exploration and evaluation assets | Mining rights | Total |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | <i>(b)</i> | <i>(c)</i> | <i>(a)</i> | |
| At 31 December 2010 | | | | |
| Cost | 13,003 | 14,971 | – | 27,974 |
| Accumulated amortisation | – | – | – | – |
| Net book amount | <u>13,003</u> | <u>14,971</u> | <u>–</u> | <u>27,974</u> |
| 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 | <u>12,609</u> | <u>12,313</u> | <u>4,297</u> | <u>29,219</u> |
| At 31 December 2011 | | | | |
| Cost | 12,609 | 12,313 | 4,327 | 29,249 |
| Accumulated amortisation | – | – | (30) | (30) |
| Net book amount | <u><u>12,609</u></u> | <u><u>12,313</u></u> | <u><u>4,297</u></u> | <u><u>29,219</u></u> |

- (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 (<i>Note (a)</i>) | 217,126 |
| Amount due from a subsidiary (<i>Note (b)</i>) | 176,893 |
| | <hr/> |
| Total interest in subsidiaries | 394,019 |
| | <hr/> <hr/> |

- (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 (<i>Note 11</i>) | – | – | (5,750) |
| | <hr/> | <hr/> | <hr/> |
| Ending balance of the year | – | 4,062 | – |
| | <hr/> | <hr/> | <hr/> |
| Market value of the listed associate | – | 5,028 | – |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

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:

| Name of associate | Principal activity | Place of incorporation and operation | Registered and fully paid capital | Proportion of ownership interest | |
|-------------------------|---------------------|--------------------------------------|-----------------------------------|--|---------------------------------------|
| | | | | 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:

| | <i>RMB'000</i> |
|--|----------------|
| 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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| 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 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| 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 |
| | <u>5,700</u> | <u>3,605</u> | <u>2,790</u> |
| 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) |
| | <u>–</u> | <u>(1,982)</u> | <u>(3,189)</u> |

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

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

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 |
|---|--|---|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| At 1 January 2009 | 2,865 | 4,358 | 168 | 7,391 |
| Recognised in the consolidated statements of comprehensive income | <u>187</u> | <u>(2,973)</u> | <u>1,095</u> | <u>(1,691)</u> |
| At 31 December 2009 | 3,052 | 1,385 | 1,263 | 5,700 |
| Recognised in the consolidated statements of comprehensive income | <u>200</u> | <u>(1,385)</u> | <u>(910)</u> | <u>(2,095)</u> |
| At 31 December 2010 | 3,252 | – | 353 | 3,605 |
| Recognised in the consolidated statements of comprehensive income | <u>(757)</u> | <u>–</u> | <u>(58)</u> | <u>(815)</u> |
| At 31 December 2011 | <u>2,495</u> | <u>–</u> | <u>295</u> | <u>2,790</u> |

(b) Deferred income tax liabilities

| | Depreciation of mining infrastructure | Others | Total |
|--|---|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| 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 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| 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 | – | – |
| | <u>94,377</u> | <u>102,145</u> | <u>199,798</u> |

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 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| Less than 1 year | 6,044 | 1,098 | 3,934 |
| 1 year and above | 3,585 | – | – |
| | <u>9,629</u> | <u>1,098</u> | <u>3,934</u> |

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 RMB'000 | 2010 RMB'000 | 2011 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 RMB'000 | 2010 RMB'000 | 2011 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 |
| | <u>3,510</u> |

18. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS**The Group**

| | As at 31 December | | |
|--|-------------------|-----------------|-----------------|
| | 2009 RMB'000 | 2010 RMB'000 | 2011 RMB'000 |
| Cash and cash equivalents | | | |
| – Cash on hand | 39 | 43 | 331 |
| – Cash at banks | 122,500 | 39,860 | 202,255 |
| | <u>122,539</u> | <u>39,903</u> | <u>202,586</u> |
| 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 | – |
| | <u>33,150</u> | <u>34,600</u> | <u>–</u> |
| | <u>155,689</u> | <u>74,503</u> | <u>202,586</u> |

- (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 RMB'000 | 2010 RMB'000 | 2011 RMB'000 |
| RMB | 117,882 | 54,120 | 184,694 |
| AUD | 37,807 | 20,383 | 11,837 |
| USD | – | – | 6,048 |
| HKD | – | – | 7 |
| | <u>155,689</u> | <u>74,503</u> | <u>202,586</u> |

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 <i>RMB'000</i> |
|---------------------------|--|
| Cash and cash equivalents | |
| – Cash on hand | 6 |
| – Cash at banks | 63 |
| | <u>69</u> |
| | <u><u>69</u></u> |

Cash and cash equivalents were denominated in the following currencies:

The Company

| | As at 31 December 2011 <i>RMB'000</i> |
|-----|--|
| USD | 63 |
| HKD | 6 |
| | <u>69</u> |
| | <u><u>69</u></u> |

19. SHARE CAPITAL AND SHARE PREMIUM

The Group and the Company

Authorised shares:

| | <u>Number of authorised shares</u> |
|--|--|
| As at 8 February 2011 (date of incorporation) and as at 31 December 2011 | <u><u>38,000,000</u></u> |

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 |
|---|---|----------------|------------------|----------------|
| | | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Issue of one share upon incorporation (<i>Note (a)</i>) | 1 | – | – | – |
| Issue of shares to Hongfa Holdings (<i>Note (b)(i)</i>) | 749,999 | 6 | – | 6 |
| Issue of shares to Hongfa Holdings (<i>Note (b)(ii)</i>) | 1 | – | 104,987 | 104,987 |
| Issue of shares to BVI companies (<i>Note (c)</i>) | 250,000 | 2 | 98,422 | 98,424 |
| Issue of shares to Jiuding Callisto (<i>Note (d)</i>) | 111,111 | 1 | 71,351 | 71,352 |
| At 31 December 2011 | <u>1,111,112</u> | <u>9</u> | <u>274,760</u> | <u>274,769</u> |

- (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

| | 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 |
|---|-------------------|--------------------|-------------------------------|----------------|-------------------------------|--|--|--|-----------|
| Note | RMB'000 (a) | RMB'000 | RMB'000 (d) | RMB'000 (e) | RMB'000 (f) | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 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 |
|---|--------------------------------|
| | <u>RMB'000</u> |
| | <i>(c)</i> |
| At 8 February 2011 (date of incorporation) | |
| Contributed surplus | 118,704 |
| At 31 December 2011 | <u>118,704</u> |

(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 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| 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 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| 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 |
| | <u>21,496</u> | <u>42,024</u> | <u>63,280</u> |

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 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| 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 RMB'000 | 2010 RMB'000 | 2011 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 |
| | <u>48,224</u> | <u>142,197</u> | <u>36,113</u> |

The Company

| | As at 31 December 2011 RMB'000 |
|---|---|
| Amount due to the Controlling Shareholder (c) | 6,115 |
| Amount due to Shandong Ishine | <u>4,799</u> |
| | <u>10,914</u> |

- (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 RMB'000 | 2010 RMB'000 | 2011 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 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| 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 | – | – |
| | <u>80,000</u> | <u>60,000</u> | <u>155,000</u> |

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 | <u>5.53%</u> | <u>5.58%</u> | <u>7.00%</u> |

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 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| Within 6 months | 20,000 | 88,000 | 207,000 |
| 6 months to 1 year | 270,000 | 320,000 | 310,620 |
| | <u>290,000</u> | <u>408,000</u> | <u>517,620</u> |

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

| | As at 31 December | | |
|-----------|-------------------------------|-------------------------------|-------------------------------|
| | 2009 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| 1-2 years | – | 40,000 | 60,000 |
| 2-5 years | 150,000 | 160,000 | 100,000 |
| | <u>150,000</u> | <u>200,000</u> | <u>160,000</u> |

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 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| 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 | <u>12,210</u> | <u>13,008</u> | <u>9,978</u> |

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 RMB'000 | 2010 RMB'000 | 2011 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 RMB'000 | 2010 RMB'000 | 2011 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 RMB'000 | 2010 RMB'000 | 2011 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 | – |
| | <u>13,638</u> | <u>19,956</u> | <u>24,262</u> |

29. OTHER LOSSES/(GAIN), NET

| | Year ended 31 December | | |
|--|------------------------|-----------------|-----------------|
| | 2009 RMB'000 | 2010 RMB'000 | 2011 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) |
| | <u>125</u> | <u>2,502</u> | <u>(3,016)</u> |

30. FINANCE COSTS, NET

| | Year ended 31 December | | |
|--|------------------------|-----------------|-----------------|
| | 2009 RMB'000 | 2010 RMB'000 | 2011 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) |
| | <u>(9,945)</u> | <u>(23,286)</u> | <u>(49,357)</u> |
| Finance costs, net | <u>(8,324)</u> | <u>(22,577)</u> | <u>(48,463)</u> |

31. INCOME TAX EXPENSE

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

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 RMB'000 | 2010 RMB'000 | 2011 RMB'000 |
| Profit before income tax | <u>39,408</u> | <u>142,125</u> | <u>178,032</u> |
| 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 | <u>438</u> | <u>4,497</u> | <u>2,221</u> |
| Income tax expense | <u>10,679</u> | <u>39,563</u> | <u>48,042</u> |

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) | <u>26.27</u> | <u>96.53</u> | <u>118.93</u> |

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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Basic salaries and allowances | 483 | 546 | 613 |
| Discretionary bonuses | – | – | – |
| Other benefits including pension | 8 | 10 | 14 |
| Total | <u>491</u> | <u>556</u> | <u>627</u> |

Director's emoluments are set out below:

| | Fees | Salaries and allowances | Discretionary bonus | Pension – defined contribution plans | Other benefits | Total |
|--|----------------|-------------------------------|------------------------|---|-------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 (張溼生) | – | 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 (張溼生) | – | 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 (張溼生) | – | 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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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:

| Expiry date | Exercise price in AUD per share | Number of Options ('000) | | |
|------------------|---------------------------------|--------------------------|--------------|--------------|
| | | As at 31 December | | |
| | | 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 |
| | | <u>6,175</u> | <u>6,275</u> | <u>6,275</u> |

(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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Profit before income tax | 39,408 | 142,125 | 178,032 |
| Adjustments for: | | | |
| Depreciation (<i>Note 27</i>) | 14,600 | 14,519 | 19,391 |
| Loss on disposals of property, plant and equipment, net (<i>Note 29</i>) | – | 2,153 | 1,459 |
| Amortisation (<i>Note 27</i>) | – | – | 30 |
| Interest income (<i>Note 30</i>) | (1,621) | (1,156) | (2,425) |
| Interest expense (<i>Note 30</i>) | 8,936 | 22,488 | 38,446 |
| Interest charge on unwinding of discounts (<i>Note 30</i>) | 749 | 798 | 850 |
| Share of loss of an associate (<i>Note 10</i>) | – | 851 | 1,606 |
| Gain on fair value revaluation upon transfer from association to available-for-sale financial assets (<i>Note 29</i>) | – | – | (3,103) |
| Change in share-based payments reserve | 8 | 1,312 | 251 |
| Initial public offering expenses | – | – | 6,794 |
| Changes in working capital: | | | |
| Inventories (<i>Note 14</i>) | (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 (<i>Note 18</i>) | (32,850) | (1,450) | 34,600 |
| Cash used in operations | <u>(12,639)</u> | <u>(98,270)</u> | <u>(87,230)</u> |

(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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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 |
| | <u>31,842</u> | <u>23,497</u> | <u>24,768</u> |

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 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 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) |
| | <u>–</u> | <u>350,550</u> | <u>(6,115)</u> |
| At the end of the year | <u>–</u> | <u>350,550</u> | <u>(6,115)</u> |

- (ii) Transaction with related parties:

| | As at 31 December | | |
|---|------------------------|------------------------|------------------------|
| | 2009 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| 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) | – | – |
| | <u>–</u> | <u>–</u> | <u>–</u> |
| At the end of the year | <u>(19,012)</u> | <u>23,988</u> | <u>–</u> |

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 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| Prepayment and other receivables | | | |
| – the Controlling Shareholder (Note 17) | – | 350,550 | – |
| – Ausrich (Note 17) | – | 43,000 | – |
| | <u>–</u> | <u>393,550</u> | <u>–</u> |
| Accrual and other payables | | | |
| – the Controlling Shareholder (Note 23) | – | – | 6,115 |
| – Ausrich (Note 23) | 19,012 | 19,012 | – |
| | <u>19,012</u> | <u>19,012</u> | <u>6,115</u> |
| Dividends payable to equity holders (Note 23) | <u>–</u> | <u>100,000</u> | <u>–</u> |

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 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| Wages, salaries and allowances | 928 | 1,034 | 1,935 |
| Contributions to pension plans | 21 | 23 | 41 |
| | <u>949</u> | <u>1,057</u> | <u>1,976</u> |

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

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix II does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

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

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

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

Notes:

1. *The audited consolidated net tangible assets attributable to equity holders of the Company as of 31 December 2011 is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company as of 31 December 2011, as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus with an adjustment for intangible assets of RMB29.2 million.*
2. *The estimated net proceeds from the Share Offer are based on the indicative Offer Prices of HK\$1.01 and HK\$1.52 per share, being the lower end to higher end of the stated offer price range, after deduction of the underwriting fees and related expenses payable by our Company and takes no account of any shares which may be allotted and issued upon the exercise of the Over-allotment Option or any shares which may be issued upon the exercise of the options granted or to be granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate.*
3. *The unaudited pro forma adjusted net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis of 720,871,584 Shares are in issue assuming that the Share Offer and the Capitalisation Issue have been completed on 31 December 2011, but takes no account of any shares which may be allotted and issued upon the exercise of the Over-allotment Option or any shares which may be issued upon the exercise of the options granted or to be granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate.*
4. *By comparing the valuation of our Group's property interests of RMB90.3 million as set out in Appendix III to this Prospectus and the unaudited net book value of these properties as of 29 February 2012, the net revaluation surplus is approximately RMB13.2 million, which has not been included in the above net tangible assets attributable to equity holders of the Company as of 31 December 2011. The revaluation of the Group's property interests will not be incorporated in the Group's financial information. If the revaluation surplus is to be included in the Group's financial information, an additional depreciation charge of approximately RMB1.8 million per annum relating to the property interests would be recorded.*
5. *No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2011.*
6. *For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at a rate of RMB1.00 to HK\$1.2311. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.*

**B. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED
PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Prospectus.



羅兵咸永道

**ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL
INFORMATION TO THE DIRECTORS OF CHINA ZHONGSHENG RESOURCES
HOLDINGS LIMITED**

We report on the unaudited pro forma financial information of China Zhongsheng Resources Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages II-1 to II-2 under the heading of “Unaudited Pro Forma Statement of Adjusted Net Tangible Assets” (the “Unaudited Pro Forma Financial Information”) in Appendix II of the Company’s prospectus dated 17 April 2012 (the “Prospectus”), in connection with the proposed initial public offering of the shares of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed initial public offering might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-2 of the Prospectus.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited consolidated net assets of the Group as at 31 December 2011 with the accountant’s report as set out in Appendix I of the Prospectus, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the adjusted net tangible assets of the Group as at 31 December 2011 or any future date.

OPINION

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 17 April 2012

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 29 February 2012 of the property interests of the Group.



Jones Lang LaSalle Corporate Appraisal and Advisory Limited
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No: C-030171

17 April 2012

The Board of Directors
China Zhongsheng Resources Holdings Limited

Dear Sirs,

In accordance with your instructions to value the properties in which China Zhongsheng Resources Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC") and Australia, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 29 February 2012 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Due to the nature of the buildings and structures of Part A of property in Group I and the particular location in which it is situated, there are unlikely to be relevant market comparables sales readily available. The property interest has therefore been valued on the basis of its depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

In valuing the property interest Part B of property no. 1 in Group I which is currently under construction as at the date of valuation, we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction cost and professional fees relevant to the stage of construction as at the date of valuation and remained of the cost and fees to be expended to complete the development.

We have attributed no commercial value to the property interests in Group II & III, which is leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including Collectively-owned Land Use Rights Certificates, Building Ownership Certificates, and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers – Dacheng Law Offices, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

The site inspection was carried out during the period from 8 June 2011 to 1 September 2011 by Mr. Gilbert C.H. Chan.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Gilbert C.H. Chan
MRICS MHKIS RPS(GP)
Director

Note: Gilbert C.H. Chan is a Chartered Surveyor who has 20 years' experience in the valuation of properties in Hong Kong and 19 years of property valuation experience in the PRC as well as relevant experience in the Asia-Pacific region and Australia.

SUMMARY OF VALUES

Group I – Property interests held and occupied by the Group in the PRC

| No. Property | Capital value in existing state as at 29 February 2012 RMB |
|--|---|
| 1. 4 parcels of land, various buildings and structures located at Qinjiazhuang Village (秦家莊村) Yangzhuang Town Yishui County Linyi City Shandong Province the PRC | 90,300,000 |
| Sub-total: | <u>90,300,000</u> |

Group II – Property interests rented and occupied by the Group in the PRC

| No. Property | Capital value in existing state as at 29 February 2012 RMB |
|--|---|
| 2. A parcel of land located at Gongdanshan Village (汞丹山村) Yishui County Linyi City Shandong Province the PRC | No commercial value |
| 3. A parcel of land located at Gaojialouzi Village (高家樓子村) Yishui County Linyi City Shandong Province the PRC | No commercial value |

| No. Property | Capital value in existing state as at 29 February 2012 RMB |
|---|---|
| 4. 6 parcels of land located at Qinjiazhuang Village (秦家莊村) Yishui County Linyi City Shandong Province the PRC | No commercial value |
| 5. 2 parcels of land located at Shuiniu Village (水牛村) Yishui County Linyi City Shandong Province the PRC | No commercial value |
| | Sub-total: _____ Nil |

Group III – Property interest rented and occupied by the Group in Australia

| No. Property | Capital value in existing state as at 29 February 2012 RMB |
|---|---|
| 6. Level 1 GDA Corporate 681 Murray Street West Perth Australia | No commercial value |
| | Sub-total: _____ Nil |
| | Grand total: _____ 90,300,000 |

VALUATION CERTIFICATE

Group I – Property interests held and occupied by the Group in the PRC

| No. | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 29 February 2012 RMB |
|-----|---|--|--|---|
| 1. | 4 parcels of land, various buildings and structures located at Qinjiazhuang Village (秦家莊村) Yangzhuang Town Yishui County Linyi City Shandong Province the PRC | <p>The property comprises 4 parcels of land with a total site area of approximately 28,426 sq.m. and 9 buildings, 2 processing facilities (known as nos. 2 and 3 Processing Facilities), 13 temporary buildings (one of which is known as no. 1 Processing Facility) and ancillary structures erected thereon which were completed in various stages between 2001 and 2011. ("Part A")</p> <p>The buildings mainly include office buildings, dormitories, a canteen and ancillary buildings. The buildings have a total gross floor area of approximately 3,176.28 sq.m.</p> <p>The nos. 2 and 3 Processing Facilities have a gross floor area of approximately 3,000 sq.m. and 44,000 sq.m. respectively.</p> <p>The 13 temporary buildings have a total gross floor area of approximately 2,604 sq.m.</p> <p>The structures mainly include roads, pipes, green area and gates.</p> <p>The property also comprise structures of processing facilities works which was being constructed on the parcels of land of the property as at the date of valuation (the "CIP"). ("Part B")</p> <p>As advised, the CIP is scheduled to be completed by the end of 2012. The total construction cost is estimated to be approximately RMB8,000,000 (excluding machinery and equipment costs), of which about RMB6,505,000 has been incurred as at the date of valuation.</p> <p>The land use rights of the property have been leased of a collectively-owned land for a term expiring on 29 December 2036 for industrial use.</p> | The property is currently occupied by the Group for mining processing, office and staff quarters purposes. | 90,300,000 100% interest attributable to the Group: RMB90,300,000 |

Notes:

1. Pursuant to 4 Collectively-owned Construction Land Use Rights Circulation Contracts (集體建設用地使用權流轉合同) – Yangzhuang LZ-2006-1, Yangzhuang LZ-2006-2, Yangzhuang LZ-2006-3, LZ-2006-4, all dated 29 November 2006, the total land area of approximately 28,426 sq.m. were leased from Yishui County Yangzhuang Town Qinjiazhuang Villagers Committee (沂水縣楊莊鎮秦家莊村民委員會) to Shandong Ishine Mining Industry Co. Ltd. (“Shandong Ishine”) (山東興盛礦業有限責任公司), an indirect wholly-owned subsidiary of the Company (formerly known as Shandong Ishine Mining Industry Group Ltd. (山東興盛礦業集團有限公司)), for a term of 30 years commencing from 29 December 2006 and expiration on 19 December 2036 at total rental of RMB42,639 per annum for industrial use.
2. Pursuant to 4 Collectively-owned Land Use Rights Certificates – Yi Ji Yong (2008) Di Nos. 010, 011, 012 and 013 all dated 4 August 2008 issued by Yishui County Land Resources Bureau, the land use rights of the property were leased from Collective Villagers of Yangzhuang Town Qinjiazhuang (楊莊鎮秦家莊村農民集體) to Shandong Ishine (formerly known as Shandong Ishine Mining Industry Corporation (山東興盛礦業股份有限公司)), a wholly-owned subsidiary of the Company, for a term expiring on 29 December 2036 for industrial use.
3. Pursuant to 2 Building Ownership Certificates – Fang Quan Zheng Yi Zi Di No. 2008-07004 and 298710045, 9 buildings with a total gross floor area of approximately 3,176.28 sq.m. are held by Shandong Ishine.
4. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. According to Linyi City Management Rules on Circulation of Collectively-owned Construction Land Use Rights 《臨沂市集體建設用地使用權流轉管理暫行辦法》 Lin Zheng Fa No. (2005) 44(臨政發(2005)44號), Shandong Ishine has obtained Collectively-owned Land Use Rights Certificates legally and valid and has right to use, transfer, lease, mortgage or otherwise dispose of the property in accordance with the relevant laws;
 - b. According to the abovementioned Land rules, it is not a pre-requisite requirement for the nature of the land use rights to be changed from Collectively-owned to State-owned for Shandong Ishine to transfer, lease, capital contribution of land, co-operating/construction or mortgage. Shandong Ishine can further circulate the land (including transfer or mortgage etc.), without the pre-requisite requirement to change the nature of land use rights from Collectively-owned to State-owned in advance and it applies to the buildings as well;
 - c. For the no. 1 Processing Facility, it is a temporary building on a parcel of land under Yi Ji Yong (2008) Di No. 010, mainly used for storage of spare parts and steel/carbon as a non production facility. Shandong Ishine has applied for the Temporary Construction Works Planning Permit for the no. 1 Processing Facility together with the remaining 12 temporary buildings from Yishui County Bureau of Housing and Urban Rural Construction (沂水縣住房和城鄉建設局);
 - d. In accordance to Linyishi City Planning Regulation of Urban and Rural (臨沂市城鄉規劃管理辦法), the confirmation letter from Yishui County Bureau of Housing and Urban Rural Construction, Shandong Ishine can occupy and use the temporary buildings but exclude of sales, exchange, lease, transfer, donate or change the use of unauthorized nature;
 - e. As confirmed by Shandong Ishine and properly reviewed by the legal advisers, the legal advisers have not discovered any notice or order which may affect the Collectively-owned Land Use Rights or Building Ownership Rights of the property;
 - f. As confirmed by Yishui County Bureau of Housing and Urban Rural Construction, the no. 1 Processing Facility is categorized as temporary buildings and not required to obtain Building Ownership Certificates;
 - g. As confirmed by Yishui County Office of Real Estate Management (沂水縣房地產管理辦公室), the Processing Facilities of nos. 2 and 3 are categorized as simple shelter structures and not required to obtain Building Ownership Certificates; and
 - h. The property is not subject to mortgage, sequestration and any other encumbrances as at the date of valuation.

5. *The property contributes a significant portion of revenue to the Group, we are of the view that the property is the material property held by the Group:*

Details of the material property

- (a) *General description of location of the property* : *Qinjiashuang Village is located at Yangzhuang Town, 50 km from the northern Yishui County near Linyi City and Weifang City. It is abutted to the Qingnan Highway which connected Jinan City and Qingdao City.*
- (b) *Details of encumbrances, liens, pledges, mortgages against the property* : *Nil*
- (c) *Environmental Issue* : *There is no environmental issue, such as breach of environmental regulations for the use of the property as at the latest practicable.*
- (d) *Details of investigations, notices, pending litigation, breaches of law or title defects* : *Nil*
- (e) *Future plans for construction, renovation, improvement or development of the property* : *As advised by the Company, there is no present intention to significantly further develop the CIP in the next 12 months from the date of this document.*

VALUATION CERTIFICATE

Group II – Property interests rented and occupied by the Group in the PRC

| No. | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 29 February 2012 RMB |
|-----|---|--|--|---|
| 2. | A parcel of land located at Gongdanshan Village (汞丹山村) Yangzhuang Town Yishui County Linyi City Shandong Province the PRC | The property comprises a parcel of land with a site area of approximately 3 Mu (2,000 sq.m.), which is a mine site. Pursuant to a Land Use Framework Agreement (土地使用框架協議) and Collectively-owned Land Lease Agreement (集體土地租賃協議) made between Shandong Ishine Mining Industry Co. Ltd. (“Shandong Ishine”) (山東興盛礦業有限責任公司), an indirect wholly-owned subsidiary of the Company, as Lessee and Yishui County Yangzhuang Town Gongdanshan Villagers Committee (沂水縣楊莊鎮汞丹山村民委員會) as Lessor, an Independent Third Party, the property is leased by the Group for a term of 2 years commencing from 31 August 2011 and expiring on 30 August 2013 at a rental of RMB15,000 per annum, at the end of the lease, the parties, through negotiation, can enter into a supplementary agreement to extend the lease. | The property is currently occupied by the Group for mining excavation purpose. | No commercial value |

Notes:

1. Pursuant to the Approval Regarding the Short-term Land Use Rights of Shandong Ishine at Yangzhuang Iron Mine (關於同意山東興盛礦業有限責任公司楊莊鐵礦臨時用地的批復) – Yi Guo Tu Zi Lin (沂國土資臨) (2011) No. 60 dated 31 August 2011, the land use rights of temporary construction was granted to Shandong Ishine for a term of 2 years for mining excavation use.
2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. The villagers' committee is the legal owner of the property, and has right to lease out the property;
 - b. The Land Use Framework Agreement and Collectively-owned Land Lease Agreement (“the Agreements”) are valid, legally binding and enforceable;
 - c. The Agreements have not been registered with relevant authority, however, PRC Laws do not require the Agreements to be registered. For the avoidance of doubt, Shandong Ishine filed a record with Yishui County Land Resources Bureau; and
 - d. The Agreements have obtained the consent of more than 2/3 of villagers' representatives which is legal and valid in accordance with the Land Management Law.

3. *Major operation of the Group is carried out in the property, we are of the view that the property is the material property held by the Group:*

Details of the material property

- (a) *General description of location of the property* : *Gongdanshan Village is located at Yangzhuang Town, 50 km from the northern Yishui County and the neighbouring cities are Linyi City and Weifang City. It is opposite to Qinjiazhuang Village and near the Gongdan Mountain.*
- (b) *Details of encumbrances, liens, pledges, mortgages against the property* : *Nil*
- (c) *Environmental Issue* : *There is no environmental issue, such as breach of environmental regulations for the use of the property as at the latest practicable.*
- (d) *Details of investigations, notices, pending litigation, breaches of law or title defects* : *Nil*
- (e) *Future plans for construction, renovation, improvement or development of the property* : *As advised by the Company, there is no plan for new major development in the next 12 months from the date of this document.*

VALUATION CERTIFICATE

| No. | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 29 February 2012 RMB |
|-----|--|---|--|---|
| 3. | A parcel of land located at Gaojialouzi Village (高家樓子村) Yangzhuang Town Yishui County Linyi City Shandong Province the PRC | The property comprises a parcel of land with a site area of approximately 4 Mu (2,666.7 sq.m.), which is a mine site. Pursuant to a Land Use Framework Agreement (土地使用框架協議) and Collectively-owned Land Lease Agreement (集體土地租賃協議) made between Shandong Ishine Mining Industry Co., Ltd. ("Shandong Ishine") (山東興盛礦業有限責任公司), an indirect wholly-owned subsidiary of the Company, as Lessee and Yishui County Gaojialouzi Villagers Committee (沂水縣高家樓子村村民委員會) as Lessor, an Independent Third Party, the property is leased by the Group for a term of 2 years commencing from 31 August 2011 and expiring on 30 August 2013 at a rental of RMB20,000 per annum, at the end of the lease, the parties, through negotiation, can enter into a supplementary agreement to extend the lease. | The property is currently occupied by the Group for mining excavation purpose. | No commercial value |

Notes:

1. Pursuant to the Approval Regarding the Short-term Land Use Rights of Shandong Ishine at Yangzhuang Iron Mine (關於同意山東興盛礦業有限責任公司楊莊鐵礦臨時用地的批復) – Yi Guo Tu Zi Lin (沂國土資臨) (2011) No. 60 dated 31 August 2011, the land use rights of temporary construction was granted to Shandong Ishine for a term of 2 years for mining excavation use.
2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. The villagers' committee is the legal owner of the property, and has right to lease out the property;
 - b. The Land Use Framework Agreement and Collectively-owned Land Lease Agreement ("the Agreements") are valid, legally binding and enforceable;
 - c. The Agreements have not been registered with relevant authority, however, PRC Laws do not require the Agreements to be registered. For the avoidance of doubt, Shandong Ishine filed a record with Yishui County Land Resources Bureau; and
 - d. The Agreements have obtained the consent of more than 2/3 of villagers' representatives which is legal and valid in accordance with the Land Management Law.

3. *Major operation of the Group is carried out in the property, we are of the view that the property is the material property held by the Group:*

Details of the material property

- (a) *General description of location of the property* : *Gaojialouzi Village is located at Yangzhuang Town, 50 km from the northern Yishui County and the neighbouring cities are Linyi City and Weifang City. It is abutted to the Qingnan Highway which connected Jinan City and Qingdao City and at north-east side of Gongdanshan Village.*
- (b) *Details of encumbrances, liens, pledges, mortgages against the property* : *Nil*
- (c) *Environmental Issue* : *There is no environmental issue, such as breach of environmental regulations for the use of the property as at the latest practicable.*
- (d) *Details of investigations, notices, pending litigation, breaches of law or title defects* : *Nil*
- (e) *Future plans for construction, renovation, improvement or development of the property* : *As advised by the Company, there is no plan for new major development in the next 12 months from the date of this document.*

VALUATION CERTIFICATE

| No. | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 29 February 2012 RMB |
|-----|---|--|--|---|
| 4. | 6 parcels of land located at Qinjiazhuang Village (秦家莊村) Yangzhuang Town Yishui County Linyi City Shandong Province the PRC | <p>The property comprises 6 parcels of land with a total site area of approximately 460.4 Mu (306,934.8 sq.m.), which is a mine site.</p> <p>Pursuant to a Land Use Framework Agreement (土地使用框架協議) and Collectively-owned Land Lease Agreement (集體土地租賃協議) made between Shandong Ishine Mining Industry Co. Ltd. (“Shandong Ishine”) (山東興盛礦業有限責任公司), an indirect wholly-owned subsidiary of the Company, as Lessee and Yishui County Yangzhuang Town Qinjiazhuang Villagers Committee (沂水縣楊莊鎮秦家莊村民委員會) as Lessor, an Independent Third Party, the property is leased by the Group for a term of 2 years commencing from 31 August 2011 and expiring on 30 August 2013 at a total rental of RMB2,300,200 per annum, at the end of the lease, the parties, through negotiation, can enter into a supplementary agreement to extend the lease.</p> | The property is currently occupied by the Group for mining excavation and tailings storage purposes. | No commercial value |

Notes:

1. Pursuant to the Approval Regarding the Short-term Land Use Rights of Shandong Ishine at Yangzhuang Iron Mine (關於同意山東興盛礦業有限責任公司楊莊鐵礦臨時用地的批復) – Yi Guo Tu Zi Lin (沂國土資臨) (2011) No. 60 dated 31 August 2011, the land use rights of temporary construction was granted to Shandong Ishine for a term of 2 years for mining excavation and tailings storage uses.
2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. The villagers’ committee is the legal owner of the property, and has right to lease out the property;
 - b. The Land Use Framework Agreement and Collectively-owned Land Lease Agreement (“the Agreements”) are valid, legally binding and enforceable;
 - c. The Agreements have not been registered with relevant authority, however, PRC Laws do not require the Agreements to be registered. For the avoidance of doubt, Shandong Ishine filed a record with Yishui County Land Resources Bureau; and
 - d. The Agreements have obtained the consent of more than 2/3 of villagers’ representatives which is legal and valid in accordance with the Land Management Law.

3. *Major operation of the Group is carried out in the property, we are of the view that the property is the material property held by the Group:*

Details of the material property

- (a) *General description of location of the property* : *Qinjiashuang Village is located at Yangzhuang Town, 50 km from the northern Yishui County and the neighbouring cities are Linyi City and Weifang City. It is abutted to the Qingnan Highway which connected Jinan City and Qingdao City.*
- (b) *Details of encumbrances, liens, pledges, mortgages against the property* : *Nil*
- (c) *Environmental Issue* : *There is no environmental issue, such as breach of environmental regulations for the use of the property as at the latest practicable.*
- (d) *Details of investigations, notices, pending litigation, breaches of law or title defects* : *Nil*
- (e) *Future plans for construction, renovation, improvement or development of the property* : *As advised by the Company, there is no plan for new major development in the next 12 months from the date of this document.*

VALUATION CERTIFICATE

| No. | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 29 February 2012 RMB |
|-----|---|--|--|---|
| 5. | 2 parcels of land located at Shuiniu Village (水牛村) Yangzhuang Town Yishui County Linyi City Shandong Province the PRC | <p>The property comprises 2 parcels of land with a total site area of approximately 129.7 Mu (86,467.1 sq.m.), which is a mine site.</p> <p>Pursuant to a Land Use Framework Agreement (土地使用框架協議) and Collectively-owned Land Lease Agreement (集體土地租賃協議) made between Shandong Ishine Mining Industry Co. Ltd. ("Shandong Ishine") (山東興盛礦業有限責任公司), an indirect wholly-owned subsidiary of the Company, as Lessee and Yishui County Yangzhuang Town Shuiniu Villagers Committee (沂水縣楊莊鎮水牛村民委員會) as Lessor, an Independent Third Party, the property is leased by the Group for a term of 2 years commencing from 31 August 2011 and expiring on 30 August 2013 at a total rental of RMB648,500 per annum at the end of the lease, the parties, through negotiation, can enter into a supplementary agreement to extend the lease.</p> | The property is currently occupied by the Group for mining excavation and tailings storage purposes. | No commercial value |

Notes:

1. Pursuant to the Approval Regarding the Short-term Land Use Rights of Shandong Ishine at Yangzhuang Iron Mine (關於同意山東興盛礦業有限責任公司楊莊鐵礦臨時用地的批復) – Yi Guo Tu Zi Lin (沂國土資臨) (2011) No. 60 dated 31 August 2011, the land use rights of temporary construction was granted to Shandong Ishine for a term of 2 years for mining excavation and tailings storage uses.
2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. The villagers' committee is the legal owner of the property, and has right to lease out the property;
 - b. The Land Use Framework Agreement and Collectively-owned Land Lease Agreement ("the Agreements") are valid, legally binding and enforceable;
 - c. The Agreements have not been registered with relevant authority, however, PRC Laws do not require the Agreements to be registered. For the avoidance of doubt, Shandong Ishine filed a record with Yishui County Land Resources Bureau; and
 - d. The Agreements have obtained the consent of more than 2/3 of villagers' representatives which is legal and valid in accordance with the Land Management Law.

3. *Major operation of the Group is carried out in the property, we are of the view that the property is the material property held by the Group:*

Details of the material property

- (a) *General description of location of the property* : *Shuiniu Village is located at Yangzhuang Town, 50 km from the northern Yishui County and the neighbouring cities are Linyi City and Weifang City. It is next to Qinjiazhuang Village and Shaoqinjazhuang Village.*
- (b) *Details of encumbrances, liens, pledges, mortgages against the property* : *Nil*
- (c) *Environmental Issue* : *There is no environmental issue, such as breach of environmental regulations for the use of the property as at the latest practicable.*
- (d) *Details of investigations, notices, pending litigation, breaches of law or title defects* : *Nil*
- (e) *Future plans for construction, renovation, improvement or development of the property* : *As advised by the Company, there is no plan for new major development in the next 12 months from the date of this document.*

VALUATION CERTIFICATE

Group III – Property interests rented and occupied by the Group in Australia

| No. | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 29 February 2012 RMB |
|-----|---|--|---|---|
| 6. | Levels 1 and 2 GDA Corporate 1187 Hay Street West Perth Australia | <p>The property comprises whole floor on Levels 1 and 2 with 5 parking bays of a 3-storey commercial building completed in 2000s.</p> <p>The property has a gross floor area of approximately 301 sq.m.</p> <p>Pursuant to a Tenancy Agreement and Car Parking Licence Agreement both dated 25 October 2011 made between Ishine International Resources Limited, an indirect wholly-owned subsidiary of the Company, as Lessee and Dartford Holdings Pty Ltd. as Lessor, an Independent Third Party, the property is leased by the Group for a term of 3 years commencing from 1 October 2011 and expiring on 30 September 2014 at a rental of AUD94,815 per annum with an option to renew 2 years exclusive of other outgoing expenses.</p> | The property is currently occupied by the Group for office purpose. | No commercial value |

Note:

1. *The registered owner of the property is Dartford Holdings Pty Ltd.*
2. *We have been provided with a legal opinion regarding the property interest by the Company's Australia legal advisers, which contains, inter alia, the following:*
 - a. *The Company has entered into a lease agreement dated 25 October 2011 for the property of its principal place of business in West Perth;*
 - b. *The Company has also entered into a car parking licence agreement with Dartford Holdings Pty Ltd, an Independent Third Party, dated 25 October 2011 which allows the Company the use of 5 parking bays for as long as the Company leases the property; and*
 - c. *The tenancy agreement and licence agreement have been duly executed, and to the best of our knowledge constitute valid and binding agreements.*

Resource and Reserve Estimation
For
Yang Zhuang Iron Project,
Shandong Province, People’s Republic of China
For
China Zhongsheng Resources Holdings Limited



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Jones Lang LaSalle Corporate Appraisal and Advisory Limited
仲量聯行企業評估及諮詢有限公司

Prepared by
MICROMINE PROPRIETARY LIMITED
17 April 2012

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1 EXECUTIVE SUMMARY

China Zhongsheng Resources Holdings Limited (together with its subsidiaries, “Shandong Xingsheng Mining Company Limited” or “the Client”) commissioned Micromine Consulting Services (“MCS”, a division of Micromine Proprietary Limited) in January of 2011 to complete a JORC standard reporting guidelines compliant resource and reserve estimation report for the Yang Zhuang Iron Project (“the Project”), located in Shandong province, People’s Republic of China. MCS contracted the writing of several sections of the report that had no material bearing on the resource and reserve estimate result to Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLL”). JLL compiled the database for the project that was subsequently validated by MCS. The JORC standard reporting guidelines compliant resource and reserve estimation report would be used for a submission to the Stock Exchange of Hong Kong Limited (“HKEx”) and would conform to the Chapter 18 requirements of the exchange.

This report updates a resource and reserve estimation completed by MCS in June 2011. The client again commissioned MCS in September of 2011 to complete an update of the reserve estimation for the project due to the changes in modifying factor information. These included increased production capacity and decreased capital costs. The previous resource estimate has remained unchanged while the reserve estimate has been updated. The effective date of this report is the 17th April 2012.

The Yang Zhuang iron mine is located 4 km north-west of Yangzhuang village, Yishui County, Shandong Province, Peoples Republic of China.

Shandong Xingsheng Mining Company Limited applied for the exploration and mining licenses for the Yangzhuang Iron Ore district in September, 2002. The current exploration licence T37120080802012961 is valid from 4th January 2011 to 31st December 2012. The current mining permit C3700002008082120000682 has an area of 3.9093 km² and is valid from 20th June 2011 to 20th June 2019. Licences and permits were issued by the Shandong Provincial Bureau of Land and Mineral Resources.

The project started in 2001 under private ownership and has been owned by Shandong Xingsheng Mining Company Limited since 2002. Production from the deposit started in 2002 with mining from the open pit at a rate of 500 tonnes per annum. Since 2005, mining has occurred by open pit and underground methods producing up to 1.5 million tonnes of iron ore per annum. All current production is by underground methods from the Gongdanshan block in the south and the Eshan block in the north. Both ore blocks are mined independently by short-hole shrinkage stoping, drilling by hammer and breaking down of ore by short-hole. Current exploration methods are by footrill and slope ramp, and there are thirteen production and construction footrill and slope ramps in the mine. Actual capacity of the mine is 2.3 million tonnes per annum with a recovery ratio of 80% and ore dilution of 8%.

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The project area is located in the uplifted Gongdanshan horst part of the Luxi anticline in the Yishui fracture belt. The project consists of three orebodies separated by fault structures. The mineralisation is weakly magnetic and consists of magnetite-amphibole-quartz rock and magnetite-quartz-amphibolites. The main component is magnetite with minor pyrrhotite, pyrite, chalcopyrite and arsenopyrite.

Mr. David Allmark (MCS geologist) was Competent Person (as defined by the JORC guidelines) for the preparation of this Report. Mr. David Allmark visited the site between the 2nd and 6th of March 2011 accompanied by Mr. Jeff Zhang of MCS, Ms. Annie Zhang and Mr. Jack Li of JLL. MCS checked the site layout and verified the provided data and visited the laboratory used for the primary analytical work. MCS used the client's GPS unit to locate the collar positions of four holes and found the coordinates in the database were within 5 metres of the coordinates located from the GPS, an acceptable result. The core for each interval of four holes was checked against the original drillhole logs (supplied by the client for the site visit) and the assays for the intervals. MCS found that the geology, mineralisation and approximate grade of each interval inspected matched the geology and mineralisation that had previously been logged.

The deposit is a metamorphic iron silica formation of sedimentary and metamorphic origin. The Yang Zhuang iron ore is weakly magnetic and consists of magnetite-amphibole-quartz rock and magnetite-quartz-amphibolites. The main component is magnetite with minor pyrrhotite, pyrite, chalcopyrite and arsenopyrite. Gangue minerals include quartz, amphibole, anorthite and biotite which form a granular blastic texture with some massive parts.

The main beneficial commodity is iron but there are trace elements of gold and silver. For the iron ore, the major deleterious elements are sulphur and phosphorous, which are both considered low in this deposit.

The deposit was originally explored along exploration lines spaced between 180 metres and up to 270 metres apart. The distance is highly variable and the average is around 230 metres. A few lines were then infilled to approximately 100 m spacing in the later phases of exploration. A total of 40 drillholes for 13,697.6 metres were drilled between 2005 and 2008. All drilling was carried out by the No. 8 Exploration Institute of Geology and Mineral Resources using Jiang Tan XY-4 drill rigs. These drill rigs used 3 metre rods and were capable of drilling to depths of 1,000 metres. The drill rigs produced NQ size core with a drilling diameter of 91 mm at the top of the hole in the weathered rock and then to 75 mm to hole completion.

Drillholes from the surface were generally vertical or inclined steeply at around 80 degrees. Downhole surveys were performed every 50 m downhole, and at orebody contacts using XJL-42 and JXY-2 electronic inclinometers.

Core recovery data was recorded for a total of 35 drillholes. Linear core recovered length was 11,787.5 metres against 12,179.8 metres where core recovery was recorded. The mean drill hole core recovery was 96.34%. Core recovery was acceptable.

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A total of 30 underground adits and 8 trenches were excavated. All trenches and adits were orientated approximately 120 degrees (north-west to south-east) and ranged in length from 9.8 metres to 38.1 metres. All were sampled as continuous channel samples taken from the base of the trench or adit on the northern face.

The primary laboratory for the project was the laboratory of the Shandong No. 8 Exploration Institute of Geology and Mineral Resources, in Rizhao city, Shandong province. The laboratory was inspected by Mr. David Allmark and Mr. Jeff Zhang of MCS accompanied by Mr. Jack Li and Ms. Annie Zhang of JLL with Mr. Liu Jiazhao, the Manager of the Shandong No. 8 Exploration Institute of Geology and Mineral Resources on 5th March 2011. MCS observed that the laboratory hygiene was of a high standard and the Chinese procedures for sample preparation and analysis were being followed and observed by laboratory staff.

Samples were routinely sent to an umpire laboratory for analysis to establish if a baseline difference in reportable grades existed between the primary No. 8 Exploration Institute laboratory in Rizhao city, Shandong province and an independent laboratory. The external independent laboratory was the Laboratory of the Shandong Province Experimental Institute of Geological Sciences located in Jinan city, Shandong province. There is no significant assay bias present between the results of the two laboratories at different grade cut-offs.

Assay precision for TFe was $\pm 0.42\%$. Assay precision for mFe was $\pm 1.10\%$. The number of samples taken for the repeat analysis is representative of the population (4.0%). Assay precision for both TFe and mFe is strong.

The data was provided to MCS by Shandong Xingsheng Mining Company Limited (the client) on 11th and 20th January 2011. The final database contained data for drillholes, adits and trenches, 78 in total.

Resource Estimation

A geological cut-off grade of 10.5% TFe was determined from the classical statistical analysis of the data for the Yang Zhuang project. This was used as a trigger value to create grade composites for interpretation. Geological data was used to assist in interpretation of the mineralised envelopes. Interpretation and wireframing was then carried out for all mineralised envelopes over thirty cross-sections.

A balancing cut grade of 38% TFe (at the 97.7 percentile of the cumulative frequency plot) was chosen and applied to all high grade assays in the mineralised envelopes. All samples within the mineralised envelopes were composited to an equal sample interval length before geostatistical analysis and interpolation. A composite length of 2.0 metres was selected as it was the most prevalent interval length in the dataset.

Empty block models were created and TFe, mFe grades and SG data was interpolated into the blocks. Geostatistical analysis was undertaken for TFe and mFe and used as input into the ordinary kriging algorithm which was used for interpolation into the block model.

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QA/QC data supplied and obtained from the site visit was moderate to high in quality and resources were classified for Measured, Indicated and Inferred categories. For Measured Resources, a minimum of two samples from two holes were within a radius of 120 m. For Indicated Resources, this radius was 220 m. All other blocks within the model were categorised as Inferred Resources.

The resources reported for the Yang Zhuang iron deposit are total remaining resources, with the previously mined areas (as indicated by the client) removed.

The MCS underground mining study determined an iron ore concentrate production cost of CN¥93.42 per tonne of concentrate. The mining dilution was determined to be 11.1% and processing recovery of mFe was determined to be 92% and the price for the iron concentrate used was CN¥1,390 per tonne. MCS calculated an economic cut-off grade for mFe to be 8.1% using the following calculation:

$$\text{Economic cut-off grade} = (\text{CN¥}93.42 * 1.11) / (92\% * \text{CN¥}1,390).$$

Resources are reported above an economic cut-off grade of 15% TFe, applying a balancing cut of 38% TFe (Table 1-1).

Table 1-1: Resource statement for the Yang Zhuang iron deposit

| Resource Category | Volume (m³) | Tonnes (t) | SG (t/m³) | TFe (%) | mFe (%) |
|---|-----------------------------------|--------------------------|---------------------------------|--------------------|--------------------|
| Measured | 5,599,000 | 18,218,000 | 3.25 | 26.23 | 11.72 |
| Indicated | <u>16,232,000</u> | <u>52,753,000</u> | 3.25 | 26.81 | 10.66 |
| Total Measured and Indicated | 21,831,000 | 70,971,000 | 3.25 | 26.66 | 10.93 |
| Inferred | <u>5,530,000</u> | <u>17,791,000</u> | 3.22 | 24.60 | 8.79 |
| Total resource | <u><u>27,361,000</u></u> | <u><u>88,762,000</u></u> | 3.24 | 26.25 | 10.50 |

Note: Numbers have been rounded to reflect that the resources are an estimate. As such the numbers may not total to an equal amount.

Additional resource potential exists at depth along the length of the orebody and in the deepest parts in the southern part of orebody 1. There is also resource potential along strike of at both ends of both orebodies, where mineralisation has not been adequately defined and in parts remains open.

Mining Study

Two underground mining methods are suitable for the deposit; the sublevel caving method and the short hole shrinkage method.

The reserves for the project were determined using the short hole shrinkage method to create ore blocks from the wireframes.

The MCS reserve statement (**current Reserve as of November 2011**) for the Yang Zhuang deposit is shown in Table 1-2.

Table 1-2: Total Reserve for the Yang Zhuang deposit, November 2011

| Reserve Classification | Ore Tonnes (Mt) | Grade TFe (%) | Grade mFe (%) | Contained TFe (Mt) | Contained mFe (Mt) |
|-------------------------------|----------------------------|--------------------------|--------------------------|-------------------------------|-------------------------------|
| Proved | 11.00 | 24.17% | 11.68% | 2.66 | 1.28 |
| Probable | <u>32.94</u> | 24.72% | 10.26% | <u>8.14</u> | <u>3.38</u> |
| Total | <u><u>43.93</u></u> | 24.58% | 10.61% | <u><u>10.80</u></u> | <u><u>4.66</u></u> |

Note 1: Numbers have been rounded to reflect that the reserves are an estimate. As such the numbers may not total to an equal amount.

Note 2: Contained TFe and mFe does not imply that all the TFe and mFe can be recovered. Processing recovery has not been accounted for in the calculation.

The project has an estimated mine life of 13.2 years.

MCS recommends that pilot-scale mineral processing testwork be carried out to determine the true recovery rates for the particular ores, processing equipment and design parameters of this project. Based on the results of processing testwork recovery rates may need to be revised either upwards or downwards.

Respectfully submitted

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and Advisory Limited**

2 INTRODUCTION

China Zhongsheng Resources Holdings Limited (together with its subsidiaries, “Shandong Xingsheng Mining Company Limited” or “the Client”) commissioned Micromine Consulting Services (“MCS”, a division of Micromine Proprietary Limited) in January of 2011 to complete a JORC standard reporting guidelines compliant resource and reserve estimation report for the Yang Zhuang Iron Project (“the Project”), located in Shandong province, People’s Republic of China. MCS contracted the writing of several sections of the report that had no material bearing on the resource and reserve estimate result to Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLL”). The JORC standard reporting guidelines compliant resource and reserve estimation report would be used for a submission to the stock exchange of Hong Kong and would conform to the Chapter 18 requirements of the exchange.

The competent person for the project, Mr. David Allmark, visited the site between the 2nd and 6th of March 2011 accompanied by Mr. Jeff Zhang of MCS, Ms. Annie Zhang and Mr. Jack Li of JLL. MCS checked the site layout and verified the provided data and visited the laboratory used for the primary analytical work.

The final technical report was compiled by the competent person, Mr. David Allmark of MCS. Mr. David Allmark completed the data validation, classical statistical analysis, sectional interpretation and wireframing, resource estimation, resource categorisation and the project management. Reserve estimation was conducted by mining engineer Mr. Tony Cameron of Micromine Pty Ltd. Compilation of report sections for Location and Transport, Regional Geology and Project History were provided by the JLL team led by Mr. Simon Chan and assisted by Annie Zhang of JLL. Technical translation and liaison with the client was conducted by Mr. Jeff Zhang of MCS. The project was supervised by MCS General Manager Mr. Dean O’Keefe.

The Client again commissioned MCS in September of 2011 to complete an update of the reserve estimation for the project due to the changes in modifying factor information. The mining production capacity was increased, the mine life was reduced, capital costs were decreased and mining and processing costs were decreased. This report contains the updated and current reserve estimate for the project.

A glossary of terms and abbreviations is listed in Appendix 3.

2.1 Scope of Work

The primary objective of this study was to produce a JORC standard reporting guidelines compliant resource and reserve estimation report for the Yang Zhuang Iron Project (“the Project”), located in Shandong province, People’s Republic of China. The specific objectives of the work were as follows:

Resource Estimation

- (1) Import of topographical, analytical and geological data into MICROMINE software for data validation, error detection and error elimination, modelling and resource estimation.

- (2) Georeferencing of all available graphical information in 3D.
- (3) Classical statistical analysis of the sampling data to determine possible domains and natural cut-offs.
- (4) Interpretation of mineralised bodies on cross sections and/or plans.
- (5) Wireframe modelling of the interpreted mineralised bodies, topographic surface and, if necessary, geological formations, tectonic elements and oxidation zones.
- (6) Coding and selection of samples for further geostatistical analysis and grade interpolation.
- (7) Classical statistical analysis of selected samples and selection of balancing cut grades.
- (8) Compositing of samples within ore bodies (sample length adjustment).
- (9) Geostatistical analysis of the sampling results and determination of the spatial distribution of the mineralisation.
- (10) Creation of block models restricted by wireframe models.
- (11) Grade interpolation into block models.
- (12) Classification of the resources in accordance with international standards (JORC) and reporting in accordance with Hong Kong stock exchange requirements guidelines.
- (13) Removal of mined out areas.
- (14) Statement of the grade and tonnage at a set of different cut-off grades.

Underground Mining Reserve Estimation, Mine Design and Modifying Factors Assessment

- Conduct underground mine design and scheduling, mining costs and other related parameters.
- MCS to consider all modifying factors and if possible convert resources to reserves and state the reserves. If not possible then MCS will conduct a preliminary assessment based on assumptions and produce potentially economically viable resources. It may not be possible to convert resources to reserves if the modifying factor information is inadequate or lacks detail.

Site Visit and QA/QC Audit

The above work was supplemented by a site verification visit and a QA/QC audit: This included field observations and interviews with responsible personnel to document procedures and methodologies, supported by digital, archive and report data. These data and observations were used in assessing the following QA/QC parameters:

1. Methodology and quality of drilling;
2. Methodology and quality of sampling and assaying;
3. Methodology and quality of drill collar, topographical and downhole positional information;
4. Presence and quality of any procedural or analytical checks and controls;
5. Specific gravity determination methodology.

All findings, conclusions and recommendations are summarised in the Risk Assessment section of this report.

3 LOCATION, ACCESS AND GENERAL INFORMATION

This information is sourced from, Shandong Province Metallurgical Engineering Company Limited (2008), *Preliminary Design of Yangzhuang Iron Deep Mining Project for Shandong Xingsheng Mining Company Limited*.

The Yang Zhuang iron mine is located 4 km north-west of Yangzhuang village, Yishui County, Shandong Province, People's Republic of China (Figure 3-1). The project's geographic coordinate extents are longitude 118°48'00" E to 118°51'00" E and latitude 36°00'30" N to 36°03'30" N. The project covers an area of 6.25 square kilometres.

Transportation infrastructure is satisfactory for the project area. The Yang Lin highway is located 10 km away from the mine district to the west, and there are three railway stations nearby. The Qingzhou station of the Jiaozhou-Jinan railway to the north, the Linyi station of the Yanzhou-Shijiu railway and the Xinyi station of the Longhai railway to the south. The Taixue highway passes to the north of the project area which can be used to access Xuejiadao of Jiaonan county in the east and the Tai'an station of the Beijing-Shanghai railway in the west. The Lanxin Expressway passes through the mining area, and there is a good network of secondary roads.



Figure 3-1: Location of the Yang Zhuang iron project

3.1 Climate and Topography

The project area has a warm temperate continental monsoon climate. Winters are cold and dry, and summers are hot with abundant rain. The mean annual temperature is 13.4 degrees Celsius, and the mean annual rainfall is 880 millimetres, occurring mostly in July to September. The average number of rain days in a year is 85.9. There are long frost-free periods with abundant sunshine. There is a prevailing south-east wind in the spring and summer and a north-west wind in the autumn and winter.

The topography of the area consists of a series of high hills and valleys with many small reservoirs and other water bodies. The terrain is highest in the east, and decreases in relief toward the west. The highest point in the area is Eshan Mountain with an elevation of 491.90 metres ASL and the lowest point is Gongdanshan village with an elevation of 208.80 metres ASL. The Xiuxzhen River runs from the north to the south, one kilometre west of the project area. The volume of water varies with the season and is greatest in summer and autumn.

3.2 Licence Status

The Shandong Xingsheng Mining Company Limited applied for the exploration and mining licenses for the Yangzhuang Iron Ore district in September 2002. The company applied for exploration license number 3700000210414, geological map notation J50E024020. The current licence is number T37120080802012961 valid from 4th January 2011 to 31st December 2012 issued by Shandong Provincial Bureau of Land and Mineral Resources.

The company also applied for a mining permit, licence number C3700002008082120000682, with an area of 3.9093 km² and valid from 20th June 2011 to 20th June 2019 issued by the Shandong Provincial Bureau of Land and Mineral Resources. The current tenement licence is presented in Appendix 1: Tenement Licence Certificate.

4 REGIONAL GEOLOGY

This information is sourced from, Shandong Province Metallurgical Engineering Company Limited (2008), Preliminary Design of Yangzhuang Iron Deep Mining Project for Shandong Xingsheng Mining Company Limited.

The project area is located in the uplifted Gongdanshan horst part of the Luxi anticline in the Yishui fracture belt. The Eastern area is comprised of a basement of Archaean metamorphic rocks from the Yanlingguan formation of the Taishan Group and Shancaoyu Group. The main rock type in the formation is a metamorphic rock of medium to upper amphibolites facies. West of the Yishui-Tangtou fracture, the Mesozoic-Cretaceous Dasheng Group is exposed comprising dark purple sandstone and glauconite sandy shale. The area is structurally complex.

There are several ore deposits in the area such as the Yangzhuang iron ore, Beiguozhang iron, Tianbao ilmenite, Mazhan and Gaoqiao iron ore, Guanzhuang bentonite and large amounts of limestone, dolomite, building stone and river sand.

5 GEOLOGY OF THE TENEMENT AREA

This information is sourced from, Shandong No.8 Exploration Institute of Geology and Mineral Resources (2008), *Yang Zhuang Iron Ore Deposit Detailed Geological Survey Report – Yang Zhuang Mine Surrounding Area and Deeper Location*.

5.1 Stratigraphy

The stratigraphy of the project area consists of the Archaean Liuhang Formation of the Taishan Group and Cainozoic Quaternary unconsolidated sediments.

5.1.1 Archaean

The Liuhang Formation is part of the Taishan Group which is in the Proterozoic Aolaishan monzogranite. It is exposed in the western part of the area, has a defined

contact with the monzogranite, and is parallel to the regional schistosity ranging from 100 to 130 degrees azimuth and 50 to 70 degrees dip. It consists of biotite anorthosite, biotite amphibolites and magnetite quartz amphibolites.

5.1.2 Quaternary

Quaternary unconsolidated sediments are found in low-lying areas and consist of alluvium and colluvium of the Shanqian and Linyi formations.

The Shanqian formation is distributed through low hills and consists of gravelly sandy soil, clayey silt and sandy gravel beds. The Linyi formation is found on the floodplain on both banks of the river system and consists of fine sand, silty clay and gravel.

5.2 Structure

The structure of the area consists of a ductile shear belt and a brittle fracture belt. The ductile shear belt extends from Gongshancun in the south to Eshan in the north for a length of about five kilometres. The belt consists of weak gneissic, medium to fine grained monzonitic granite of the Songshan unit of the Proterozoic Aolaishan unit. The gneissic foliation of the rocks is generally subparallel to the mylonite foliation in the belt. The belt ranges in width from 800 to 1,000 metres. Along the mylonite zones the rocks consist of mica-quartz schist with amphibolite and biotite granulite inclusions and fuchsite-quartz schist. Structures are well developed inside the belt, including abundant s-c fabrics, stretching lineations and asymmetric folds. The foliation penetrates the middle of the shear zone and develops into lamellar-slip cleavages, producing a stratiform appearance similar to sedimentary rock.

Brittle fracture structures within the project area are also well developed with two main fracture sets; the lower Yanglin fracture (F4) of the Qinjiazhuang orebody and the south end of Eshan fracture (F7).

The F4 fracture extends from south of Qinjiazhuang to Xiayanglin for a length of three kilometres. This fracture produces a right, lateral translation in Liuhang Group rocks with a maximum horizontal displacement of around 700 metres.

The F7 fracture occurs at the south end of Eshan. It passes through the orebody and produces a maximum displacement of 70 metres.

5.2.1 Mineralisation

The iron orebody occurs at the top of the Liuhang Formation close to the contact with the Songshan unit. It extends from east of Gongdanshan village in the south, to north of Eshan in the north, for a length of five kilometres. The orebody

is exposed along most of its length at the surface and forms ranges of hills, higher in relief in the northern part. The orebody is divided into three parts by the F4 and F7 fractures known as Orebody 1 (Gongdanshan) and Orebody 2 and Orebody 3 (Eshan) from south to north.

Orebody 1 occurs in the south of the project area and consists of laminate and partly laminated ore. It is the biggest orebody in the area with a length of around 2,300 metres, its northern extent terminated against an F4 fracture. It has a width of 30 to 40 metres on average, and maximum depth of 1,050 metres. The orebody is thickest in the middle and becomes thinner toward both ends. It has a strike of around 30 degrees and dips to the south-east around 50 degrees.

The grade of the orebody ranges from 39.31% TFe (total iron) to 25.10% with an average grade of 31.91%. The iron content of the magnetite (mFe) ranges from 23.30% to 10.50% with an average of 17.24% (Survey Report of Iron Ore in Depth or Periphery in Yangzhuang Mining Area of Yishui County, Shandong Province).

Orebody 2 occurs in the middle of the project and outcrops for around 850 metres. It ranges in width from 7 to 15 metres. The orebody is thicker at both ends compared to the central section. It strikes north-east about 20 degrees and dips to the south-east around 40 degrees.

The grade of the orebody varies from 36.20% TFe to 19.85% with an average of 30.20% TFe. The mFe grade ranges from 22.79% to 12.69% with an average of 17.74%.

Orebody 3 is separated from Orebody 2 by an F7 fracture. It occurs in the north of the project area and is approximately 1,600 metres long, with a thickness of 10 to 15 metres. It trends to the north-east around 20 to 30 degrees and dips to the south-east around 40 degrees.

The TFe grade varies from 37.06% to 23.23% with an average of 30.51%. The mFe grade ranges from 22.75% to 13.51% with an average of 17.41%. The grade is higher closer to the surface than deeper in the deposit.

5.2.2 Mineralisation Type

The Yang Zhuang iron ore is weakly magnetic and consists of magnetite-amphibole-quartz rock and magnetite-quartz-amphibolites. The main component is magnetite with minor pyrrhotite, pyrite, chalcopyrite and arsenopyrite. Gangue minerals include quartz, amphibole, anorthite and biotite which form a granular blastic texture with some massive parts.

The main beneficial commodity is iron but there are trace elements of gold and silver. For the iron ore, the major deleterious elements are sulphur and phosphorous, which are both considered low in this deposit.

5.2.3 Deposit Type

The deposit is a metamorphic iron silica formation of sedimentary and metamorphic origin.

5.3 Hydrogeology

Annual rainfall in the mining district is 851.8 millimetres/year, and ranges between 180 to 1,090 millimetres/year. Rainfall occurs mainly between July to September, accounting for 65% of total annual rainfall. The largest local river is the Yi River. The lowest erosion plane is to the west of Gongdanshan village, with a minimum elevation of +145.0 metres ASL, with the first ore mining elevation at +270 metres ASL.

There are two types of groundwater in the area; water from the pores of rocks in the Quaternary system and water hosted by fractures in basement rocks.

The porous water is distributed along both sides of the Yi River, which is 200 to 400 metres in width. The depth of the aquifer is 2 to 3 metres. The rock types are clay and sandy-breccia. The ground water level fluctuates by approximately 1 metre/year with seasonal rainfall. Groundwater depth is around 1.5 to 2.5 metres.

The depth of fracture-hosted water in basement rocks is between 7 to 15 metres, although some parts are more than 20 metres deep. Groundwater depth is 3 to 7 metres from the surface. Groundwater tests from drillholes reveal that the inflow amount of water is 0.061L/s with unit water inflow of 0.001L/s.

Due to the structure of the area, the project is located within a favourable hydrological setting; the only exception being the area between orebody 1 and orebody 2 which contains a fracture caused by the F4 fault. Some of the units consist of schists resulting in groundwater out-flow which may be an issue and should be attended to during mining.

6 PROJECT HISTORY

6.1 Ownership History

The project started in 2001 under private ownership and has been owned by Shandong Xingsheng Mining Company Limited since 2002.

6.2 Exploration History

This information is sourced from, Shandong Province Metallurgical Engineering Company Limited (2008), *Preliminary Design of Yangzhuang Iron Deep Mining Project for Shandong Xingsheng Mining Company Limited*.

6.2.1 Regional Exploration

1950-2005: Geological exploration of the area began in the 1950s and more regional geological survey and comprehensive research work was conducted in 1996.

2005: Shandong Xingsheng Mining Company Limited requested the No. 8 Exploration Institute of Geology and Mineral Resources of Shandong Province (N8GEP) to make a general survey of the iron ore in the mining district in October 2005. They determined a resource of 21.354 million tonnes of iron ore (According to the Chinese standards for Resource reporting) consisting of both controlled intrinsic economic resources (category 332) and predicted intrinsic economic resources (category 333). The report was filed as “LZJBZ [2005] No. 79” Document by Department of Land and Resources of Shandong Province on December 28, 2005”.

2007: In June 2007, N8GEP undertook further exploration work for the client. This consisted of 1:2,000 scale geological mapping, a 1:100,000 scale high-resolution magnetic survey, field measurements and sampling in mining pits, adits and from drillholes and chemical analysis of composite samples.

6.2.2 Detailed Exploration

2008: In August 2008, the client requested N8GEP to make a detailed survey of the iron ore mineralisation extents in the area and at depth. They determined a resource of 31.278 million tonnes of iron ore (According to the Chinese standards for Resource reporting) consisting of both controlled intrinsic economic resources (category 332) and predicted intrinsic economic resources (category 333). The report was filed as “LZJBZ [2008] No. 51” Document by Department of Land and Resources of Shandong Province”.

6.3 Production History

Production from the deposit started in 2002 with mining from the open pit at a rate of 500 tonnes per annum. Since 2005, mining has occurred by open pit and underground methods producing up to 1.5 million tonnes per annum. All current production is by underground methods from the Gongdanshan block in the south and the Eshan block in the north. Both ore blocks are mined independently by short-hole shrinkage stoping, drilling by hammer and breaking down of ore by short-hole. Current exploration methods

**APPENDIX IV-A REPORT OF THE INDEPENDENT TECHNICAL
ADVISER – YANG ZHUANG IRON MINE**

are by footrill and slope ramp, and there are thirteen production and construction footrill and slope ramps in the mine. Historic reserves are 41.46 million tonnes (according to the Chinese standards for Resource reporting, these are not the current estimate and are not JORC compliant figures). Actual capacity of the mine is 2.3 million tonnes per annum with a recovery ratio of 80% and ore dilution of 8%.

During the last 4 years the total mined out material was approximately 7.8 million tonnes (Table 6-1).

Table 6-1: Mined tonnages for the years 2008 to 2011

| Month | 2008 | 2009 | 2010 | 2011 |
|--------------|------------------|------------------|------------------|------------------|
| Jan | 117,505 | 123,680 | 99,373 | 76,952 |
| Feb | 109,582 | 59,825 | 13,205 | 120,573 |
| Mar | 266,277 | 208,638 | 190,348 | 213,816 |
| Apr | 251,919 | 234,236 | 213,183 | 219,631 |
| May | 201,223 | 145,502 | 205,514 | 189,843 |
| Jun | 196,244 | 171,520 | 199,201 | 182,456 |
| Jul | 118,292 | 194,834 | 203,026 | 72,597 |
| Aug | 148,375 | 189,072 | 169,904 | 139,691 |
| Sep | 104,412 | 190,578 | 189,577 | 191,962 |
| Oct | 130,986 | 197,788 | 200,726 | 225,096 |
| Nov | 80,899 | 184,137 | 89,509 | 230,115 |
| Dec | – | 133,332 | 198,504 | 211,111 |
| Total | 1,725,714 | 2,033,142 | 1,972,070 | 2,073,843 |

7 QA/QC ANALYSIS

The quality assurance/quality control (QA/QC) analysis comes from information from the geological exploration reports for the project, the assay QA/QC data that was supplied by the client, and information and observations gathered by MCS during the site visit.

7.1 Drill hole sampling

All drill hole core sample boundaries were determined by lithology and mineralisation. 905 samples were taken with an average sample length of around 2 metres. Drill core was broken into 2 halves using a manual core splitter and half of the core was sampled, the other half was stored.

7.2 Assay Precision

Precision is a measure of the reproducibility of a result when using the same process. Assay precision was calculated for total iron (TFe) and magnetite content (mFe) from the repeat analysis results. The repeat data population was 37 results from a total of 905 analyses (4.0% of total analyses). The scatterplot for TFe results versus TFe repeat results is shown in Figure 7-1. Assay precision for TFe was $\pm 0.42\%$. The scatterplot for mFe results versus mFe repeat results is shown in Figure 7-2. Assay precision for mFe was $\pm 1.10\%$.

The number of samples taken for the repeat analysis is representative of the population (4.0%). Assay precision for both TFe and mFe is strong.

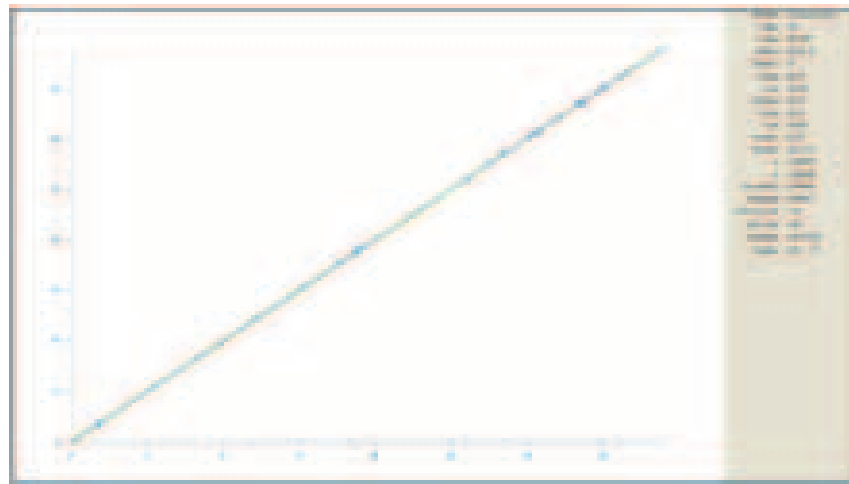


Figure 7-1: Scatterplot of TFe results versus TFe repeat results

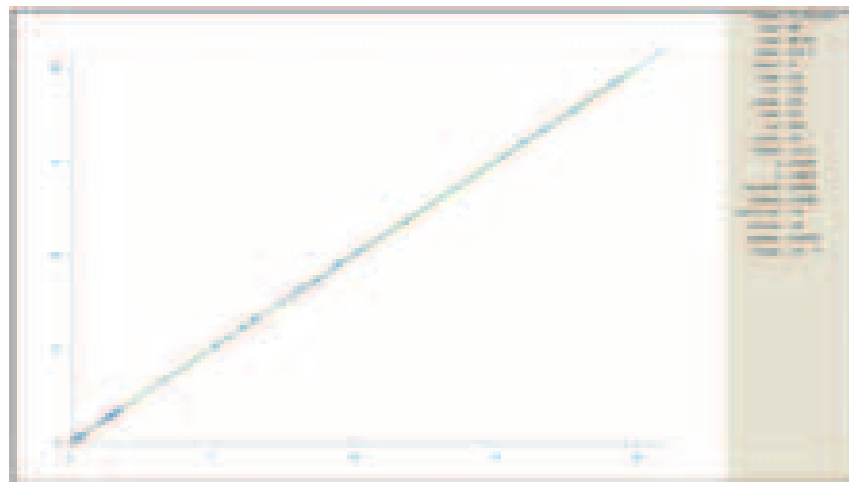


Figure 7-2: Scatterplot of mFe results versus mFe repeat results

7.3 Assay Bias

Samples were routinely sent to an umpire laboratory for analysis to establish if a baseline difference in reportable grades existed between the primary No. 8 Exploration Institute laboratory in Rizhao city, Shandong province and an independent laboratory. The external independent laboratory was the Laboratory of the Shandong Province Experimental Institute of Geological Sciences located in Jinan city, Shandong province. A quantile-quantile plot of TFe results from the No. 8 Exploration Institute laboratory versus TFe results from the Laboratory of the Shandong Province Experimental Institute of Geological Sciences is shown in Figure 7-3. The data points all lie very close to the straight line which indicates there is no significant assay bias present between the results of the two laboratories at different grade cut-offs.

A quantile-quantile plot of mFe results from the primary laboratory versus mFe results from the external umpire laboratory is shown in Figure 7-4. As with the TFe results, the data points all lie very close to the straight line which also indicates there is no significant assay bias present between the two sets of results.

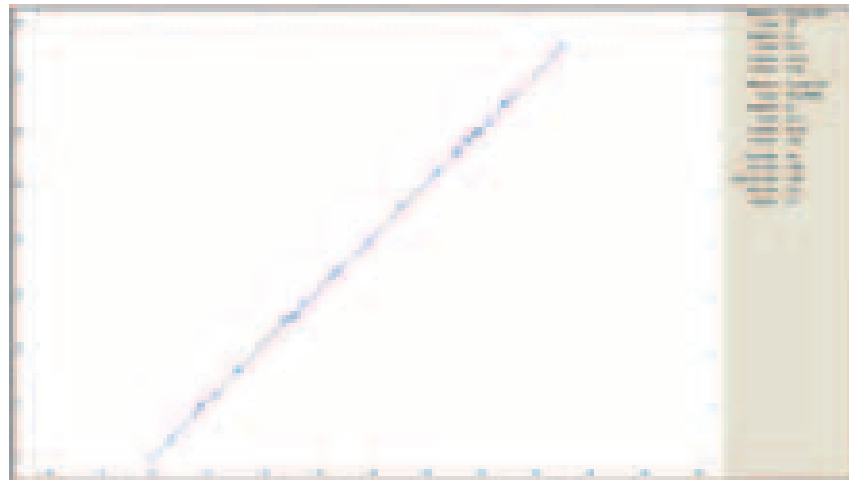


Figure 7-3: Quantile-quantile plot of TFe results from the primary laboratory versus those for the umpire laboratory

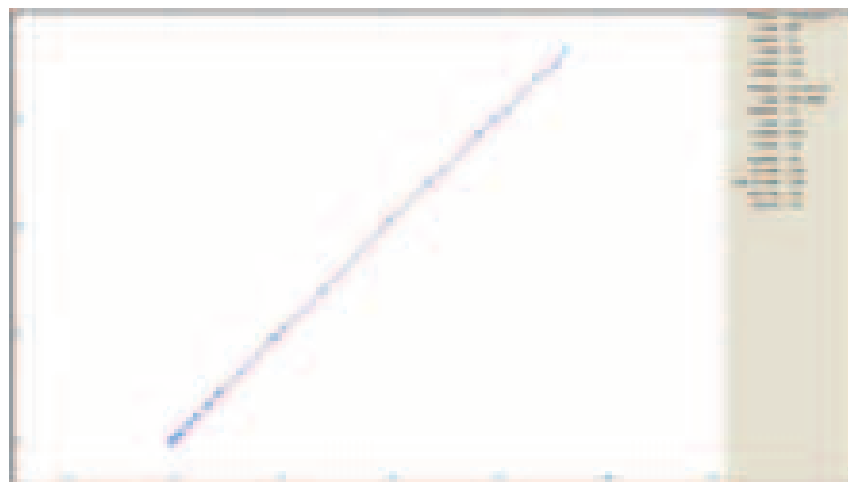


Figure 7-4: Quantile-quantile plot of mFe results from the primary laboratory versus those for the umpire laboratory

7.4 Drilling Method

A total of 40 drillholes for 13,697.6 metres were drilled between 2005 and 2008. All drilling was carried out by the No. 8 Exploration Institute of Geology and Mineral Resources using Jiang Tan XY-4 drill rigs. These drill rigs used 3 metre rods and were capable of drilling to depths of 1,000 metres.

The drill rigs produced NQ size core with a drilling diameter of 91 mm at the top of the hole in the weathered rock and then to 75 mm to hole completion.

7.5 Drill hole survey

Drillholes from the surface were generally vertical or inclined steeply at around 80 degrees. Downhole surveys were performed every 50 m downhole, and at orebody contacts using XJL-42 and JXY-2 electronic inclinometers.

7.6 Core Recovery

Core recovery data was recorded for a total of 35 drillholes. Linear core recovered length was 11,787.5 metres against 12,179.8 metres where core recovery was recorded. Recovery was weight averaged for each hole and where no data was provided for an interval, the interval was ignored.

The mean drill hole core recovery was 96.34%. This is relatively high and indicates that the drill core samples were representative of the drill interval.

7.7 Trenching and Underground Adit Sampling

A total of 30 underground adits and 8 trenches were excavated. All trenches and adits were orientated approximately 120 degrees (north-west to south-east) and ranged in length from 9.8 metres to 38.1 metres.

All were sampled as continuous channel samples taken from the base of the trench or adit on the northern face.

7.8 Standards and Blanks

The client did not provide any results of external standard analysis or details of the standards. Internal standards were used by No. 8 Geological Exploration Brigade laboratory. Some of these standards were observed during the site visit, but no results for QA/QC purposes were provided by the client.

7.9 Laboratory inspection

The primary laboratory for the project was the laboratory of the Shandong No. 8 Exploration Institute of Geology and Mineral Resources, in Rizhao city, Shandong province. The laboratory was inspected by Mr. David Allmark and Mr. Jeff Zhang of MCS accompanied by Mr. Jack Li and Ms. Annie Zhang of JLL with Mr. Liu Jiazhao, the Manager of the Shandong No. 8 Exploration Institute of Geology and Mineral Resources on 5th March 2011. Sample receipt, sample preparation and sample analysis facilities were viewed and procedures were documented. The laboratory is certified by the Shandong Provincial Quality and Technology Supervision Bureau and the State Recognising Supervision Administration Committee. Certificates for both authorities are shown in Figure 7-5.

Upon sample receipt, all details of the samples were logged and entered into a spreadsheet. Sample batch numbers and internal QA/QC sample numbers were then allocated. Details of all required element analyses were then recorded and staff members were allocated their own particular responsibility for the sample batch.

Sample preparation involved two stages of crushing and one of pulverisation. For the first stage, the sample was crushed in the primary jaw crusher to a size of 10 millimetres. In the second stage, the sample is crushed further by ‘cold crushers’ to a size of 1 millimetre. For the pulverisation the sample was crushed by roll crushers to a size of 0.074 millimetres. The machines for the first and second stages of crushing are shown in Figure 7-6 while the roll crusher machine for pulverisation is shown in Figure 7-7. The storage area for the pulverised sample is shown in Figure 7-8.



Figure 7-5: Laboratory accreditation certificates

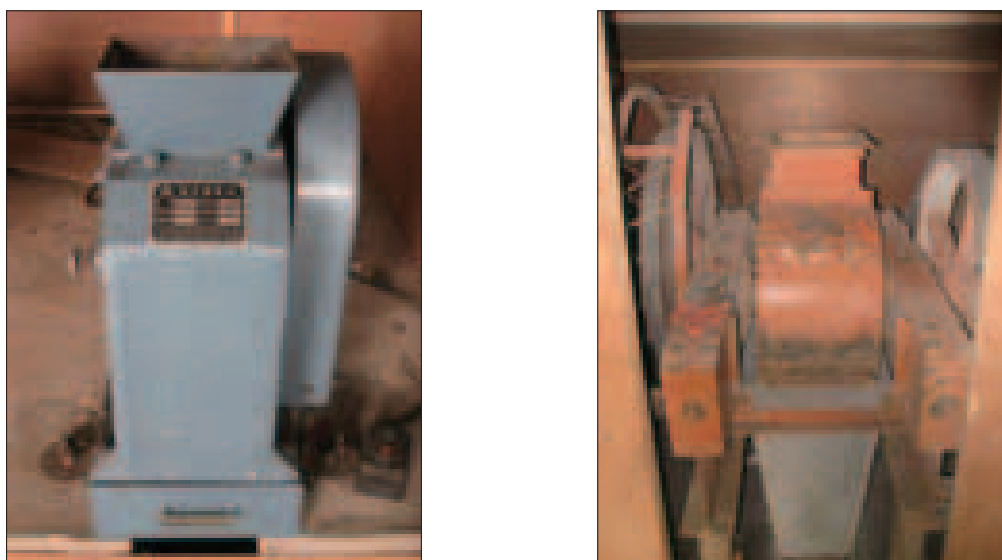


Figure 7-6: First stage jaw crusher (left) and second stage cold crusher (right)



Figure 7-7: Roll crushers for pulverisation stage



Figure 7-8: Storage of pulverised samples

7.9.1 Analytical Method

After sample preparation, the weight of each sample was checked by weighing on a set of scales and the weight was recorded. A mixture of sulphuric and phosphoric acid was added to the dry sample. The mixture was then heated on a hot plate if the sample did not dissolve. The final solution was analysed for total Fe using a Thermo Scientific iCAP 6000 series inductively coupled plasma optical emission spectrometer (ICP-OES) machine housed in a temperature and humidity controlled room Figure 7-9.



Figure 7-9: Technician operating ICP-OES machine at the primary Rizhao laboratory

A second split of the pulverised sample was taken and analysed for the Fe content of the magnetite (mFe). This was done simply by magnetic separation and weighing of the resultant sample to determine the proportional magnetite content.

7.9.2 Inspection Summary

MCS observed during the visits that laboratory hygiene was of a high standard and the Chinese procedures for sample preparation and analysis were being followed and observed by laboratory staff.

7.10 Site visit

The Yang Zhuang project site was visited on the 3rd and 4th of March 2011 by Mr. David Allmark and Mr. Jeff Zhang of MCS, accompanied by Ms. Annie Zhang and Mr. Jack Li of JLL. MCS checked the site layout and verified the provided data and later visited the laboratory used for the primary analytical work in Rizhao. The Shandong No. 8 Exploration Institute of Geology and Mineral Resources that conducted the exploration were also visited at their base in Rizhao city.

7.10.1 Drillhole collar location verification

The purpose of the site visit was to independently verify a selection of drillhole collar positions and inspect and verify core intersections to confirm the geology and mineralisation. A tour of the mine site was also carried out to verify the scale of the operation and processing infrastructure.

Within the allowable time, the collar locations of four drillholes (two at orebody 1 and one each in orebodies 2 and 3) were checked. With the assistance of the Yang Zhuang Deputy Mine Manager, Mr. Li, MCS was able to locate and identify the collars on the geological plan and on the ground. MCS used the client's GPS unit to locate the collar positions and found the coordinates in the database were within 5 metres of the coordinates located from the GPS.

MCS could not match the coordinates on its own GPS with the database coordinates due to the parameters applied to the local grid system in the area. This is a common phenomenon in China where a number of parameters are applied to a local coordinate system to make it unique for the area. The information about these parameters is guarded by secrecy laws in China so they should not be easily available. MCS recorded the site locations in Beijing 1954 grid system and in WGS84 latitude and longitude. MCS was unable to back calculate the coordinates later.

As MCS was able to verify the coordinates of four drillhole collars with the client's GPS and plans, MCS is confident the supplied data is correct for the local coordinate system it was presented in and that the positions of all drillhole, trench and adit samples is consistent with the database.

7.10.2 Drill core verification

MCS viewed the drill core for the project at the Yang Zhuang mine site. Most of the core was in good condition, but recent moving of the core and poor storage procedures and facilities for the core have caused deterioration of core from many holes (Figure 7-10).



Figure 7-10: Current storage facilities and condition of drill core for the project

As a result of the current poor storage of the drill core, it was difficult to check large intervals from many holes as the location of adjoining core boxes within intervals was not known. MCS was able to check a random selection of core from four drillholes: ZK37-1, ZK44-2, ZK33-1 and ZK20.

The core for each interval of four holes was checked against the original drillhole logs (supplied by the client for the site visit) and the assays for the intervals. MCS found that the geology, mineralisation and approximate grade of each interval inspected matched the geology and mineralisation that had previously been logged. All core appeared to have been correctly split and sampled. Marker tags for the depths of each interval in the boxes were available and also inspected. All were found to be correct, and mostly in the correct position. The details of the intervals from each drillhole that was inspected are shown in Table 7-1. Photographs of the core that was inspected are shown in Figure 7-11 to Figure 7-14.

Table 7-1: Details of drillcore intervals inspected

| HoleID | Depth from (m) | Depth to (m) | Comments |
|---------------|---------------------------|-------------------------|--|
| ZK37-1 | 370.50 | 373.50 | Mt ore (approx. 30% TFe), verified in assays and core |
| ZK44-2 | 488.80 | 491.20 | Mt ore (33% TFe), verified in assays and core |
| ZK33-1 | 339.84 | 341.84 | Mt ore (approx. 28% TFe), verified in assays and core |
| ZK20 | 121.50 | 126.30 | Mt ore (28% TFe), verified in assays and core |



Figure 7-11: Drillcore from hole ZK37-1 (370.50-373.50 m)



Figure 7-12: Drillcore from hole ZK44-2 (488.80-491.20 m)



Figure 7-13: Drillcore from hole ZK33-1 (339.84-341.84 m)



Figure 7-14: Drillcore from hole ZK20 (121.50-126.30 m)

7.11 Specific Gravity and moisture

Specific gravity was determined by the quick immersion method according to the Chinese geological exploration code. The sample was first coated in wax to prevent absorption of water. The weight of the sample in air was obtained then the sample was immersed in water and a second weight in water was obtained. The amount of water displaced by the immersion of the sample was recorded. The specific gravity was then determined according to the following formula:

W2 = wax plus sample weight

W1 = dry weight

Wax density 0.9 t/m³

Wax volume, VP = (W2 – W1)/0.9

VC = displaced water volume

Sample volume, V = VC – VP

Density = W1/V

8 EXPLORATION GRID DENSITY

The deposit was originally explored along exploration lines spaced between 180 metres and up to 270 metres apart. The distance is highly variable and the average is around 230 metres.

A few lines were then infilled to approximately 100 m spacing in the later phases of exploration.

9 PREVIOUS RESOURCE AND RESERVE ESTIMATES

This information is sourced from, Shandong No. 8 Exploration Institute of Geology and Mineral Resources (2008), *Yang Zhuang Iron Ore Deposit Detailed Geological Survey Report – Yang Zhuang Mine Surrounding Area and Deeper Location*.

The deposit resource was previously estimated in accordance with the Chinese MLR (Ministry of Lands and Resources, Government) standards. Estimation was carried out in July 2008 and is summarised in Table 9-1 below.

Table 9-1: Historic Chinese resource estimate

| Areas | Ore Bodies | Resource Category | Ore Qty | Average Grade (%) | | Proportion of 332 | Remarks |
|----------|------------|-------------------|--------------------|-------------------|--------------|-------------------|---------|
| | | | ($\times 10^4$ t) | TFe | mFe | (%) | |
| Tenement | I | 332 | 1201.7 | 31.71 | 18.18 | 37.22% | |
| | | 333 | 2026.9 | 31.35 | 18 | | |
| | | 332+333 | 3228.6 | 31.82 | 18.16 | | |
| | II | 332 | 74.8 | 31.16 | 19.42 | 18.75% | |
| | | 333 | 324.1 | 30.11 | 17.92 | | |
| | | 332+333 | 398.9 | 30.42 | 18.15 | | |
| | III | 332 | 541.50 | 30.7 | 18.65 | 31.57% | |
| | | 333 | 1174 | 30.9 | 16.72 | | |
| | | 332+333 | 1715.5 | 30.51 | 17.41 | | |
| | I+II+III | 332 | 1818.00 | 31.19 | 18.75 | 34.03% | |
| | | 333 | 3525 | 30.79 | 17.55 | | |
| | | 332+333 | 5343.0 | 30.92 | 17.91 | | |

10 RESOURCE ESTIMATION METHODOLOGY

10.1 Methodology

The modelling methodology involved the following steps:

- Database compilation;
- Data validation;
- Exploratory data analysis;
- Interpretation of mineralisation based on the geological cut-off grade;
- Wireframing of interpreted mineralised polygons;
- Modelling of experimental semivariograms;
- Determination of modelling search neighbourhood parameters;
- Block modelling and grade interpolation;
- Removal of mined out areas;
- Resource classification;
- Resource reporting at various cut-off grades.

10.2 Software

The Yang Zhuang deposit resources were estimated using MICROMINE (Version 12.0.4) software.

10.3 Database Compilation

Data was provided by Shandong Xingsheng Mining Company Limited (the client) on 11th and 20th of January 2011. The provided data consisted of two Excel spreadsheets, each containing collar, survey, assay, core recovery, specific gravity data and lithological descriptions and other information in 8 worksheets.

**APPENDIX IV-A REPORT OF THE INDEPENDENT TECHNICAL
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The Excel spreadsheets provided were as follows:

1. Xingsheng 2005 Drilling data – Yangzhuang part 1 – 60 million ton.xls
2. Xingsheng 2008 Drilling Data – Yangzhuang part 1 – 60 million ton.xls

The contents of each worksheet in the Xingsheng 2005 Drilling data – Yangzhuang part 1 – 60 million ton.xls spreadsheet is shown in Table 10-1, the contents of each worksheet in the Xinsheng 2008 Drilling Data – Yangzhuang part 1 – 60 million ton.xls spreadsheet is shown in Table 10-2.

**Table 10-1: Contents of spreadsheet Xingsheng 2005 Drilling data
– Yangzhuang part 1 – 60 million ton.xls as supplied**

| Worksheet | No. of Holes, Trenches and Adits | No. of Records |
|------------------|---|---------------------------|
| Survey | 41 | 41 |
| Collar | 41 | 41 |
| Assay | 40 | 484 |
| Geology | 26 | 96 |
| Recovery | 10 | 1197 |
| SG | 32 | 32 |
| Lookup Codes | NA | NA |
| Notes | NA | NA |

**Table 10-2: Contents of spreadsheet Xinsheng 2008 Drilling Data
– Yangzhuang part 1 – 60 million ton.xls as supplied**

| Worksheet | No. of Holes, Trenches and Adits | No. of Records |
|------------------|---|---------------------------|
| Survey | 79 | 79 |
| Collar | 79 | 78 |
| Assay | 70 | 882 |
| Geology | 61 | 296 |
| Recovery | 27 | 4228 |
| SG | 47 | 57 |
| Lookup Codes | NA | NA |
| Notes | NA | NA |

10.4 Data Validation

The files of both spreadsheets were imported into MICROMINE. The spreadsheet Xinsheng 2008 Drilling Data – Yangzhuang part 1 – 60 million ton.xls contained duplicates of the 2005 data in all worksheets. The duplicates records were removed from each file and the respective files for 2005 data and 2008 data were combined to produce a single file for each parameter. In addition, minor changes were made to the files after import into MICROMINE to enable creation of a drillhole database in MICROMINE: The contents of the MICROMINE files are shown in Table 10-3.

Table 10-3: Contents of MICROMINE files

| Micromine files | No of Holes, Adits or Trenches | Number of Records |
|------------------------|---|------------------------------|
| all_collars.DAT | 78 | 78 |
| all_surveys.DAT | 79 | 79 |
| all_assays.DAT | 73 | 915 |
| all_recovery.DAT | 32 | 4841 |
| all_SG.DAT | 47 | 57 |
| all_geology.DAT | 61 | 296 |

The original drawings from the exploration report were then supplied by the client on 20th of January 2011 and MCS performed the following:

- Displayed geology plans and cross-sections in MapGIS then imported into MICROMINE. The plans and sections were then geo-referenced in MICROMINE and the collar positions and traces were checked;
- Checked collar coordinates, survey and assay data with the original data on the drawings;
- Entered additional downhole survey data for each drillhole that had not been included in the supplied data previously.

**APPENDIX IV-A REPORT OF THE INDEPENDENT TECHNICAL
ADVISER – YANG ZHUANG IRON MINE**

Obvious errors in the supplied database were then corrected. The database was then checked using special processes designed to trap the following errors:

- Duplicate drillhole or trench names;
- One or more collar coordinates missing in the collar file;
- FROM or TO missing or absent in the assay file;
- FROM \geq TO in the assay file;
- Sample intervals are not contiguous in the assay file (gaps exist between the assays);
- Sample intervals overlap in the assay file;
- First sample is not equal to 0 m in the assay file;
- First depth is not equal to 0 m in the survey file;
- Several downhole survey records exist for the same depth;
- Azimuth is not between 0 and 360 degrees in the survey file;
- Dip is not between 0 and 90 degrees in the survey file;
- Azimuth or dip is missing in survey file;
- Total depth of the holes is less than the depth of the last sample; and
- Total downhole survey depth is greater than the total drillhole depth.

Numerous errors were identified and corrected in the database. Details of all errors identified are in the Yang Zhuang Iron Project Database Validation and Acceptance Report (Appendix 2).

Additional recovery data for the 2008 drilling was later supplied by the client and incorporated into the database. The details of the records in the final database are shown in Table 10-4.

Table 10-4: Number of records for each hole ID in final database

| HoleID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|---------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| CD1-54 | 3991486.120 | 40394245.670 | 360.72 | 10.70 | 1 | 8 | 3 | 0 | 0 |
| CD2-52 | 3991401.840 | 40394188.670 | 356.25 | 16.60 | 1 | 10 | 3 | 0 | 0 |
| CD3-48 | 3991236.220 | 40394098.760 | 347.16 | 16.90 | 1 | 10 | 3 | 1 | 0 |
| CD4-44 | 3991076.280 | 40393982.670 | 343.11 | 14.90 | 1 | 9 | 3 | 0 | 0 |
| CD6-40 | 3990936.070 | 40393871.680 | 360.17 | 21.50 | 1 | 13 | 3 | 1 | 0 |
| CD7-36 | 3990792.140 | 40393788.070 | 346.74 | 11.20 | 1 | 7 | 0 | 0 | 0 |
| CD08-1 | 3989307.814 | 40393354.988 | 170.00 | 24.10 | 1 | 13 | 3 | 1 | 0 |
| CD8-28 | 3990346.960 | 40393686.250 | 274.84 | 16.90 | 1 | 10 | 3 | 1 | 0 |
| CD8-30 | 3990447.520 | 40393710.480 | 274.84 | 17.50 | 1 | 11 | 0 | 0 | 0 |
| CD09-1 | 3988946.674 | 40392414.288 | 202.00 | 21.60 | 1 | 11 | 3 | 1 | 0 |
| CD9-7 | 3989050.830 | 40392418.270 | 257.05 | 20.10 | 1 | 12 | 3 | 1 | 0 |
| CD10-7 | 3989064.480 | 40392398.350 | 295.64 | 17.20 | 1 | 10 | 3 | 0 | 0 |
| CD10-9 | 3988984.230 | 40392339.170 | 295.64 | 21.20 | 1 | 12 | 3 | 0 | 0 |
| CD10-11 | 3988908.370 | 40392265.220 | 295.64 | 18.10 | 1 | 11 | 3 | 0 | 0 |
| CD10-13 | 3988820.130 | 40392219.410 | 295.64 | 22.90 | 1 | 13 | 3 | 1 | 0 |
| CD11-15 | 3988746.430 | 40392162.370 | 287.73 | 31.40 | 1 | 18 | 3 | 0 | 0 |
| CD11-17 | 3988649.280 | 40392129.420 | 287.73 | 26.70 | 1 | 15 | 3 | 0 | 0 |
| CD12-17 | 3988634.170 | 40392154.690 | 251.27 | 36.30 | 1 | 20 | 3 | 1 | 0 |
| CD15-25 | 3988251.310 | 40391984.470 | 272.19 | 20.80 | 1 | 12 | 0 | 1 | 0 |
| CD21-1 | 3988449.731 | 40392071.389 | 202.00 | 34.40 | 1 | 17 | 3 | 0 | 0 |
| CD24-1 | 3990178.454 | 40393609.053 | 278.76 | 22.20 | 1 | 11 | 3 | 1 | 0 |
| CD25-1 | 3988239.834 | 40391984.995 | 225.00 | 38.10 | 1 | 19 | 3 | 2 | 0 |
| CD29-1 | 3988157.131 | 40391923.424 | 225.96 | 24.00 | 1 | 11 | 3 | 0 | 0 |
| CD36-1 | 3990778.546 | 40393813.035 | 315.08 | 22.00 | 1 | 11 | 3 | 0 | 0 |
| CD44-1 | 3991061.045 | 40394035.347 | 291.56 | 10.20 | 1 | 5 | 3 | 1 | 0 |
| CD52-1 | 3991388.235 | 40394235.798 | 314.00 | 19.10 | 1 | 10 | 3 | 2 | 0 |
| TC1 | 3989349.420 | 40392542.170 | 268.47 | 14.10 | 1 | 8 | 3 | 0 | 0 |
| TC5 | 3989162.340 | 40392430.190 | 303.50 | 18.20 | 1 | 10 | 3 | 0 | 0 |
| TC8 | 3989353.340 | 40393297.670 | 249.07 | 17.00 | 1 | 10 | 0 | 1 | 0 |
| TC12 | 3989542.120 | 40393368.370 | 256.78 | 19.40 | 1 | 11 | 0 | 0 | 0 |
| TC16 | 3989742.270 | 40393423.420 | 288.38 | 9.80 | 1 | 6 | 0 | 1 | 0 |
| TC20 | 3989946.470 | 40393469.320 | 300.41 | 18.00 | 1 | 10 | 0 | 1 | 0 |
| TC24 | 3990161.360 | 40393600.410 | 315.43 | 19.50 | 1 | 11 | 3 | 0 | 0 |
| TC29 | 3988086.120 | 40391872.790 | 249.04 | 13.10 | 1 | 8 | 0 | 0 | 0 |
| YD1-28 | 3990360.830 | 40393662.120 | 322.03 | 17.70 | 1 | 11 | 0 | 1 | 0 |
| YD1-30 | 3990460.360 | 40393686.970 | 322.03 | 18.50 | 1 | 11 | 0 | 1 | 0 |
| YD1-32 | 3990562.030 | 40393712.140 | 322.03 | 17.70 | 1 | 11 | 0 | 0 | 0 |
| YD2-21 | 3988456.340 | 40392052.190 | 278.82 | 24.70 | 1 | 14 | 3 | 1 | 0 |

| HoleID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey | Assay | Geology | SG | Recovery |
|--------|------------------|-----------------|-----------|--------------|---------|---------|---------|---------|----------|
| | | | | | Records | Records | Records | Records | Records |
| ZK1 | 3989136.590 | 40392479.230 | 300.47 | 105.20 | 1 | 12 | 6 | 2 | 53 |
| ZK01-1 | 3989289.104 | 40392652.519 | 290.69 | 264.90 | 3 | 7 | 11 | 0 | 101 |
| ZK2 | 3988789.540 | 40392271.380 | 394.12 | 199.40 | 2 | 10 | 5 | 2 | 105 |
| ZK3 | 3988595.340 | 40392222.170 | 379.86 | 249.80 | 2 | 24 | 4 | 2 | 132 |
| ZK4 | 3988218.640 | 40392043.380 | 308.94 | 180.30 | 1 | 13 | 4 | 0 | 128 |
| ZK5 | 3988724.330 | 40392388.270 | 338.67 | 289.20 | 3 | 14 | 5 | 2 | 166 |
| ZK05-1 | 3989015.280 | 40392609.201 | 280.44 | 366.80 | 8 | 0 | 4 | 0 | 129 |
| ZK6 | 3990320.180 | 40393733.270 | 360.71 | 179.60 | 2 | 14 | 4 | 2 | 92 |
| ZK7 | 3990538.140 | 40393757.230 | 387.74 | 174.80 | 2 | 24 | 5 | 2 | 117 |
| ZK8 | 3990899.540 | 40393937.240 | 461.07 | 197.40 | 2 | 13 | 0 | 2 | 0 |
| ZK08-1 | 3989183.536 | 40393587.420 | 247.33 | 386.70 | 4 | 0 | 11 | 0 | 170 |
| ZK9 | 3991205.120 | 40394151.950 | 403.87 | 139.00 | 2 | 16 | 4 | 1 | 91 |
| ZK09-1 | 3988859.625 | 40392501.053 | 309.71 | 265.50 | 6 | 7 | 10 | 1 | 99 |
| ZK10 | 3990488.500 | 40393842.420 | 353.89 | 293.80 | 3 | 13 | 0 | 2 | 0 |
| ZK10-1 | 3989379.654 | 40393493.230 | 257.80 | 200.60 | 4 | 3 | 3 | 1 | 147 |
| ZK11 | 3987874.500 | 40391857.140 | 299.86 | 203.30 | 2 | 8 | 7 | 2 | 129 |
| ZK12 | 3987313.410 | 40391876.270 | 249.01 | 260.10 | 1 | 11 | 4 | 0 | 184 |
| ZK13-1 | 3988666.789 | 40392515.245 | 309.79 | 481.50 | 8 | 0 | 5 | 0 | 170 |
| ZK16-1 | 3989675.976 | 40393589.364 | 269.73 | 384.90 | 8 | 6 | 22 | 1 | 168 |
| ZK20-1 | 3989864.328 | 40393611.434 | 299.96 | 251.30 | 5 | 11 | 6 | 0 | 88 |
| ZK21-1 | 3988336.592 | 40392264.278 | 331.71 | 371.00 | 8 | 20 | 0 | 2 | 127 |
| ZK24-1 | 3990089.354 | 40393726.115 | 308.10 | 220.00 | 5 | 7 | 5 | 1 | 115 |
| ZK24-2 | 3990033.701 | 40393830.015 | 287.25 | 381.20 | 7 | 4 | 5 | 0 | 153 |
| ZK25-1 | 3988188.699 | 40392093.185 | 335.54 | 364.00 | 7 | 26 | 0 | 1 | 192 |
| ZK28-1 | 3990255.934 | 40393841.092 | 322.02 | 271.70 | 3 | 8 | 0 | 1 | 169 |
| ZK28-2 | 3990185.191 | 40393966.655 | 295.68 | 396.30 | 4 | 12 | 10 | 1 | 218 |
| ZK28-3 | 3990057.054 | 40394199.208 | 301.90 | 716.10 | 7 | 0 | 6 | 0 | 361 |
| ZK29-1 | 3988032.948 | 40391964.431 | 288.63 | 268.40 | 3 | 35 | 5 | 1 | 0 |
| ZK29-2 | 3987996.943 | 40392053.839 | 314.48 | 415.60 | 5 | 16 | 12 | 1 | 154 |
| ZK29-3 | 3987890.473 | 40392216.920 | 349.81 | 532.50 | 6 | 0 | 7 | 0 | 191 |
| ZK32-1 | 3990381.934 | 40394027.868 | 300.10 | 390.50 | 8 | 11 | 8 | 1 | 157 |
| ZK33-1 | 3987795.229 | 40391974.279 | 302.47 | 375.80 | 8 | 32 | 5 | 0 | 131 |
| ZK33-2 | 3987680.766 | 40392197.465 | 306.04 | 533.80 | 10 | 16 | 5 | 0 | 184 |
| ZK36-1 | 3990662.200 | 40394014.000 | 342.28 | 285.20 | 6 | 14 | 7 | 1 | 96 |
| ZK36-3 | 3990466.500 | 40394353.800 | 304.50 | 564.20 | 10 | 17 | 4 | 0 | 196 |
| ZK37-1 | 3987571.239 | 40391989.957 | 284.05 | 436.50 | 8 | 25 | 4 | 1 | 0 |
| ZK37-2 | 3987478.969 | 40392161.372 | 270.35 | 675.00 | 7 | 17 | 4 | 1 | 233 |
| ZK44-1 | 3990984.792 | 40394140.331 | 443.97 | 324.30 | 4 | 5 | 0 | 1 | 0 |
| ZK44-2 | 3990883.391 | 40394303.843 | 425.60 | 642.50 | 7 | 4 | 5 | 1 | 255 |
| ZK52-1 | 3991202.486 | 40394548.059 | 338.84 | 458.90 | 10 | 0 | 3 | 0 | 155 |

The client provided to MCS a surface to which the deposit has been currently mined and outlines of underground mined-out areas and other underground development as plans and cross-sections in AutoCAD file format and as surveyed coordinate point data in ASCII file format on 12th February 2011. MCS constructed three dimensional surfaces and solids from the data which was used for the resource estimation.

10.5 Exploratory Data Analysis

Classical statistical analysis was conducted twice for the Yang Zhuang iron deposit. The first study was undertaken with the entire data set to meet the following objectives:

- To estimate the geological cutoff grade for total iron (TFe) mineralisation; and
- To determine the distribution parameters of iron grades.

The descriptive statistics for total iron (TFe) for the exhaustive population are shown in Figure 10-1. The exhaustive total iron grade population shows a mixture of five approximately normally-distributed populations. The histograms of the exhaustive population with a five-population model are shown in Figure 10-2 and Figure 10-3. The probability plot for the exhaustive total iron grade population is shown in Figure 10-4. The cumulative frequency plot for the same data is shown in Figure 10-5. The line on the probability plot changes curvature in the middle section at around 10.5% TFe (inflection point) representing a boundary between unmineralised and mineralised total iron grade populations. The value of 10.5% TFe was chosen as the natural cut-off grade. A lower cut-off was chosen to ensure all possible economic parts of the orebody were included in the model.



Figure 10-1: Descriptive statistics for total iron for the exhaustive population

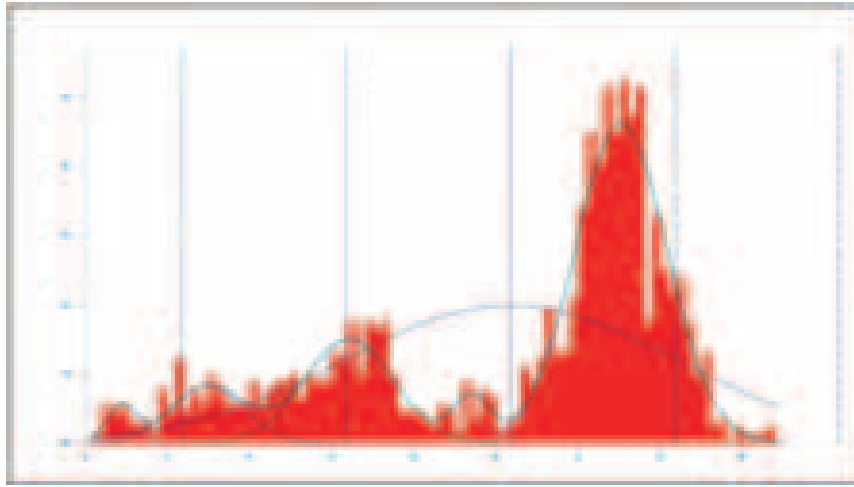


Figure 10-2: Histogram for total iron for the exhaustive population showing a five population model

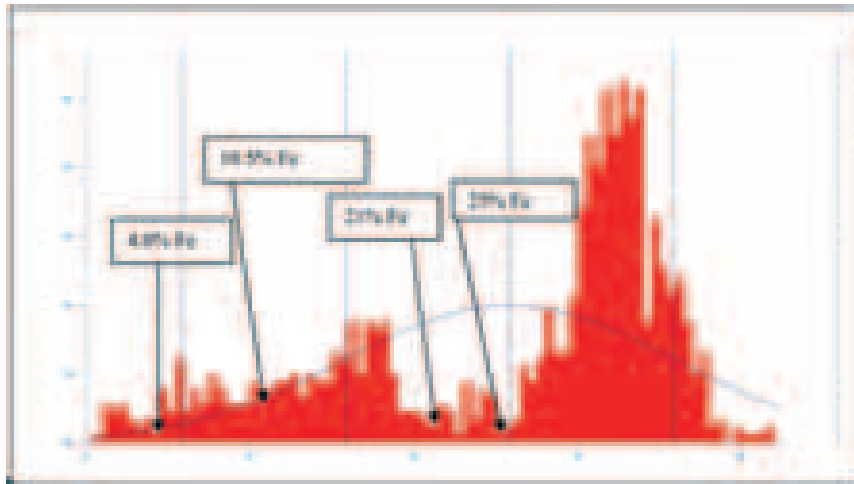


Figure 10-3: Histogram for total iron for the exhaustive population showing possible natural cutoff grades at 25% Fe, 21% Fe, 10.5% Fe and 4.0% Fe

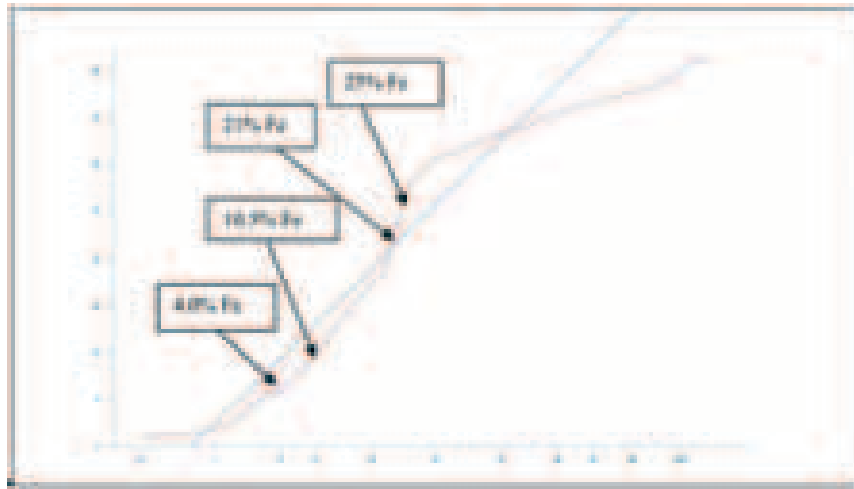


Figure 10-4: Probability plot of total iron for the exhaustive population showing possible natural cutoff grades

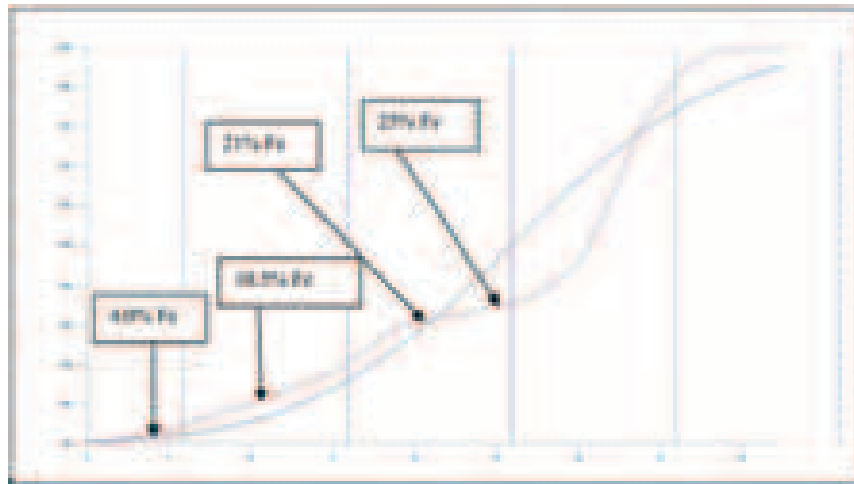


Figure 10-5: Cumulative frequency plot of total iron for the exhaustive population showing possible natural cutoff grades

Classical statistical analysis was performed using only the grades from samples within the interpreted mineralised envelopes to meet the following objectives:

- To estimate the mixing effect of grade populations for total iron;
- To estimate the necessity of the separation of grade populations if more than one population exists inside the wireframes;
- To determine the balancing cut grade for total iron to be used for grade interpolation.

From the histogram of the total iron grade population within the mineralised envelopes (Figure 10-6), a large, higher grade population and a smaller lower grade population can be seen. It was decided that these two populations could be treated as one and ordinary kriging could be used for the interpolation. The probability plot for total iron assays inside the mineralised envelope is shown in Figure 10-7. The cumulative frequency plot for the total iron assays inside the mineralised envelope is shown in Figure 10-8. A balancing cut grade of 38% TFe (at the 97.7 percentile of the cumulative frequency plot) was chosen and applied to all high grade assays in the mineralised envelopes.

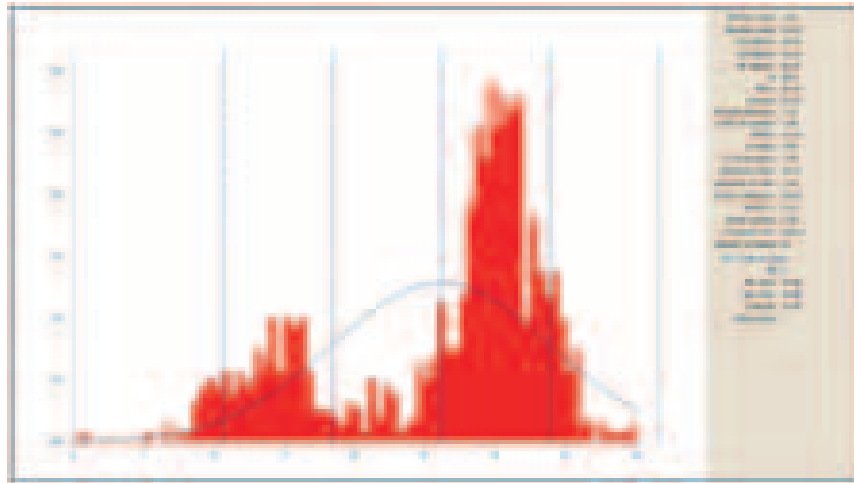


Figure 10-6: Histogram of total iron assays inside the mineralised wireframes

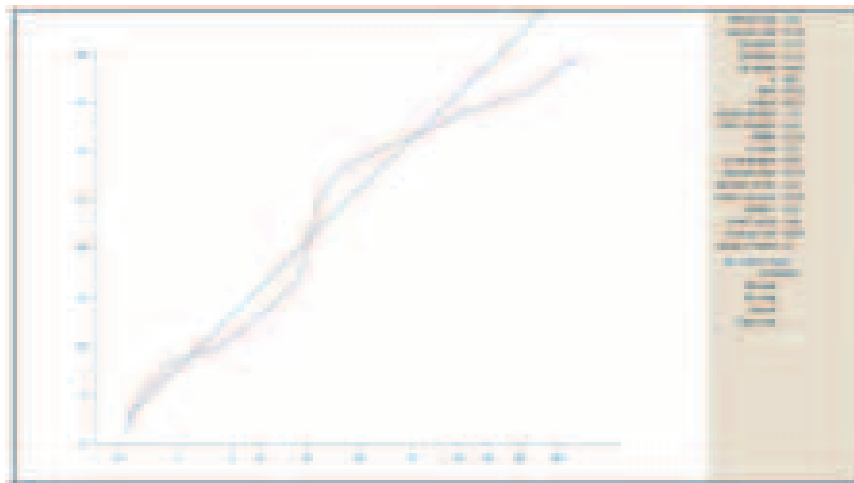


Figure 10-7: Probability plot of total iron assays inside the mineralised wireframes

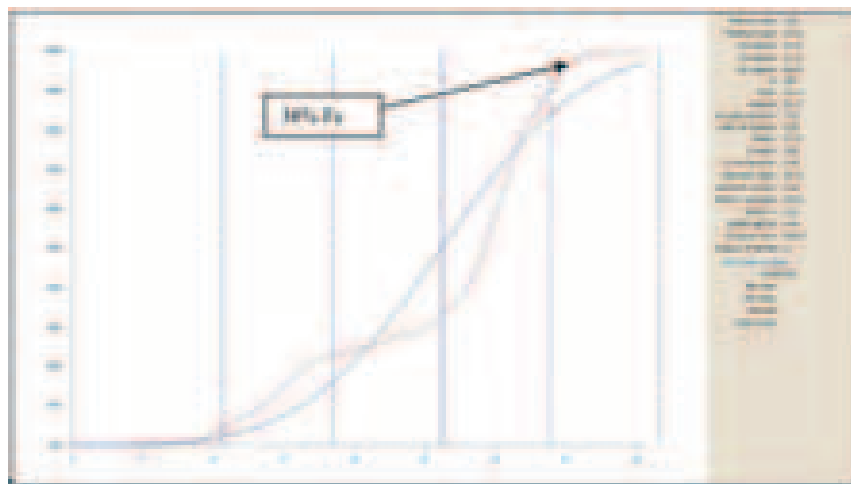


Figure 10-8: Cumulative frequency plot of total iron assays inside the mineralised wireframes

10.6 Interpretation

All available original cross-sections and geological maps at 1:2,000 scale were imported from MapGIS and georeferenced in MICROMINE. The geological interpretation on the cross-sections and the geological maps were used as a reference to honour the original geological interpretation where practical. This included modelling the interpreted faults that separated the three orebodies.

Interpretation was carried out interactively for thirty approximately north-west to south-east (130 degrees azimuth) oblique cross-sections for the three orebodies (orebody 1, orebody 2 and orebody 3). Each section showing the drilling data, trench data and adit data was displayed in MICROMINE's Vizex environment. Total iron assays were composited to grades greater than 10.5% TFe to define the boundary between mineralised and non-mineralised grades. The raw sample grades and the composite grades were displayed on the drillhole in order to allow the snapping of interpretation strings to separate mineralised and unmineralised zones. All thirty cross-sections, with additional sections for closing off wireframes, were interpreted.

A geological cut-off grade defining the boundary between mineralisation and country rock was selected at 10.5% TFe (see probability plot Figure 10-4). A string file was generated to interpret iron mineralisation at greater than or equal to 10.5% TFe.

The following techniques were employed while interpreting the mineralisation:

- Each section and plan view was displayed on screen and the interpretation checked.
- All interpreted strings were snapped to the sample intervals on the drillhole, trench or adit, i.e. the interpretation was constrained in 3 dimensions.

- If a mineralised envelope (lode) terminated on a drill section, it was projected half way to the next section and terminated (this distance varied depending on the cross-section lines). The last string forming the envelope was reduced to 80% of that on the last section. The general dip and strike of the lode was maintained.
- The mineralisation was extended in a down-dip direction mostly to a distance half that between adjacent drillholes on the cross-section (around 100 m). Where only one drillhole was present on a cross-section, mineralisation was extended down-dip to a distance of 100 m. However, where continuity of mineralisation was inferred from information on adjacent cross-sections, this was taken into account and the extension was increased slightly to adjust for the mineralisation on the adjacent cross-sections.
- Some areas of internal waste within the mineralised envelopes were also interpreted. A minimum length of 2 metres was used to determine internal waste zones, and these were interpreted separately.

An example interpretation section is shown in Figure 10-9.

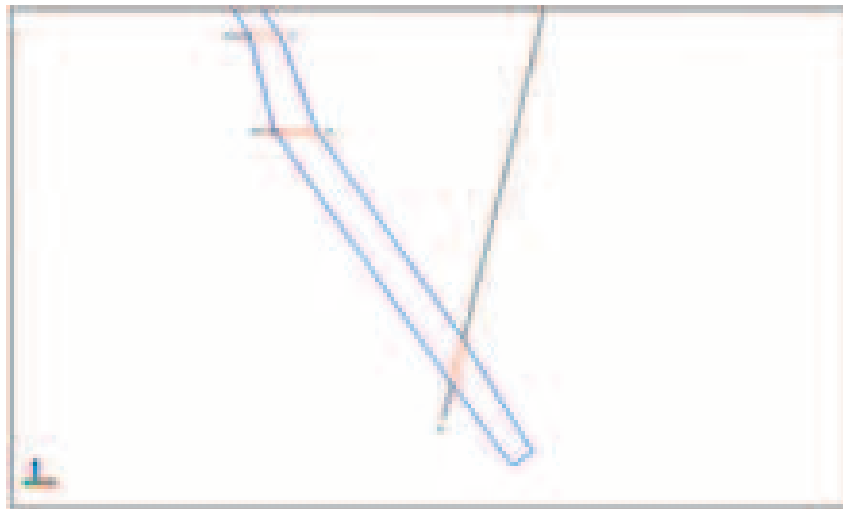


Figure 10-9: Example interpretation cross-section showing strings and composite total iron assays

10.7 Wireframing

The interpreted closed strings were used to generate three-dimensional solid wireframe models for the mineralised envelopes of total iron. Each mineralized envelope was wireframed individually and saved separately. A total of five mineralised ore wireframes were created. The wireframes were created separately to allow independent data flagging and interpolation.

Four wireframes were created for internal waste. These were booleaned with the mineralised wireframes they were contained in, to produce ore wireframes with internal waste removed. Fault surfaces were also created and wireframed. These were the faults that separated orebody 1 from orebody 2 and orebody 2 from orebody 3. The mineralised wireframes were extended beyond the fault surfaces then later booleaned with the faults to produce mineralised wireframes with faulted contacts.

A 3D view of the wireframes of iron mineralisation is shown in Figure 10-10.

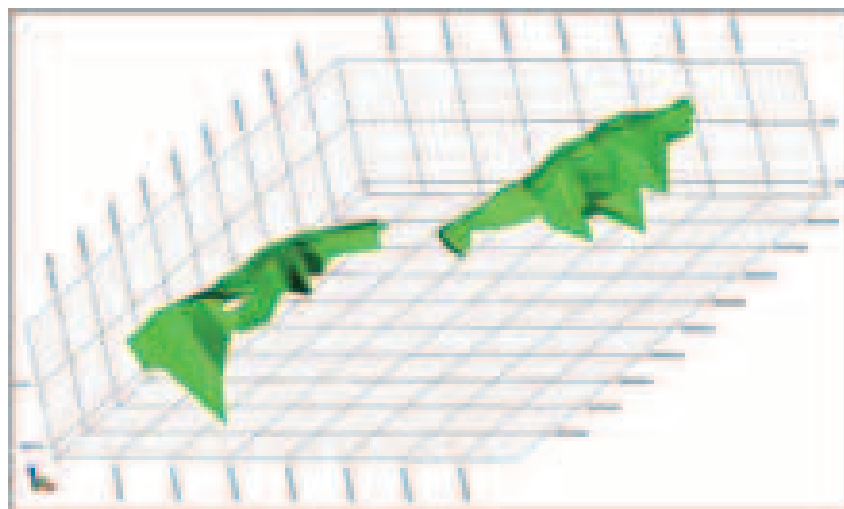


Figure 10-10: 3D view of wireframes of iron mineralisation

10.8 Drillhole Data Selection and Compositing

Drillhole data selection is a standard procedure which ensures that the correct samples are used in the classical statistical and geostatistical analyses and grade interpolation processes. For this purpose, the solid wireframes for each mineralised envelope were subsequently used to select the drillhole samples. Samples within each individual mineralised envelope were flagged and coded according to the name of the mineralised body.

Visual validation of the flagged samples was carried out in Vizex to make sure the correct samples were selected by the wireframes.

Classical statistical analysis was then repeated for the iron grades within the mineralised envelopes only. The analysis determined there were two mixed populations but that they could be treated as one for geostatistical purposes.

An additional field was inserted into the assay file and a balancing cut grade of 38% TFe was applied to the original assay data for those samples inside the iron mineralised envelopes.

All samples within the mineralised envelopes were composited to an equal sample interval length before geostatistical analysis and interpolation. A composite length of 2.0 metres was selected as it was the most prevalent interval length in the dataset. This can be seen in the histogram of the interval lengths of all samples (Figure 10-11). The selected samples within each mineralised envelope were separately composite over 2.0 metre intervals, starting at the drillhole collar and progressing downhole. Trench and adit samples within the mineralized envelopes were also composite separately. Compositing was stopped and restarted at all boundaries between mineralised envelopes and waste material.

Basic statistical parameters were obtained for the composite data to ensure that the statistical parameters were not distorted by the compositing process (Figure 10-12). There was no significant change to the minimum, maximum, mean, standard deviation and coefficient of variation of the data after the sample length compositing process.

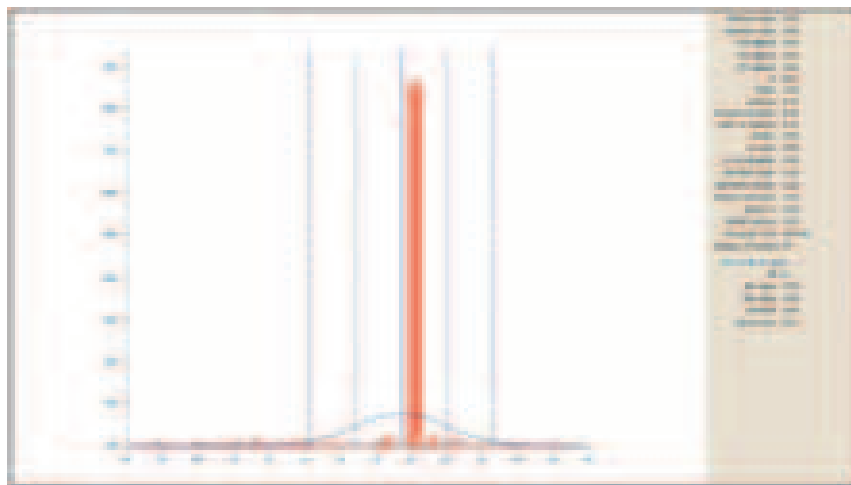


Figure 10-11: Histogram of all sample interval lengths



Figure 10-12: Descriptive statistics for iron assays composited to 2 m interval lengths within the iron mineralised envelopes

10.9 Geostatistical Analysis

The purpose of geostatistical analysis is to generate a series of semivariograms for the Kriging algorithm to use as a means of weighting the sample grades when estimating an unknown block value in the block model using available sample data. The semivariogram ranges determined from this analysis can also be used to determine the search neighbourhood dimensions. Therefore, geostatistical analysis was conducted in order to meet the following objectives:

- To estimate the presence of directional anisotropy of mineralisation for iron. This can be estimated by studying the directional semivariograms. There is a directional anisotropy if semivariograms reach the total sill at different distances in different directions;
- To obtain the semivariogram parameters (nugget effect, total sill and ranges) to be input into the interpolation process.

All semivariograms were modelled using the composite sample files with applied top cut grades and constrained by the corresponding mineralised envelopes. Semivariograms were modelled for two separate domains; for orebody 1 then orebody 2 and 3 combined. The elements TFe and mFe were modelled separately for each domain.

For each domain, a fan of horizontal semivariograms was generated to determine the direction of maximum continuity in plan. A vertical fan of semivariograms was then generated along the determined azimuth of maximum continuity in order to estimate the plunging component of the main axis. From the azimuth and plunge of the first axis, the azimuth of the second axis was calculated. A vertical fan of semivariograms was then generated to determine the plunge of the second axis. From the orientation of the first and second axes, the azimuth and plunge of the third axis was determined.

Geostatistical analysis of orebody 1 was carried out, with TFe examined first. The maximum continuity of mineralisation occurs along an axis of 37 degrees, roughly parallel to the strike of the ore zone; there was no plunge. The second and third directions were then determined but no sample pairs could be found for the third direction. This was due to the sparse drill spacing which resulted in insufficient samples in some directions. To correct for this, and still use the parameters of the main direction of continuity for interpolation, the second and third directions were re-modelled. The second direction was re-modelled to an azimuth of 127 degrees with no plunge, while the third direction was re-modelled to an azimuth of 0 degrees with a plunge of 90 degrees. The spherical experimental semivariograms and models for each direction are shown in Figure 10-13 to Figure 10-15.

The element mFe for orebody 1 was modelled next. The direction of maximum continuity occurs along an axis of 34 degrees with no plunge. The second direction occurs along an axis of 124 degrees with a plunge of 33 degrees. The third direction occurs along an axis of 304 degrees with a plunge of 57 degrees. The spherical experimental semivariograms and models for each direction are shown in Figure 10-16 to Figure 10-18.



Figure 10-13: Experimental semivariogram and model for direction of maximum continuity for TFe, orebody 1



Figure 10-14: Experimental semivariogram and model for second direction for TFe, orebody 1

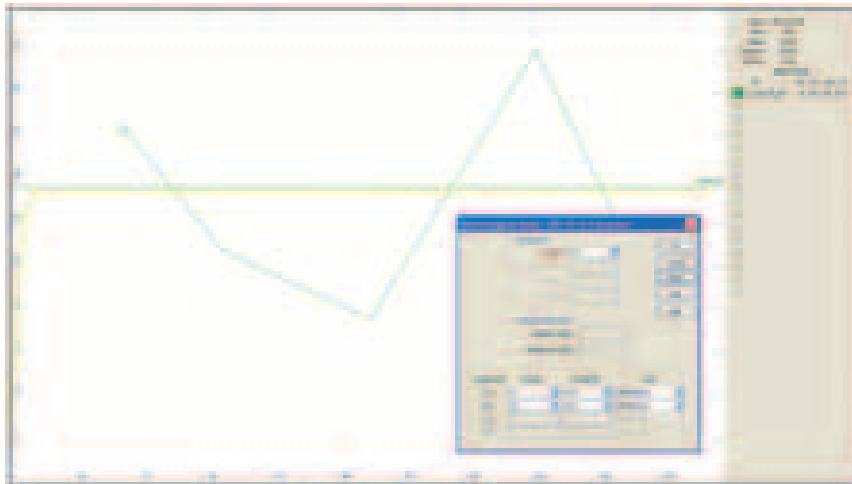


Figure 10-15: Experimental semivariogram and model for third direction for TFe, orebody 1

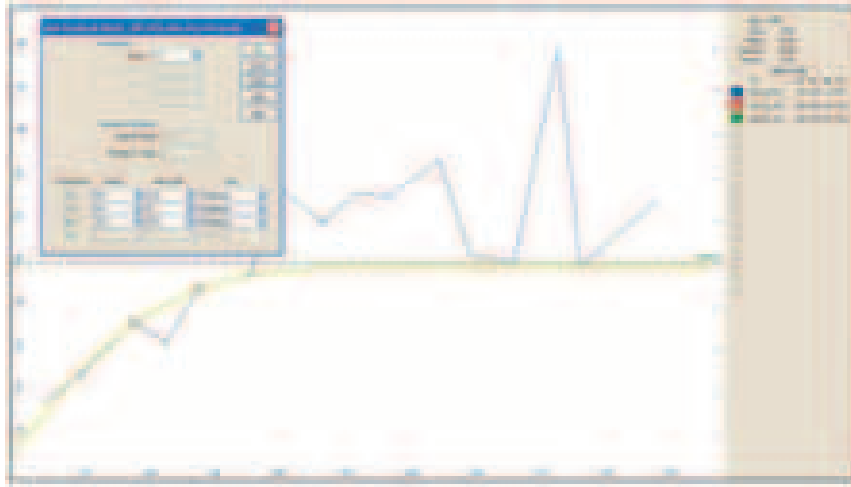


Figure 10-16: Experimental semivariogram and model for direction of maximum continuity for mFe, orebody 1

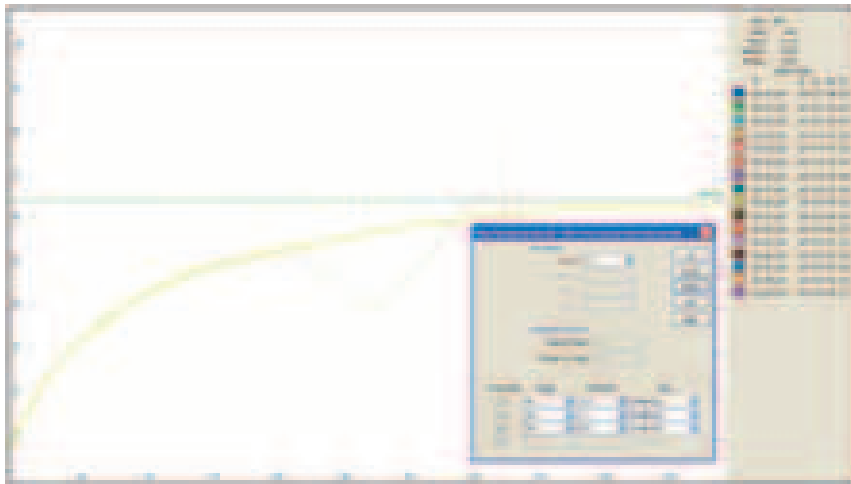


Figure 10-17: Experimental semivariogram and model for second direction for mFe, orebody 1

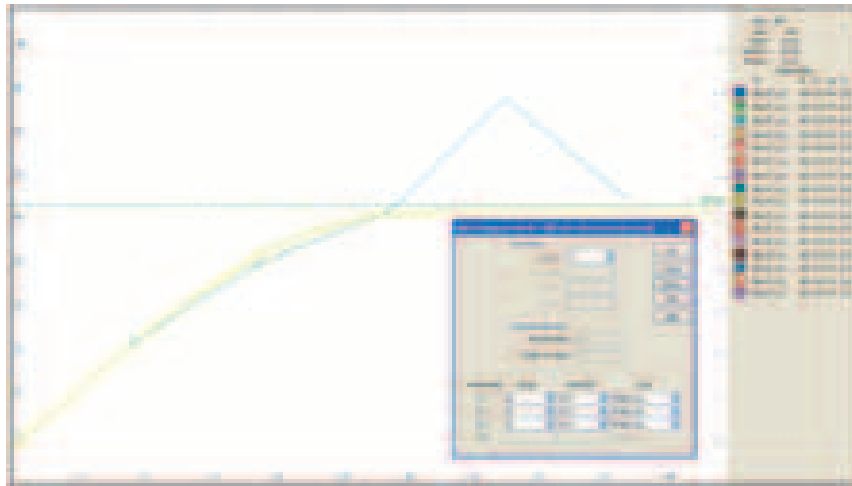


Figure 10-18: Experimental semivariogram and model for third direction for mFe, orebody 1

Geostatistical analysis of orebody 2 and orebody 3 was then undertaken, with TFe examined first. The maximum continuity of mineralisation occurs along an axis of 24 degrees, roughly parallel to the strike of the ore zone, while there was no plunge. The second direction occurs along an axis of 114 degrees with a plunge of 27 degrees. The third direction occurs along an axis of 294 degrees with a plunge of 63 degrees. The spherical experimental semivariograms and models for each direction are shown in Figure 10-19 to Figure 10-21.

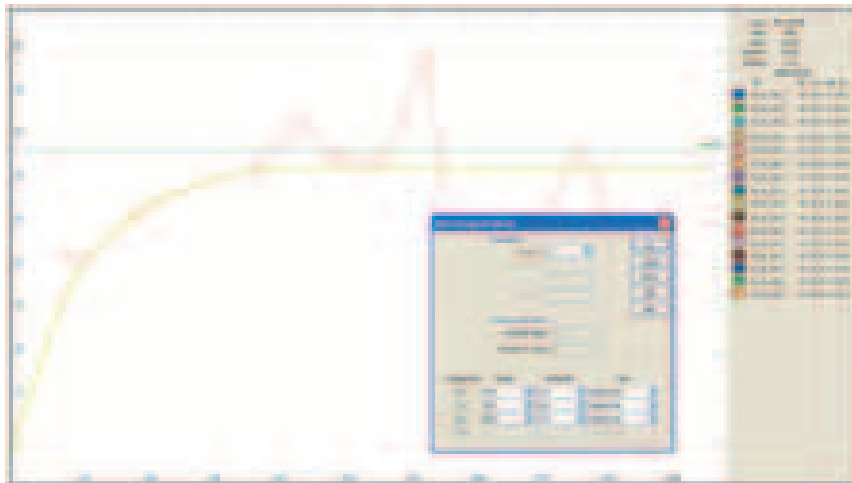


Figure 10-19: Experimental semivariogram and model for direction of maximum continuity for TFe, orebody 2 and orebody 3

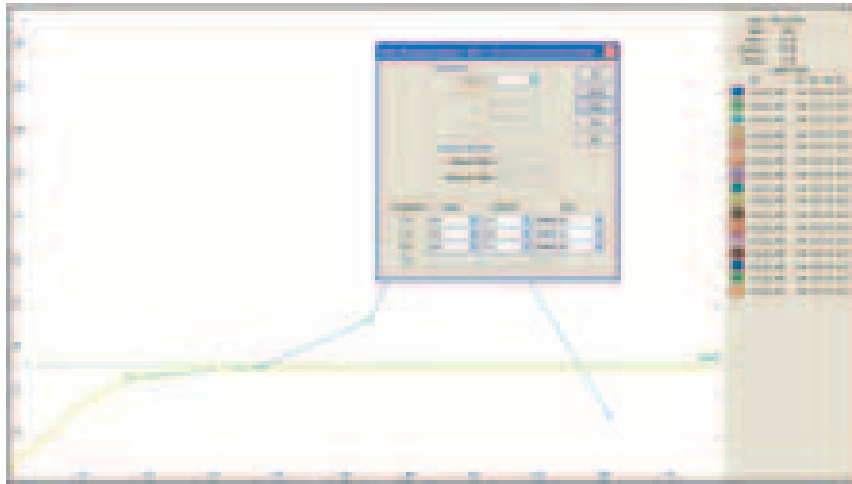


Figure 10-20: Experimental semivariogram and model for second direction for TFe, orebody 2 and orebody 3

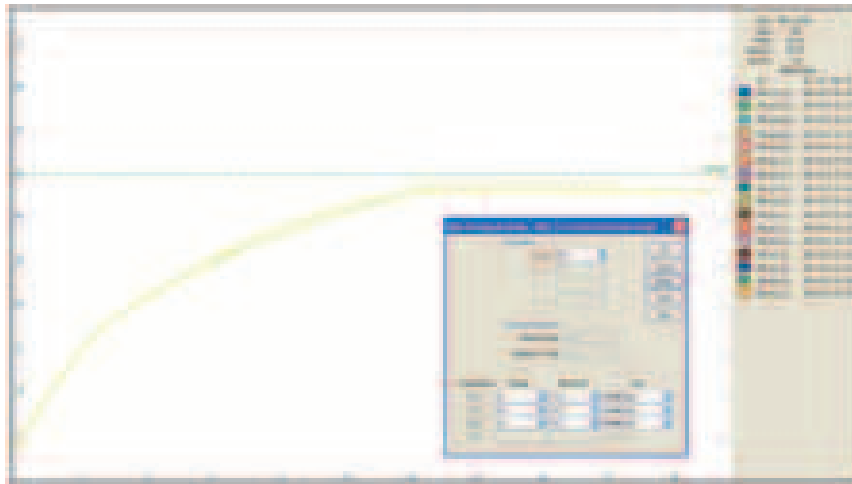


Figure 10-21: Experimental semivariogram and model for third direction for TFe, orebody 2 and orebody 3

The element mFe for orebody 2 and orebody 3 was modelled next. The maximum continuity of mineralisation occurs along an axis of 38 degrees, roughly parallel to the strike of the ore zone, there was no plunge. The second and third directions were then determined but no sample pairs could be found for the third direction. This was due to the sparse drill spacing which resulted in insufficient samples in some directions. To correct for this, and still use the parameters of the main direction of continuity for interpolation, the second and third directions were re-modelled. The second direction was re-modelled to an azimuth of 128 degrees with no plunge, while the third direction was re-modelled to an azimuth of 0 degrees with a plunge of 90 degrees. The spherical experimental semivariograms and models for each direction are shown in Figure 10-22 to Figure 10-24.

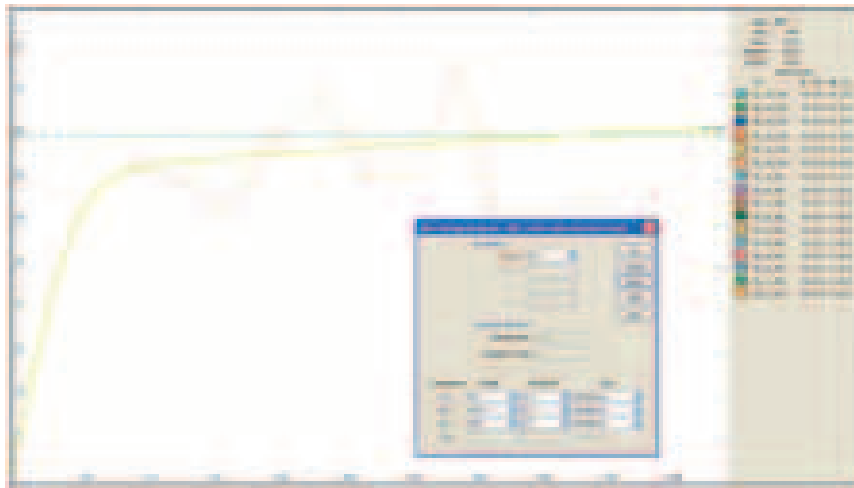


Figure 10-22: Experimental semivariogram and model for direction of maximum continuity for mFe, orebody 2 and orebody 3

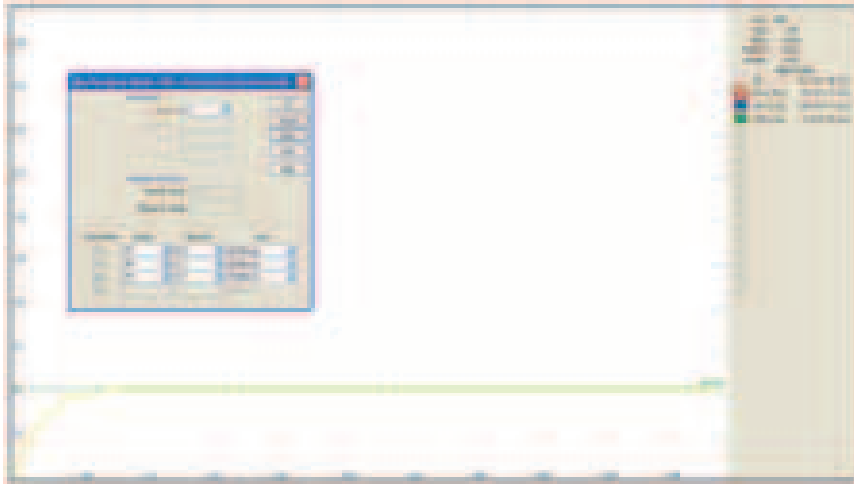


Figure 10-23: Experimental semivariogram and model for second direction for mFe, orebody 2 and orebody 3

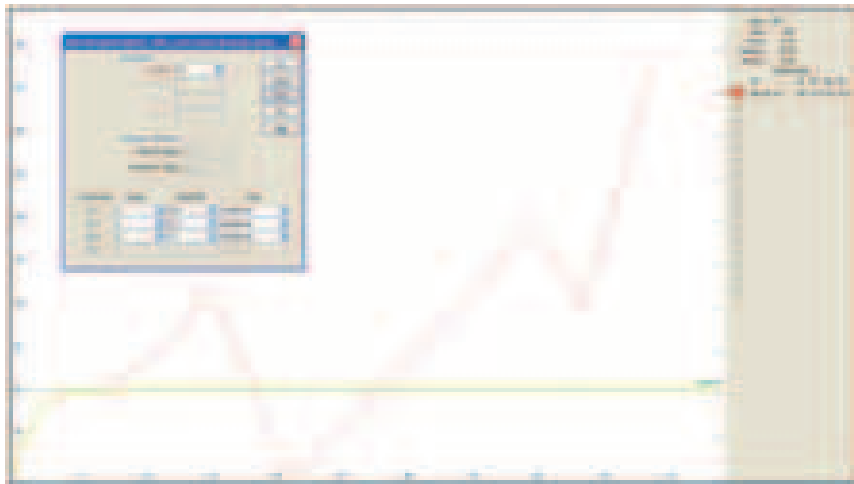


Figure 10-24: Experimental semivariogram and model for third direction for mFe, orebody 2 and orebody 3

Table 10-5: Summary of semivariogram parameters

| Domain | Element | Direction | Azimuth | Dip | Nugget Effect | Partial Sills | | | Range (m) | | | Lag (m) |
|------------|---------|-----------|---------|-----|------------------|---------------|------------|------------|------------|------------|------------|------------|
| | | | | | | Comp. 1 | Comp. 2 | Comp. 3 | Comp. 1 | Comp. 2 | Comp. 3 | |
| OB1 | TFe | First | 37 | 0 | 5.8 | 13.5 | 29.4 | | 400 | 545 | | 128 |
| OB1 | TFe | Second | 127 | 0 | 5.8 | 13.5 | 29.4 | | 15 | 105 | | 128 |
| OB1 | TFe | Third | 0 | 90 | 5.8 | 13.5 | 29.4 | | 5 | 10 | | 55 |
| OB1 | mFe | First | 34 | 0 | 7.7 | 12 | 21 | 25.9 | 458 | 761 | 1071 | 128 |
| OB1 | mFe | Second | 124 | 33 | 7.7 | 12 | 21 | 25.9 | 98 | 300 | 915 | 128 |
| OB1 | mFe | Third | 304 | 57 | 7.7 | 12 | 21 | 25.9 | 29 | 32 | 25 | 9 |
| OB2 OB3 | TFe | First | 24 | 0 | 4.3 | 12.5 | 16.5 | 14.7 | 594 | 285 | 1010 | 140 |
| OB2 OB3 | TFe | Second | 114 | 27 | 4.3 | 12.5 | 16.5 | 14.7 | 184 | 151 | 242 | 140 |
| OB2 OB3 | TFe | Third | 294 | 63 | 4.3 | 12.5 | 16.5 | 14.7 | 5 | 22 | 19 | 10 |
| OB2 OB3 | mFe | First | 38 | 0 | 0.8 | 24.9 | 31.7 | 8.8 | 431 | 244.9 | 2622 | 140 |
| OB2 OB3 | mFe | Second | 128 | 0 | 0.8 | 24.9 | 31.7 | 8.8 | 397 | 186 | 100 | 120 |
| OB2 OB3 | mFe | Third | 0 | 90 | 0.8 | 24.9 | 31.7 | 8.8 | 9 | 8 | 27 | 9 |

10.10 Block Modelling

Empty block models were created within the closed wireframe models for the bodies of iron mineralisation for orebody 1 and orebodies 2 and 3, and coded accordingly. Block extents and sizes for orebody 1 are shown in Figure 10-25, while block extents and sizes for orebodies 2 and 3 are shown in Figure 10-26. Parent cells were sub blocked to 1 metre east, 2.5 metres north and 1 metre in elevation. Interpolation of grade was then undertaken into the empty cells.

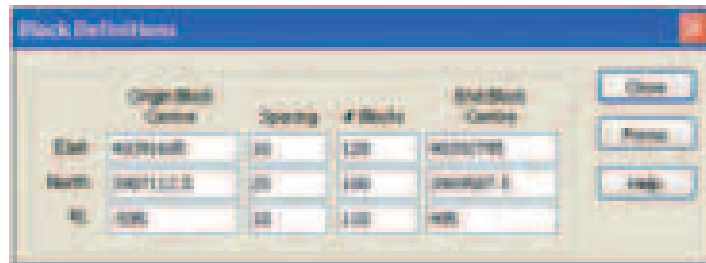


Figure 10-25: Block extents and sizes for orebody 1

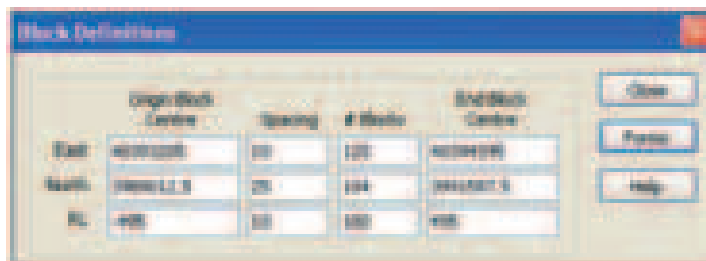


Figure 10-26: Block extents and sizes for orebodies 2 and 3

10.11 Grade Interpolation

Interpolation was block kriging into parent cells only, with discretisation to 5 points east, 5 points north and 5 points in elevation. The grades from the estimated points were then averaged to produce the kriged block grade.

The search ellipsoid was oriented parallel to the mineralisation to include relevant samples and was sized to exclude redundant samples. The same search ellipsoid was used for orebody 1 and orebodies 2 and 3. Three runs were required at different radii and parameters to populate all cells.

A “parent block estimation” technique was used, i.e. all subcells within a parent cell were given the same estimated grade value. The Ordinary Kriging estimation was performed at different search radii until all cells were populated. Grades were interpolated separately within each of the modelled mineralised zones using only assay composites restricted by the corresponding wireframe models. The search radii were determined by using the semivariogram ranges. Model cells that did not receive a grade estimate from the first interpolation run were used in the next interpolation with greater search radii. Model cells that did not receive a grade estimate from the first two interpolation runs were used in the next interpolation with greater search radii.

Declustering was performed during the interpolation process by using eight sectors within the search neighbourhood. Each sector was restricted to a maximum of three samples, and the search neighbourhood was restricted to an overall minimum of two sample grades for the first two interpolation runs. The maximum combined number of samples allowable for the interpolation was therefore 24.

A top or balancing cut of 38% total iron was used for the interpolation. The assay file composited to 2.0 metre intervals was also used for the interpolation.

Table 10-6: Search ellipsoid parameters for each run

| Parameter | Run 1 | | | Run 2 | | | Run 3 | | |
|-------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | 1st axis | 2nd axis | 3rd axis | 1st axis | 2nd axis | 3rd axis | 1st axis | 2nd axis | 3rd axis |
| Radius length (m) | 300 | 20 | 200 | 600 | 100 | 400 | 1000 | 1000 | 1000 |
| Azimuth | 30 | 120 | 120 | 30 | 120 | 120 | 30 | 120 | 120 |
| Plunge | 0 | -50 | 40 | 0 | -50 | 40 | 0 | -50 | 40 |
| No. sectors | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| Max. samples per sector | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Min. total samples | 2 | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 |

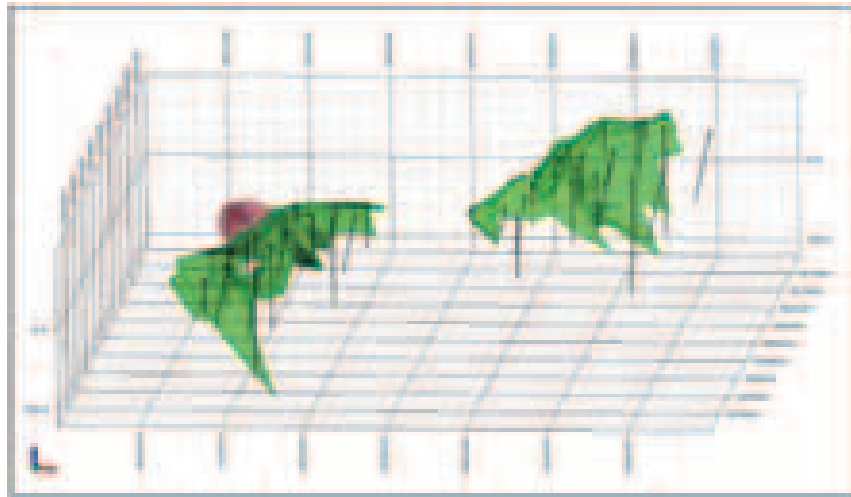


Figure 10-27: Search ellipsoid, run 1

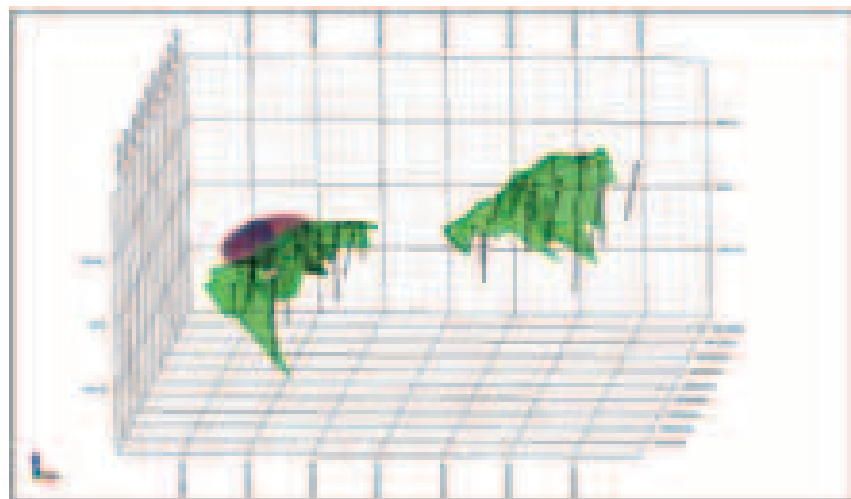


Figure 10-28: Search ellipsoid, run 2

Two views of the ordinary kriged block model are shown in Figure 10-29 and Figure 10-30. Figure 10-31 shows the ordinary kriged block model with the mined out areas to be removed and Figure 10-32 shows the ordinary kriged block model with the mined out areas removed.

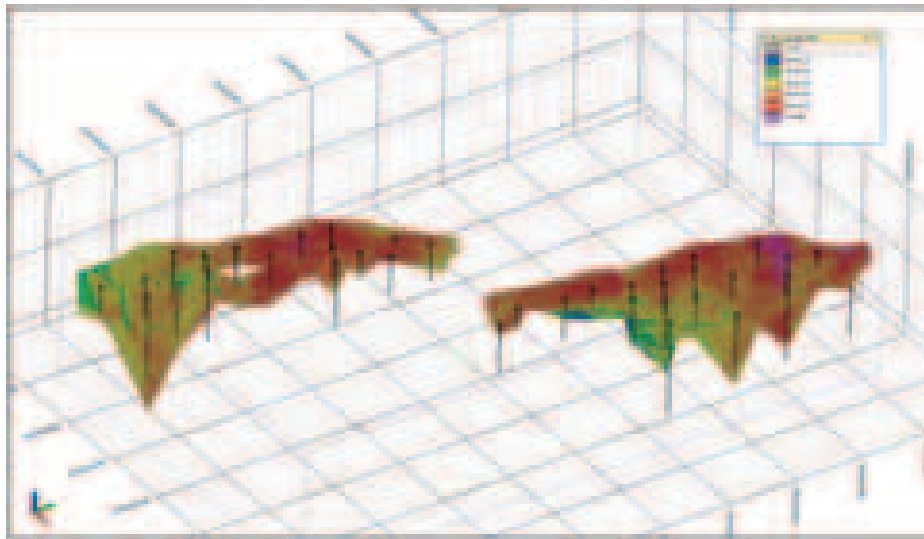


Figure 10-29: Ordinary kriged block model showing kriged TFe grades

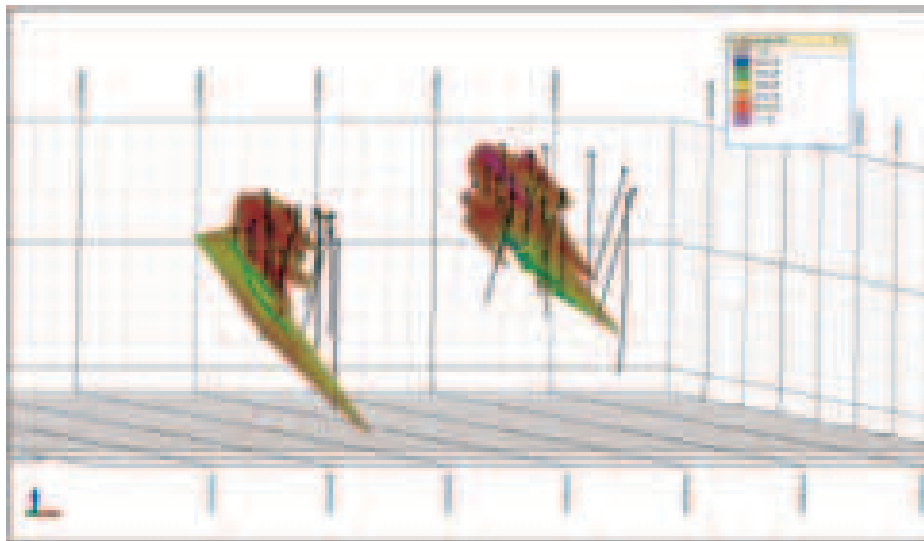


Figure 10-30: Ordinary kriged block model showing kriged TFe grades, side view

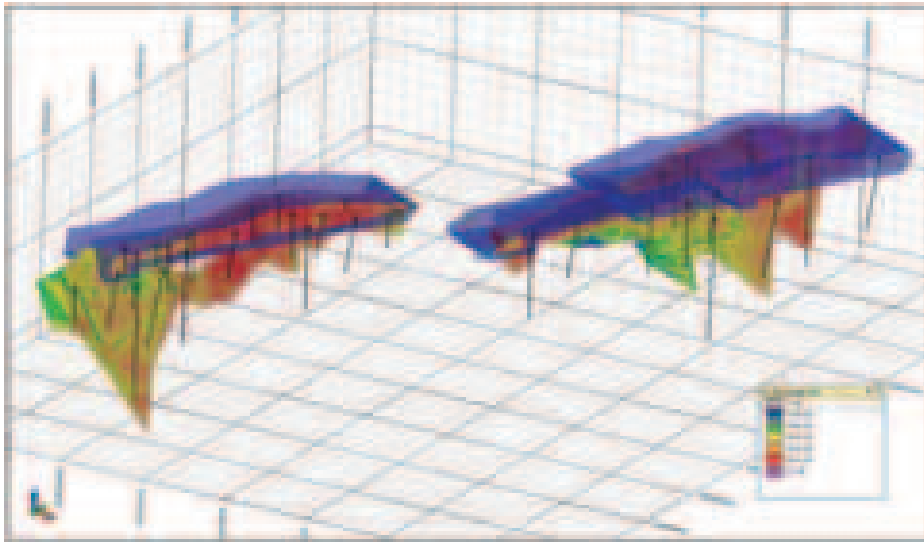


Figure 10-31: Ordinary kriged block model with areas near the surface that have been mined out (dark blue polygons) and underground workings (cyan coloured wireframes)

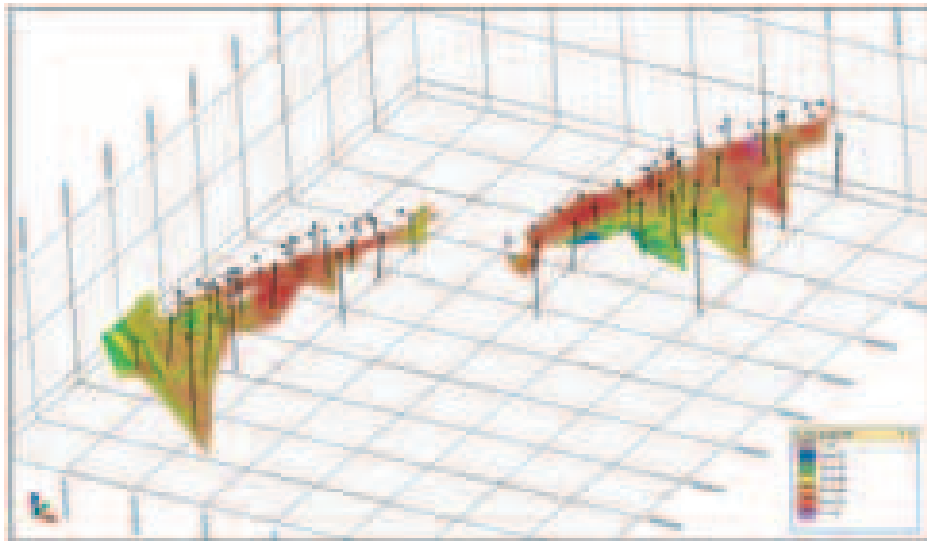


Figure 10-32: Ordinary kriged block model with areas near the surface that have been mined out and underground workings removed

10.12 Resource Classification Strategy

The purpose of resource estimation is to create a three-dimensional model of mineralisation that can be utilised for mining studies and economic calculations. While the aim is to estimate as accurately as possible, there will be more confidence in some portions of the model than others.

The classification strategy was designed to reflect the level of confidence in different areas of the model based on the inherent variability of measurements, the level of support provided by the data, and the expected continuity of mineralisation.

The data that was supplied to MCS and checked during the site visit, indicates that confidence in the data is moderate to high. The QA/QC data such as mean weighted core recovery, assay precision and assay bias and verification of the data on site supports this conclusion. The resource classification strategy was based primarily on sample spacing and numbers of samples and holes used to estimate a block value. For Measured Resources, a minimum of two samples from two holes had to be within a radius of 120 m. For Indicated Resources, this radius was 220 m. All other blocks were Inferred Resources.

After running an inverse distance weighted interpolation to determine the classification of the blocks, the classification was edited manually to reflect the confidence in different parts of the block model.

A view of the final, classified block model is shown in Figure 10-33.

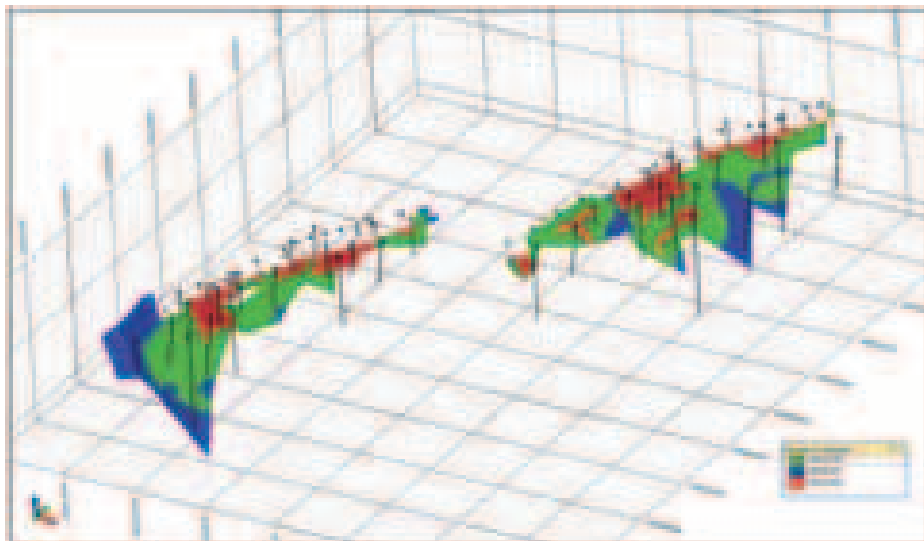


Figure 10-33: Final, classified block model

10.13 Specific Gravity Interpolation

A specific gravity database was supplied by the client that could be used for the interpolation into the block model. A total of 57 specific gravity measurements spread throughout all three orebodies of the deposit were included in the database. These measurements were interpolated into the block model using the IDW cubed interpolation method, resulting in every block in the block model containing a value for specific gravity.

The provision of the specific gravity database has resulted in higher confidence in the tonnage of the resource estimate of the deposit.

10.14 Model Validation

Three methods were utilised to validate the ordinary kriged block model:

1. The ordinary kriged global grade was compared to the raw sample grades;
2. The ordinary kriged global grade was compared to an inverse distance cubed model global grade;
3. The ordinary kriged model was checked locally in section to determine if the original sample grades were reflected in the block model grades.

The result from the ordinary kriged block model compared to the wireframe model is shown in Table 10-7. There is a small difference in volume and tonnage between the ordinary kriged model and the wireframes. This can be explained by the fact that the wireframes extended slightly above the topographic surface while the block model was clipped to the extents of the topographic surface, resulting in a slightly larger volume and tonnage for the wireframes. The wireframe TFe grade and the ordinary kriging TFe grade are both very similar, the difference being around 5%. The comparison with the mFe grade shows a slightly larger difference of around 15% as the mFe grade was not used for the interpretation and the ordinary kriging process tends to smooth the grades.

Table 10-7: Comparison of the ordinary kriging model with the wireframe model

| Category | Volume (m^3) | Tonnes (t) | SG (t/m^3) | TFe cut | |
|-----------|---------------------|-------------------|-------------------|---------|-------|
| | | | | 38% | mFe |
| OK Model | 36,732,165 | 119,358,696 | 3.25 | 27.24 | 12.13 |
| Wireframe | 36,732,183 | 119,379,596 | 3.25 | 28.72 | 14.31 |

Table 10-8 shows the result from the ordinary kriged block model compared to the result from the inverse distance weighted (IDW) cubed block model. There is very little difference between the two models with the difference in TFe grade being less than 0.5%. The difference in the mFe grade between the two models is less than 3%.

Table 10-8: Comparison of the result from the ordinary kriged model with IDW cubed model

| Category | Volume (m^3) | Tonnes (t) | SG (t/m^3) | TFe cut | |
|------------|---------------------|-------------------|-------------------|---------|-------|
| | | | | 38% | mFe |
| OK Model | 36,732,165 | 119,358,696 | 3.25 | 27.24 | 12.13 |
| IDW3 Model | 36,732,165 | 119,358,696 | 3.25 | 27.37 | 12.48 |

Local validation of the ordinary kriging block model with the original drillhole sample values for TFe is shown in Figure 10-34. It can be seen there is a high correlation between the original sample grades and the ordinary kriging interpolated block model grades. This fact, together with the comparison of the ordinary kriging global grade with the raw sample grades and an IDW cubed power model global grade validates the use of the ordinary kriging interpolation method and the final result.

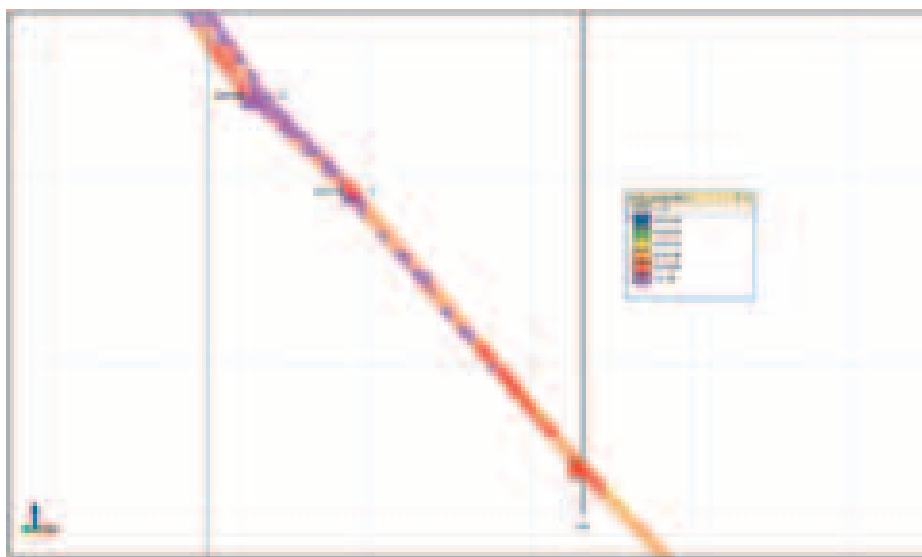


Figure 10-34: Cross-section showing local validation of block model and raw TFe grades

11 RESOURCE STATEMENT

The resources reported for the Yang Zhuang iron deposit are total resources, with the previously mined areas (as indicated by the client) removed. Resources are stated by category with the total of Measured, Indicated and Inferred resources and total of Measured and Indicated resources for Hong Kong Chapter 18 requirements. The resource statement is shown in Table 11-1.

The total resource at various TFe cut-off grades is shown in Table 11-2. The Measured, Indicated and Inferred Resources at various cut-off grades are shown in Table 11-3, Table 11-4 and Table 11-5 respectively.

Table 11-1: Resource statement for the Yang Zhuang iron deposit

| Resource Category | Volume (m³) | Tonnes (t) | SG (t/m³) | TFe (%) | mFe (%) |
|---|-----------------------------------|--------------------------|---------------------------------|--------------------|--------------------|
| Measured | 5,599,000 | 18,218,000 | 3.25 | 26.23 | 11.72 |
| Indicated | <u>16,232,000</u> | <u>52,753,000</u> | 3.25 | 26.81 | 10.66 |
| Total Measured and Indicated | 21,831,000 | 70,971,000 | 3.25 | 26.66 | 10.93 |
| Inferred | <u>5,530,000</u> | <u>17,791,000</u> | 3.22 | 24.60 | 8.79 |
| Total resource | <u><u>27,361,000</u></u> | <u><u>88,762,000</u></u> | 3.24 | 26.25 | 10.50 |

Note: Numbers have been rounded to reflect that the resources are an estimate.

Note: Resources may not ultimately be extracted at a profit.

Table 11-2: Total resources at various cut-off grades

| TFe COG (%) | Density (t/m³) | Volume (1000*m³) | Tonnage (1000*t) | TFe grade (%) | mFe grade (%) |
|------------------------|--------------------------------------|--|-----------------------------|------------------------------|------------------------------|
| 0.0 | 3.24 | 27,501 | 89,214 | 26.25 | 10.50 |
| 10.0 | 3.24 | 27,501 | 89,214 | 26.25 | 10.50 |
| 15.0 | 3.24 | 27,361 | 88,762 | 26.31 | 10.53 |
| 20.0 | 3.25 | 25,176 | 81,713 | 26.97 | 10.85 |
| 25.0 | 3.25 | 16,501 | 53,650 | 29.06 | 12.04 |
| 30.0 | 3.26 | 5,957 | 19,432 | 31.83 | 13.94 |
| 35.0 | 3.27 | 145 | 472 | 35.55 | 11.88 |

Note: Numbers have been rounded to reflect that the resources are an estimate.

Note: Resources may not ultimately be extracted at a profit.

Table 11-3: Measured resources at various cut-off grades

| TFe COG (%) | Density (t/m ³) | Volume (1000*m ³) | Tonnage (1000*t) | TFe grade (%) | mFe grade (%) |
|-----------------------|---------------------------------------|---|----------------------------|-------------------------|-------------------------|
| 0.0 | 3.25 | 5,637 | 18,343 | 26.23 | 11.72 |
| 10.0 | 3.25 | 5,637 | 18,343 | 26.23 | 11.72 |
| 15.0 | 3.25 | 5,599 | 18,218 | 26.31 | 11.76 |
| 20.0 | 3.26 | 5,187 | 16,887 | 26.94 | 12.20 |
| 25.0 | 3.26 | 3,495 | 11,384 | 28.93 | 13.72 |
| 30.0 | 3.27 | 1,185 | 3,876 | 31.63 | 16.52 |
| 35.0 | 3.30 | 44 | 145 | 36.14 | 18.58 |

Note: Numbers have been rounded to reflect that the resources are an estimate.

Note: Resources may not ultimately be extracted at a profit.

Table 11-4: Indicated resources at various cut-off grades

| TFe COG (%) | Density (t/m ³) | Volume (1000*m ³) | Tonnage (1000*t) | TFe grade (%) | mFe grade (%) |
|-----------------------|---------------------------------------|---|----------------------------|-------------------------|-------------------------|
| 0.0 | 3.25 | 16,331 | 53,071 | 26.81 | 10.66 |
| 10.0 | 3.25 | 16,331 | 53,071 | 26.81 | 10.66 |
| 15.0 | 3.25 | 16,232 | 52,753 | 26.89 | 10.69 |
| 20.0 | 3.25 | 14,940 | 48,578 | 27.61 | 11.02 |
| 25.0 | 3.25 | 10,776 | 35,074 | 29.42 | 11.97 |
| 30.0 | 3.26 | 4,498 | 14,673 | 31.88 | 13.46 |
| 35.0 | 3.26 | 85 | 276 | 35.30 | 8.94 |

Note: Numbers have been rounded to reflect that the resources are an estimate.

Note: Resources may not ultimately be extracted at a profit.

Table 11-5: Inferred resources at various cut-off grades

| TFe COG (%) | Density (t/m ³) | Volume (1000*m ³) | Tonnage (1000*t) | TFe grade (%) | mFe grade (%) |
|-----------------------|---------------------------------------|---|----------------------------|-------------------------|-------------------------|
| 0.0 | 3.22 | 5,533 | 17,801 | 24.60 | 8.79 |
| 10.0 | 3.22 | 5,533 | 17,801 | 24.60 | 8.79 |
| 15.0 | 3.22 | 5,530 | 17,791 | 24.61 | 8.79 |
| 20.0 | 3.22 | 5,049 | 16,249 | 25.12 | 8.94 |
| 25.0 | 3.23 | 2,229 | 7,193 | 27.58 | 9.73 |
| 30.0 | 3.22 | 274 | 883 | 31.81 | 10.65 |
| 35.0 | 3.23 | 16 | 52 | 35.27 | 9.04 |

Note: Numbers have been rounded to reflect that the resources are an estimate.

Note: Resources may not ultimately be extracted at a profit.

12 COMPARISON WITH HISTORIC RESOURCE

In order to be able to make an approximate comparison with the historic resource, MCS has reported the model without the mined areas removed and an mFe cut-off of 10% applied, as per the Chinese industrial index for magnetite iron ore. The comparison is very general, however, due to the differences in the parameters and methods used. The Chinese resource category 332 is similar to the JORC resource category of “Indicated”, while the Chinese resource category 333 is similar to the JORC resource category of “inferred” however direct comparisons are not valid. The Chinese resource is not JORC compliant and has therefore been classified as a historic resource.

**APPENDIX IV-A REPORT OF THE INDEPENDENT TECHNICAL
ADVISER – YANG ZHUANG IRON MINE**

The resource estimate for the model without the mined areas removed and an mFe cut-off of 10% applied is shown in Table 12-1.

Table 12-1: Current resource estimate of unmined orebody, cut-off 10% mFe

| Resource Category | Density (t/m³) | Volume (1000*m³) | Tonnes (1000*t) | Grade TFe (%) | Grade mFe (%) |
|--------------------------|--------------------------------------|--|----------------------------|------------------------------|------------------------------|
| Measured | 3.27 | 10,282 | 33,584 | 29.64 | 16.70 |
| Indicated | 3.26 | <u>10,719</u> | <u>34,904</u> | 28.78 | 14.34 |
| Total | 3.25 | 21,001 | 68,489 | 29.23 | 15.50 |
| Inferred | 3.22 | <u>1,935</u> | <u>6,232</u> | 26.08 | 11.86 |
| Total | 3.25 | <u><u>22,936</u></u> | <u><u>74,720</u></u> | 28.94 | 15.19 |

Note: Numbers have been rounded to reflect that the resources are an estimate.

Note: Resources may not ultimately be extracted at a profit.

The total Measured and Indicated resource for the current resource with an mFe cut-off of 10% applied is 68.5 million tonnes versus 53.4 million tonnes from the historic Chinese resource. This is an increase of 28% on the historic resource tonnage. The TFe grade for the current resource is 5.5% lower than the historic resource and the mFe grade for the current resource is 15.2% lower than the historic resource. The difference in the size of the resources is due to the use of a lower TFe cut-off grade (10.5% TFe) for interpretation of the mineralisation for the current resource and different interpretation methods. The interpretation of the current resource involved larger down dip extensions where continuity of mineralisation from adjacent sections could be inferred. These factors resulted in a larger mineralised envelope for the current resource compared to the historic resource which was estimated by a polygonal method.

The differences in the TFe grade can be explained by the use of the ordinary kriging method for the current resource compared to the use of the polygonal method for the historic resource. The ordinary kriging method tends to “smooth” the grades resulting in a slightly lower result. This same explanation can be applied to the difference for the mFe grade together with the fact that some areas of lower mFe but high TFe would have been included in the current resource compared to the historic resource.

13 METALLURGY AND MINERAL PROCESSING

The Yang Zhuang project is currently an active, underground mining operation. As a result, no metallurgical testwork information has been provided but a brief reconciliation report for the project was provided.

The mineral processing for the project involves magnetic separation of the iron-bearing magnetite to produce a magnetite concentrate. The magnetite concentrate is sent to the smelter for extraction of the iron. The stages of processing are briefly described below and shown in the processing flowchart in Figure 13-1.

The raw ore is first subjected to two stages of crushing; primary crushing in a jaw crusher then secondary crushing in a cone crusher. The crushed ore passes through a riddler to separate the coarse particles from the fine particles. Coarse particles are returned to the crushing circuit while fine particles are sent to the fine ore bin. The fine ore is fed into the ball mills for pulverisation before passing through a screen before magnetic separation. The magnetic fraction is passed through a HF screen before the second stage of magnetic separation while non-magnetic material is sent to the tailings circuit. The second stage of magnetic separation involves the oversize and undersize fractions separated by the HF screen.

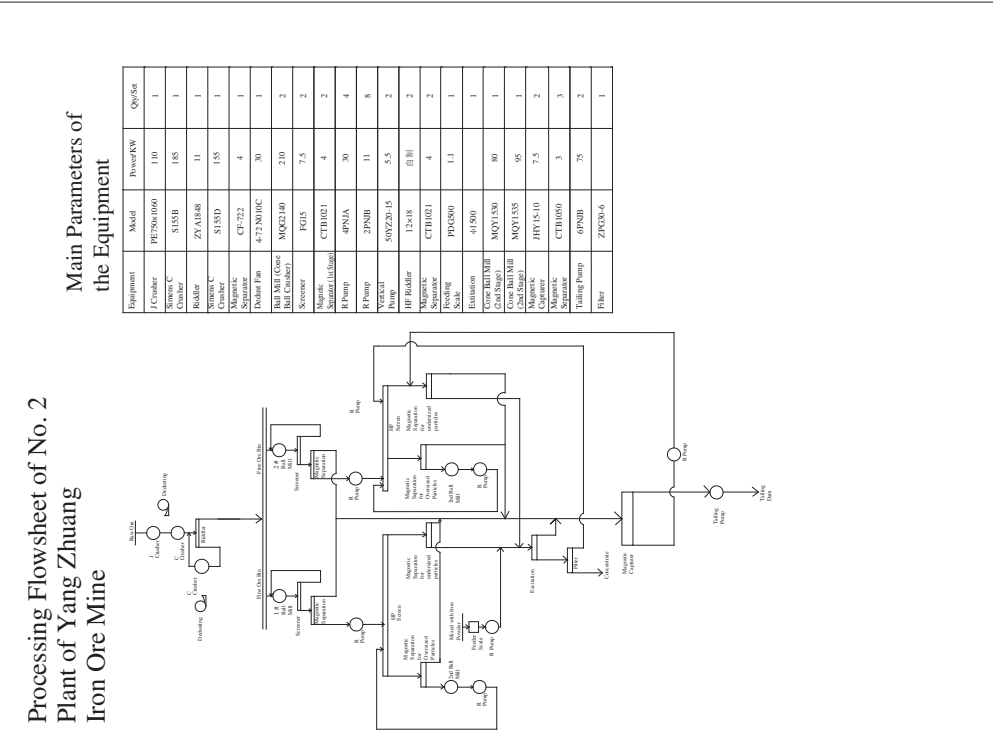
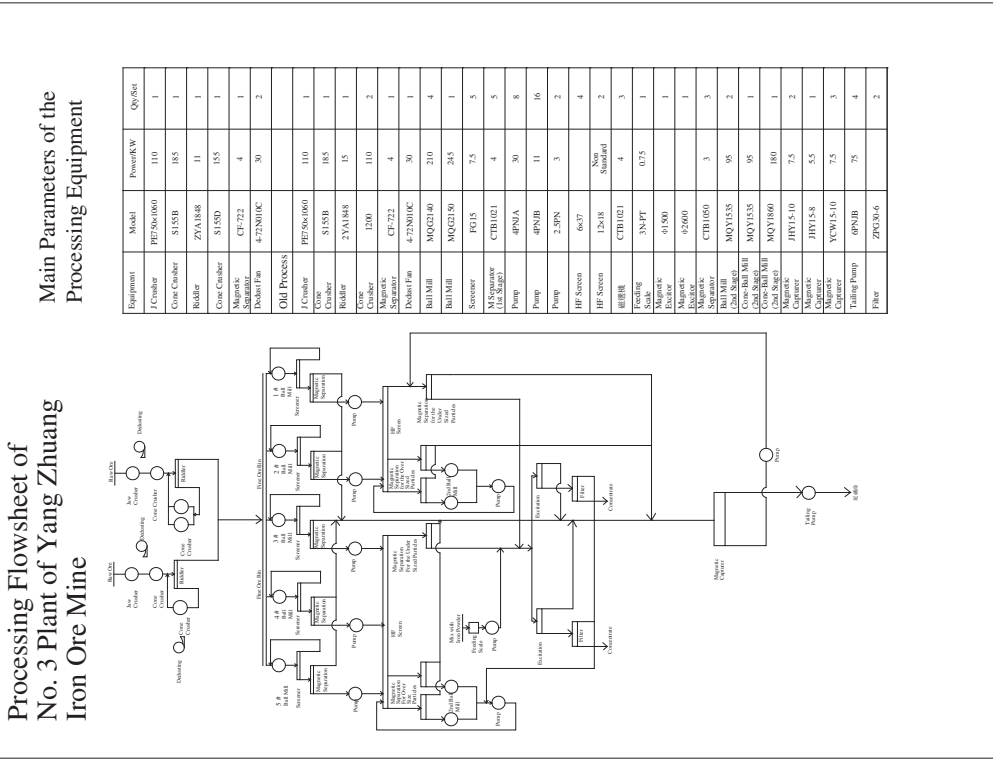


Figure 13-1: Processing flowsheet for No. 2 and No. 3 processing plants, Yang Zhuang mine

Finally, the magnetic material is filter pressed to become the final concentrate.

The Yang Zhuang mine operates two processing plants; Number 2 plant and Number 3 plant.

Number 2 plant has two ball mills while the newer Number 3 plant has five ball mills. The processing procedure is the same for both plants and the provision of Number 3 plant has only resulted in an increase in throughput and capacity.

The Feasibility Study report from Shandong Lianchuang Architectural Design Company Ltd (2011) states that the production of the proposed processing plant would be 2 million tonnes per annum from 2012 to 2013 due to the expansion of the mining capacity, then ramping up to 3.5 million tonnes per annum thereafter with an average annual concentrate output of approximately 596,400 tonnes of 66% iron concentrate. The processing capacity of the plant is already at 3.5 Mtpa. The processing plant would consist of a three-section closed circuit crushing unit and a four-stage ore separating plant. Processing recoveries are stated as being 62.8% of TFe in the Feasibility Study report (Shandong Lianchuang Architectural Design Company Ltd, 2011) sent to MCS on 15th September 2011, however MCS believes using a recovery rate based on mFe is more reasonable as the processing plant is designed to recover the mFe (the quantity of the iron in the magnetic fraction of the ore) not TFe. The “Basic Engineering Design report for Yang Zhuang mine” (sent to MCS on 11th March 2011) stated a processing recovery of 98% mFe, which MCS considers ‘unlikely’. MCS believes a recovery rate of 92% of mFe is more realistic. MCS acknowledges that some discrepancies exist between processing recovery rates provided in different revisions of feasibility reports provided by the client and that there is a lack of results from metallurgical testwork performed to support the revised numbers. The recovery rates used in this estimation are based on the experience of the Competent Person and are considered comparable to recovery rates for other mines with similar ore types and grades. MCS recommends that mineral processing testwork such as a commercial test be carried out to determine the true recovery rates for the particular ores, processing equipment and design parameters of this project. Based on the results of processing testwork recovery rates may need to be revised either upwards or downwards.

14 UNDERGROUND MINING STUDY

14.1 Scope of Work

The scope of work for the mining study was to convert the resources to reserves. This involved:

- calculating cut-off grades;
- panel design using MICROMINE software;

- checking the panel design results with the underground design produced by the Shandong Lianchuang Architectural Design Co. Ltd (2011);
- assessing the proposed mining method;
- producing a life of mine schedule;
- assessing the cost and revenue estimates for the project;

MCS had previously completed a resource and reserve estimate of the project in June 2011. The client commissioned MCS to complete an update of the reserve estimate for the project due to changes in modifying factor information outlined in the Feasibility Study report (Shandong Lianchuang Architectural Design Company Ltd, 2011). The changes in modifying factor information were as follows:

- An increase in the mining and processing capacity from 2 million tonnes per annum previously to 3.5 million tonnes per annum.
- A reduction in mining life from 21 years previously to 13.1 years.
- Capital expenditure for the proposed expansion of CN¥188 million.
- A reduction in processing costs from CN¥38.00 per tonne previously to CN¥33.84 per tonne.

All possible modifying factors are to be considered for the conversion of resources to reserves.

14.2 Mining Method

The following information has been summarised from *Preliminary Design of Yangzhuang Iron Deep Mining Project for Shandong Xingsheng Mining Company Limited*, the 'Basic Engineering Design' document.

The Yang Zhuang deposit has amenable technical conditions for mining. One of the aims of the mining method design is to improve the mining recovery rate and reduce the mining dilution rate. The following two underground mining methods are appropriate for the deposit:

- Sublevel caving method (filling after mining)
- Short hole shrinkage method (filling after mining)

The sublevel caving method is applicable to areas where the orebody has a thickness greater than eight metres while the short-hole shrinkage stoping method is applicable to areas where the orebody has a thickness of less than eight metres.

According to the design and the Reconciliation Report of the Chinese report, only the Short hole shrinkage method has been used until now due to instability of the hanging wall.

Sublevel Caving Mining Method

The sublevel caving underground mining method is divided into two design layouts; along the strike of the orebody and across the strike of the orebody. For this method, when the horizontal thickness of the orebody is more than 8 metres and less than 20 metres, the ore blocks are arranged along the strike of the orebody. For a small amount of ore blocks, if the thickness is more than 20 metres in the middle part of the orebody, the ore blocks are arranged across the strike of the orebody.

The length of a standard ore block arranged along the strike of the orebody is 50 metres, while the width of an ore block is equal to the horizontal thickness of the orebody which is 16 metres, taking into account 6 metres for a rib pillar and 6 metres for a crown pillar without a bottom pillar.

The length of a standard ore block arranged across the strike of the orebody is equal to the horizontal thickness of the orebody, while the width of an ore block is 32 metres with a crown pillar of 4 metres and a bottom pillar of 6 metres. The height of an ore block, which is also the distance between levels, is 60 metres.

The mining preparation and cutting works for the sublevel caving method consists mainly of construction of the lower ventilation rise, the roadway for ore removal, the sublevel drilling roadway access, the sublevel ore-pass, the sublevel connection, ore removal connection, accessway for the mining equipment such as the underground electric locomotive for ore transport and the sublevel ore-pass.

The sublevel caving method divides ore blocks into subsections with a height of 18 metres (or 13.23 metres) depending on the angle of inclination of the orebody. Mining will be carried out in subsections along the length of ore blocks from one end to a sublevel ore-pass. Retreat-stoping from top to bottom is commonly used on sublevels.

Upon the completion of mining and cutting works, stoping work is mainly composed of three processes; rock drilling, ore blasting and ore removal.

The rock drilling process will involve the use of YGZ90 drills to drill holes of medium depth. The blasting process will involve the use of ANFO explosives, while ore removal involves the use of the underground electric locomotive which will transport the caving ore from the bottom of the sublevel to the ore-pass.

For the filling process, all the mined-out stopes shall be filled with whole tailings (cemented). The waste rock from underground mining will remain underground to also be used as filling.

Short Hole Shrinkage Stopping Method

For the short-hole shrinkage (SHS) stopping method the ore blocks are arranged along the strike of the orebody. The length of the standard ore block is 48 metres and the width is the same as the horizontal thickness of the orebody. The horizontal thickness of the orebody is 8 metres which takes into account 6 metres for a rib pillar, 5 metres for the crown pillar and no bottom pillar. The height of the ore block which is also the distance between the levels is 60 metres.

The mining preparation and cutting works for the SHS stopping method consists mainly of construction of the roadway, lower ventilation rise, chamber air connection, sub-level air connection, ore removal air connection, ore-pass, accessway for the mining equipment such as the underground electric locomotive for ore transport, and the returning air and filling connection.

For stopping work, the short-hole shrinkage method is mainly composed of four processes, namely rock drilling, ore blasting, ore drawing and filling.

The rock drilling process involves the use of a short-hole drill, while blasting involves the use of ANFO explosives. The ore drawing process includes two steps. Firstly, before the ore in the chamber is stoped, after each blast, one third of the caving ore is drawn. After the blasting is finished, a larger amount of caving ore is drawn. The ore is removed by a motor-driven underground electric locomotive which transports the caving ore from the bottom of the stope to a sub-level ore-pass via the ore removal accessway and ore removal connection.

For the filling, all mined out stopes will be filled with tailings or a combination of waste rock and tailings.

14.3 Mining Equipment

The mining equipment for the project will consist of stope ore removal equipment, rock-excavating and mucking equipment and rock-drilling equipment. Over nearly 20 years of underground mine construction and production in China, the underground mine electric locomotive and loader has been the main equipment for ore removal and mucking. It is preferred over other loading and hauling equipment to ensure the production capacity of the mine, reduce the mining cost, save energy and improve the composite economic results of mining enterprises. It is likely that the underground mine electric locomotive and loader shall be used in stope ore removal and rock-tunnelling and mucking processes for the project.

According to the matching relation between loading work amount and productive power of the electric locomotive and loader, stope ore removal shall involve six sets of two cubic-metre motor-driven electric locomotive and loaders, 2 sets of two cubic-metre diesel locomotive and loaders and 3 sets of one cubic-metre diesel locomotive and loaders for rock-excavation.

Considering that the sublevel height of the stope is small and the drilled holes are quite shallow, the rock-drilling work will involve pneumatic drilling equipment including mining rock-drilling equipment and rock-drilling and excavating equipment.

For mining rock-drilling, medium-deep-hole YGZ90 drills with a maximum drilling depth of 30 metres and short-hole 7655 drills will be used.

For medium-deep-holes, the efficiency of the YGZ90 drill machine team is 30 metres/team, 330 days per year with 2 teams working per day. This will result in an ore caving amount of 9 tonnes per metre with a rock-drilling and annual operation rate of 75%.

The two ore blocks have totally 17 chambers, of which 13 are in service and 4 are standby. A total of 17 medium-deep-hole drills will be selected to meet the demand of production; four are standby, as a result there will be a total of 21 drills (by 1/4 proportional allocation).

For short-holes, the 7655 drill will be used. Considering that 25.64% of the whole mining work shall involve the short-hole shrinkage stoping method, two short-hole drills will be configured in each chamber. A total of four 7655 drills is designed to apply and four are for standby, as a result there will be a total of eight 7655 drills (by 1:1 proportional allocation).

For excavation work, the short-hole 7655 and YSP45 drills will be used.

There will be a total of six working faces that require tunnelling: 2 large sections, each of which is configured with three 7655 drills and 4 small sections, each of which is configured with two 7655 drills. Fourteen 7655 drills will be used with five for standby (by 1/3 proportional allocation) resulting in a total of nineteen drills. Rock-excavation and raise and ore-pass drilling will involve the use of YSP45 drills, three of which are designed to be used and one for standby; giving a total of four.

14.4 Ventilation

The ventilation systems of Gongdanshan ore block (orebody 1) and Eshan ore blocks (orebodies 2 and 3) are interrelated and independent on each other. Both are of the central-diagonal type and use a pumping ventilation method. The ventilation system of the Gongdanshan ore block is arranged as follows: the auxiliary shaft functions as a downcast shaft, and the main shaft and central return air shaft function as upcast air shafts. For the ventilation system of the Eshan ore blocks the auxiliary shaft functions as a downcast air shaft, and the main shaft and central return air shafts function as upcast air shafts. The central return air shaft works for both ore blocks at the same time.

One thing to be noted is that the lower ventilating rise of ore blocks along the boundary which is below +140 metre level of both ends of the Gongdanshan ore block and +160 m level of Eshan south end, is a permanent ventilation facility with the section size of 4 metres by 4 metres. It will be protected from the mining processes and must not be damaged.

15 RESERVE ESTIMATION

15.1 Introduction

The JORC code and definitions have been used for the conversion of Resources to Reserves.

The Resource has been classified as Measured, Indicated, and Inferred. By definition Reserves may not include Inferred Resources. Like Resources, Reserves, by definition, have two components; a quantity component (value) and a classification component (risk).

The quantity component of Resources is termed Gross Tonnes In Situ (GTIS), and is the starting point in the derivation of Reserves. The process used to convert GTIS to Reserves is as follows;

- Step 1: GTIS is converted to Mineable Tonnes In Situ (MTIS);
- Step 2: MTIS is converted to Reserves.

The classification component of Reserves is based on the classification of the Resource.

Step 1: the conversion of the GTIS, into MTIS

GTIS is split into Resources that will be mined utilizing Surface mining techniques and Resources that will be mined utilizing Underground mining techniques. The reason being that different sets of infrastructure and equipment are used for Surface and Underground mining which translates into different capital and working costs and mining rates. If a mining block had a tonnage of less than 80,000 tonnes, it was excluded from the MTIS.

Secondly all Inferred Resources are excluded.

Step 2: the conversion of MTIS into Reserves.

During this step appropriate factors are applied to the MTIS to obtain the Reserve.

These factors include grade cut-offs (where appropriate), economic cut-offs (such as block volumes) and losses due to the mining method envisaged.

A modelling estimation error is also applied.

The Reserve classification is based on the Resource classification. Once the Inferred Resources have been excluded the Reserve is classified. Indicated Resources can only go to Probable and Measured to Proven.

15.2 Yang Zhuang Resource to Reserve Calculation

These Reserves were based on the Resource model dated 8/4/2011, and the Reserves were therefore deemed to have the same date. However, the modifying factors parameters were changed and the reserves were recalculated with these new parameters in November 2011. It should be noted that the Reserves quoted here are a “snapshot” at a specific point in time. Should any of the inputs change, such as the Resource model, the Reserves should be recalculated.

In the case of the Yang Zhuang project all the surface mining Reserves have been exploited and are therefore are not considered in the Resources to Reserves conversion process. All the Resources are therefore only for underground mining techniques.

For Yang Zhuang there are Measured, Indicated and Inferred Resources. In the process of converting the Resources to Reserves, all the Inferred Resources have been excluded from MTIS. To convert the GTIS to MTIS the layout as defined by the Short Hole Shrinkage (SHS) mining method was applied to the ore wireframes. This had the effect of “blocking out” the ore wireframe with the SHS mine design parameters. These parameters are listed in Table 15-1. Figure 15-1 and Figure 15-2 shows the blocking out of the Resource based on the parameters given in Table 15-1.

Table 15-1: Parameters for Short Hole Shrinkage mining method

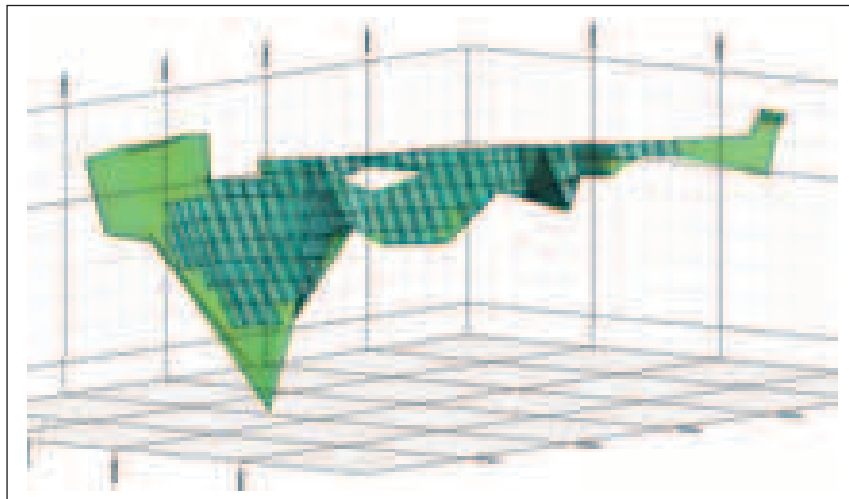
| Description | Unit | Short Hole |
|-------------------------|------|---------------------------------------|
| | | Shrinkage Mining Method Parameters |
| Length of Block | m | 48 |
| Minimum width of Block | m | 8 |
| Pillar between Blocks | m | 6 |
| Crown Pillar | m | 5 |
| Distance between levels | m | 60 |

The Preliminary Design report (Shandong Province Metallurgical Engineering Company Limited, 2008) also highlighted a minimum ore-body thickness from a practical mining point of view which is 8 m. Using the parameters in the table above the minimum tonnage per block is 84,000 tonnes. A hurdle of 80,000 tonnes was set per block i.e. if a block had less than 80,000 tonnes it was excluded from Reserves.

The “blocked out” ore wireframes were then coded in MICROMINE to exclude the following:

- Inferred Resources;
- If the tonnage per block was less than 80,000 tonnes.

The resulting blocks then constituted the MTIS. This MTIS was then further manipulated using factors to derive the Reserve.



**Figure 15-1: Orebody 1 showing blocked out stopes after
Inferred Resources have been excluded**

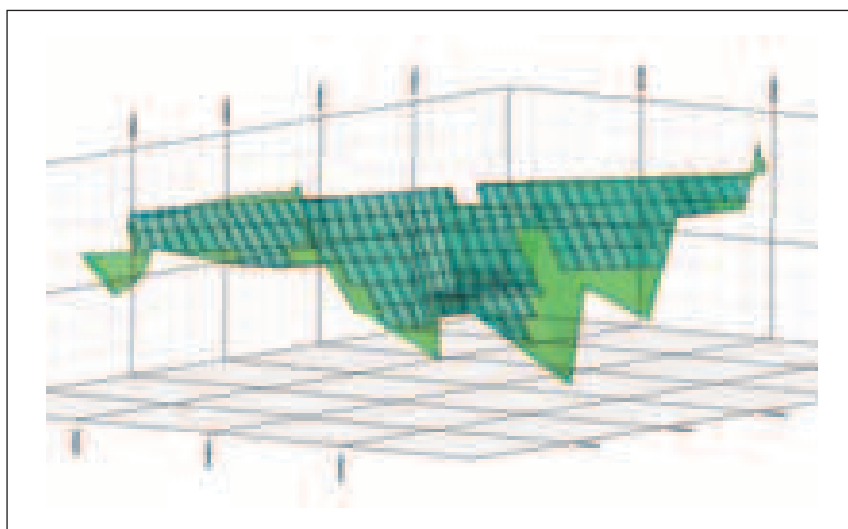


Figure 15-2: Ore body 2 and 3 showing blocked out stopes after Inferred Resources have been excluded

The factors applied to MTIS include the following:

- A loss of 18.5% which represents the ore left in pillars around the potential stopes. This was calculated based on the geometry of the stope;
- A modelling estimation error of 3%. This is an industry norm. For Measured Resources a factor of 3% is used and for Indicated a factor of 5% is used. In this case this is a brownfields project in that it has already been mined and therefore a factor of 3% is used although the majority of the Resource is Indicated;
- An mFe grade cut-off of 8.0% applied to each mining block. This value is based on the breakeven grade of the currently envisaged cost model for the underground mine.

Table 15-2 shows the GTIS and MTIS for the Yang Zhuang project prior to any economic cut-offs being applied. Table 15-3 shows the GTIS and MTIS for the Yang Zhuang project after the economic cut-off has been applied. This model is based on the values in the Preliminary Design report (Shandong Province Metallurgical Engineering Company Limited, 2008) and the Feasibility Study report (Shandong Lianchuang Architectural Design Company Ltd, 2011) supplied by the client. From the tables it can be seen that approximately 20% of the mineable ore is lost due to the application of a grade cut-off.

Table 15-2: Statement of JORC compliant Reserves for the Yang Zhuang project, November 2011 (without mFe grade cut-off)

| Orebody Name | Class | GTIS (Mt) | GRADE TFe (%) | GRADE MFe (%) | MTIS (Mt) | GRADE TFe (%) | GRADE MFe (%) | Mining Recovery (%) | Dilution (%) | Proved Reserves (Mt) | Probable Reserves (Mt) | GRADE TFe (%) | GRADE MFe (%) |
|--------------------|-----------|----------------------|------------------|------------------|----------------------|------------------|------------------|------------------------|-----------------|-------------------------|---------------------------|------------------|------------------|
| 1A_10_5Fe | Measured | 10.297 | 25.95 | 10.74 | 10.065 | 25.95 | 10.74 | 78.5 | 9.0 | 8.612 | – | 23.81 | 9.85 |
| 1A_10_5Fe | Indicated | 32.664 | 27.61 | 9.98 | 29.824 | 27.61 | 9.98 | 78.5 | 9.0 | – | 25.519 | 25.33 | 9.16 |
| Total | | <u>42.961</u> | | | <u>39.889</u> | | | | | <u>8.612</u> | <u>25.519</u> | | |
| 2A_10_5Fe | Measured | 1.098 | 28.500 | 14.60 | 0.734 | 28.50 | 14.60 | 78.5 | 9.0 | 0.800 | – | 20.53 | 10.51 |
| 2A_10_5Fe | Indicated | 4.551 | 28.74 | 15.30 | 3.731 | 28.74 | 15.30 | 78.5 | 9.0 | – | 3.192 | 26.37 | 14.04 |
| Total | | <u>5.649</u> | | | <u>4.465</u> | | | | | <u>0.800</u> | <u>3.192</u> | | |
| 3A_10_5Fe | Measured | 6.397 | 26.31 | 12.61 | 6.397 | 26.31 | 12.61 | 78.5 | 9.0 | 5.474 | – | 24.14 | 11.57 |
| 3A_10_5Fe | Indicated | 15.856 | 24.79 | 10.85 | 14.342 | 24.79 | 10.85 | 78.5 | 9.0 | – | 12.272 | 22.74 | 9.95 |
| Total | | <u>22.253</u> | | | <u>20.739</u> | | | | | <u>5.474</u> | <u>12.272</u> | | |
| Grand total | | <u><u>70.863</u></u> | | | <u><u>65.093</u></u> | | | | | <u><u>14.886</u></u> | <u><u>40.983</u></u> | | |

Table 15-3: Statement of JORC compliant Reserves for the Yang Zhuang project, November 2011 (with 8.0% mFe grade cut-off)

| Orebody Name | Class | GTIS (Mt) | GRADE TFe (%) | GRADE MFe (%) | MTIS (Mt) | GRADE TFe (%) | GRADE MFe (%) | Mining Recovery (%) | Dilution (%) | Proved Reserves (Mt) | Probable Reserves (Mt) | GRADE TFe (%) | GRADE MFe (%) |
|--------------------|-----------|----------------------|------------------|------------------|----------------------|------------------|------------------|------------------------|-----------------|-------------------------|---------------------------|------------------|------------------|
| 1A_10_5Fe | Measured | 10.297 | 27.10 | 13.04 | 6.193 | 26.75 | 12.60 | 78.5 | 9.0 | 5.299 | – | 24.54 | 11.56 |
| 1A_10_5Fe | Indicated | 32.664 | 27.90 | 10.81 | 22.754 | 27.87 | 10.79 | 78.5 | 9.0 | – | 19.469 | 25.57 | 9.90 |
| Total | | <u>42.961</u> | | | <u>28.947</u> | | | | | <u>5.299</u> | <u>19.469</u> | | |
| 2A_10_5Fe | Measured | 1.098 | 29.323 | 15.18 | 0.688 | 29.32 | 15.18 | 78.5 | 9.0 | 0.750 | – | 21.12 | 10.93 |
| 2A_10_5Fe | Indicated | 4.551 | 29.65 | 15.92 | 2.720 | 29.65 | 15.92 | 78.5 | 9.0 | – | 2.327 | 27.20 | 14.60 |
| Total | | <u>5.649</u> | | | <u>3.408</u> | | | | | <u>0.750</u> | <u>2.327</u> | | |
| 3A_10_5Fe | Measured | 6.397 | 26.65 | 13.20 | 5.782 | 26.41 | 13.00 | 78.5 | 9.0 | 4.947 | – | 24.23 | 11.93 |
| 3A_10_5Fe | Indicated | 15.856 | 24.83 | 10.91 | 13.021 | 24.75 | 10.88 | 78.5 | 9.0 | – | 11.141 | 22.71 | 9.98 |
| Total | | <u>22.253</u> | | | <u>18.803</u> | | | | | <u>4.947</u> | <u>11.141</u> | | |
| Grand total | | <u><u>70.863</u></u> | | | <u><u>51.158</u></u> | | | | | <u><u>10.996</u></u> | <u><u>32.938</u></u> | | |

16 RESERVE STATEMENT

The JORC Code provides guidelines which set out minimum standards, recommendations and guidelines for the Public Reporting of exploration results, Mineral Resources and ore reserves. Within the code is a “Checklist of Assessment and Reporting Criteria” (Table 1 – JORC Code). This checklist is a useful method for reviewing JORC compliance. A summary of key points are listed in Table 16-1.

Table 16-1: JORC Code Compliance Checklist for Yang Zhuang

| Section | Comment |
|---|--|
| Is the Reserve derived from JORC compliant Resource Statement? Who are the competent persons? | This JORC Reserve is derived from JORC compliant Mineral Resources Statement signed by Mr. David Allmark of MCS. |
| What is the current project status? | The mine is currently operating. A life of mine plan has been prepared. |
| What cut off parameters and physical limits have been applied in estimating the Reserves? | A cut-off grade based on economic factors has been calculated and applied. Factors have been used for mining recovery and dilution based on the stope shapes and the selected mining method. |
| What mining and geotechnical assumptions have been made? | Geotechnical assumptions have been considered in the design of the underground mine. Ore quality is as per the geological model combined with recovery, dilution, and moisture adjustments. |
| Is there a metallurgical process used and what is suitability to the type of operation? | The project has a suitable metallurgical process in place. Ore is crushed, milled, and then separated using drum magnets. |
| How have the project capital, operating costs and royalties been derived? | The Capital and Operating costs are based on estimates using quotes as well as costs from similar mining projects. Royalties are based on government requirements. |

| Section | Comment |
|--|---|
| What is the market demand and supply of this commodity and what are the price and volume forecasts of the Reserves based upon? | The Ore from this mine is separated to produce an iron concentrate that meets customer requirements. MCS anticipates no foreseeable issues in demand for this product as it is good quality. |
| Any other factors that may potentially affect the viability of the project and the status of titles and approvals required for the project? | MCS is not aware of any other potential factors that could affect the operation viability. Approvals for the proposed expansion have been applied for. |
| What is the basis for the classification of the ore reserves and proportion of ore reserves which have been derived from Measured Mineral Resources? | Classification of Ore Reserves has been derived by considering the Measured and Indicated Resources and the level of mine planning. Inferred resources have been excluded from the estimate. |
| Results of audits or reviews of Reserves Statements | As per findings in this review, plus internal reconciliation and peer review. |
| Relative accuracy and confidence of the Reserves Estimate | The Reserve estimate is supported by approximately 25% of Measured Resources, the remainder coming from Indicated Resources. The Yang Zhuang mine is an operating mine with a technical team engaged in on-going mine planning. As a result there is a relatively high level of confidence in the estimate. |

Following on from the calculations in Table 15-2, Table 15-3 and the checklist in Table 16-1, the MCS reserve statement shows the diluted and recoverable underground reserves for the Yang Zhuang project. Only Measured Resources have been considered for conversion to Proved Reserves and only Indicated Resources have been considered for Probable Reserves.

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The MCS reserve statement (**the current Reserve, November 2011**) for the Yang Zhuang deposit is shown in Table 16-2.

Table 16-2: JORC Compliant total Reserves for the Yang Zhuang deposit

| Reserve Classification | Ore Tonnes (Mt) | Grade TFe (%) | Grade MFe (%) | Contained TFe (Mt) | Contained MFe (Mt) |
|-------------------------------|------------------------|----------------------|----------------------|---------------------------|---------------------------|
| Proved | 11.00 | 24.17% | 11.68% | 2.66 | 1.28 |
| Probable | 32.94 | 24.72% | 10.26% | 8.14 | 3.38 |
| Total | 43.93 | 24.58% | 10.61% | 10.80 | 4.66 |

Note 1: Numbers have been rounded to reflect that the reserves are an estimate. As such the numbers may not total to an equal amount.

Note 2: Contained TFe and mFe does not imply that all the TFe and mFe can be recovered. Processing recovery has not been accounted for in the calculation.

For Orebody 1 the Reserve is 24,769,000 tonnes, for Orebody 2 the Reserve is 3,077,000 tonnes and for Orebody 3 the Reserve is 16,089,000 tonnes. The total Reserve is estimated as 43,935,000 tonnes at a grade of approximately 24.6% TFe and 10.6% mFe.

The project has an estimated mine life of 13.2 years.

17 HISTORIC DEPLETION RATES

Historic resource depletion rates for the Yang Zhuang project for the period 2008 to 2011 were provided by the client and are shown in Table 17-1. The expected resource depletion rate for 2012 based on a mining recovery rate of 82% (annual average of previous years) is expected to be approximately 2.4 million tonnes.

Table 17-1: Historic resource depletion rates for the Yang Zhuang project

| Year | 2008 | 2009 | 2010 | 2011 |
|------------------------------------|------------------|------------------|------------------|------------------|
| Annual Production (t) | 1,725,700 | 2,033,100 | 1,972,100 | 2,073,800 |
| Mining Losses (t) | 431,400 | 461,500 | 432,900 | 455,200 |
| Resource Depletion Rate (t) | 2,157,100 | 2,494,600 | 2,405,000 | 2,529,000 |
| Mining Recovery Rate (%) | 80.0 | 81.5 | 82.0 | 82.0 |

Note 1: All historic depletion rate data was provided by the client. MCS has been unable to determine the veracity of the data.

Note 2: Mining losses includes unrecoverable resources that are used for support pillars in the underground mining operation.

18 COSTS

18.1 Operating Costs

All mine operating costs have been supplied by the client. MCS has not been able to independently verify these costs, however they appear appropriate considering the mining method used and are comparable to other mines located in the People's Republic of China that have similar mining methods and orebody characteristics.

18.1.1 Cash operating costs

Information obtained from site personnel indicates that the average mining and processing costs (excluding capital expenditure) for the past four years was RMB616 per tonne of ore concentrate produced.

A summary of the total cash operating costs and cash operating costs per unit of iron ores is shown in Table 18-1.

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

18.1.2 Operating Cost Estimate

Information used to estimate the future operating costs was gathered from the Preliminary Design report (Shandong Province Metallurgical Engineering Company Limited, 2008) and the Feasibility Study report (Shandong Lianchuang Architectural Design Company Ltd, 2011) and information provided by the company detailing the present and future planned mining and processing design capacity and scheduled increases (Table 18-1).

Future operating costs have been estimated on the following basis:

- The total volume processed changes from 2.3 Mt per year to 3.5 Mt per year by 2014 following completion of the scheduled expansion of mining and processing facilities.
- The total volume processed remains fixed at 3.5 Mt per year from 2014 to the end of mine life (approximately 13 years, based on current reserves).
- The concentrate tonnage is a function of the estimated production rates and the head grades calculated from the mine schedule, taking into account losses due to mining and material that cannot be recovered during processing.
- Mining costs have been projected from recent historical costs, with costs forecast to increase at a rate proportional to 75% of capacity increase.
- Mining royalties were calculated on the basis of RMB6 per tonne of ore mined prior to 2012, and RMB8 per tonne of ore mined thereafter.
- Estimated processing costs are based on recent costs, with “fuel, electricity, water and other services” and “non-income taxes, royalties and other governmental charges”, increasing directly proportionally to the increase in capacity, and other costs including “workforce employment”, “consumables”, “on and off site administration” and “product marketing and transport” forecast to increase at a rate proportional to 75% of the increase of processed ore.
- Contingency allowances are zero.
- Management expenses including estimated environmental protection and monitoring costs, on and off site administration, and production marketing and transport are based on recent costs, with costs forecast to increase at a rate proportional to 75% of capacity increase.

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- Management expenses including non-income taxes, royalties and other governmental charges, and depreciation and amortization are based on recent costs, and are forecast to increase proportionally with tonnes processed.
- Costs are on a current cash basis and are not adjusted for inflation.

Having assessed the historical costs and the cost estimates provided in the Feasibility Study report, MCS considers that the above operating cost estimate for mining and processing is reasonable for an underground mine and magnetic separation plant of this size.

18.2 Capital Costs

The proposed capital expenditure for the expansion aimed at achieving the mining production and process feed rate of 3.5 million tonnes per annum of ore is shown in Table 18-2.

Table 18-2: Yang Zhuang Project Capital (Cost unit = RMB10,000)

| No. | Work or expense description | Construction expense | Equipment purchase expense | Installation expense | Other costs | Amount <i>(RMB10,000)</i> |
|-----|---------------------------------------|----------------------|----------------------------|----------------------|-----------------|------------------------------|
| 1 | Engineering and Construction cost | 10,890.83 | 4,747.16 | 488.05 | 0 | 16,126.04 |
| 2 | Construction and other expenses | 0 | 0 | 0 | 927.53 | 927.53 |
| 3 | Reserve funds | 0 | 0 | 0 | 1,706.36 | 1,706.36 |
| 4 | Total investment for expansion | <u>10,890.83</u> | <u>4,747.16</u> | <u>488.05</u> | <u>2,632.89</u> | <u>18,758.93</u> |
| 5 | Interest During Construction Period | 0 | 0 | 0 | 710.68 | 710.68 |
| 6 | Working Capital | 0 | 0 | 0 | 1,810.26 | 1,810.26 |
| 7 | Total capital | <u>10,890.83</u> | <u>4,747.16</u> | <u>488.05</u> | <u>5,153.83</u> | <u>19,469.61</u> |

Source: Shandong Lianchuang Architectural Design Co. Ltd (2010 and 2011)

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A three year work program splitting the mine expansion into three stages was proposed in the expansion study. This was as follows:

- (1) Stage 1 – renovation of the existing mining operation.
- (2) Stage 2 – development of new declines.
- (3) Stage 3 – development for new stopes.

Table 18-3: Yang Zhuang Project Capital Expenditure by Stage

| Stages | Date | Construction Items | Construction Capital <i>Million RMB</i> | Production Capacity <i>Million Tonnes</i> |
|---------------|------------------------------|--|--|--|
| 1st | June 2012 – July 2012 | Current Mining System Rebuild | 62.43 | 2 |
| 2nd | August 2012 – June 2013 | 0 m Level above Development System Construction | 65.40 | 2 |
| 3rd | July 2013 – December 2013 | 0 m Level above Production System Construction | 84.97 | 3.5 |

The basis of estimation of capital expenditure was by use of quotes for Major Equipment items and estimations using approved tables, work rates, and escalation factors for installation and construction.

MCS believes the expansion plan is feasible and that the capital cost estimates are reasonable within a range of plus or minus 10%. It is assumed that the above capital figures do not cover the costs of geological prospecting and exploration expenses which were most likely included as part of the original capital investment. They also do not include any carryover of capital expenditure from the recent expansion to 3.5 Mtpa.

19 PRICE ESTIMATION AND FORECAST

The following information excerpt on price forecasts was sourced from the Feasibility Study report prepared by Shandong Lianchuang Architectural Design Co. Ltd (2011).

“In 2010, the price of iron concentrate powders (58% grade) in domestic was between RMB1,400 to RMB1,500/tonne, and the average price in December was RMB1,380/tonne. Analysing the fluctuation of iron ores prices and market factors at home and abroad, forecast the selling prices of iron concentrate (58% grade) will remain approximately at RMB1,480/tonne. The four trillion investment item and the top ten industry plan are under execution at present. The demand for steel and iron will increase continuously and stably for a long time. The iron ore price will remain synchronous and stable growth.”

A marketing study was not part of the scope of this report, however MCS considers that the financial analysis provided by the client seems a little optimistic when compared to forecasts used by companies outside of China.”

The product from the Yang Zhuang project is 66% Fe concentrate which would ordinarily attract a premium to the price quoted for 58% Fe concentrate. Whilst MCS is in agreement with the analysis that future demand for good quality iron ore concentrate in China will remain strong, given that recent prices have been in the range of RMB1,200 to RMB1,300/tonne for 58% Fe concentrate, MCS has elected to use the price of RMB1,390/tonne for future sales of the 66% Fe concentrate product from Yang Zhuang.

20 ENVIRONMENTAL PROTECTION

20.1 Design Basis

The following sources of information were used to guide the environmental protection initiatives:

- (1) Regulations on the Administration of Construction Project Environmental Protection Promulgated by Decree No. 253 of the State Council;
- (2) GuoHuan Zi (87) No. 002 Document Design Regulations of Construction Project Environmental Protection;
- (3) Design Regulations of Environmental Protection for Metallurgical Industry YB9066-95;
- (4) Regulations on Environmental Protection Facilities Division Scope for Metallurgical Industry YB9067-95;
- (5) Integrated Emission Standard of Air Pollutants GB16297-1996;

- (6) Emission Standard of Air Pollutants for Coal-burning Oil-burning Gas-fired Boiler GB13271-2001;
- (7) Integrated Wastewater Discharge Standard GB8978-1996;
- (8) Standard of Noise at Boundary of Industrial Enterprises GB12348-90.

20.2 Major Pollutants and the Control Measures

20.2.1 Mining Operations

20.2.1.1 Dust and Pollution Air

Mining dust is generated due to drilling, blasting, shovel loading, transport and other sectors. The amount of dust is minimised through the use of the mine's underground ventilation system, by using wet rock drilling and using sprinklers on the blast heaps, loading areas and haul roads. Portable fans are used in working areas where ventilation is otherwise poor. Personnel are employed to undertake periodic testing and facilitate timely adjustments ventilation structure or air flow.

20.2.1.2 Waste Gas

Harmful gases produced from blasting operations are dispersed with the use of the ventilation system. If necessary, auxiliary fans are set up on the upper part of return air shaft in the stope for ventilation. Emulsion explosives are used for blasting and non-electric detonators for detonating.

20.2.1.3 Underground drainage

Water is collected from the mine workings through the use of a pumping system. The water is transported to surface through the use of the underground pump house. The main pollutants in the pit drainage are suspended solids.

20.2.1.4 Waste rock

The daily waste rock amount is 129.9 m³/d. After being transported to the surface, the expanded waste rock is delivered directly to the waste dump. Waste rock is used to backfill mined stopes, so most of mine waste rock will be left underground.

20.2.1.5 Equipment noise

Processes such as drilling, blasting and truck haulage generates noise greater than 85dB (A). Much of the noise generated is shielded by the pit walls and additionally the mine is far from the village, so the noise produced has almost no disturbing effect. For noise of industrial sites on the surface, noise is mitigated by placing equipment indoors and using noise dampening facilities.

20.2.2 Beneficiation Operations

20.2.2.1 Dust

Dust will be produced in the fine crushing and screening process, and in fine ore bin. Numerous wet scrubbers are used within the plant to suppress the dust produced from the operation. These include the CJ1226 type CJ1223 type wet scrubbers designed specifically for the intermediate and fine crushing plant. The air volume for these is 42,000 m³/h and 36,000 m³/h respectively. Four sets of CJ1220 type wet scrubbers and one set CJ1200 type wet scrubber are also used for the screening plant. A CJ1213 type wet scrubber is designed to be equipped for the fine ore bin, the air volume is 12,000 m³/h. Collection efficiency of the wet scrubbers is 99%, so dust discharge concentration is not larger than 80 mg/m³.

20.2.2.2 Waste water

All beneficiation wastewater is discharged into the tailing pond. After clarification, the water is either re-used in the beneficiation process or it also can be used as tailing seal water.

Total water consumption of the project is 50,480 m³/d (including 1,700 m³/d of unplanned water). Recirculated water is 5,003 m³/d, reuse water is 27,460 m³/d and therefore the ratio of water reuse is 67%. Production waste drainage of the whole mine is 936 m³/d (including 840 m³/d unplanned discharged water). Domestic sewage amount is 60 m³/d, which could be used for greening and agricultural irrigation after being treated by septic tank.

20.2.2.3 Mine tailings and down-hole sludge discharge

The mine makes use of tailings by using it as fill material back into the excavated areas. Portland cement is used as an additive into the fill material. When filling, load waste rock is used along with sand bags to build the retaining wall and erect vent wells. At times when the filling and mixing station is being maintained, the tailings are sent to the to the tailings dam.

20.2.2.4 Equipment noise

The main processes producing significant noise on site include intermediate crushing, fine crushing and operation of the ball-mill. Measures taken to reduce the noise include the installation of an anti-vibration pad and the use of building insulation. This allows the site to meet the minimum requirements of Standard of Noise at Boundary of Industrial Enterprises GB12348-90.

20.2.3 Miscellaneous Production

Two boilers are used on site; one for heating and showers and one for use as an industrial boiler. Bituminous coal is used for the industrial boiler and it uses approximately 5,000 tpa. Multiple cyclones are used to remove dust and gas emitted from the boiler, its collection efficiency is 92%~95%. The boiler emissions include smoke and dust at 144 mg/m³, SO₂ at 505 mg/m³ and ash at 1,250 tpa.

20.3 Environmental Impact Analysis

Mining and beneficiation industrial sites are far away from the village and do not take up farmland. As a result, the area is conducive to pollutant dilution and diffusion. The only pollutants discharged into the environment during mine production are dust, underground exhaust gases and water.

Wet scrubbers with 99% collection efficiency are equipped on the coarse crushing station, intermediate and fine crushing plant, screening plant and fine ore bin. Exhaust gases contain dust and minor CO and NOX, which will be discharged from the pit via ventilation facilities. The discharged waste gas has an insignificant impact on atmospheric quality after it has been diluted by the air in the environment.

Where waste water is not discharged to the tailings dams, it is often re-used in the mining process. This prevents the mine having any effect on the environmental quality of the Donggou stream of Wangnian Village.

The ratio of backwater reuse of the project is only 67%, which is lower than the minimum standard of 75% specified in Integrated Wastewater Discharge Standard GB8978-1996. This is because, although the project re-uses water in the beneficiation plant, part of water supply needs to be used to cover the tailings surface in order to suppress dust. In addition to this, water for wet drilling, air compressor cooling, filling and mixing and other operations cannot be reused. This limits the amount of water that can be re-used.

Barren rocks and tailings in mining are all general solid wastes. During stope filling production, most waste rock and tailings are sent to underground for filling, not taking up arable land, but also reducing the destruction of mining on the environment. The tailings shall be sent to be piled in tailing pond if taking no filling operations. When piles the tailings, manifold ore drawing can be adopted to reduce the area of dry slope section and avoid dust emission of tailings, meanwhile, the water spraying device can ensure moisture content of the precipitation section, the other tailings can be covered by water closing, so dust pollution can be avoided. Therefore, tailings filling or piling both have little impact on ambient air quality and ecological environment.

The barren rocks and tailings are properly disposed of and have minimal impact on the environment. The solid waste from boiler ash can be comprehensively used in road works, coal ash brick making and so on. This is a profitable way of using the waste by-product and ensures it has no impact on environment.

20.4 Greening

Since the mining operations are underground the harm to the surface environment is minimised and the beatification of the surface works is maximised. The green area of mining and beneficiation industrial site is 3.3 ha and the ratio of green space is 15%.

20.5 Environmental Management and Monitoring

20.5.1 Environmental management organization

Environmental protection and occupational health and safety (OHS) works of the Yangzhuang Mine makes use of the level 1 institution and level 2 management. In detail, the Security Environmental Protection Section will consist of six people and it is set up to strengthen the environmental management of the company. Part-time environmental and OHS personnel are employed in the production area, dressing plant and each working section to assist in emissions meet the standards and to ensure safety and health of the workforce.

The main responsibilities of Security Environmental Protection Section in environmental protection management are:

- (1) Implement codes and standards about environmental protection, be responsible for environmental protection for the whole mine, work out environmental protection work plan of the whole mine, and perfect rules and regulations of the environmental protection organization;
- (2) Monitor operating conditions of environmental protection processing facilities and ensure effectiveness of pollution control facilities of the mine;

- (3) Supervise environmental incident reporting and undertake incident investigations;
- (4) Comply to environmental reporting standards specified at Provincial, Municipal and National levels;
- (5) Undertake environmental monitoring of the mine site.

20.5.2 Environmental monitoring

Yishui County or Linyi City Environmental Monitor Station is authorised to undertake annual environmental monitoring. The monitoring audits the pollutant emissions of the mine to ensure it meets the standards and requirements, and to determine the effect of these emissions on the local environment. The following items would be included in the annual monitoring process:

- (1) Tailings exterior draining monitoring;
- (2) Monitoring items: pH, SS etc.;
- (3) Coordinate with Yishui County or Linyi City Environmental Monitor Station to take one or two times survey on key pollution sources every year.

20.6 Water & Soil Conservation and Reclamation

The predominant aim of the water and soil conservation plan is to effectively prevent and control the potential water loss and soil erosion of the project area during construction period. Additionally, any change to the ecological environment of the project area will be rehabilitated.

Preventative measures to be implemented include checking the dam in waste-rock yard, planting trees, sowing grass seeds and laying turf.

Numerous rehabilitation initiatives will be implemented upon the completion of mining to restore the environment to its original state. In particular, cement mortar will be injected on slopes and ground surfaces for slope protection and slopes will be covered with soil and plant vegetation. Grass seeds will be sowed at the waste-rock yard and tailings pond to restore the ecosystem.

20.6.1 Personnel Quota

When ore rock production scale reaches 3.5 million t/a, the total fixed number of project personnel is 827, including 749 production employees and 78 managers (Table 20-1).

Table 20-1: Estimated results of fixed number of project personnel

| | Number of the employees | Enrolment coefficient | Number of people in the register |
|----------------------|--|----------------------------------|---|
| Production staff | 576 | 1.3 | 749 |
| Managerial personnel | 78 | 1 | 78 |
| Total | 654 | | 827 |

The main basis for personnel quota preparation is the planned production process and selection of equipment. Personnel quota is determined with reference to indicators of similar mines.

21 RISK ASSESSMENT

The Mining Industry and the projects within it are relatively high risk when compared to projects in industrial and commercial spheres. Each project is based on an estimate of the mineral deposit and each deposit has unique quality characteristics and response to mining and processing operations which, despite many advances in technology can still not be wholly predicted.

A risk analysis has been undertaken of the financial implications of using AS 4360 as the basis in line with the requirements of the Valmin Code (2005).

The MCS risk analysis (Table 21-1 and Table 21-2) of the Yang Zhuang project has not indicated that there are any risks with catastrophic consequences in the data presented for review. It is MCS view that the Yang Zhuang project has a project risk profile that is typical of mining projects at similar levels of resource estimation, mine planning and project development. Information from the risk assessment was used for the resource and reserve categorisation.

MCS notes that in most instances the risk identified in Table 21-2 could be mitigated by undertaking more detailed technical studies and providing additional information.

Table 21-1: Risk Assessment Matrix

| | | Consequence | | | | | |
|-----------------|-----------------------|---|-----------------------|-----------------------|------------------------|-----------------|--------------|
| | | 1% of Project Value | 2.5% of Project Value | > 5% of Project Value | > 15% of Project Value | Project Failure | |
| Likelihood ↑ | Numerical: | | | | | | |
| | Historical: | | | | | | |
| | >1 in 10 | Is expected to occur in most circumstances | | | | | |
| | 1 in 10 - 100 | Will probably occur | | | | | |
| | 1 in 100 – 1,000 | Might occur at some time in the future | | | | | |
| | 1 in 1,000 – 10,000 | Could occur but doubtful | | | | | |
| | 1 in 10,000 – 100,000 | May occur but only in exceptional circumstances | | | | | |
| | | | Insignificant | Minor | Moderate | Major | Catastrophic |
| | | | 1 | 2 | 3 | 4 | 5 |
| Almost Certain | 5 | 6 | 7 | 8 | 9 | 10 | |
| Likely | 4 | 5 | 6 | 7 | 8 | 9 | |
| Possible | 3 | 4 | 5 | 6 | 7 | 8 | |
| Unlikely | 2 | 3 | 4 | 5 | 6 | 7 | |
| Rare | 1 | 2 | 3 | 4 | 5 | 6 | |

Table 21-2: Project Risk Summary

| Items | Discussion | Risk |
|--|--|------|
| Drilling Techniques | Standard industry methods of diamond drilling were used, with regular downhole surveys taken. | 4 |
| Drill Sample Recovery | Mean weighted core recovery 96% | 2 |
| Sampling Techniques and Sample Preparation | Core was split and samples prepared using industry standard methods. Documented sample handling procedures appear appropriate. | 3 |
| Quality of Assay Data | Assay precision 412 samples (7.7% all assays) 3.10% TFe, 5.29% TiO ₂ . Assay bias of 206 samples (3.9% all assays) no sig bias. | 3 |
| Verification of Sampling and Assaying | A selection of diamond drill core was checked on site. All results checked were verified. | 3 |

| Items | Discussion | Risk |
|-------------------------------------|--|------|
| Location of Sampling Points | Surveying methods were adequate and but no collar locations could be identified as all under farm land. Plans and data independently verified. Downhole surveys utilised industry standard methods. | 5 |
| Data Density and Distribution | Mineralisation defined on adequate drill spacing and with trenches for the type of deposit and style of mineralisation. Sparser data at margins and deeper parts of the mineralisation reflected by lower confidence. | 4 |
| Audits and Reviews | Micromine is unaware of any external reviews. | 3 |
| Database Integrity | Verification of original drawings by MCS | 3 |
| Geological Interpretation | The mineralisation constraints are considered appropriate for the type and grade of mineralisation. | 3 |
| Specific Gravity Determinations | SG database from drillhole samples, representative throughout deposit. | 4 |
| Estimation and Modelling Techniques | Domaining and interpolation by Ordinary Kriging with the result cross-checked by Inverse Distance Weighting. | 2 |
| Mining Method | The mining method is currently being used. The proposed expansion plan and timeline is achievable. No significant problems are expected. | 3 |
| Stope Optimisation and Design | No stope optimisation has been carried out for the project at this stage and the final designs have been prepared manually. MCS checked the design against an the resource model and created new stope shapes using the parameters in this report. | 3 |

| Items | Discussion | Risk |
|---------------------|--|------|
| Mine Scheduling | MCS developed a life of mine schedule based on sequential development and mining of the orebody. | 2 |
| Reserves Estimation | The reserves have been calculated using a Micromine block model as well as product prices, costs, and assumptions that are all susceptible to change. The sensitivity analysis shows that the project is robust. | 6 |
| Processing | The project has been in production for more than 3 years. Provided the ore characteristics remain relatively homogeneous, the risk of failing to achieve planned recoveries is minor to moderate. | 2 |

This information was used for the resource and reserve categorisation.

22 CONCLUSIONS AND RECOMMENDATIONS

22.1 Resource Estimation

The total iron (TFe) resource as estimated by MCS is shown in Table 22-1. Resources, with an applied reported above an economic cut-off of 15% TFe, balancing cut of 38% TFe, are reported above an economic cut-off of 15% TFe.

Table 22-1: Resource statement for the Yang Zhuang project

| Resource Category | Volume (m^3) | Tonnes (t) | SG (t/m^3) | TFe (%) | mFe (%) |
|---|---------------------|-------------------|-------------------|------------|------------|
| Measured | 5,599,000 | 18,218,000 | 3.25 | 26.23 | 11.72 |
| Indicated | 16,232,000 | 52,753,000 | 3.25 | 26.81 | 10.66 |
| Total Measured and Indicated | 21,831,000 | 70,971,000 | 3.25 | 26.66 | 10.93 |
| Inferred | 5,530,000 | 17,791,000 | 3.22 | 24.60 | 8.79 |
| Total Resource | <u>27,361,000</u> | <u>88,762,000</u> | 3.24 | 26.25 | 10.50 |

Note: Numbers have been rounded to reflect that the resources are an estimate. As such the numbers may not total to an equal amount.

Additional resource potential can be realised at depth along the length of the orebody and in the deepest parts in the southern part of orebody 1. There is also potential along strike of the orebody at both ends of the orebodies, where mineralisation has not been adequately defined.

22.2 Mining Study

The following two underground mining methods are appropriate for the Yang Zhuang deposit:

- Sublevel caving method (filling after mining)
- Short hole shrinkage method (filling after mining)

The sublevel caving method is applicable to areas where the orebody has a thickness greater than eight metres while the short-hole shrinkage stoping method is applicable to areas where the orebody has a thickness of less than eight metres.

Only the Short hole shrinkage method has been used until now due to instability of the hanging wall in the current operation.

The quantity component of Resources is termed Gross Tons In Situ, (GTIS) and is the starting point in the derivation of Reserves. The process used to convert GTIS to Reserves is as follows:

- Step 1: GTIS is converted to Mineable Tons In Situ (MTIS);
- Step 2: MTIS is converted to Reserves.

The classification component of Reserves is based on the classification of the Resource.

To convert the GTIS to MTIS the layout as defined by the Short Hole Shrinkage (SHS) mining method was applied to the ore wireframes. This had the effect of “blocking out” the ore wireframe with the SHS mine design parameters. The “blocked out” ore wireframes were then coded in MICROMINE to exclude the Inferred Resources and blocks with tonnages less than 80,000 tonnes.

Factors were applied to MTIS include a loss of 18.5% for ore left in pillars, a modelling estimation error of 3% and an mFe grade cut-off of 8.0% based on the cost model.

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The MCS reserve statement (**current as of, November 2011**) for the Yang Zhuang deposit is shown in Table 22-2.

Table 22-2: JORC Compliant total Reserves for the Yang Zhuang deposit

| Reserve Classification | Ore Tonnes (Mt) | Grade TFe (%) | Grade mFe (%) | Contained TFe (Mt) | Contained mFe (Mt) |
|-----------------------------------|--------------------------------|------------------------------|------------------------------|-----------------------------------|-----------------------------------|
| Proved | 11.00 | 24.17% | 11.68% | 2.66 | 1.28 |
| Probable | 32.94 | 24.72% | 10.26% | 8.14 | 3.38 |
| Total | <u>43.93</u> | 24.58% | 10.61% | <u>10.80</u> | <u>4.66</u> |

Note 1: Numbers have been rounded to reflect that the reserves are an estimate. As such the numbers may not total to an equal amount.

Note 2: Contained TFe and mFe does not imply that all the TFe and mFe can be recovered. Processing recovery has not been accounted for in the calculation.

The project has an estimated mine life of 13.2 years.

MCS recommends that pilot-scale mineral processing testwork be carried out to determine the true recovery rates for the particular ores, processing equipment and design parameters of this project. Based on the results of processing testwork recovery rates may need to be revised either upwards or downwards.

23 COMPETENT PERSON STATEMENT

This report was prepared and signed herein by Competent Persons who, having relevant experience to the style of mineralisation and the type of the deposit under consideration, are thereby considered Competent Persons according to the definition explained in the JORC Code.

Neither MCS nor any of the authors of this Report has any material, present or contingent interest in the outcome of this Report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of MCS. MCS's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. Payment of that professional fee is not contingent upon the outcome of the Report.

None of MCS or any authors of this report have any direct or indirect economic or beneficial interest (present or contingent) in any contained in this Report or any assets which had been acquired, or disposed of by, or leased to any member of the Company or any of its subsidiaries within the two years immediately preceding the issue of this Report.

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None of MCS or any authors of this report has any shareholding, directly or indirectly in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group or is an associated company of the Company. None of the authors of this Report is an officer, employee or proposed officer of the Company or any group, holding or associated company of the Group.

The issuer has not provided any indemnities to the Competent Person.

By signing this report, we hereby confirm that the reporting terminology, mineral resource and reserve classification, and estimation results in this report are compliant with the policy and procedures (required for the control of the quality of reporting of mineral resource and reserve estimates) as specified by the JORC Code.

17 April 2012

Signed by

David Allmark
MCS Senior Geological Consultant
Micromine Pty Ltd



Tony Cameron
Mining Engineer
Micromine Pty Ltd



David Allmark, Senior Resource Estimation Consultant; BSc (Geology), MAIG, MAusIMM, graduated in 1993 from Curtin University of Technology in Perth, Western Australia with a Bachelor of Science (Applied Geology) and Postgraduate Diploma in Applied Geology. David later completed an Advanced Diploma of Business Systems majoring in Java programming from Spherion Institute. David has twelve years' experience in the mining and exploration industry involved predominantly in iron ore, base metals and gold exploration and mining. David has worked on the Higginsville and Chalice Gold Projects and the Bulong Nickel Project for Resolute Ltd, the Koolyanobbing and Windarling iron ore projects for Portman Ltd and the West Pilbara iron ore project for Aquila Resources. David has recent experience as Senior Project Geologist for Dragon Mountain Gold's Lixian Project in Gansu Province, China, and has conducted JORC resource estimate related work on gold and base metals projects in Mongolia for Micromine Pty Ltd.

Tony Cameron, Associate Mining Consultant; B Eng (Mining), Grad Dip Bus, M Comm Law, FAusIMM, graduated in 1987 from the University of Queensland and also has a Graduate Diploma in Business from Curtin University (WA), and a Masters in Commercial Law from Melbourne University. Tony has more than 20 years' experience in the mining industry involved predominantly in iron ore, base metals, gold, copper, and mineral sands mining. He held senior management positions with mining companies in Western Australia including St Barbara Mines, Sons of Gwalia, Tiwest, and McMahon between 1995 and 2001. Tony has worked as an independent mining consultant since 2001 and is expert in the use of mine optimisation, design, and scheduling software, having evaluated numerous international minerals projects to JORC and NI-43101 standards.

24 ACKNOWLEDGEMENTS

MCS would like to acknowledge the staff of JLL, particularly Mr. Jack Li and Ms. Annie Zhang, all the staff of Shandong Xingsheng Mining Company Limited and the Shandong No.8 Exploration Institute of Geology and Mineral Resources who assisted on site and in the preparation of this independent technical report. Report sections for Location and Transport, Geology and Project History were provided by the JLL team led by Mr. Simon Chan and assisted by Ms. Annie Zhang of JLL.

25 REFERENCES

- (1) Shandong Province Metallurgical Engineering Company Limited (2008), *Preliminary Design of Yangzhuang Iron Deep Mining Project for Shandong Xingsheng Mining Company Limited*
- (2) Shandong No.8 Exploration Institute of Geology and Mineral Resources (2008), *Yang Zhuang Iron Ore Deposit Detailed Geological Survey Report – Yang Zhuang Mine Surrounding Area and Deeper Location*
- (3) Shandong Lianchuang Architectural Design Company Limited (2011), *Feasibility Study Report of Yangzhuang Iron Mine Production Capacity Expansion Project of Shandong Xingsheng Mining Company Limited.*

26 DISCLAIMER

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27 APPENDIX 1: TENEMENT LICENCE CERTIFICATE



28 APPENDIX 2: YANG ZHUANG IRON PROJECT DATABASE VALIDATION
AND ACCEPTANCE REPORT



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Jones Lang LaSalle Corporate Appraisal and Advisory Limited
仲量聯行企業評估及諮詢有限公司

Yang Zhuang Iron Project
Database Validation and Acceptance Report
For
Shandong Xingsheng Mining Company Limited

9 March 2011

DATA FOR ACCEPTANCE

Database Contents

Data was provided by Shandong Xingsheng Mining Company Limited (the client) on 11th and 20th January 2011 and was compiled by JLL.

The provided data consisted of two Excel spreadsheets, each containing collar, survey, assay, core recovery, specific gravity data and lithological descriptions and other information in 8 worksheets.

The Excel spreadsheets provided were as follows:

3. Xingsheng 2005 Drilling data – Yangzhuang part 1 – 60 million ton.xls
4. Xinsheng 2008 Drilling Data – Yangzhuang part 1 – 60 million ton.xls

The contents of each worksheet in the Xingsheng 2005 Drilling data – Yangzhuang part 1 – 60 million ton.xls spreadsheet is shown in Table 28-1, while the contents of each worksheet in the Xinsheng 2008 Drilling Data – Yangzhuang part 1 – 60 million ton.xls spreadsheet is shown in Table 28-2.

**Table 28-1: Contents of spreadsheet Xingsheng 2005 Drilling data
– Yangzhuang part 1 – 60 million ton.xls as supplied**

| Worksheet | No. of Holes, Trenches and Adits | No. of Records |
|------------------|---|-----------------------|
| Survey | 41 | 41 |
| Collar | 41 | 41 |
| Assay | 40 | 484 |
| Geology | 26 | 96 |
| Recovery | 10 | 1197 |
| SG | 32 | 32 |
| Lookup Codes | NA | NA |
| Notes | NA | NA |

**Table 28-2: Contents of spreadsheet Xinsheng 2008 Drilling Data
– Yangzhuang part 1 – 60 million ton.xls as supplied**

| Worksheet | No. of Holes, Trenches and Adits | No. of Records |
|------------------|---|-----------------------|
| Survey | 79 | 79 |
| Collar | 79 | 78 |
| Assay | 70 | 882 |
| Geology | 61 | 296 |
| Recovery | 27 | 4228 |
| SG | 47 | 57 |
| Lookup Codes | NA | NA |
| Notes | NA | NA |

Database Preparation and Validation

The files of both spreadsheets were then prepared so that they could be imported into MICROMINE. To import the spreadsheets, the following was carried out:

1. Sorted hole IDs for both files A-Z for all excel worksheets.
2. Unmerge cells in Assay worksheets and copy value to all cells previously merged.
3. Concatenate and change sample numbers in both assay and SG files so sample numbers are unique. Change all double dashes ‘—’ to single dash ‘-’ in sample and hole ID fields.
4. Delete top header rows of Chinese characters.
5. Unmerge cells in recovery worksheets, cut and paste and calculate values for depths in new cells.

The resulting MICROMINE files were named as follows:

- Collar_2005.DAT
- Survey_2005.DAT
- Assay_2005.DAT
- Recovery_2005.DAT
- SG_2005.DAT

- Collar_2008.DAT
- Survey_2008.DAT
- Assay_2008.DAT
- Recovery_2008.DAT
- SG_2008.DAT
- Geology_2008.DAT

The spreadsheet Xinsheng 2008 Drilling Data – Yangzhuang part 1 – 60 million ton.xls contained duplicates of the 2005 data in all worksheets. The duplicates records were removed from each file and the respective files for 2005 data and 2008 data were combined to produce a single file for each parameter. The resulting files were named as follows:

- all_collars.DAT
- all_surveys.DAT
- all_assays.DAT
- all_recovery.DAT
- all_SG.DAT
- all_geology.DAT

In addition, minor changes were made to the files after import into MICROMINE to enable production of a drillhole database in MICROMINE:

1. Changed field name in all_collars.DAT file from 'Depth (m)' to 'Depth'.
2. Changed field names in all_surveys.DAT from 'Dip (Degrees)', 'Azimuth_γ(degrees)' and 'Depth (m)' to 'Dip', 'Azimuth' and 'SDepth'.
3. A minus sign '-' was prefixed to all dip values in the all_surveys.DAT file.
4. Changed field name in all_surveys.DAT file from 'DEPTH (m)' to 'SDepth'.
5. Changed dip value of ZK10 from 'ND' to '-90.00 degrees'.

6. Changed azimuths of the following holes to '300.00' degrees:
 - ZK21-1
 - ZK25-1
 - ZK28-1
 - ZK32-1
 - ZK44-1
7. Changed field name in all_assays.DAT file from 'Sample No#' to 'SampleID'.
8. Changed field names in SG.DAT file from 'Depth (from)' and 'Depth (to)' to 'From' and 'To'.
9. Added field named 'Interval' to SG.DAT and calculated sample intervals in metres.
10. Added field named 'Interval' to all_assays.DAT and calculated assay sample intervals in metres.
11. All blank spaces in required fields in all files were replaced with 'ND' (NO DATA).

The content of the single files in shown Table 28-3.

Table 28-3: Contents of MICROMINE files

| Micromine files | No of Holes, Adits or Trenches | Number of Records |
|------------------------|---|--------------------------|
| all_collars.DAT | 78 | 78 |
| all_surveys.DAT | 79 | 79 |
| all_assays.DAT | 73 | 915 |
| all_recovery.DAT | 32 | 4,841 |
| all_SG.DAT | 47 | 57 |
| all_geology.DAT | 61 | 296 |

The original drawings from the exploration report were then supplied by the client on 20th January 2011 and MCS performed the following:

- Displayed geology plans and cross-sections in MapGIS then imported into MICROMINE. The plans and sections were then geo-referenced in MICROMINE and the collar positions and traces were checked.
- Checked collar coordinates, survey and assay data with the original data on the drawings.

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- Entered additional downhole survey data for each drillhole that had not been included in the supplied data previously.

Several errors were discovered and corrected as detailed below:

File all_collars.DAT:

- Changed collar coordinates for ZK36-1 to match geo-referenced plan. Change from 3990582.537 N, 40393977.443 E, RL 339.99 m to 3990662.2 N, 40394014.0 E, RL 342.28 m.
- Changed collar coordinates for ZK36-3 to match geo-referenced plan. Change from 3990430.320 N, 40394336.313 E, RL 303.70 m to 3990466.5 N, 40394353.8 E, RL 304.50 m. Changed depth from '564.20' to '570.97'.
- Changed collar coordinates for CD9-7 from 3989146.260 N, 40392220.120 E to 3989050.830 N, 40392418.270 E. RL was not changed.
- Changed easting for ZK28-1 from 40339841.092 E to 40393841.092 E.
- Changed northing for ZK33-2 from 398768.766 N to 3987680.766 N.

File all_surveys.DAT:

- Trench azimuths all changed to '120.00' degrees from '0.00'.
- The data for 12 trenches and adits was not supplied. The azimuths were confirmed from the georeferenced exploration plan and all were altered from '0.00' to '120.00'. The hole IDs for these trenches and adits were as follows:

CD7-36
CD8-30
CD8-32
CD15-25
TC8
TC12
TC16
TC20
TC29
YD1-28
YD1-30
YD1-32

- Deleted records for CD8-32 from the survey file as there was no collar data.

File all_assays.DAT:

- Delete CD8-32 from assay database as there was no collar data.
- HoleID CD3-48, interval 14.40 m to 16.30 m. Changed ‘To’ value from 16.30 m to 16.40 m.
- HoleID CD08-1, interval 23.10 m to 25.10 m. Changed ‘To’ value from 25.10 m to 24.10 m.
- HoleID CD8-30, interval 17.60 m to 17.50 m. Changed ‘From’ value from 17.60 m to 17.10 m.

File all_SG.DAT:

- Added new field named ‘New_holeID’ and copied values from field ‘HoleID’ but deleted ‘-XT1’ and ‘-XT2’ suffixes from the end of some hole IDs to match the collar file.

The altered versions of the MICROMINE files were resaved under a different filename as below:

- all_collars.DAT saved as YZ_collars_v2.DAT
- all_surveys.DAT saved as YZ_surveys_v2.DAT
- all_assays.DAT saved as YZ_assays_v2.DAT
- all_SG.DAT saved as YZ_SG_v2.DAT
- all_recovery.DAT saved as YZ_recovery_v2
- all_geology.DAT saved as YZ_geology_v2

Additional recovery data for the 2008 drilling was later supplied by the client and incorporated with the previous data. The new combined recovery file YZ_recovery_updated.DAT was added to the database instead of the previous file YZ_recovery_v2.DAT.

These new files are to be used as the final database for resource estimation.

The final database contains records for 40 drillholes, 8 trenches and 30 adits.

The number of records in the final database for each hole ID is shown in Table 28-4.

Table 28-4: Number of records for each holeID in final database

| HoleID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|---------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| CD1-54 | 3991486.120 | 40394245.670 | 360.72 | 10.70 | 1 | 8 | 3 | 0 | 0 |
| CD2-52 | 3991401.840 | 40394188.670 | 356.25 | 16.60 | 1 | 10 | 3 | 0 | 0 |
| CD3-48 | 3991236.220 | 40394098.760 | 347.16 | 16.90 | 1 | 10 | 3 | 1 | 0 |
| CD4-44 | 3991076.280 | 40393982.670 | 343.11 | 14.90 | 1 | 9 | 3 | 0 | 0 |
| CD6-40 | 3990936.070 | 40393871.680 | 360.17 | 21.50 | 1 | 13 | 3 | 1 | 0 |
| CD7-36 | 3990792.140 | 40393788.070 | 346.74 | 11.20 | 1 | 7 | 0 | 0 | 0 |
| CD08-1 | 3989307.814 | 40393354.988 | 170.00 | 24.10 | 1 | 13 | 3 | 1 | 0 |
| CD8-28 | 3990346.960 | 40393686.250 | 274.84 | 16.90 | 1 | 10 | 3 | 1 | 0 |
| CD8-30 | 3990447.520 | 40393710.480 | 274.84 | 17.50 | 1 | 11 | 0 | 0 | 0 |
| CD09-1 | 3988946.674 | 40392414.288 | 202.00 | 21.60 | 1 | 11 | 3 | 1 | 0 |
| CD9-7 | 3989050.830 | 40392418.270 | 257.05 | 20.10 | 1 | 12 | 3 | 1 | 0 |
| CD10-7 | 3989064.480 | 40392398.350 | 295.64 | 17.20 | 1 | 10 | 3 | 0 | 0 |
| CD10-9 | 3988984.230 | 40392339.170 | 295.64 | 21.20 | 1 | 12 | 3 | 0 | 0 |
| CD10-11 | 3988908.370 | 40392265.220 | 295.64 | 18.10 | 1 | 11 | 3 | 0 | 0 |
| CD10-13 | 3988820.130 | 40392219.410 | 295.64 | 22.90 | 1 | 13 | 3 | 1 | 0 |
| CD11-15 | 3988746.430 | 40392162.370 | 287.73 | 31.40 | 1 | 18 | 3 | 0 | 0 |
| CD11-17 | 3988649.280 | 40392129.420 | 287.73 | 26.70 | 1 | 15 | 3 | 0 | 0 |
| CD12-17 | 3988634.170 | 40392154.690 | 251.27 | 36.30 | 1 | 20 | 3 | 1 | 0 |
| CD15-25 | 3988251.310 | 40391984.470 | 272.19 | 20.80 | 1 | 12 | 0 | 1 | 0 |
| CD21-1 | 3988449.731 | 40392071.389 | 202.00 | 34.40 | 1 | 17 | 3 | 0 | 0 |
| CD24-1 | 3990178.454 | 40393609.053 | 278.76 | 22.20 | 1 | 11 | 3 | 1 | 0 |
| CD25-1 | 3988239.834 | 40391984.995 | 225.00 | 38.10 | 1 | 19 | 3 | 2 | 0 |
| CD29-1 | 3988157.131 | 40391923.424 | 225.96 | 24.00 | 1 | 11 | 3 | 0 | 0 |
| CD36-1 | 3990778.546 | 40393813.035 | 315.08 | 22.00 | 1 | 11 | 3 | 0 | 0 |
| CD44-1 | 3991061.045 | 40394035.347 | 291.56 | 10.20 | 1 | 5 | 3 | 1 | 0 |
| CD52-1 | 3991388.235 | 40394235.798 | 314.00 | 19.10 | 1 | 10 | 3 | 2 | 0 |
| TC1 | 3989349.420 | 40392542.170 | 268.47 | 14.10 | 1 | 8 | 3 | 0 | 0 |
| TC5 | 3989162.340 | 40392430.190 | 303.50 | 18.20 | 1 | 10 | 3 | 0 | 0 |
| TC8 | 3989353.340 | 40393297.670 | 249.07 | 17.00 | 1 | 10 | 0 | 1 | 0 |
| TC12 | 3989542.120 | 40393368.370 | 256.78 | 19.40 | 1 | 11 | 0 | 0 | 0 |
| TC16 | 3989742.270 | 40393423.420 | 288.38 | 9.80 | 1 | 6 | 0 | 1 | 0 |
| TC20 | 3989946.470 | 40393469.320 | 300.41 | 18.00 | 1 | 10 | 0 | 1 | 0 |
| TC24 | 3990161.360 | 40393600.410 | 315.43 | 19.50 | 1 | 11 | 3 | 0 | 0 |
| TC29 | 3988086.120 | 40391872.790 | 249.04 | 13.10 | 1 | 8 | 0 | 0 | 0 |
| YD1-28 | 3990360.830 | 40393662.120 | 322.03 | 17.70 | 1 | 11 | 0 | 1 | 0 |
| YD1-30 | 3990460.360 | 40393686.970 | 322.03 | 18.50 | 1 | 11 | 0 | 1 | 0 |
| YD1-32 | 3990562.030 | 40393712.140 | 322.03 | 17.70 | 1 | 11 | 0 | 0 | 0 |
| YD2-21 | 3988456.340 | 40392052.190 | 278.82 | 24.70 | 1 | 14 | 3 | 1 | 0 |

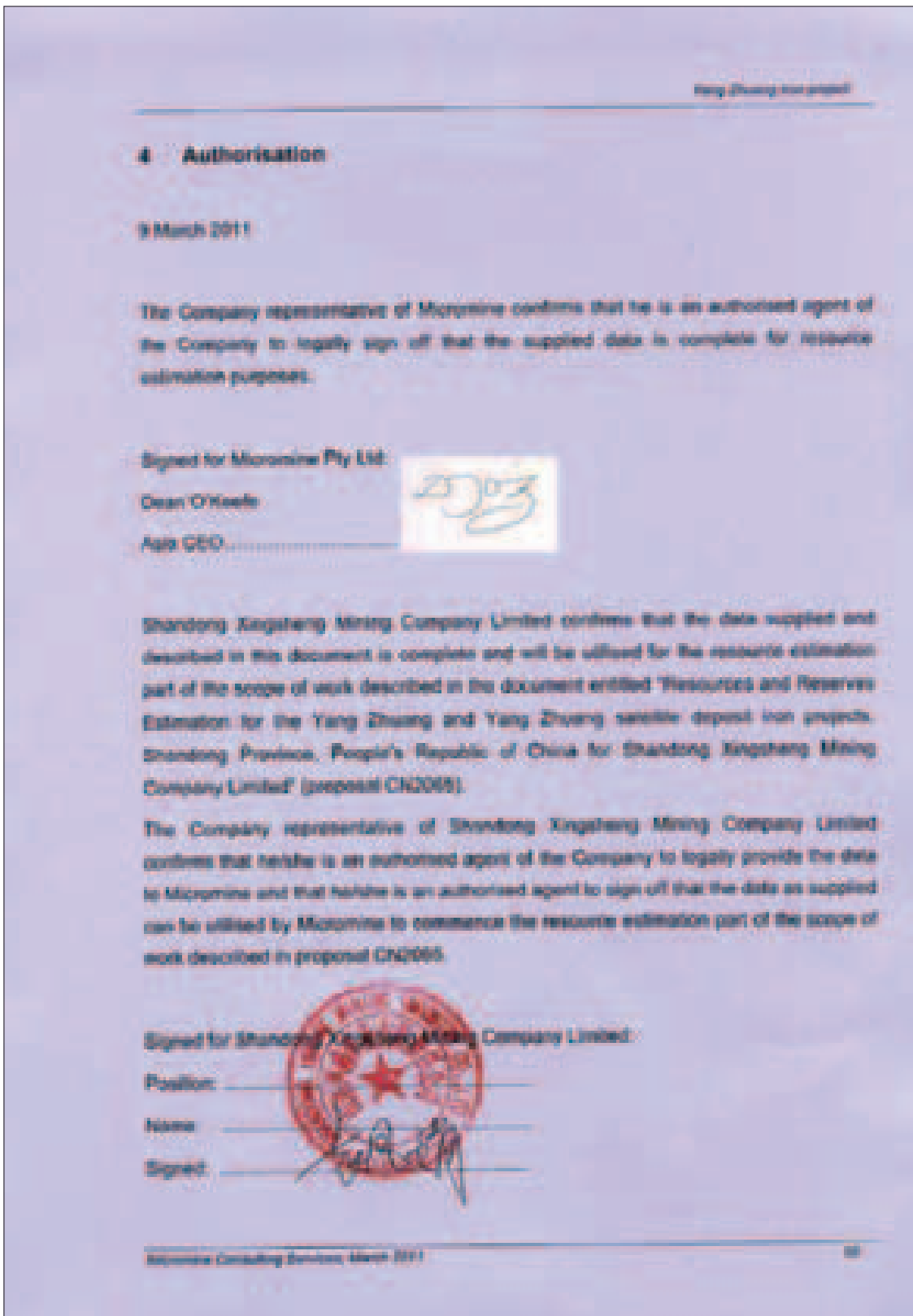
| HoleID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|--------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| ZK1 | 3989136.590 | 40392479.230 | 300.47 | 105.20 | 1 | 12 | 6 | 2 | 53 |
| ZK01-1 | 3989289.104 | 40392652.519 | 290.69 | 264.90 | 3 | 7 | 11 | 0 | 101 |
| ZK2 | 3988789.540 | 40392271.380 | 394.12 | 199.40 | 2 | 10 | 5 | 2 | 105 |
| ZK3 | 3988595.340 | 40392222.170 | 379.86 | 249.80 | 2 | 24 | 4 | 2 | 132 |
| ZK4 | 3988218.640 | 40392043.380 | 308.94 | 180.30 | 1 | 13 | 4 | 0 | 128 |
| ZK5 | 3988724.330 | 40392388.270 | 338.67 | 289.20 | 3 | 14 | 5 | 2 | 166 |
| ZK05-1 | 3989015.280 | 40392609.201 | 280.44 | 366.80 | 8 | 0 | 4 | 0 | 129 |
| ZK6 | 3990320.180 | 40393733.270 | 360.71 | 179.60 | 2 | 14 | 4 | 2 | 92 |
| ZK7 | 3990538.140 | 40393757.230 | 387.74 | 174.80 | 2 | 24 | 5 | 2 | 117 |
| ZK8 | 3990899.540 | 40393937.240 | 461.07 | 197.40 | 2 | 13 | 0 | 2 | 0 |
| ZK08-1 | 3989183.536 | 40393587.420 | 247.33 | 386.70 | 4 | 0 | 11 | 0 | 170 |
| ZK9 | 3991205.120 | 40394151.950 | 403.87 | 139.00 | 2 | 16 | 4 | 1 | 91 |
| ZK09-1 | 3988859.625 | 40392501.053 | 309.71 | 265.50 | 6 | 7 | 10 | 1 | 99 |
| ZK10 | 3990488.500 | 40393842.420 | 353.89 | 293.80 | 3 | 13 | 0 | 2 | 0 |
| ZK10-1 | 3989379.654 | 40393493.230 | 257.80 | 200.60 | 4 | 3 | 3 | 1 | 147 |
| ZK11 | 3987874.500 | 40391857.140 | 299.86 | 203.30 | 2 | 8 | 7 | 2 | 129 |
| ZK12 | 3987313.410 | 40391876.270 | 249.01 | 260.10 | 1 | 11 | 4 | 0 | 184 |
| ZK13-1 | 3988666.789 | 40392515.245 | 309.79 | 481.50 | 8 | 0 | 5 | 0 | 170 |
| ZK16-1 | 3989675.976 | 40393589.364 | 269.73 | 384.90 | 8 | 6 | 22 | 1 | 168 |
| ZK20-1 | 3989864.328 | 40393611.434 | 299.96 | 251.30 | 5 | 11 | 6 | 0 | 88 |
| ZK21-1 | 3988336.592 | 40392264.278 | 331.71 | 371.00 | 8 | 20 | 0 | 2 | 127 |
| ZK24-1 | 3990089.354 | 40393726.115 | 308.10 | 220.00 | 5 | 7 | 5 | 1 | 115 |
| ZK24-2 | 3990033.701 | 40393830.015 | 287.25 | 381.20 | 7 | 4 | 5 | 0 | 153 |
| ZK25-1 | 3988188.699 | 40392093.185 | 335.54 | 364.00 | 7 | 26 | 0 | 1 | 192 |
| ZK28-1 | 3990255.934 | 40393841.092 | 322.02 | 271.70 | 3 | 8 | 0 | 1 | 169 |
| ZK28-2 | 3990185.191 | 40393966.655 | 295.68 | 396.30 | 4 | 12 | 10 | 1 | 218 |
| ZK28-3 | 3990057.054 | 40394199.208 | 301.90 | 716.10 | 7 | 0 | 6 | 0 | 361 |
| ZK29-1 | 3988032.948 | 40391964.431 | 288.63 | 268.40 | 3 | 35 | 5 | 1 | 0 |
| ZK29-2 | 3987996.943 | 40392053.839 | 314.48 | 415.60 | 5 | 16 | 12 | 1 | 154 |
| ZK29-3 | 3987890.473 | 40392216.920 | 349.81 | 532.50 | 6 | 0 | 7 | 0 | 191 |
| ZK32-1 | 3990381.934 | 40394027.868 | 300.10 | 390.50 | 8 | 11 | 8 | 1 | 157 |
| ZK33-1 | 3987795.229 | 40391974.279 | 302.47 | 375.80 | 8 | 32 | 5 | 0 | 131 |
| ZK33-2 | 3987680.766 | 40392197.465 | 306.04 | 533.80 | 10 | 16 | 5 | 0 | 184 |
| ZK36-1 | 3990662.200 | 40394014.000 | 342.28 | 285.20 | 6 | 14 | 7 | 1 | 96 |
| ZK36-3 | 3990466.500 | 40394353.800 | 304.50 | 564.20 | 10 | 17 | 4 | 0 | 196 |
| ZK37-1 | 3987571.239 | 40391989.957 | 284.05 | 436.50 | 8 | 25 | 4 | 1 | 0 |
| ZK37-2 | 3987478.969 | 40392161.372 | 270.35 | 675.00 | 7 | 17 | 4 | 1 | 233 |
| ZK44-1 | 3990984.792 | 40394140.331 | 443.97 | 324.30 | 4 | 5 | 0 | 1 | 0 |
| ZK44-2 | 3990883.391 | 40394303.843 | 425.60 | 642.50 | 7 | 4 | 5 | 1 | 255 |
| ZK52-1 | 3991202.486 | 40394548.059 | 338.84 | 458.90 | 10 | 0 | 3 | 0 | 155 |

- A surface to which the deposit has been currently mined and outlines of underground mined-out areas and other underground development were provided to MCS by the client as plans and cross-sections in AutoCAD file format and as surveyed coordinate point data in ASCII file format on 12th February 2011. MCS has constructed three dimensional surfaces and solids from this data which will be used for the resource estimation.

Missing Data

- A total of 6 drillholes in the database have no assay data. MCS queried this with the client and were informed that assays were not performed on the samples from these drillholes.
- All data available that is required for resource estimation has been supplied to MCS by the client.

Authorisation



29 APPENDIX 3: GLOSSARY OF TECHNICAL TERMS & ABBREVIATIONS

| | |
|-------------------------------|---|
| 3D | Three-dimensional. |
| % | Percentage. |
| Anisotropy | Quality of a variably to having different physical properties when measured in different directions. |
| ASL | Above sea level. |
| Assay | A measured quantity of material within a sample. |
| Azimuth | Azimuth angle on which an exploration hole was drilled (deviation to North). |
| Balancing cut | Value to which erratic high grades should be reduced to prevent bias in estimation. Also known as a top cut. |
| Coefficient of variation (CV) | In statistics, a normalised measure of the variation present in a sample population. |
| Collar | Geographical co-ordinates of a drillhole or shaft starting point. |
| Compositing | In sampling and resource estimation, process designed to carry all samples to certain equal length. |
| Correlation coefficient | A statistical measure of the degree of similarity between two parameters. |
| Cumulative frequency graph | Graphical representation of data ranked in ascending or descending order, which are shown in a non-decreasing function between 0% and 100%. The present frequency and cumulative present frequency forms are interchangeable, since one can be obtained from the other. |
| Cut-off grade | The threshold above which material is selectively mined or queried. |
| Declustering | In geostatistics, the procedure allowing for restricted grouping of samples within octant sectors. |

| | |
|-------------------------------|---|
| DTM | Digital Terrain Model. |
| Geostatistics | Science studying and describing the spatial continuity of any kind of natural phenomena: Zn grades in this study. |
| GTIS | Gross Tons In Situ. |
| Histogram | A graphical presentation of the distribution of data by frequency of occurrence. |
| IDW | Inverse Distance Weighting. |
| Inverse Distance Weighting | Geostatistical method to calculate mineral resource. Since this method makes the weight for each sample inversely proportional to its distance from the point being estimated it gives more weight to the closest samples and less to those that are farthest away. Method works very efficiently with regularly gridded data. Extreme versions of inverse distance weighting are the global declustering methods like the polygonal method and the local sample mean method. |
| JORC Code | Australasian Code for Reporting of Mineral Resources and Ore Reserves. |
| L/s | Litres per second. |
| m | Metre. |
| M | Million or mega (10^6). |
| Mean | Average. |
| Median | Value of the middle sample in a data set arranged in rank order. |
| mFe | Iron in magnetite. |
| MICROMINE. | Mining and exploration software. |
| Micromine | Micromine Pty Ltd. |
| Micromine Consulting Services | Consulting division of Micromine Pty Ltd. |

| | |
|------------------|--|
| Mt | Million tonnes. |
| MTIS | Mineable Tons In Situ. |
| Nugget effect | Measure of the variability in re-analysing a sample due to sampling errors or short scale variability. Though the value of a variogram at 0 distance should be 0, several factors, such as sampling errors and short scale variability, may cause sample values to be separated by extremely small distances. The vertical jump at the origin of a variogram graph from 0 to a certain value at extremely small separation distance is called the nugget effect. |
| OK | Ordinary Kriging interpolation method. |
| Omni | In all directions. |
| Operating cost | The threshold cost below which mining a block would be un-economic. |
| Percentile | One hundredths of the total data. 50th percentile corresponds to the median. |
| Population | In geostatistics population encompasses grades which show the same or close geostatistical characteristics. Ideally, one population is characterised by linear distribution. |
| Probability plot | Plot showing cumulative frequencies over different intervals on a log scale probability plot. |
| Range | Distance at which a variogram reaches its plateau. |
| Recovery ratio | Proportion of mineral or metal recovered from the ore. |
| Resource | Geological mineral resource (mineable and unmineable). |
| RL | Reduced Level i.e. elevation relative to a local datum. |

| | |
|------------------------------|--|
| ROM | Run Of Mine. The Ore delivered from the mine that reports to the processing plant. |
| SEHK | Stock Exchange of Hong Kong. |
| SG | Specific gravity (unit tonnes per cubic metre). |
| Short-hole shrinkage stoping | Underground mining method in which blasted ore is left in the stope for support purposes until it is to be mined. Blasting resulting from the drilling and loading of short holes. |
| Sill | Distance at which variogram reaches its sill. Physically, there is no correlation between paired samples at that distance. |
| Spatial continuity | The description or function how continuous is the data values over a certain distance in three dimensions. |
| Standard deviation | A statistical measure of the dispersion of sample data around the mean value. |
| Stope | Open space left behind after the removal of ore from an under- ground mine. |
| t | Tonne. |
| TFe | Total iron. |
| TiO ₂ | Titanium dioxide. |
| t/m ³ | Tonne per cubic metre. |
| TO | End of an intersection. |
| Top cut | See balancing cut. |
| Variance | In statistics, a measure of dispersion about the mean value of a data set. |
| Wireframe | Three-dimensional surface defined by triangles. |
| Wireframe solid | Closed wireframe. |

30 APPENDIX 4: LABOUR SAFETY & HEALTH AND FIRE FIGHTING

30.1 Labour Safety & Health

30.1.1 Design basis

- (1) Production Safety Law of the People’s Republic of China;
- (2) Law of the People’s Republic of China on Safety in Mines, No. 65 Decree of the President of the People’s Republic of China, 1992;
- (3) Regulations for the Implementation of the Law of the People’s Republic of China on Safety in Mines, 1996.10.30;
- (4) No. 3 Decree of the Ministry of Labor, Supervisory Provisions of Labor Safety and Health in Construction Project (Engineering);
- (5) Safety Regulation of Metal and Non-metal Underground Mine GB16424-1996;
- (6) Safety regulations for Blasting GB6722-2003;
- (7) Mine Safety Signs GB14161;
- (8) Hygienic Standards for the Design of Industrial Enterprises GBZ1-2002;
- (9) Standard for the Design of Noise Control System in Industrial Enterprises GBJ87-85;
- (10) Sanitary Standard for Drinking Water GB5749-85.

30.1.2 Analysis of main hazards and harmful factors

The possible security influence factors in mining are mainly unpredictable accidental factors in the nature and security problems caused by irresistible causes. Such problems mainly lead to the release of compressive stress and resulting in roof caving, and sudden underground gushing water caused by unknown water body and not proven guide structure; second, illegal operations during the transport and equipment operations or security issues caused by equipment quality problems, human factors, and management factors. Specific possible safety factors in mining include the following:

- (1) Danger of tail gas generated by the diesel shipping equipment.
- (2) Surface subsidence.

- (3) Roof and wall caving.
- (4) Fire disaster.
- (5) Flood.
- (6) Explosive and blasting equipment hazards.
- (7) Poisoning, suffocation and dust hazards.
- (8) Electrical shock.
- (9) Vehicle damage.
- (10) Operating equipment damage.
- (11) Noise damage.

30.1.3 Labour safety measures

30.1.3.1 Exhaust gas generated by the underground equipment for shipment

The tail gas generated by the down-hole vehicles contains hazardous substances, mainly CO and nitrogen oxides (NOx). These gases directly endanger human health and cause poisoning. Main preventive measures are:

- (1) Use the special transport vehicles for underground mines, provide exhaust gas purification devices, and ensure it is in good working conditions in normal period.
- (2) Enhance ventilation and provide fans and air volume according to the specified value in the safety regulations.

30.1.3.2 Surface subsidence

Main factors: after the ore is mined, the original rock stress balance is destructed, causing the wall rock deformation, displacement, cracking and collapse, and even large-scale movement. As the stoped out area continues to expand, the scope of the rock movement increases correspondingly. When the rock move and expand to the surface, the surface will emerge deformation and subsidence.

Preventive measures: the ore body occurs at the contact line on the top of Qunliuhang Formation of the Taishan rock and the Matsuyama unit monzogranite (partially metamorphosed to muscovite quartz schist due to the

ductile shear). The ore body roof is of biotite hornblende granulite and amphibolite rocks, and the thickness varies in 1-10 m range. It locally contacts directly with the muscovite quartz schist. The bottom plate is generally the biotite hornblende granulite, locally the garnet-biotite-plagioclase granulite, and felsic pegmatite rock. Ore body roof lithology belongs to hard and semi-hard rock, with good compressive, tensile and shear properties and excellent solid performance, good mechanical properties, stability and engineering geological conditions. Ore body bottom wall rock belongs to hard and semi-hard rock, with good compressive, tensile and shear properties, solid performance, good mechanical properties and stability.

According to the observation of the mine roadway, most wall rocks in the pit are stable and shoring and other measures are not required. Therefore, the overall stability of the deposit roadway rock is better. The rock mass is stable, not easy to produce subsidence, collapse and other bad geological phenomena.

As the mined-out area adopts waste rock and tailings for filling, locally unstable roadways can be supported with sprayed concrete, so the large-scale collapse is unlikely.

In summary, formation wall rock in the mining area is solid. Filling measures have been taken and the preventive measures are reliable. Therefore, the surface subsidence is unlikely and the mine safety can be ensured.

30.1.3.3 Roof and wall caving

Main factors: the tectonic joint of the area is not developed, belonging to hard rock, with good mechanical properties, less prone to wall caving and roof fall accidents. In mining operations, affected by ore joints and cracks, local areas are prone to wall caving and roof fall accidents, which can damage the equipment and hurt workers or cause heavy casualties.

Preventive measures:

- (1) According to the occurrence and geological structure features of the ore body, the mining method suitable for the geological characteristics of mining area is selected.
- (2) In the mining process, improve mining intensity, speed up the cycle, shorten the top exposure time, strengthen the roof tapping work and diligently carry out inspection and handling.
- (3) In construction, for the local unstable section, use sprayed concrete for shoring with a thickness of 100 mm. Spray-anchor is used for shoring of joint development section, using a 2.5 m long wedge bolt

and the net degree of 1.0 m × 3 m, to ensure the safety of construction and production.

- (4) According to a reasonable mining sequence, conduct recovery in the mine, first mining on the first stage, and then the next stage. First conduct mining of the top wall ore bodies and then the footwall ore bodies. Retreating mining method is used for the return air shaft in the same section, trying not to destroy the top wall in the mining process.

Such measures can effectively prevent wall caving and roof fall accidents.

30.1.3.4 Surface and Underground Fire

Main factors: the fire-prone locations on the surface main include offices, warehouses, power distribution rooms, staff quarters and so on. Underground fire-prone locations are mainly in the distribution chamber, water pump house, maintenance chamber and so on.

Underground fires are mainly due to flammable materials ignited by accidental fire source or electrical short circuit or other causes. Underground flammable materials include rock drilling machine, water pump, lubricating oil used in portable blower, the oil cotton yarn, cotton cloth, plastic and cables, etc. used in work, of which underground cable is not only flammable, but also a fire source. When there are problems occurred in the cable quality, selection, laying, insulation and security protection, it will cause cable fire and result underground fires.

Preventive measures:

- (1) Ground buildings shall be designed and constructed in accordance with the fire safety requirements in relevant fire prevention regulations promulgated by the state and fire authorities.
- (2) Fire passages shall be set up between plant buildings. It is prohibited to pile materials in the fire passages. Combined with domestic water supply, a good ground fire-fighting system is established.
- (3) Reasonably set up fire hoses. The production water supply pipes double as the fire hoses.
- (4) Transformer substation fire protection. Substation fire passage shall be unobstructed, equipped with fire sand, foam fire extinguishers and other appropriate facilities.

- (5) Other surface fire protection: set up a fire-fighting equipment station in each living area and production area in the mining area, equipped with fire fighting sand, buckets, shovels, fire extinguishers and other tools.

Some permanent supporting in the mine adopts the concrete or sprayed concrete supporting (such as water pump house, etc.). There are no internal fire conditions within the mine, but external factors such as pit electrical equipment may cause fire. Thus, necessary fire protection facilities shall be set in the fire-prone places during the production, especially in the underground yard, substation, machine repair room and other underground chambers shall be equipped with foam extinguishers. A pipe branch and water supply connector shall be set for every 50 ~ 100 m of water supply pipe, as the fire hose.

30.1.3.5 Flood

Main factors: ground water inrush results in submergence accidents and damages the plant and equipment, resulting in shut down and casualties. Underground permeability become a common risk factor in the underground mining in China, sudden, difficult to escape, etc. It has become one of risk factors with higher mortality in underground mining.

Yangzhuang Iron Mining Area is hilly in landscape, higher in the east and lower in the west, gradually slowing down from east to west. E'shan in the mining area has the highest altitude of 491.90 m, and the lowest point is the Gongdan mountain village, with an altitude of 208.8 m. The relative height difference is about 183 m. The altitude of the base level of erosion is about 150 m. It is undulating terrain, with crossed valleys and many small reservoirs and embankments. Xiuzhen River mine is located west of 1 km from the mining area, running of from north to south. Water quantity varies with the seasons, larger in summer and autumn. The ore bodies occur below the base level of erosion. Main water source of groundwater recharge is precipitation water, which is easy to form surface runoff , only partially into the ground. The supply conditions are poor. Hydrogeological conditions in the mining area are simple.

Preventive measures:

Mechanical drainage is used underground. Build drainage pumping stations in two ore block sections. The gushing water discharges out of the surface along the ramp. Water storage capacity is considered by the normal water inflow of 8 hours and the design water storage is divided into two part. Set drainage pumping stations at ± 0 m level of surface in the future, forming a relay drain off water with the upper level pumping station. Gushing water is

directly discharged into the surface along the ramp, and connected with external drainage network connectivity, ensuring smooth drainage. Additionally, the following measures shall be taken:

- (1) Well heads on the ground shall be 1.0 m above the maximum historic flood level, so as to prevent water accumulated in rainy season from entering the mine and thus damaging subsurface safety.
- (2) The boundary of historic mined-out area shall be correctly ascertained prior to construction of the mine, so as to make sure than there are sufficient safety pillars left between the mining boundary and the historic mined-out area.
- (3) Pillars are set and the mined-out area treated in accordance with the design code, so as to prohibit boundary-crossing mining. Boreholes are drilled in advance for advanced water and structure probing, if water conductive structures, crush belts and karst structures are found, blocking water and concreting measures shall be taken immediately in order to strengthen totality and stability of structures and crush belts, thus preventing the occurrence of underground water disasters.
- (4) It shall pay attention to observing geology and hydrologic conditions during the production of mill, and timely block water pour points. Observation and early warning measures are taken and hydrogeological personnel specifically appointed to supervise changing hydrogeological conditions in pits. In-well staff shall be educated about water control and prevention, and dangerous signs such as water inrush timely reported in order to evacuate in-well staff. In-well production shall be suspended in case of rainy season and continuous torrential rain or heavy rain, so as to ensure mining safety.

30.1.3.6 Explosive and blasting equipment hazards

Main factors: blasting operation is an important link in mine safe production, and crucial to safe production in mines. Underground blasting will cause various damages such as vibration, blasting fume, noise and dust, and accidents such as collapse, water transmission, fire disasters, explosion of explosive gases and poisoning, and blasting shock waves will make damages on personnel and equipment, and thus provoke accidents.

Preventive measures:

- (1) Enterprises and blasting operation staff shall strictly follow the Control Regulations of the People's Republic of China on the Management of Civilian Explosives and Safety Regulations for Blasting Operation.

- (2) Blasting operation staff shall receive training and pass examinations as well as hold operation certificates for explosives issued by public security organs.
- (3) Selected explosion igniting elements shall be qualified for explosion of non-electric detonating tubes, processing and usage of nonel tubes, section, quantity, and installation and storage structure of primers shall meet design requirements and made according to explosion procedures. Explosives shall be loaded according to operational procedures.
- (4) Equipment and personnel shall be evacuated to safe places prior to in-well explosion operation.

Considering the management of explosion equipment, the following measures shall be taken:

- (1) Enterprises and blasting operation staff shall strictly follow the Control Regulations of the People's Republic of China on the Management of Civilian Explosives and Safety Regulations for Blasting Operation.
- (2) Blasting operation staff shall receive training and pass examinations as well as hold operation certificates for explosives issued by public security organs.
- (3) Selected explosion igniting elements shall be qualified for explosion of non-electric detonating tubes, processing and usage of nonel tubes, section, quantity, and installation and storage structure of primers shall meet design requirements and made according to explosion procedures. Explosives shall be loaded according to operational procedures.
- (4) Explosion equipment shall be transported with special vehicles, and one 1 t vehicle is specially arranged for explosion equipment in the mine area, as well as two policemen appointed to guard the transportation of explosion equipment.

30.1.3.7 Poisoning, suffocation and dust hazards

Main factors: a large quantity of blasting flume will be generated during mining explosion, with CO and NO_x gases contained in blasting fume and content of oxygen reduced. These gases will directly damage human health and cause blasting fume poisoning. Poisoning may occur due to poor ventilation conditions in air compressor station and delayed maintenance of equipment as well as failing to discharge wastes.

Preventive measures: the following measures shall be taken to prevent poisoning and suffocating.

- (1) Mechanical pull-out type ventilation is designed, and sectional ventilation applied to the whole mine, with two ventilation systems employed in Gongdan Mountain and E Mountain respectively.
- (2) Deploy ventilating wells and local fans in all mining districts.
- (3) Formulate poisoning and suffocating emergency rescue plans, confirm places where poisoning and suffocating accidents are likely to occur, put targeted emergency rescue organizations, personnel and equipment into place, and make regular drills.
- (4) Emergency exit signs and refuge route map are hung in main in-well parts and forks.

The following measures are adopted to prevent dust damages:

- (1) Dust-proof measures such as regular sprinkling are employed in places prone to dust such as waste-rock stacking yards and haulage roads.
- (2) Wet drilling is applied at the bottom of well, and only by sprinkling waste stone ballasts in mine piles and digging mine lanes within the mining district can loading and transport of waste stone ballasts be made.
- (3) Mine main fan shall keep running all day, and local fans set in poor-ventilated places in order to improve ventilation conditions.
- (4) Water mist dustproof systems are installed in all stone gates of each middle section, so as to ensure the quality of fresh air flow.
- (5) In-well workers shall wear anti-dust respirators for individual protection, and regularly scrub lane dusts.
- (6) Regularly test dust concentration and handle any found problem.

30.1.3.8 Electrical shock

Main factors: probabilities for electricity short-circuits and electric leakage of in-well lightning, ventilation, water drainage and electric equipment, electrical equipment is relatively frequent, thus, electric shock accidents can be easily caused.

Preventive measures:

- (1) Lighting voltage: 36V voltage is employed in conveyor lanes, evacuation working faces, light wells, and places between light well and coal face, and running light voltage designed as 36V. 220V lighting voltage, portable electric tools and signal voltage of less than 127V are applied to main conveyor lanes and well bottom installations.
- (2) Gap of cable suspension points in the lane is 3 m, with more than 60 mm clear distance from the perimeter of lane.
- (3) Cables are designed to be suspended on the opposite side of air duct.
- (4) Illuminated circuits are specially designed so as not to mix with power circuits.
- (5) Length of mobile rubber-sheathed lines for mobile machines shall be no more than 45 m, without connectors in the middle.
- (6) Working power of machines shall be cut off when the drive leaves the machine after the mobile mechanical work is completed.
- (7) Grounding main lines in all middle sections are connected to the main grounding electrode.

30.1.3.9 Vehicle damage

Main factors: vehicle damages can be divided into damages on ground vehicles and in-well vehicles. Ground vehicle damage means that personal safety is damaged due to heavy vehicles and other vehicles failing to run along the specified route. In-well vehicle damage means that pedestrians are damaged by scraper machine and mining truck during transport.

Preventive measures:

- (1) Shallow ground: vehicles shall run according to specified route and speed within the factory territory.

- (2) Well bottom:
- a. Dispatching command system is set to ensure safe and orderly running of vehicles.
 - b. In-pit transport is mainly composed of run-of-mine transport and transport of tunnel driving wastes and fillings. Trackless transportation is used. Slopes of ramp road and horizontal lane are 12% and 3% respectively. Negotiable radius of ramp road is usually more than 20 m, bending radius of access road in the middle section for large trackless equipment to run or winding ramp road shall be no less than 15 m, and specifications for haulage roads are usually 5.5×5.5 m, with illuminating lines laid according to relevant requirements.
 - c. Regularly inspect whether safety devices (brake, lamp and hooter) are complete, flexible and reliable, if one of these items is abnormal, vehicle shall not be put into use. Drivers shall hold driver licenses.
 - d. Temporary signals shall be set in places 80 m away from the front and back of workplace during line maintenance, and dismantled when line maintenance is completed.
 - e. Vehicles shall slow down and warning sign emitted when they pass through lanes, curves, extremely gradient sections or other vehicles appear in the front of them or visual barriers occur.
 - f. Driver shall stop the vehicle if anybody find any obstacle vehicle running and emits the warning sign.
 - g. It shall pay attention to shuttling vehicles and hide vehicles in safe places while travelling in in-well lanes.
 - h. Pulling onto and jumping from a moving vehicle shall be prohibited.
 - i. Slope of ramp roads for transporting ores shall be more than the designed slope, and with vehicle failure sliding strictly prohibited.
 - j. Good lighting conditions shall be provided in in-well transporting operation segments.

- k. People are prohibited to be carried on slag in vehicles for transporting rock ores.
- l. Vehicle hoppers are prohibited to carry people and to rise and fall during running.
- m. Strengthen safety production education, and actions of operation against rules, scheduling against rules, drive without license, overweight and overload, drunk driving are prohibited to ensure safe transport.
- n. Route of ramp roads shall be designed according to procedures and regulations, and constructed strictly according to designed cross-section shape, effective height, effective width, structures of ditches and road surfaces, route longitudinal gradient, turning radius, support form and other specifications, in particular, support shall be strengthened in intersections between ramp roads and various middle sections.
 - Sufficient running signals such as lighting, truck sound and light shall be provided in ramp roads, and safely confirmed.
- o. Status of auto tyres shall be regularly checked to make sure whether there is any horse stone between tyres, so as to avoid tyre burst.
- p. Drivers shall manipulate trucks according to regulations, and with speeding prohibited.
- q. Comprehensive automobile maintenance shall be strengthened to prevent “faulty operation” of vehicles.
- r. Vehicles with exhaust emissions meeting standard requirements shall be selected.
- s. Safety protection equipment shall be set, and striking warning signs and traffic signals arranged in turnings and intersection points.
- t. All equipment shall be provided with complete and effective fire extinguishers.
- u. Overloading or extremely high loading is prohibited for transport vehicles so as to avoid falling of ore rocks,

otherwise, accumulated falling ore rocks will damage truck tyres and reduce effective height of ramp roads, thus cause accidents.

- v. Dry sections on ramp road shall be equipped with sprinkle facilities.

30.1.3.10 Operating equipment damage

Main factors: main mining equipment may easily cause damages on personnel due to improper operation or failure.

Preventive measures:

- (1) Equipment such as in-well water pumps, ventilating fans and scrapers that are likely to cause damages shall be operated according to operating procedures.
- (2) Platform with the height of above 0.6 m shall be equipped with rails. Openings or holes on platforms shall be equipped with rails or cover plates, and safety guards set on platform edges, with ladder angles of less than 45°.
- (3) Equipment exposed transmission parts such as belt shall be provided with safety guards.

30.1.3.11 Noise damage

Main factors: air compressor is designed as shallow ground noise sources, rock drilling machine, fan and water pump as the in-well noise sources. Such noise sources mainly damage personal hearing, nervous system, digestive system and cardiovascular disease.

Preventive measures:

- (1) Select qualified low-noise products.
- (2) Adopt insulation and sound absorption measures, reduce the noise transmission and diffusion, and install soundproof duty room in air compressor station.
- (3) Strengthen personal protection: operators shall wear personal protective articles such as earplug in order to reduce noise damages.
- (4) Ventilators at the exit of air exhausting duct shall be provided with sound attenuation materials for noise elimination.

- (5) Factory buildings shall be provided with sound insulation materials for noise isolation.

30.1.4 Occupational Health Design

30.1.4.1 Dust Control

Wet drilling is applied to the well bottom, dust catchers designed in primary crushing cave room and dust suppression by spraying employed in ore-loading points. Mechanical ventilation is employed in mining work face and local fans or auxiliary fans used in poor-ventilated places.

One CJ1217-type wet dust collector is designed for the coarse ore bin, with the dust-removing air volume of 19,000 m³/h, and one CJ1220-type wet dust collector designed for waste rock bin, with the dust-removing air volume of 27,000 m³/h, as well as one CJ1213-type wet dust collector for the transfer station, with the dust-removing air volume of 12,000 m³/h. Dust-removing efficiency is 99%.

With the entry of fresh air and dust catching and cleansing of wet dust collectors, dust and harmful gases on work faces have been diluted and discharged, thus making concentration of harmful gases meet requirements of GB16424-1996 Safety Regulations for Metal and Nonmetal Underground Mines (namely, the maximum permissible concentration of free SiO₂ 10% dust is 2 mg/m³).

In-well workers shall wear labour protection appliances such as working clothes, mask cover and earplug.

Dust will be generated in the processes of ore rock fine crushing and sieving and from the dust bin. Medium and fine crushing factory buildings are provided with one CJ1226-type wet dust collector with the air volume of 42,000 m³/h and one CJ1223-type wet dust collector with the air volume of 36,000 m³/h respectively, sieving factory buildings provided with four CJ1220-type wet dust collectors and one CJ1220-type wet dust collector with the air volume of 25,000 m³/h, as well as dust bin provided with one CJ1213-type wet dust collector with the air volume of 12,000 m³/h. Dust-removing efficiency of wet dust collectors is 99%.

After wet dust collectors are designed for dust removing and cleansing, dust concentration in workplaces shall meet requirements of GBZ2-2002 Occupational Exposure Limit for Hazardous Agents in the Workplace (time weighted average concentration and short-term exposure permissible concentration of dust containing 10%~50% free SiO₂ are 1 mg/m³ and 2 mg/m³ respectively).

30.1.4.2 Noise Control

Drillers and blasters must wear individual noise cancelling items – anti-noise earplugs; design cushion blocking and soundproof rooms for crushers, sieving machines, air compressors and other equipment with strong noise. Air compressors and fans shall be set in the corresponding rooms, to make use of building noise isolation to reduce the noise hazards.

30.1.4.3 Living and welfare facilities

Pit-mouth Service building, shower room and changing room are provided, working clothes of mine workers and in-well workers shall not be allowed to bring home and to dormitory buildings, health-care station is set at well head and equipped with specific-purpose personnel on duty and provided with telephones, emergency drugs and stretchers, as well as in-well dining rooms are arranged to ensure in-pit staff provided with clean boiled water.

30.1.4.4 Water Supply Hygiene

Quality of domestic water after being purified and sterilized shall meet requirements in GB5749-85 Standards for Drinking Water Quality.

30.1.5 Occupational Safety and Health Management

Mine Department has a safety and environmental protection agency with 6 members, of which 4 work full-time in mine labour safety and health management; part-time environmental protection and occupational safety and health administrators are arranged in every work section of mining field and ore concentration plant to assist the safety and environmental protection agency in overseeing the of the discharge of “three wastes” in the working section and protecting workers’ safety and health. Safety and Environmental Protection Division should develop safety operation procedures for all positions in the whole mine, and be responsible for the prevention of occupational hazards, safety education and training, production and security incident management, major hazard control and rectification of major hazards, equipment safety management, safety production document management, safety production reward and punishment system and other system and for the organization of safety production inspection, supervision and technical guidance.

30.1.6 Expected Results

The engineering design has taken more comprehensive safety production and labour health protection measures. As long as these measures are strictly implemented in the mine and an appropriate safety production and labour health management system is developed and conscientiously implemented, the production activities in the Yangzhuang mine will be safe and the health of workers will be ensured.

30.2 Fire Water Supply

30.2.1 Fire Water Standards and Water Consumption

- (1) Outdoor fire water 20L/s
- (2) Indoor fire water 10L/s
- (3) The number of fire at the same time is 1
- (4) The fire lasts for 2h
- (5) Water consumption is 216 m³ for each fire.

30.2.2 Fire Water Supply System

Fire water is supplied using the piping system combined with that for production water supply. Pipe network is ring-shaped, with dual-port underground fire hydrants. Fire water is stored in a 3,500 m³ production water tank. In event of fire, supply fire water by pressurizing with a fire pump. Set up 2 XBD6.8-30 fire pumps in the pressure pump room of the pressure station, 1 for use and 1 for standby. In order to ensure safe water supply, water pumps are with dual power supply.

Resource and Reserve Estimation
For the
Zhuge Shangyu Iron and Titanium Project,
Shandong Province, People’s Republic of China
For
China Zhongsheng Resources Holdings Limited



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Prepared by

MICROMINE PROPRIETARY LIMITED

17 April 2012

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1 EXECUTIVE SUMMARY

China Zhongsheng Resources Holdings Limited (together with its subsidiaries, “Shandong Xingsheng Mining Company Limited” or “the Client”) commissioned Micromine Consulting Services (“MCS”, a division of Micromine Proprietary Limited) in January of 2011 to complete a JORC standard reporting guidelines compliant resource and reserve estimation report for the Zhuge Shangyu Iron and Titanium Project (“the Project”), located in Shandong province, People’s Republic of China. MCS contracted the writing of several sections of the report that had no material bearing on the resource and reserve estimate result to Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLL”). JLL compiled the database for the project that was subsequently validated by MCS. The JORC standard reporting guidelines compliant resource and reserve estimation report would be used for a submission to the stock exchange of Hong Kong (HKEx) and would conform to the Chapter 18 requirements of the exchange.

This report updates a resource and reserve estimation completed by MCS in June 2011. The client again commissioned MCS in September of 2011 to complete an update of the reserve estimation for the project due to changes in modifying factor information. These included reduced capital expenditure and an increase in the titanium concentrate selling price. The previous resource estimate has remained unchanged while the reserve estimate has been updated. The effective date of this report is the 17th April 2012.

The Zhuge Shangyu Iron and Titanium Project is located at Zhuge in the county of Yishui, Shandong Province, Peoples Republic of China. The Zhuge Shangyu mining license No. C3700002010052210063351 is within the exploration licence area. The licence has an area of 0.356 km² and has a validity period from 5th May 2010 to 5th May 2015. The exploration area is covered by license No.T37120081102017091, with an area of 7.3 km² and a validity period from 19th July 2010 to 30th June 2012. Both licences were issued by the Department of Land and Resources of the Shandong Province and is held by Shandong Xingsheng Mining Co. Ltd.

The geology of the project area contains only the exposed Yanlingguan Formation of the Archaean Taishan Group, basalts of the Niushan Formation which is part of the Cenozoic Linqu Group and Quaternary deposits. The iron and titanium mineralisation is hosted in the gabbro of the Sanguanzhai Unit which is part of the Palaeoproterozoic Hongmen Super Unit. The mineralisation strikes north-south with an overall length of 6,500 m. The mineralisation is divided into two zones: ‘Orebody 1’ and ‘Orebody 2’. The mineralisation is composed of ilmenite and magnetite.

Mr. David Allmark (MCS geologist) was Competent Person (as defined by the JORC guidelines) for the preparation of this report.

The Zhuge Shangyu project site was visited on the 4th of March 2011 by Mr. David Allmark and Mr. Jeff Zhang of MCS, accompanied by Ms. Annie Zhang and Mr. Jack Li of JLL. MCS checked the site layout and verified the provided data and later visited the laboratory

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used for the primary analytical work. MCS attempted to check the locations of drillhole collars for the project. MCS found that all of the collar locations were in farming areas and that the original collar locations had been disturbed and could not be found. The core for each interval for seven drillholes was checked with the original drillhole logs (as supplied by the client) and the assays for the intervals. MCS found that the geology, mineralisation and approximate grade of each interval inspected matched the geology and mineralisation that had been previously logged.

Exploration was carried out by the No. 8 Exploration Institute of Geology and Mineral Resources of Shandong. Drilling was on a grid measuring between 200 to 400 m by 100 to 400 m. Trenches were excavated across the strike of the mineralisation every 200 m along the strike of the orebody.

114 drillholes for 20,377.66 metres were drilled in 2008. All drilling was carried out by the No. 8 Exploration Institute of Geology and Mineral Resources using Jiang Tan XY-4 drill rigs. These drill rigs used 3 metre rods and were capable of drilling to depths of 1,000 metres. The drill rigs produced NQ size core with a drilling diameter of 91 mm at the top of the hole in the weathered rock and 75 mm to hole completion.

Drillholes from the surface were generally vertical or inclined steeply at around 80 degrees. Downhole surveys were performed every 50 metres downhole, and at orebody contacts using XJL-42 and JXY-2 electronic inclinometers.

Core recovery data was recorded for 61 drillholes. Linear core recovered length was 18,965.39 metres against 19,396.85 drilled metres. The mean drill hole core recovery was 96.34%. Core recovery was acceptable.

42 trenches were excavated for 4,139.6 linear metres. All trenches were orientated east-west and spaced on 100 m sections along the strike of the orebody and ranged in length from 21 metres to 153 metres. All were sampled as continuous channel samples taken from the base of the trench or adit on the northern face.

The primary laboratory for the project was the laboratory of the Shandong No. 8 Exploration Institute of Geology and Mineral Resources, in Rizhao city, Shandong province. The laboratory was inspected by Mr. David Allmark and Mr. Jeff Zhang of MCS accompanied by Mr. Jack Li and Ms. Annie Zhang of JLL; along with Mr. Liu Jiazhao the Manager of the No. 8 Geological Exploration Brigade on the 5th of March 2011. MCS observed during the visit that laboratory hygiene was of a high standard and the Chinese procedures for sample preparation and analysis were being followed and observed by laboratory staff.

Assay precision was calculated for total iron (TFe) and titanium dioxide (TiO₂) from the repeat analysis results. Assay precision for TFe was $\pm 3.10\%$; assay precision for TiO₂ was $\pm 5.29\%$. The number of samples taken for the repeat analysis is representative of the population (7.7%). Assay precision for both TFe and TiO₂ is acceptable.

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Samples were routinely sent to an umpire laboratory for analysis to establish if a baseline difference in reportable grades existed between the No. 8 Exploration Institute of Geology and Mineral Resources laboratory in Rizhao city, Shandong province and an independent laboratory. The independent laboratory was the laboratory of the Shandong Province Experimental Institute of Geological Sciences, located in Jinan city, Shandong province. The umpire analytical data provided occurred at a frequency of 206 samples out of 5,336 analyses (3.9% of the total analyses). There is no assay bias apparent between the results of the two laboratories at different grade cut-offs.

Data was provided by Shandong Xingsheng Mining Company Limited (the client) on the 11th and 20th of January 2011. The final database contained records for 114 drillholes and 42 trenches.

Resource Estimation

A geological cut-off grade of 11.5% TFe and 4.6% TiO₂ was determined from the classical statistical analysis of the data. These values were used as trigger values to create grade composites for interpretation. Geological data was used to assist in the interpretation of mineralised envelopes. Interpretation and wireframing was then carried out for all mineralised envelopes over forty three cross-sections.

A balancing cut grade of 15.8% TFe was applied to all assays inside the mineralised envelopes. A balancing cut for TiO₂ was not required. All samples within the mineralised envelopes were composited to an equal sample interval length of 2 m before geostatistical analysis and interpolation.

Empty block models were created and TiO₂ and TFe grades and SG data was interpolated into the blocks. Geostatistical analysis was undertaken for TiO₂ and TFe and used as input into the ordinary kriging algorithm which was used for interpolation into the block model.

QA/QC data supplied and obtained from the site visit was moderate to high in quality and resources were classified for Measured, Indicated and Inferred categories. For Measured resources, a minimum of two samples from two holes had to be within a radius of 200 m. For Indicated resources, this radius was 400 m. All other blocks in the model were classified as Inferred resources.

The resources reported for the Zhuge Shangyu Iron and Titanium deposit are stated by category.

An economic cut-off grade was determined using the parameters presented in the mining study. A TiO₂ equivalent grade was generated using details of annual forecast yield for TiO₂ and TFe and prices of the TiO₂ and TFe concentrate from the mining study. A ratio of 1:4.6 was determined for the value of TiO₂ to TFe. A TiO₂ equivalent grade was then determined for every block in the model. The processing recovery of TiO₂ equivalent was determined to be 27.8% and the price of the combined concentrate used was CN¥2,721 per tonne.

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MCS calculated an economic cut-off grade of 9.2% TiO₂ equivalent using the following formula: Economic cut-off grade = CN¥60.43 / (27.8% * CN¥2,721)

The MCS resource (**the current Resource, November 2011**) reported above a cut-off grade of 9.2% TiO₂ equivalent is shown in Table 1-1.

Table 1-1: Resource statement for the Zhuge Shangyu Iron and Titanium deposit

| Resource Category | Tonnes (t) | SG (t/m ³) | TiO ₂ equivalent (%) | TiO ₂ (%) | TFe (%) |
|---------------------------------|----------------------------------|---------------------------|---------------------------------------|---------------------------|----------------------------|
| Measured | 372,793,000 | 3.19 | 70.30 | 5.86 | 14.00 |
| Indicated | <u>260,565,000</u> | <u>3.13</u> | <u>70.31</u> | <u>5.81</u> | <u>14.03</u> |
| Total Measured and Indicated | 633,358,000 | 3.17 | 70.31 | 5.84 | 14.01 |
| Inferred | <u>3,472,000</u> | <u>3.13</u> | <u>69.30</u> | <u>3.63</u> | <u>14.27</u> |
| Total Resources | <u><u>636,830,000</u></u> | <u><u>3.16</u></u> | <u><u>70.30</u></u> | <u><u>5.83</u></u> | <u><u>14.01</u></u> |

Note: Numbers have been rounded to reflect that the resources are an estimate.

Additional resource potential exists at both ends of the southern orebody and at depth along both orebodies where the orebodies remain open. Additional infill drilling could upgrade the Indicated and Inferred resource to Measured category.

Mining Study

The deposit is suitable to commence mining as an open pit mining due to the size, depth and shape of the orebodies, as well as the geology of the area. The original preliminary design report prepared by the Shandong Lianchuang Architectural Design Co. Ltd. also contained a design and reserves calculations for an underground mine which would extend the mine life beyond the life of the open pit.

The MCS reserve statement (**current Reserve, November 2011**) for the Zhuge Shangyu deposit is shown in Table 1-2.

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Table 1-2: Total Reserves for the Zhuge Shangyu deposit

| Reserve Classification | Ore (Tonnes) | TiO ₂ Grade (%) | TFe Grade (%) | Contained TiO ₂ (Tonnes) | Contained TFe (Tonnes) |
|---------------------------|---------------------------|----------------------------------|---------------------|---|------------------------------|
| Open Pit | | | | | |
| Proved | 200,080,000 | 5.76 | 12.78 | 11,525,000 | 25,577,000 |
| Probable | <u>89,910,000</u> | 5.52 | 12.77 | <u>4,964,000</u> | <u>11,481,000</u> |
| Total Open Pit | <u>289,990,000</u> | 5.69 | 12.78 | <u>16,489,000</u> | <u>37,058,000</u> |
| Underground | | | | | |
| Proved | – | – | – | – | – |
| Probable | <u>256,290,000</u> | 5.69 | 12.85 | <u>14,595,000</u> | <u>32,922,000</u> |
| Total Underground | <u>256,290,000</u> | 5.69 | 12.85 | <u>14,595,000</u> | <u>32,922,000</u> |
| Combined | | | | | |
| Proved | 200,080,000 | 5.76 | 12.78 | 11,525,000 | 25,577,000 |
| Probable | <u>346,210,000</u> | 5.65 | 12.83 | <u>19,559,000</u> | <u>44,402,000</u> |
| Total Reserve | <u>546,290,000</u> | 5.69 | 12.81 | <u>31,084,000</u> | <u>69,979,000</u> |

Notes:

- *The ore resources are inclusive of the ore reserve.*
- *The reserve includes diluting material with an assumed diluent grade of 0%, total dilution used was 9%.*
- *The MCS reserve is stated based on titanium with an iron credit.*

Using the reserve and the proposed production rates a life of mine schedule was developed for the open pit and underground. The schedule assumes that the production volume commences during the third year at two million tonnes per year, ramping up to eight million tonnes per year by year six.

The expected project life of the open pit is 36 years and the underground mine is approximately 40 years.

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It is recommended that the following actions be undertaken to increase the amount of Proved reserves:

- Additional holes be drilled to upgrade the Resource so additional Resource falls into the Measured category.
- Perform metallurgical tests on the fresh and weathered material for compatibility.
- Metallurgical testwork be conducted to determine the levels of the penalty elements in the final concentrates.
- MCS recommends that pilot-scale mineral processing testwork be carried out to determine the true recovery rates for the particular ores, processing equipment and design parameters of this project. Based on the results of processing testwork recovery rates may need to be revised either upwards or downwards.

Respectfully submitted

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David Allmark
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**Jones Lang LaSalle Corporate Appraisal
and Advisory Limited**

2 INTRODUCTION

China Zhongsheng Resources Holdings Limited (together with its subsidiaries, “Shandong Xingsheng Mining Company Limited” or “the Client”) commissioned Micromine Consulting Services (“MCS”, a division of Micromine Proprietary Limited) in January of 2011 to complete a JORC standard reporting guidelines compliant resource and reserve estimation report for the Zhuge Shangyu Iron and Titanium Project (“the Project”), located in Shandong province, People’s Republic of China. MCS contracted the writing of several sections of the report that had no material bearing on the resource and reserve estimate result to Jones Lang LaSalle Corporate Appraisal and Advisory Ltd. (“JLL”). The JORC standard reporting guidelines compliant resource and reserve estimation report would be used for a submission to the stock exchange of Hong Kong and would conform to the Chapter 18 requirements of the exchange.

The client again commissioned MCS in September of 2011 to complete an update of the reserve estimation for the project due to changes in modifying factor information. These included reduced capital expenditure and an increase in the titanium concentrate selling price. The previous resource estimate has remained unchanged while the reserve estimate has been updated.

The competent person for the project, Mr. David Allmark, visited the site between the 2nd and 6th of March 2011 accompanied by Mr. Jeff Zhang of MCS, Ms. Annie Zhang and Mr. Jack Li of JLL. MCS checked the site layout and verified the provided data and visited the laboratory used for the primary analytical work.

The final technical report was compiled by the competent person, Mr. David Allmark of MCS and Ms. Clare Kelly of MCS. Ms. Marta Sostre of MCS completed the data validation, classical statistical analysis, sectional interpretation and wireframing, Mr. David Allmark completed the block modelling, grade interpolation, resource categorisation and the project management. Reserve estimation was completed by mining engineer Mr. Tony Cameron. Report sections for Location and Transport, Regional Geology and Project History were provided by the JLL team led by Mr. Simon Chan and assisted by Ms. Annie Zhang. Technical translation and liaison with the client was conducted by Mr. Jeff Zhang of MCS. The project was supervised by MCS General Manager Mr. Dean O’Keefe.

A glossary of terms and abbreviations is listed in Appendix 3.

3 SCOPE OF WORK

The primary objective of this study was to produce a JORC standard reporting guidelines compliant resource and reserve estimation report for the Zhuge Shangyu Iron and Titanium Project (“the Project”), located in the Shandong Province, People’s Republic of China.

The specific objectives of the work were as follows:

Resource Estimation

- Import of topographical, analytical and geological data into MICROMINE software for data validation, error detection and error elimination, modelling and resource estimation.

- Georeferencing of all available graphical information in 3D.
- Classical statistical analysis of the sampling data to determine possible domains and natural cut-offs.
- Interpretation of mineralised bodies on cross sections and/or plans.
- Wireframe modelling of the interpreted mineralised bodies, topographic surface and, where necessary, geological formations, tectonic elements and oxidation zones.
- Coding and selection of samples for further geostatistical analysis and grade interpolation.
- Classical statistical analysis of selected samples and selection of balancing cut grades.
- Compositing of samples within ore bodies (sample length adjustment).
- Geostatistical analysis of the sampling results and determination of the spatial distribution of the mineralisation.
- Creation of block models restricted by wireframe models.
- Grade interpolation into block models.
- Classification of the resources in accordance with international standards (JORC) and reporting in accordance with Hong Kong stock exchange requirements guidelines.
- Removal of mined out areas.
- Statement of the grade and tonnage at a set of different cut-off grades.

**Open Pit Mining Reserve Estimation, Mine Design and Modifying Factors
Assessment**

- Conduct open pit mine design and scheduling, mining costs and other related parameters.
- MCS will consider all modifying factors and where possible convert resources to reserves and state the reserves. If not possible then MCS will conduct a preliminary assessment based on assumptions and produce potentially economically viable resources. It may not be possible to convert resources to reserves if the modifying factor information is inadequate or lacks detail.

Site Visit and QA/QC Audit

Conduct a site visit and a QA/QC audit: This included field observations and interviews with responsible personnel to document procedures and methodologies, supported by digital, archive and report data. These data and observations were used in assessing the following QA/QC parameters:

Methodology and quality of drilling;

Methodology and quality of sampling and assaying;

Methodology and quality of drill collar, topographical and downhole positional information;

Presence and quality of any procedural or analytical checks and controls;

Specific gravity determination methodology.

All findings, conclusions and recommendations are summarised in the Risk Assessment section of this report.

4 LOCATION, ACCESS AND GENERAL INFORMATION

The Zhuge Shangyu Iron and Titanium Project is located at Zhuge Town in the county of Yishui, Shandong Province, Peoples Republic of China. A detailed map of the project area is shown in Figure 4-1. The projects have exploration rights covering an area of 7.3 km², with the geographical coordinates shown in Table 4-1.

Table 4-1: Geographical Coordinates of the Zhuge Shangyu Iron and Titanium Project

| | Longitude | Latitude |
|---------|------------------|-----------------|
| Minimum | 118°34'53" | 35°55'55" |
| Maximum | 118°35'09" | 35°56'24" |



Figure 4-1: Location of the Zhuge Shangyu Iron and Titanium project

4.1 Climate and Topography

The area of China where the Zhuge Shangyu project is located experiences a semi-continental climate and has four distinct seasons. The summer is hot with high precipitation and the winter is cold and dry. The mean annual temperature is °C with long frost free periods and abundant sunshine. The prevailing wind direction is southeast in the spring and summer and northwest in autumn and winter.

The average annual precipitation is 851.8 millimetres which mainly occurs in July, August and September and accounts for about 76% of the whole year's precipitation. The overall flow is from northeast to southwest and the run-off is captured in the Bashan Reservoir.

The topography of the project area is hilly with higher topography in the north and lower topography in the south. The highest peak in the area is Su Mountain which has an elevation of 395.5 metres above sea level and the lowest point in the area is south of Xiaoyu Village and has an elevation of 175.0 metres above sea level. The relief difference in the area is approximately 220.5 metres. There are valleys, many small reservoirs and ponds in the project area.

4.2 Licence Status

The Zhuge Shangyu deposit area is covered by mining license No. C3700002010052210063351. The licence has an area of 0.356 km² and has a validity period from 5th May 2010 to 5th May 2015. The licence was issued by the Department of Land and Resources of the Shandong Province and is held by Shandong Xingsheng Mining Co. Ltd (Appendix 1: Tenement Licence Certificate).

The broader project area is covered by detailed exploration license No.T37120081102017091. This licence has an area of 7.3 km² and has a validity period from 19th July 2010 to 30th June 2012. The licence was issued by the Department of Land and Resources of the Shandong Province and is held by Shandong Xingsheng Mining Co. Ltd (Appendix 1: Tenement Licence Certificate).

4.3 Local Infrastructure and land use

The following information has been sourced from Shandong Lianchuang Architectural Design Co. Ltd (2011).

The road and rail conditions in the project vicinity are good. The project is situated 2 km from the Yishui-Boshan road which provides access to Yishui in the south and Boshan to the north. It is also situated 15 km from the Yangkou-Linyi road which provides access to the Jiaoji Railway at the Qingzhou Railway station to the north; as well as access to the Yanshi and Longhai Railways at Linyi and Xinyi Railway stations to the south. The project is also only 10 km from the Taian-Xuejiadao road which provides access to Xuejiadao in the east and access to the Beijing-Shanghai Railway to the west.

The project area has sufficient power, which is supplied by the East China Grid, and has communication facilities. There are abundant water resources and many small reservoirs, including the Bashan Reservoir, and ponds within Yishui County. Yishui County has a mining industry and so raw materials, such as explosives and equipment for mine production, as well as the materials for construction of a processing plant could be sourced locally. In addition, the population density in the area is high and is sufficient to supply labour.

The climate in the project area is suitable for agriculture; wheat, corn, sweet potato, peanuts, tobacco, vegetables, medicinal plants and small amounts of fruits are grown in the area.

5 REGIONAL GEOLOGY

Regional geology information is sourced from, Shandong Province Metallurgical Engineering Company Limited (2008), Preliminary Design of Yangzhuang Iron Deep Mining Project for Shandong Xingsheng Mining Company Limited.

The project area is located in the uplifted Gongdanshan horst part of the Luxi anticline in the Yishui fracture belt. The Eastern area is comprised of a basement of Archaean metamorphic rocks from the Yanlingguan formation of the Taishan Group and Shancaoyu Group. The main rock type in the formation is a metamorphic rock of medium to upper amphibolites facies. West of the Yishui-Tangtou fracture, the Mesozoic-Cretaceous Dasheng Group is exposed comprising dark purple sandstone and glauconite sandy shale. The area is structurally complex.

There are several ore deposits in the area such as the Yangzhuang iron ore, Beiguozhang iron, Tianbao ilmenite, Mazhan and Gaoqiao iron ore, Guanzhuang bentonite and large amounts of limestone, dolomite, building stone and river sand.

6 GEOLOGY OF THE TENEMENT AREA

All information on the geology of the tenement area comes from Shandong Lianchuang Architectural Design Co. Ltd (2011).

6.1 Stratigraphy

The geology of the project area contains only the exposed Yanlingguan Formation of the Archaean Taishan Group, basalts of the Niushan Formation which is part of the Cenozoic Linqu Group and Quaternary deposits.

6.1.1 *Yanlingguan Formation*

This formation is part of the Archaean Taishan Group which occurs within Palaeoproterozoic monzonitic granites. It is composed of biotite-anorthosite granulite, biotite-amphibolite granulite and magnetite-quartz amphibolites.

It outcrops to the east and north of Shangyu Donggou village and the exposed area covers approximately 0.015 km². The formation has a sharp contact with the monzonitic granite in which it is contained. The formation is orientated from 220° to 240° and dips between 55° and 84°.

6.1.2 *Niushan Formation*

This formation is part of the Neogene Linqu Group (NLN). It is composed of greyish-black basalt, amygdaloidal olivine basalt and conglomerate. The rock is hard and not easily eroded and consequently it outcrops as scarps in the local area.

This formation is exposed in the north of the area and strikes east-west. It has a strike length of approximately 300 metres, a width of approximately 150 metres and covers a total area approximately 0.52 km².

6.1.3 Quaternary System

6.1.3.1 Shanqian Formation

This formation is located near Shangyu and Dayu. It is composed of sand and sandy soils with rock fragments and in some areas an aeolian loess layer 0.3 to 1.0 metre thick can also be seen. This formation covers an area of approximately 0.53 km².

6.1.3.2 Linyi Formation

The Linyi Formation is composed of clay, clayey sand and rock and is approximately 1.5 to 5.0 metres thick. The formation is distributed around the river in the Shangyu-Bashan reservoir and covers an area of approximately 0.87 km².

6.1.3.3 Yihe Formation

This formation is composed of sand, sandy gravel and pebbles. It is distributed in the flood plane in the Shangyu-Bashan reservoir and covers an area of approximately 0.37 km².

6.2 Magmatic Rocks

Magmatic rocks in the area are mainly contained within the Dujiacha River Unit, the Tiaohuayu Valley Unit, the Hushan Mountain Unit and the Songshan Mountain Unit which are part of the Palaeozoic Aolaishan Formation. Magmatic rocks are also contained in the Sanguanzhai Unit of the Hongmen Super Unit as well as Niulan Unit of the Motianling Super Unit which was formed in Mesoproterozoic Era. In addition, small quantities of diorite porphyry and quartz reefs are exposed in the area.

6.2.1.1 Dujiacha River Unit

This unit is present in the north of the project area and contains medium-grained hornblende monzonitic granite. It covers an area of approximately 0.33 km² with hilly topography.

6.2.1.2 Tiaohuayu Valley Unit

The Tiaohuayu Valley Unit is mainly distributed in the central and north parts of the project area and is composed of a gneissic medium to coarse-grained biotite monzonitic granite. It covers an area of approximately 4.5 km² with hilly landforms.

6.2.1.3 Hushan Mountain Unit

This unit is located to the south of Yujia River, which is in the south of the project area. It is composed of medium to coarse-grained porphyritic monzonitic granite and covers an area of 40 km².

6.2.1.4 Songshan Mountain Unit

The Songshan Mountain Unit is located in the south and central areas of the project area and covers approximately 5.5 km². It is composed of porphyritic medium-grained monzonitic granite.

6.2.1.5 Sanguanzhai Unit

This unit is part of the Hongmen Super Unit and is present in the entire project area. It is composed of medium to coarse-grained gabbro and is the host of the iron and titanium mineralisation.

6.2.1.6 Niulan Unit

This unit is part of the Motianling Super Unit and is composed of dolerite.

6.3 Structure

There is evidence of both ductile and brittle deformation in the project area.

6.3.1 Ductile Structures

Ductile deformation structures are mainly exhibited in the monzonitic granites and to some extent within the Yanlingguan Formation which is contained within them. The structures include folds of varying sizes, schistosity and other features and were all formed under the same southwest-northeast stress regime.

6.3.2 Brittle Structures

There are three principal fault structures in the project area; F1, F2 and F3.

F1 is orientated approximately north-south, dips 35° to 60° to the west, is approximately 1,300 m in length and the whole fault zone is between 6 and 15 m wide. The fault zone contains cataclastic rock and fault breccias which exhibit ferrous and siliceous alteration. The fault exhibits normal shear and is thought to have been active in the Early Cretaceous. The hanging wall is composed of granite and the footwall contains the iron and titanium mineralisation.

F2 is also orientated north-south, dips 55° to the west but is approximately 800 m in length and is 1 to 10 m wide. This fault zone also contains cataclastic rock and fault breccias with ferrous and siliceous alteration. The movement on the fault is dextral shear and the lithology on both sides of the fault is granite.

F3 is also orientated north-south, dips 80° to the west and is approximately 300 m in length and 1 to 6 m thick. This fault contains the same cataclastic rock and fault breccias with ferrous and siliceous alteration and like F2 also exhibits dextral shear.

6.4 Mineralisation

6.4.1 Mineralisation Structure

The iron and titanium mineralisation is hosted in the gabbro of the Sanguanzhai Unit which is part of the Palaeoproterozoic Hongmen Super Unit. The mineralisation strikes north-south, has an overall length of 6,500 m and is exposed at the surface as positive relief. The mineralisation is divided into two zones: ‘Orebody 1 (Figure 6-1)’ and ‘Orebody 2 (Figure 6-2)’.

6.4.1.1 Orebody 1

Orebody 1 is in the north of the project area to the northeast of Dayu Village. The mineralisation strikes approximately north-south and dips between 24 and 88°. It is approximately 3,000 m long and between 36 to 136 m in thickness.

The minimum, average and maximum true thicknesses of the mineralisation are 5.24 m, 63.90 m and 141.42 m respectively. The maximum vertical depth of the mineralisation is 778 m but in general the mineralisation occurs and an average depth of 400 to 600 m, which corresponds to an elevation of +344 to 543 m.

The grade distribution in Orebody 1 is relatively regular. The minimum, average and maximum grades of TiO₂ are 5.00%, 6.74% and 8.74% respectively. The minimum, average and maximum grades of TFe are 11.14%, 14.65% and 17.80%. There are no major discontinuities within Orebody 1 and the mineralisation has a simple geological structure.

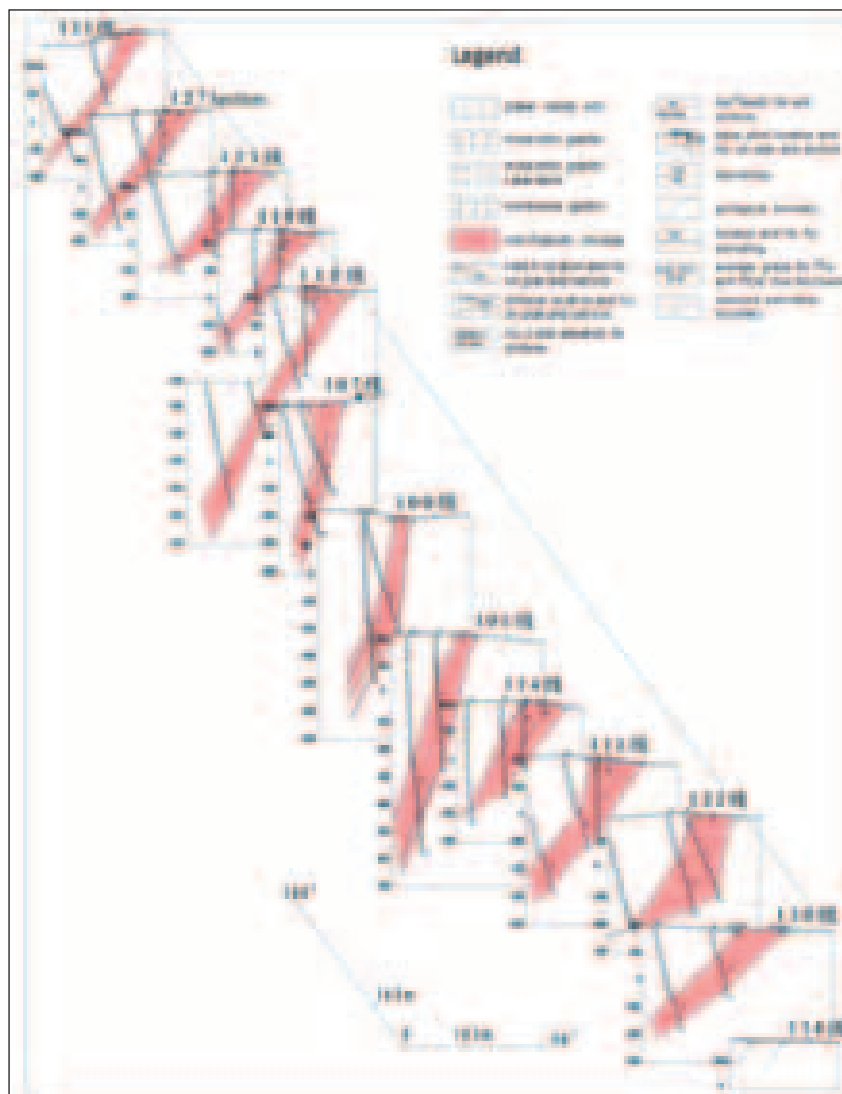


Figure 6-1: Profile of Orebody 1

Source: Shandong Lianchuang Architectural Design Co. Ltd (2011)

6.4.1.2 Orebody 2

Orebody 2 is located between Shangyu Village, Xiaoyu and a small reservoir in northern Hongshimen. It is also orientated north-south and dips between 22° and 54° towards the west. It is approximately 2,700 m long and between 9 and 100 m thick.

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The minimum, average and maximum true thicknesses of the mineralisation are 4.63 m, 42.91 m and 92.36 m. The maximum vertical depth of the mineralisation is 444 m however in general the mineralisation occurs at 138 to 460 m, which corresponds to an elevation of approximately +223 to 263 m.

The grade distribution in Orebody 2 is regular and the minimum, average and maximum grades of TiO_2 are 5.45%, 6.50% and 8.05%. The minimum, average and maximum grades of TFe are 10.43%, 14.75% and 17.22%. There are some un-mineralised zones and discontinuities in mineralisation within the orebody.

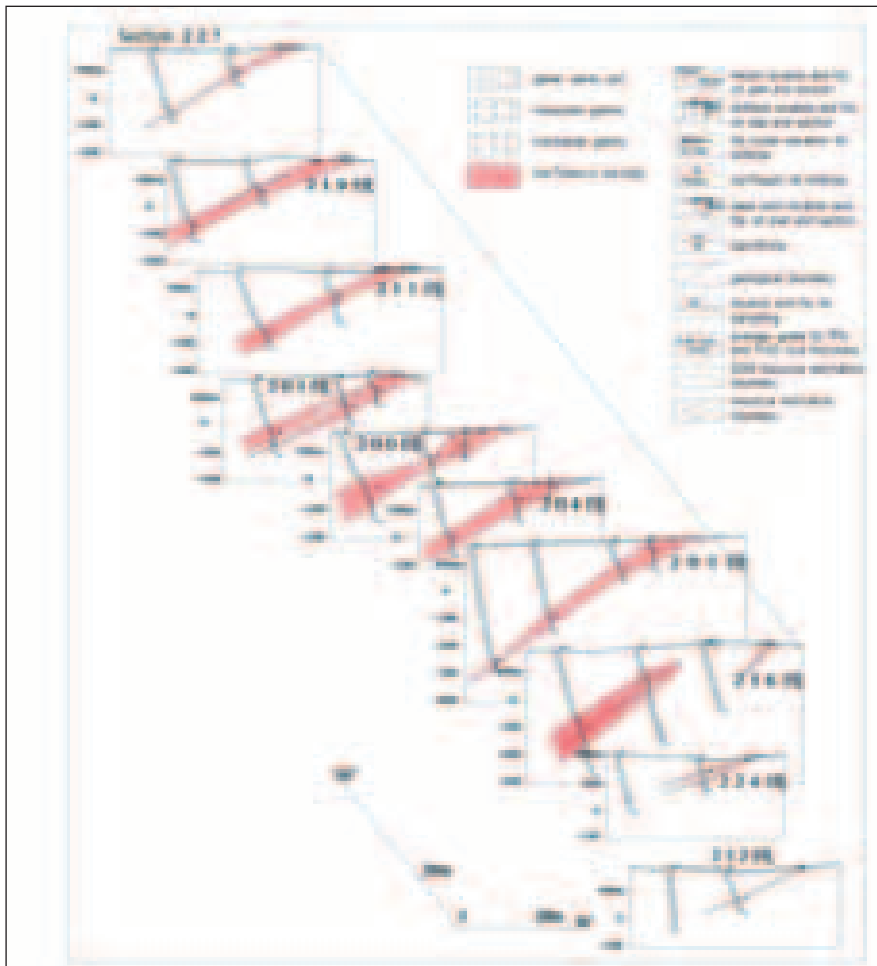


Figure 6-2: Composite Profile for Orebody 2

Source: Shandong Lianchuang Architectural Design Co. Ltd (2011)

6.4.2 *Mineralogical Composition*

The mineralisation is composed of ilmenite and magnetite. Associated minerals are pyrite and chalcopyrite. Associated non-metallic minerals are plagioclase, pyroxene, titanite, biotite, phosphate and carbonate minerals.

According to test results the principal economic mineral is TiO₂ which has an average grade of 6.63%. The principal accompanying constituent is Fe which has a total iron (TFe) grade of 14.68%. Other constituents include V₂O₅ at a grade of 0.05%, MnO at a grade of 0.22%, SiO₂ at an average grade of 46.41%, Cu at an average grade of 0.01×10⁻⁶, Al₂O₃ at an average grade of 6.56%, CaO at an average grade of 6.56%, MgO₂ at an average grade of 3.96%, S at an average grade of 0.18%, P at an average grade of 0.09%, As at an average grade of 3.86×10⁻⁶ and Pb at an average of 12.55×10⁻⁶.

7 PROJECT HISTORY

7.1 Ownership History

The project has been owned by Shandong Xingsheng Mining Company Limited since 18th January 2004. Details of the previous owners of the project were not provided by the client.

7.2 Exploration History

The following information has been sourced from Shandong Lianchuang Architectural Design Co. Ltd (2011).

The No. 8 Exploration Institute of Geology and Mineral Resources of Shandong were commissioned to make a detailed geological survey of the iron and titanium ore in the Zhuge Shangyu project area between April and November of 2008. A report named 'Detailed Survey Report of Ilmenite in Shangyu Mining, Yishui County, Shandong Province' was submitted in March 2009 and was approved as LKKSJZ [2009] No.10 Document by experts from Provincial Reserves Review Office on 6th March 2009. This project included a resource estimate (see Previous Resource and Reserve Estimates).

The detailed geological survey included drilling to constrain the shape, scale, internal structure and the spatial distribution of the mineralisation. It included analysis of the mineralisation characteristics, composition and grade in addition to analysis of deleterious elements. The work also included studies to assess the industrial and processing properties of the mineralisation. Hydrogeological and geotechnical work was also undertaken. Table 7-1 lists the type and quantity of work completed.

Table 7-1: Summary of Exploration Work Completed by the
No. 8 Exploration Institute of Geology

| Work item | Unit | Practical workload | Remarks |
|---|-----------------|--------------------|---------------------------------------|
| I. Survey | | | |
| 1. Control survey | Dot | 20 | Fourth-class conductor |
| 2. 1:2,000 terrain survey | km ² | 7.40 | |
| 3. Prospecting line profile survey | km | 7.73 | |
| 4. Baseline survey | km | 6.5 | |
| 5. Layout of geophysical prospecting network | km ² | 7.04 | |
| 6. Survey and repetition survey by exploratory trench | Dot | 44 | |
| 7. Survey and repetition survey by borehole | Dot | 116 | |
| II. Geology survey | | | |
| 1. 1:50,000 regional geology mapping | km ² | 97.50 | |
| 2. 1:10,000 geology revision | km ² | 12.17 | |
| 3. 1:2,000 geology survey | km ² | 3.88 | |
| III. Hydro-engineering-environmental geology | | | |
| 1:10,000 hydro-geological survey in mining area | km ² | 12.17 | |
| 1:10,000 engineering geology survey in mining area | km ² | 12.17 | |
| 1:10,000 environmental geology survey of mining area | km ² | 12.17 | |
| IV. Geophysical prospecting | | | |
| 1:10,000 high-precision magnetic survey | km ² | 7.04 | 100×20 |
| V. Trenching | | | |
| | m ³ | 3,668 | |
| VI. Mechanical core drilling | | | |
| | m | 19,982.30 | 106 holes (including hydrology holes) |
| VII. Hydrogeology drilling | | | |
| | m | 559.30 | 2 holes |

| Work item | Unit | Practical workload | Remarks |
|---|-------|--------------------|--|
| VIII. Hydrogeology pumping test and hydrogeology observation | | | |
| 1. Pumping test by borehole | Shift | 48 | 2 holes |
| 2. Civil well pumping | Well | 10 | |
| 3. Simple hydrogeology observation by borehole | Hole | 56 | |
| 4. Dynamic observation of surface water and groundwater | Well | 10 | |
| IX. Granite mine test | | | |
| (I) Granite mine analysis | | | |
| 1. Sample for fundamental analysis | Piece | 4,127 | TFe TiO ₂ |
| 2. Complete spectrum analysis | Piece | 5 | |
| 3. Complete chemical analysis | Piece | 5 | |
| 4. Combinatorial analysis | Piece | 193 | SiO ₂ , mFe, V ₂ O ₅ , P, S |
| 5. Internal test sample of iron ore | Piece | 412 | |
| 6. Outside test of iron ore sample | Piece | 206 | |
| (II) Identification and test of granite mine | | | |
| 1. Slice producing and identification | Sheet | 23 | |
| 2. Lumislice producing and identification | Sheet | 16 | |
| (III) Granite mine test | | | |
| 1. Corpusculum density sample | Piece | 56 | |
| 2. Humidity sample | Piece | 56 | |
| (IV) Physical mechanics sample of rock and ore | Piece | 21 | 3 pieces in each of 7 groups |
| (V) Chemical analysis sample of underground (surface) water | Piece | 11 | Complete analysis |
| X. Geological Exploration | | | |
| 1. Drilling | m | 19,982.30 | |
| 2. Trenching | m | 3,668 | |
| 3. Record of hydrology and engineering geology rock (ore) core | m | 559.30 | |
| 4. Core sampling by borehole | Piece | 3,212 | |
| 5. Channelling sampling by exploratory trench | Piece | 915 | |

Source: Shandong Lianchuang Architectural Design Co. Ltd (2011)

More recently, in 2011 Shandong Lianchuang Architectural Design Co. Ltd completed a feasibility study on the Zhuge Shangyu Iron and Titanium Project. The scope of the project included a study of the mine, processing plant, administrative infrastructure, tailings dam, waste dumps and water supply.

8 QA/QC ANALYSIS

The quality assurance/quality control (QA/QC) analysis comes from the geological exploration reports for the project, the assay QA/QC data that was supplied by the client, and information and observations gathered by MCS during the site visit.

8.1 Drill hole sampling

All drill hole core sample boundaries were determined by lithology and mineralisation. A total of 5,336 samples were taken with an average sample length of around 2 metres. Drill core was broken into 2 halves using a manual core splitter and half of the core was sampled while the remaining half was stored.

8.2 Assay Precision

Precision is a measure of the reproducibility of a result when using the same process. Assay precision was calculated for total iron (TFe) and titanium dioxide (TiO_2) from the repeat analysis results. The provided repeat data occurred at a frequency of 412 results from a total of 5,336 analyses (7.7% of total analyses). The scatterplot for TFe results versus TFe repeat results is shown in Figure 8-1. Assay precision for TFe was $\pm 3.10\%$. The scatterplot for TiO_2 results versus TiO_2 repeat results is shown in Figure 8-2. Assay precision for TiO_2 was $\pm 5.29\%$.

The number of samples taken for the repeat analysis is representative of the population (7.7%). Assay precision for both TFe and TiO_2 is acceptable.

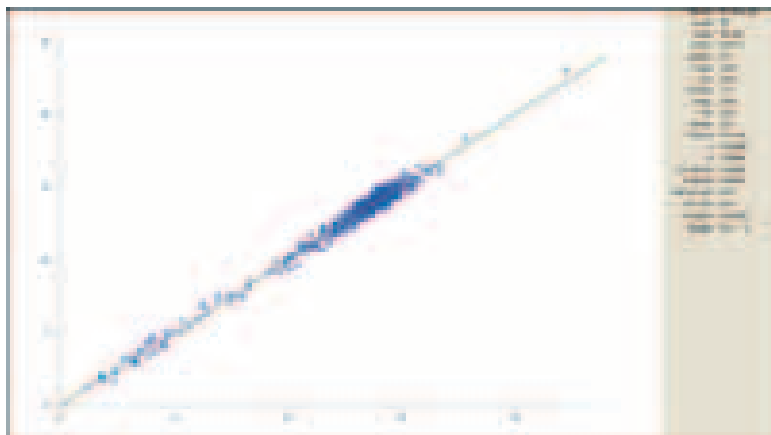


Figure 8-1: Scatterplot of TFe results versus TFe repeat results

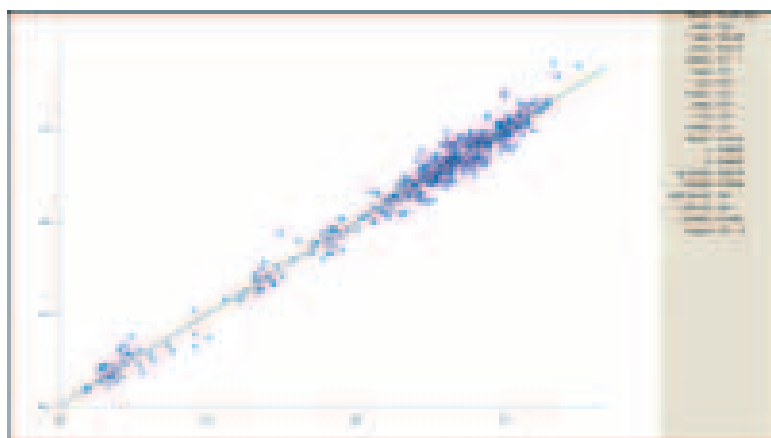


Figure 8-2: Scatterplot of TiO_2 results versus TiO_2 repeat results

8.3 Assay Bias

Samples were routinely sent to an umpire laboratory for analysis to establish if a baseline difference in reportable grades existed between the No. 8 Exploration Institute of Geology and Mineral Resources laboratory in Rizhao city, Shandong province and an independent laboratory. The independent laboratory was the laboratory of the Shandong Province Experimental Institute of Geological Sciences, located in Jinan city, Shandong province. The umpire analytical data provided occurred at a frequency of 206 samples out of 5,336 analyses (3.9% of the total analyses). A quantile-quantile plot of TFe results from the No. 8 Exploration Institute of Geology and Mineral Resources laboratory versus TFe results from the Shandong Province Experimental Institute of Geological Sciences laboratory is shown in Figure 8-3. The data points all lie very close to the straight line which indicates there is no significant assay bias present between the results of the two laboratories at different grade cut-offs.

A quantile-quantile plot of TiO_2 results from the No. 8 Exploration Institute of Geology and Mineral Resources laboratory versus TiO_2 results from the Shandong Province Experimental Institute of Geological Sciences laboratory is shown in Figure 8-4. As with the TFe results, the data points all lie very close to the straight line which also indicates there is no significant assay bias present between the two sets of results at different grade cut-offs.

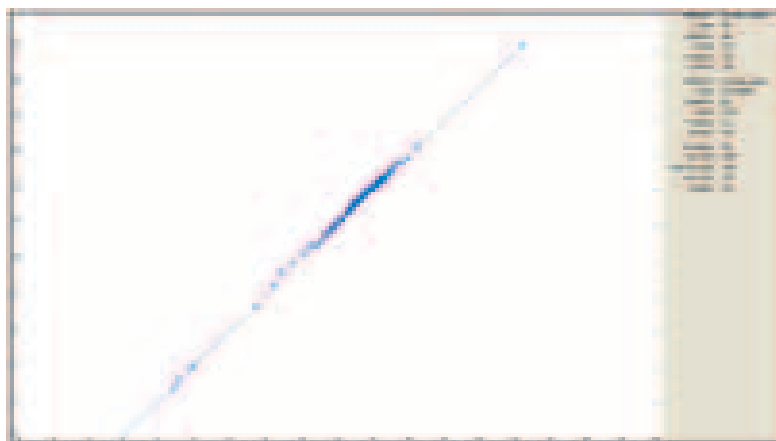


Figure 8-3: Quantile-quantile plot of TFe results from the primary laboratory versus those for the umpire laboratory

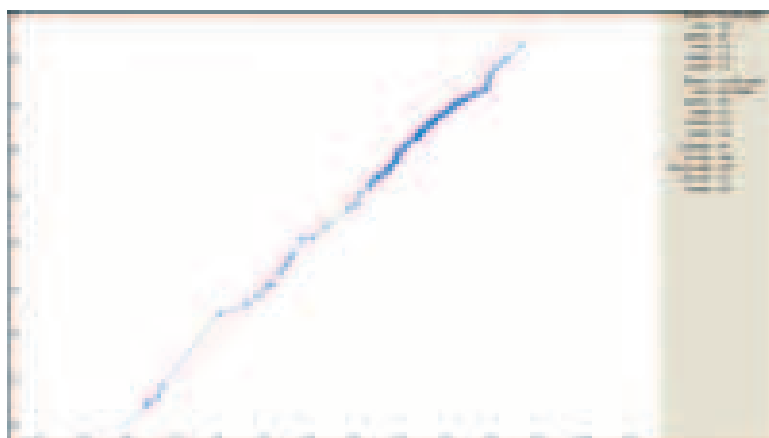


Figure 8-4: Quantile-quantile plot of TiO_2 results from the primary laboratory versus those for the umpire laboratory

8.4 Drilling Method

114 drillholes for 20,377.66 metres were drilled in 2008. All drilling was carried out by the No. 8 Exploration Institute of Geology and Mineral Resources using Jiang Tan XY-4 drill rigs. These drill rigs used 3 metre rods and were capable of drilling to depths of 1,000 metres.

The drill rigs produced NQ size core with a drilling diameter of 91 mm at the top of the hole in the weathered rock and then 75 mm to hole completion.

8.5 Drill hole survey

Drillholes from the surface were generally vertical or inclined steeply at around 80 degrees. Downhole surveys were performed every 50 metres downhole, and at orebody contacts using XJL-42 and JXY-2 electronic inclinometers.

Drillhole locations were surveyed using 4 survey markers in the planar Beijing 1954, 3 degree zone coordinate system. There are 7 mapping control points and 33 baseline points in the area.

8.6 Other surveys

A topographical survey was completed for the area using a Trimble 5700RTK type GPS receiver and using CASS5.1 topographical and cadastral mapping software.

8.7 Core Recovery

Core recovery data was recorded for 61 drillholes. Linear core recovered length was 18,965.39 metres against 19,396.85 metres of drilling, where core recovery was recorded. Recovery was weight averaged for each hole and where no data was provided for an interval, the interval was ignored.

The mean drill hole core recovery was 96.34%. This is acceptable and indicates the drillcore samples were representative of the drill interval.

8.8 Trenching and Sampling

42 trenches were excavated for 4,139.6 linear metres. All trenches were orientated east-west and spaced on 100 m sections along the strike of the orebody and ranged in length from 21 metres to 153 metres.

All were sampled as continuous channel samples taken from the base of the trench or adit on the northern face.

8.9 Standards and Blanks

The client did not provide any results of external standard analysis or details of the standards. Internal standards were used by No. 8 Geological Exploration Brigade laboratory. Some of these standards were observed during the site visit, but no data of the results for QA/QC purposes was provided by the client.

8.10 Laboratory inspection

The primary laboratory for the project was the laboratory of the Shandong No. 8 Exploration Institute of Geology and Mineral Resources, in Rizhao city, Shandong province. The laboratory was inspected by Mr. David Allmark and Mr. Jeff Zhang of MCS accompanied by Mr. Jack Li and Ms. Annie Zhang of JLL, with Mr. Liu Jiazhao the Manager of the No. 8 Geological Exploration Brigade, on the 5th of March 2011. Sample receipt, sample preparation and sample analysis facilities were viewed and procedures were documented. The laboratory is certified by the Shandong Provincial Quality and Technology Supervision Bureau and the State Recognising Supervision Administration Committee. Certificates for both authorities are shown in Figure 8-5.



Figure 8-5: Laboratory accreditation certificates

Upon sample receipt, all details of the samples were logged and entered into a spreadsheet. Sample batch numbers and internal QA/QC sample numbers were then allocated. Details of all required element analyses were then recorded and staff members were allocated their own particular responsibility for the sample batch.

Sample preparation involved two stages of crushing and one of pulverisation. For the first stage, the sample was crushed in the primary jaw crusher to 10 millimetres. During the second stage, the sample is crushed further by ‘cold crushers’ to 1 millimetre. For the pulverisation stage, the sample was crushed by roll crushers to 0.074 millimetres. The machines for the first and second stages of crushing are shown in Figure 8-6 while the roll crusher machine for pulverisation is shown in Figure 8-7. The storage area for the pulverised sample is shown in Figure 8-8.

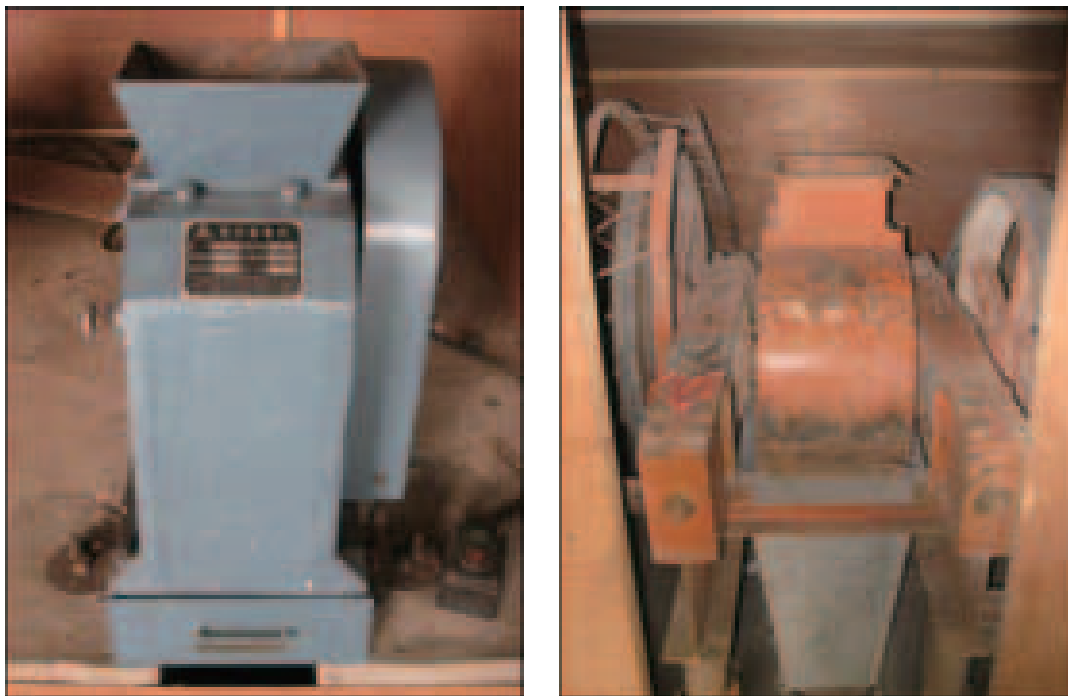


Figure 8-6: First stage jaw crusher (left) and second stage cold crusher (right)



Figure 8-7: Roll crushers for pulverisation stage



Figure 8-8: Storage of pulverised samples

8.10.1 Analytical Method

After sample preparation, the weight of each sample was checked by weighing on a set of scales and the weight was recorded. To the dry sample was added a mixture of sulphuric and phosphoric acid. The mixture was then heated on a hot plate if the sample did not dissolve. The final solution was analysed for total Fe and TiO₂ using a Thermo Scientific iCAP 6000 series inductively coupled plasma optical emission spectrometer (ICP-OES) machine housed in a temperature and humidity controlled room Figure 8-9.



Figure 8-9: Technician operating ICP-OES machine at the primary Rizhao laboratory

8.10.2 Laboratory Inspection Summary

MCS observed during the visit that laboratory hygiene was of a high standard and the Chinese procedures for sample preparation and analysis were being followed and observed by laboratory staff.

8.11 Site visit

The Zhuge Shangyu project site was visited on the 4th of March 2011 by Mr. David Allmark and Mr. Jeff Zhang of MCS, accompanied by Ms. Annie Zhang and Mr. Jack Li of JLL. MCS checked the site layout and verified the provided data and later visited the laboratory used for the primary analytical work in Rizhao. The No. 8 Geological Exploration Brigade that conducted the exploration was also visited at their base in Rizhao city.

8.11.1 Drillhole collar location verification

The purpose of the site visit was to independently verify a selection of drillhole collar positions and to inspect and verify core intersections to confirm the geology and mineralisation.

Within the allowable time MCS attempted to check the locations of drillhole collars for the project. MCS found that all of the collar locations were in farming areas and that the original collar locations had been disturbed. Parts of the concrete caps were found but were not in their original location. For the Zhuge Shangyu project, no original collars could be found. Local villagers assisted with trying to find some of the collars, but the locations were found to be disturbed and only some scattered, small pieces of concrete, possibly from the concrete caps, were found. Collar locations could not be verified.

8.11.2 Drill core verification

MCS viewed the drillcore for the project at the project site. The core was stored in a core storage shed and was covered in a film of dust but was in good condition. The core appeared a little disorganised but core from complete holes was kept together and was able to be inspected (Figure 8-10).



Figure 8-10: Core storage facility for the drill core from the Zhuge Shangyu project

MCS was able to check a random selection of drillcore intervals from 7 drillholes. The details of the core inspected are listed in Table 8-1. The core for each interval was checked with the original drillhole logs (supplied by the client for the site visit) and the assays for the intervals. MCS was able to verify the geology, mineralisation and approximate grade of each interval inspected. All core appeared to have been correctly split and sampled. Marker tags for the depths of each interval in the boxes were available and also inspected. All were found to be correct, and were generally in the correct position. Photographs of the core that was inspected are shown in Figure 8-11 to Figure 8-17.

Table 8-1: Details of drillcore intervals inspected

| HoleID | Depth from (m) | Depth to (m) | Comments |
|---------|-------------------|-----------------|--|
| ZK130-1 | 197.60 | 199.60 | Ilmenite ore, magnetic. |
| ZK100-1 | 548.60 | 550.50 | Ilmenite ore, slightly magnetic. |
| ZK204-1 | 87.20 | 89.50 | Ilmenite ore, slightly magnetic. Assay 14% TFe, 6.5% TiO ₂ |
| ZK114-2 | 140.20 | 142.40 | Ilmenite ore, slightly magnetic. Assay 14% TFe, 6.5% TiO ₂ |
| ZK115-4 | 666.60 | 667.50 | Ilmenite ore, moderately magnetic. Assay 14% TFe, 6.5% TiO ₂ |
| ZK118-1 | 173.00 | 175.90 | Ilmenite ore, moderately magnetic. Assay 14% TFe, 5.7% TiO ₂ |
| ZK114-1 | 69.60 | 71.10 | Ilmenite ore, moderately magnetic. Assay 14% TFe, 8% TiO ₂ |



Figure 8-11: Drill core from ZK130-1 (197.60-199.60 m)



Figure 8-12: Drill core from ZK100-1 (548.60-550.50 m)



Figure 8-13: Drill core from ZK204-1 (87.20-89.50 m)



Figure 8-14: Drill core from ZK114-2 (140.20-142.40 m)



Figure 8-15: Drill core from ZK115-4 (666.60-667.50 m)



Figure 8-16: Drill core from ZK118-1 (173.00-175.90 m)



Figure 8-17: Drill core from ZK114-1 (69.60-71.10 m)

8.12 Specific Gravity and Moisture

Specific gravity was determined by the quick immersion method according to the Chinese geological exploration code. The sample was first coated in wax to prevent absorption of water. The weight of the sample in air was obtained then the sample was immersed in water and a second weight in water was obtained. The amount of water displaced by the immersion of the sample was recorded. The specific gravity was then determined according to the following formula:

W2 = wax plus sample weight

W1 = dry weight

Wax density 0.9 t/m³

Wax volume, VP = (W2 – W1)/0.9

VC = displaced water volume

Sample volume, V = VC – VP

Density = W1/V

9 EXPLORATION GRID DENSITY

According to the Shandong Lianchuang Architectural Design Co. Ltd (2011), the exploration carried out by the No. 8 Exploration Institute of Geology and Mineral Resources of Shandong was based on the nature of the mineralisation, which is large in scale with a simple internal structure. As a result trenches were excavated across the strike of the mineralisation at 100 m intervals with trenches excavated every 200 m along the strike of the orebody. Drilling was carried out on a grid measuring between 200 to 400 m by 100 to 400 m.

10 PREVIOUS RESOURCE AND RESERVE ESTIMATES

According to Shandong Lianchuang Architectural Design Co. Ltd (2011), the work carried out by the No.8 Exploration Institute of Geology and Mineral Resources of Shandong in 2008 included an approved resource estimate (LKKSJZ [2009] No.10 Document) approved by the Provincial Reserves Review Office on 6th March 2009.

The total resource amounted to 462.894 Mt of ore containing 30.692 Mt of TiO₂ at a grade of 6.63% TiO₂. This included resources in ore body ‘122b’ of 14.096 Mt of ore containing 995 thousand tonnes of TiO₂ at a grade of 7.06% and Total Iron (TFe) at a grade of 14.56%, resources in ore body ‘332’ of 89.642 Mt of ore containing 5.916 Mt of TiO₂ at a TiO₂ grade of 6.60% and TFe at a grade of 14.63% and resources in ore body ‘333’ of 359.156 Mt of ore

containing 23.781 Mt of TiO₂ at a grade of 6.62% and TFe at a grade of 14.72%. **This resource estimate is a ‘historic’ resource. This resource has not been reviewed or audited by Micromine Consulting Services and is not considered to be JORC compliant and therefore should not be relied upon.** MCS has not been provided with details of the parameters or the methods used to obtain this resource estimate.

In 2011 Shandong Lianchuang Architectural Design Co. Ltd carried out a feasibility study which included a reserve estimate. This estimate was carried out using ‘Datamine’ software and the resulting reserves in the three separate ore bodies are summarised in Table 10-1. MCS has not been provided with details of the parameters or the methods used to obtain this resource estimate.

Table 10-1: Summary of historic reserves estimate

| Ore Body | Tonnage (Mt) | TFe Grade (%) | TiO ₂ Grade (%) |
|----------|-----------------|------------------|-------------------------------|
| 122b | 14.096 | 14.56 | 7.06 |
| 332 | 89.642 | 14.63 | 6.60 |
| 333 | 156.000 | 14.72 | 6.62 |
| Total | 462.894 | 14.68 | 6.63 |

Source: Table taken from information in Shandong Lianchuang Architectural Design Co. Ltd (2011).

This reserve estimate is a ‘historic’ reserve. This reserve has not been reviewed or audited by Micromine Consulting Services and is not considered to be JORC compliant and therefore should not be relied upon.

11 RESOURCE ESTIMATION METHODOLOGY

11.1 Methodology

The modelling methodology involved the following steps:

- Database compilation;
- Data validation;
- Exploratory data analysis;
- Interpretation of mineralisation based on the geological cut-off grade;
- Wireframing of interpreted mineralised polygons;
- Modelling of experimental semivariograms;

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- Determination of modelling search neighbourhood parameters;
- Block modelling and grade interpolation;
- Removal of mined out areas;
- Resource classification;
- Resource reporting at a cut-off that Indicated the resources was potentially economically viable.

11.2 Software

The Zhuge Shangyu iron and titanium deposit resources were estimated using MICROMINE (Version 12.0.4) software.

11.3 Database Compilation

Data was provided by Shandong Xingsheng Mining Company Limited (the client) on 11th and 20th of January 2011. The provided data consisted of one Excel spreadsheet, containing collar, survey, assay, core recovery, specific gravity data and lithological descriptions and other information in 8 worksheets.

The Excel spreadsheet provided was as follows:

1. Xingsheng drilling data – Shangyu.xls

The contents of each worksheet in the Xingsheng drilling data – Shangyu.xls spreadsheet is shown in Table 11-1.

Table 11-1: Contents of spreadsheet Xingsheng drilling data – Shangyu.xls

| Worksheet | No. of Holes and Trenches | No. of Records |
|------------------|--------------------------------------|---------------------------|
| Survey | 156 | 156 |
| Collar | 156 | 156 |
| Assay | 104 | 5,336 |
| Geology | 100 | 450 |
| Recovery | 61 | 8,781 |
| SG | 67 | 120 |
| Lookup Codes | NA | NA |
| Notes | NA | NA |

11.4 Data Validation

The files of both spreadsheets were then prepared so that they could be imported into MICROMINE software. Minor changes were made to the files after import into MICROMINE to enable creation of a drillhole database in MICROMINE.

The original drawings from the exploration report were then supplied by the client on the 20th of January 2011 and MCS performed the following:

- Displayed geology plans and cross-sections in MapGIS then imported into MICROMINE. The plans and sections were then geo-referenced in MICROMINE and the collar positions and traces were checked;
- Checked collar coordinates, survey and assay data with the original data on the drawings;
- Entered additional downhole survey data for each drillhole that had not been included in the supplied data previously.

Obvious errors in the supplied database were then corrected. The database was then checked using special processes designed to detect the following errors:

- Duplicate drillhole or trench names;
- One or more collar coordinates missing in the collar file;
- FROM or TO missing or absent in the assay file;
- FROM \geq TO in the assay file;
- Sample intervals are not contiguous in the assay file (gaps exist between the assays);
- Sample intervals overlap in the assay file;
- First sample is not equal to 0 m in the assay file;
- First depth is not equal to 0 m in the survey file;
- Several downhole survey records exist for the same depth;
- Azimuth is not between 0 and 360 degrees in the survey file;
- Dip is not between 0 and 90 degrees in the survey file;

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- Azimuth or dip is missing in survey file;
- Total depth of the holes is less than the depth of the last sample; and
- Total downhole survey depth is greater than the total drillhole depth.

Numerous errors were identified and corrected in the database. Details of all errors identified are in the Appendix 2: Zhuge Shangyu Iron and Titanium Project Database Validation and Acceptance Report. The final database contained records for 114 drillholes and 42 trenches. The number of records for each holeID in the final database is shown in Table 11-2.

Table 11-2: Number of records for each HoleID in the final database

| HoleID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|----------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| QZ130-1 | 3978788.000 | 40372138.000 | 189.00 | 9.50 | 1 | 0 | 0 | 0 | 0 |
| QZ130-2 | 3978788.000 | 40372155.000 | 189.00 | 9.50 | 1 | 0 | 0 | 0 | 0 |
| QZ130-3 | 3978788.000 | 40372146.000 | 189.00 | 10.00 | 1 | 0 | 0 | 0 | 0 |
| QZ130-4 | 3978788.000 | 40372138.000 | 189.00 | 18.00 | 1 | 0 | 0 | 0 | 0 |
| QZ130-5 | 3978788.000 | 40372255.000 | 183.65 | 16.25 | 1 | 0 | 0 | 0 | 0 |
| QZ130-6 | 3978788.000 | 40372138.000 | 183.65 | 6.50 | 1 | 0 | 0 | 0 | 0 |
| QZ130-7 | 3978788.000 | 40372265.000 | 183.65 | 4.80 | 1 | 0 | 0 | 0 | 0 |
| QZ130-8 | 3978788.000 | 40372270.000 | 183.65 | 11.00 | 1 | 0 | 0 | 0 | 0 |
| QZ134-1 | 3978588.000 | 40372150.000 | 186.25 | 13.00 | 1 | 0 | 0 | 0 | 0 |
| QZ134-2 | 3978588.000 | 40372170.000 | 185.80 | 13.00 | 1 | 0 | 0 | 0 | 0 |
| QZ134-3 | 3978588.000 | 40372160.000 | 185.95 | 16.00 | 1 | 0 | 0 | 0 | 0 |
| QZ134-4 | 3978588.000 | 40372155.000 | 186.00 | 16.00 | 1 | 0 | 0 | 0 | 0 |
| QZ134-5 | 3978588.000 | 40372230.000 | 184.40 | 17.00 | 1 | 0 | 0 | 0 | 0 |
| QZ134-6 | 3978588.000 | 40372250.000 | 184.00 | 11.00 | 1 | 0 | 0 | 0 | 0 |
| QZ134-7 | 3978588.000 | 40372240.000 | 184.20 | 11.00 | 1 | 0 | 0 | 0 | 0 |
| QZ134-8 | 3978588.000 | 40372235.000 | 184.35 | 15.00 | 1 | 0 | 0 | 0 | 0 |
| QZ138-1 | 3978388.000 | 40372048.000 | 184.80 | 5.70 | 1 | 0 | 0 | 0 | 0 |
| QZ138-2 | 3978388.000 | 40372067.000 | 185.35 | 9.00 | 1 | 0 | 0 | 0 | 0 |
| QZ138-3 | 3978388.000 | 40372097.000 | 184.96 | 12.00 | 1 | 0 | 0 | 0 | 0 |
| QZ138-4 | 3978388.000 | 40372117.000 | 184.78 | 11.00 | 1 | 0 | 0 | 0 | 0 |
| QZ138-5 | 3978388.000 | 40372138.000 | 183.23 | 14.00 | 1 | 0 | 0 | 0 | 0 |
| QZ138-6 | 3978388.000 | 40372157.000 | 183.00 | 13.00 | 1 | 0 | 0 | 0 | 0 |
| QZ138-7 | 3978388.000 | 40372203.000 | 182.20 | 17.50 | 1 | 0 | 0 | 0 | 0 |
| QZ138-8 | 3978388.000 | 40372183.000 | 182.20 | 11.00 | 1 | 0 | 0 | 0 | 0 |
| QZ138-9 | 3978388.000 | 40372213.000 | 182.13 | 16.50 | 1 | 0 | 0 | 0 | 0 |
| QZ138-10 | 3978388.000 | 40372233.000 | 182.00 | 16.20 | 1 | 0 | 0 | 0 | 0 |

| HoleID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|----------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| QZ138-11 | 3978388.000 | 40372253.000 | 181.84 | 17.40 | 1 | 0 | 0 | 0 | 0 |
| QZ138-12 | 3978388.000 | 40372280.000 | 181.48 | 16.40 | 1 | 0 | 0 | 0 | 0 |
| QZ138-13 | 3978388.000 | 40372300.000 | 181.16 | 13.50 | 1 | 0 | 0 | 0 | 0 |
| QZ211-1 | 3977700.000 | 40372485.000 | 179.70 | 12.50 | 1 | 0 | 0 | 0 | 0 |
| QZ211-2 | 3977700.000 | 40372465.000 | 179.00 | 8.00 | 1 | 0 | 0 | 0 | 0 |
| QZ211-3 | 3977700.000 | 40372445.000 | 178.42 | 7.00 | 1 | 0 | 0 | 0 | 0 |
| QZ211-4 | 3977700.000 | 40372425.000 | 176.45 | 7.50 | 1 | 0 | 0 | 0 | 0 |
| QZ211-5 | 3977700.000 | 40372435.000 | 178.15 | 10.00 | 1 | 0 | 0 | 0 | 0 |
| QZ211-6 | 3977700.000 | 40372440.000 | 178.28 | 9.00 | 1 | 0 | 0 | 0 | 0 |
| QZ211-7 | 3977700.000 | 40372505.000 | 180.20 | 15.00 | 1 | 0 | 0 | 0 | 0 |
| QZ211-8 | 3977700.000 | 40372515.000 | 180.55 | 11.00 | 1 | 0 | 0 | 0 | 0 |
| QZ215-1 | 3977900.000 | 40372446.000 | 178.00 | 10.00 | 1 | 0 | 0 | 0 | 0 |
| QZ215-2 | 3977900.000 | 40372466.000 | 178.16 | 13.00 | 1 | 0 | 0 | 0 | 0 |
| QZ215-3 | 3977900.000 | 40372456.000 | 178.16 | 17.00 | 1 | 0 | 0 | 0 | 0 |
| QZ215-4 | 3977900.000 | 40372500.000 | 178.40 | 15.00 | 1 | 0 | 0 | 0 | 0 |
| QZ215-5 | 3977900.000 | 40372510.000 | 178.40 | 6.50 | 1 | 0 | 0 | 0 | 0 |
| QZ215-6 | 3977900.000 | 40372520.000 | 179.00 | 15.50 | 1 | 0 | 0 | 0 | 0 |
| QZ215-7 | 3977900.000 | 40372530.000 | 179.46 | 22.00 | 1 | 0 | 0 | 0 | 0 |
| QZ215-8 | 3977900.000 | 40372540.000 | 179.88 | 18.00 | 1 | 0 | 0 | 0 | 0 |
| QZ215-9 | 3977900.000 | 40372550.000 | 180.50 | 10.00 | 1 | 0 | 0 | 0 | 0 |
| QZ219-1 | 3978100.000 | 40372521.000 | 179.38 | 14.00 | 1 | 0 | 0 | 0 | 0 |
| QZ219-2 | 3978100.000 | 40372526.000 | 179.34 | 14.00 | 1 | 0 | 0 | 0 | 0 |
| QZ219-3 | 3978100.000 | 40372541.000 | 179.23 | 6.00 | 1 | 0 | 0 | 0 | 0 |
| QZ219-4 | 3978100.000 | 40372533.000 | 179.30 | 10.00 | 1 | 0 | 0 | 0 | 0 |
| STC0 | 3981030.050 | 40372300.000 | 243.00 | 138.40 | 1 | 67 | 3 | 2 | 0 |
| STC1 | 3981130.310 | 40372328.220 | 244.06 | 124.00 | 1 | 58 | 3 | 1 | 0 |
| STC1A | 3979191.000 | 40372123.000 | 216.00 | 115.00 | 1 | 50 | 0 | 3 | 0 |
| STC2 | 3979389.000 | 40372170.000 | 215.00 | 151.50 | 1 | 71 | 3 | 4 | 0 |
| STC3 | 3979588.000 | 40372178.000 | 219.51 | 114.00 | 1 | 57 | 3 | 6 | 0 |
| STC3-1 | 3981230.010 | 40372357.020 | 251.91 | 122.00 | 1 | 59 | 3 | 0 | 0 |
| STC4 | 3980830.050 | 40372204.120 | 224.00 | 123.00 | 1 | 60 | 3 | 3 | 0 |
| STC4A | 3979489.000 | 40372169.000 | 220.11 | 130.30 | 1 | 61 | 0 | 2 | 0 |
| STC7 | 3981430.060 | 40372348.500 | 264.14 | 104.00 | 1 | 50 | 3 | 2 | 0 |
| STC8 | 3980630.120 | 40372180.050 | 221.30 | 94.00 | 1 | 0 | 3 | 2 | 0 |
| STC11 | 3981630.050 | 40372322.000 | 287.15 | 89.00 | 1 | 44 | 3 | 2 | 0 |
| STC15 | 3981870.000 | 40372294.000 | 326.94 | 84.00 | 1 | 42 | 3 | 1 | 0 |
| STC20 | 3977300.820 | 40372456.750 | 196.35 | 104.80 | 1 | 47 | 3 | 2 | 0 |
| STC24 | 3977108.030 | 40372393.820 | 189.21 | 135.40 | 1 | 68 | 5 | 2 | 0 |
| STC26 | 3977004.020 | 40372366.570 | 189.82 | 146.00 | 1 | 70 | 3 | 2 | 0 |
| STC28 | 3976906.050 | 40372350.220 | 197.48 | 141.00 | 1 | 69 | 6 | 2 | 0 |

| HoleID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|---------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| STC32 | 3976600.000 | 40372364.120 | 195.74 | 127.60 | 1 | 61 | 3 | 2 | 0 |
| STC36 | 3976505.750 | 40372364.250 | 193.80 | 133.00 | 1 | 61 | 3 | 2 | 0 |
| SZK0 | 3981030.230 | 40372333.120 | 240.25 | 81.69 | 1 | 24 | 0 | 2 | 0 |
| SZK1 | 3979386.120 | 40372212.400 | 207.79 | 50.00 | 1 | 25 | 1 | 8 | 50 |
| SZK2 | 3979583.000 | 40372227.000 | 211.03 | 50.00 | 1 | 25 | 3 | 8 | 42 |
| SZK3 | 3981230.050 | 40372373.210 | 250.87 | 65.43 | 1 | 28 | 0 | 2 | 0 |
| SZK24 | 3977106.080 | 40372416.000 | 186.20 | 100.00 | 1 | 43 | 0 | 2 | 0 |
| SZK28 | 3977297.000 | 40372177.220 | 175.58 | 57.74 | 1 | 23 | 0 | 2 | 0 |
| TC100 | 3980230.000 | 40372190.000 | 210.33 | 53.00 | 1 | 22 | 3 | 0 | 0 |
| TC103 | 3980430.000 | 40372200.000 | 208.35 | 56.00 | 1 | 27 | 4 | 0 | 0 |
| TC104 | 3980030.000 | 40372150.000 | 227.90 | 55.00 | 1 | 23 | 7 | 0 | 0 |
| TC108 | 3979830.000 | 40372170.000 | 227.20 | 54.00 | 1 | 23 | 4 | 0 | 0 |
| TC109 | 3980730.000 | 40372169.000 | 216.80 | 153.00 | 1 | 75 | 7 | 0 | 0 |
| TC112 | 3979688.000 | 40372147.000 | 221.80 | 112.00 | 1 | 49 | 4 | 0 | 0 |
| TC113 | 3980930.000 | 40372246.000 | 232.58 | 140.00 | 1 | 64 | 4 | 0 | 0 |
| TC120 | 3979288.000 | 40372146.000 | 214.87 | 103.00 | 1 | 51 | 5 | 0 | 0 |
| TC121 | 3981330.000 | 40372354.000 | 265.40 | 109.00 | 1 | 51 | 4 | 0 | 0 |
| TC124 | 3979088.000 | 40372115.000 | 203.00 | 122.00 | 1 | 60 | 4 | 0 | 0 |
| TC125 | 3981530.000 | 40372334.000 | 279.73 | 116.00 | 1 | 59 | 3 | 0 | 0 |
| TC201 | 3977200.000 | 40372450.002 | 199.24 | 108.00 | 1 | 51 | 9 | 0 | 0 |
| TC205 | 3977421.020 | 40372415.050 | 183.85 | 104.00 | 1 | 50 | 4 | 0 | 0 |
| TC206 | 3976800.000 | 40372340.000 | 191.20 | 138.00 | 1 | 69 | 4 | 0 | 0 |
| TC210 | 3977103.430 | 40372416.000 | 189.47 | 93.00 | 1 | 46 | 3 | 0 | 0 |
| TC216 | 3976300.000 | 40372513.000 | 218.10 | 42.00 | 1 | 8 | 4 | 0 | 0 |
| TC216-1 | 3976300.000 | 40372657.000 | 219.55 | 38.00 | 1 | 19 | 4 | 0 | 0 |
| TC219 | 3978100.000 | 40372444.000 | 185.27 | 21.60 | 1 | 10 | 3 | 0 | 0 |
| TC220 | 3976100.000 | 40372561.000 | 210.70 | 103.00 | 1 | 51 | 3 | 0 | 0 |
| TC223 | 3978300.000 | 40372462.000 | 190.90 | 95.00 | 1 | 35 | 4 | 0 | 0 |
| TC224 | 3975900.000 | 40372638.280 | 200.60 | 35.00 | 1 | 17 | 5 | 0 | 0 |
| TC227 | 3978500.000 | 40372502.000 | 193.15 | 56.00 | 1 | 28 | 3 | 0 | 0 |
| TC228 | 3975700.000 | 40372633.000 | 197.86 | 32.50 | 1 | 15 | 3 | 0 | 0 |
| TC232 | 3975500.000 | 40372696.180 | 196.83 | 23.50 | 1 | 12 | 4 | 0 | 0 |
| ZK100-1 | 3980229.020 | 40372123.360 | 224.35 | 608.40 | 6 | 112 | 4 | 2 | 306 |
| ZK100-2 | 3980229.980 | 40372121.360 | 224.70 | 445.50 | 10 | 89 | 3 | 2 | 219 |
| ZK107-1 | 3980630.020 | 40372112.040 | 214.93 | 480.60 | 5 | 70 | 4 | 1 | 234 |
| ZK107-2 | 3980630.000 | 40372154.880 | 217.30 | 329.20 | 4 | 88 | 8 | 1 | 173 |
| ZK108 | 3979831.010 | 40372118.000 | 225.31 | 500.10 | 5 | 191 | 9 | 2 | 303 |
| ZK108-1 | 3979828.150 | 40372044.630 | 226.14 | 808.00 | 5 | 124 | 6 | 2 | 466 |
| ZK114-1 | 3979588.030 | 40372175.890 | 218.90 | 245.80 | 3 | 115 | 3 | 0 | 110 |
| ZK114-2 | 3979588.040 | 40372121.730 | 221.54 | 351.75 | 4 | 117 | 10 | 1 | 165 |

| HoleID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|---------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| ZK114-3 | 3979587.980 | 40372031.720 | 239.50 | 446.00 | 5 | 11 | 4 | 0 | 215 |
| ZK115-1 | 3981030.010 | 40372311.510 | 241.92 | 324.80 | 3 | 88 | 6 | 2 | 109 |
| ZK115-2 | 3981029.000 | 40372226.300 | 241.20 | 369.80 | 4 | 59 | 4 | 1 | 124 |
| ZK115-3 | 3981035.010 | 40372100.451 | 234.98 | 546.80 | 5 | 51 | 4 | 1 | 187 |
| ZK115-4 | 3981030.000 | 40372012.000 | 222.05 | 785.80 | 5 | 72 | 4 | 1 | 407 |
| ZK118-1 | 3979388.000 | 40372186.320 | 211.65 | 284.60 | 3 | 138 | 8 | 1 | 109 |
| ZK118-2 | 3979388.000 | 40372102.140 | 223.80 | 348.20 | 4 | 62 | 4 | 1 | 139 |
| ZK118-3 | 3979388.000 | 40371980.770 | 211.16 | 495.90 | 5 | 62 | 4 | 1 | 190 |
| ZK119-1 | 3981229.020 | 40372362.450 | 251.57 | 198.90 | 2 | 88 | 2 | 1 | 84 |
| ZK119-2 | 3981229.000 | 40372302.890 | 253.80 | 310.00 | 3 | 53 | 3 | 1 | 114 |
| ZK119-3 | 3981234.000 | 40372152.170 | 239.56 | 436.50 | 4 | 35 | 3 | 2 | 153 |
| ZK122-1 | 3979207.000 | 40372102.520 | 214.90 | 336.00 | 4 | 142 | 4 | 2 | 193 |
| ZK122-2 | 3979188.000 | 40372060.210 | 209.15 | 380.30 | 4 | 97 | 4 | 1 | 204 |
| ZK122-3 | 3979188.000 | 40371893.040 | 194.82 | 428.00 | 5 | 23 | 6 | 1 | 211 |
| ZK122-4 | 3979188.000 | 40371780.340 | 207.77 | 501.00 | 5 | 0 | 2 | 0 | 249 |
| ZK123-1 | 3981430.000 | 40372349.130 | 264.25 | 216.30 | 3 | 80 | 4 | 0 | 83 |
| ZK123-2 | 3981430.020 | 40372302.050 | 263.80 | 306.90 | 3 | 81 | 4 | 2 | 113 |
| ZK123-3 | 3981430.000 | 40372143.120 | 256.84 | 364.40 | 4 | 28 | 4 | 1 | 133 |
| ZK123-4 | 3981419.000 | 40371984.660 | 251.85 | 541.70 | 5 | 0 | 2 | 0 | 286 |
| ZK127-1 | 3981631.980 | 40372313.080 | 288.00 | 195.50 | 2 | 68 | 6 | 1 | 66 |
| ZK127-2 | 3981629.000 | 40372240.220 | 279.72 | 262.40 | 5 | 40 | 4 | 2 | 90 |
| ZK127-3 | 3981630.000 | 40372125.630 | 270.64 | 425.10 | 4 | 60 | 4 | 1 | 143 |
| ZK130-1 | 3978788.000 | 40372081.940 | 191.80 | 258.60 | 3 | 63 | 4 | 1 | 87 |
| ZK130-2 | 3978788.000 | 40371933.200 | 201.88 | 386.10 | 4 | 51 | 4 | 1 | 134 |
| ZK131-1 | 3981869.000 | 40372230.410 | 304.10 | 234.90 | 3 | 52 | 4 | 0 | 82 |
| ZK131-2 | 3981872.000 | 40372070.630 | 283.03 | 419.10 | 5 | 40 | 3 | 1 | 148 |
| ZK200-1 | 3977100.000 | 40372318.720 | 182.86 | 179.00 | 2 | 26 | 6 | 0 | 101 |
| ZK200-2 | 3977095.060 | 40372123.700 | 183.07 | 334.40 | 4 | 63 | 7 | 1 | 187 |
| ZK203-1 | 3977301.000 | 40372448.740 | 196.61 | 118.40 | 1 | 29 | 3 | 1 | 68 |
| ZK203-2 | 3977304.000 | 40372371.700 | 185.87 | 176.10 | 2 | 44 | 10 | 0 | 99 |
| ZK203-3 | 3977300.000 | 40372177.160 | 175.38 | 284.70 | 3 | 39 | 8 | 1 | 160 |
| ZK204-1 | 3976900.020 | 40372317.250 | 199.75 | 143.60 | 2 | 46 | 4 | 1 | 79 |
| ZK204-2 | 3976899.070 | 40372141.600 | 191.65 | 259.60 | 3 | 34 | 5 | 1 | 129 |
| ZK208-1 | 3976700.000 | 40372335.050 | 199.52 | 117.80 | 2 | 40 | 4 | 1 | 39 |
| ZK208-2 | 3976700.000 | 40372249.060 | 194.10 | 148.80 | 2 | 31 | 4 | 1 | 51 |
| ZK208-3 | 3976700.000 | 40372067.930 | 188.30 | 330.80 | 4 | 29 | 4 | 0 | 111 |
| ZK208-4 | 3976744.000 | 40371920.000 | 174.30 | 482.20 | 5 | 14 | 4 | 1 | 162 |
| ZK211-1 | 3977700.000 | 40372322.620 | 175.60 | 201.80 | 2 | 23 | 4 | 1 | 74 |
| ZK211-2 | 3977700.000 | 40372096.000 | 177.68 | 300.60 | 3 | 34 | 4 | 1 | 112 |
| ZK216-1 | 3976292.250 | 40372522.180 | 219.75 | 258.00 | 3 | 7 | 6 | 1 | 92 |

| HoleID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|---------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| ZK216-2 | 3976294.000 | 40372364.630 | 199.85 | 362.50 | 4 | 74 | 8 | 1 | 125 |
| ZK216-3 | 3976288.000 | 40372175.000 | 192.92 | 470.00 | 5 | 63 | 6 | 1 | 180 |
| ZK219-1 | 3978100.000 | 40372290.210 | 177.80 | 167.00 | 2 | 27 | 4 | 1 | 65 |
| ZK219-2 | 3978117.000 | 4037216.200 | 178.30 | 301.00 | 3 | 33 | 4 | 1 | 116 |
| ZK224-1 | 3975900.000 | 40372520.810 | 196.64 | 122.20 | 2 | 20 | 6 | 1 | 88 |
| ZK224-2 | 3975900.000 | 40372328.280 | 212.17 | 222.10 | 3 | 6 | 6 | 0 | 129 |
| ZK227-1 | 3978501.350 | 40372384.280 | 179.65 | 128.40 | 2 | 15 | 4 | 2 | 69 |
| ZK227-2 | 3978500.030 | 40372201.620 | 184.30 | 266.30 | 3 | 32 | 8 | 0 | 156 |
| ZK232-1 | 3975497.500 | 40372529.220 | 185.65 | 167.40 | 2 | 11 | 8 | 1 | 125 |
| ZK232-2 | 3975503.000 | 40372399.170 | 196.74 | 235.40 | 3 | 22 | 12 | 0 | 137 |

The client provided to MCS a file containing elevations of the topographic surface with 4,116 points in the project area. A DTM of the topographic surface was constructed from this data.

11.5 Exploratory Data Analysis

Classical statistical analysis was conducted twice for the Zhuge Shangyu Iron and Titanium deposit. The first study was undertaken with the entire dataset to meet the following objectives:

- To estimate the geological cut-off grade for total iron (TFe) mineralisation and titanium dioxide (TiO₂) mineralisation; and
- To determine the distribution parameters of iron and titanium dioxide grades.

The descriptive statistics for total iron (TFe) and titanium dioxide (TiO₂) for the exhaustive population are shown in Figure 11-1 and Figure 11-2. The histograms of the exhaustive population for TFe and TiO₂ are shown in Figure 11-3 and Figure 11-4 respectively. The exhaustive TFe grade population shows a mixture of three approximately normally-distributed populations. The exhaustive TiO₂ population shows a mixture of four approximately normally-distributed populations. These normally-distributed populations likely represent the weathered and unweathered domains. The probability plot for the exhaustive population for TFe and TiO₂ are shown in Figure 11-5 and Figure 11-6. The cumulative frequency plots for the same data are shown in Figure 11-7 and Figure 11-8. The line on the probability plot for TFe changes curvature in the middle section at around 11.5% TFe (inflection point) representing a boundary between unmineralised and mineralised total iron grade populations. The value of 11.5% TFe was chosen as the geological cut-off grade. The line on the probability plot for TiO₂ changes curvature in the middle section at around 4.6% TiO₂ (inflection point) representing a boundary between unmineralised and mineralised titanium dioxide grade populations. The value of 4.6% TiO₂ was chosen as the geological cut-off grade.

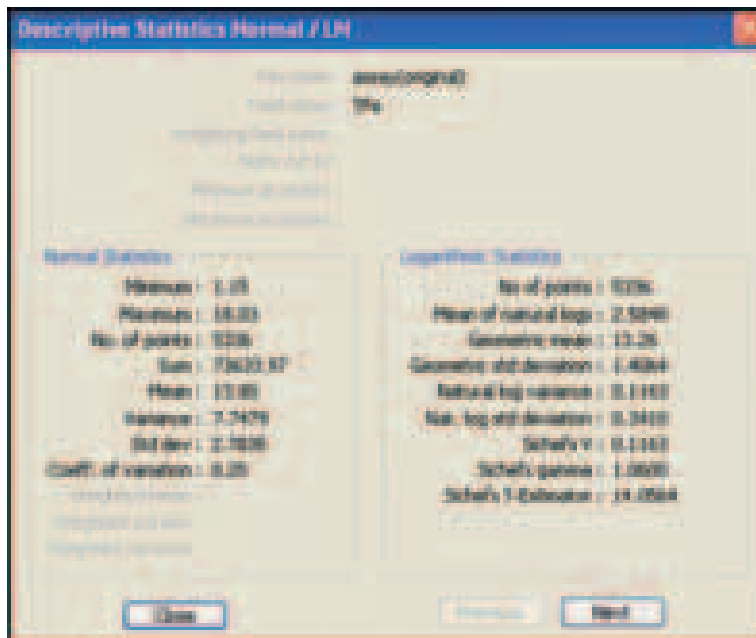


Figure 11-1: Descriptive statistics for total iron (TFe) for the exhaustive population

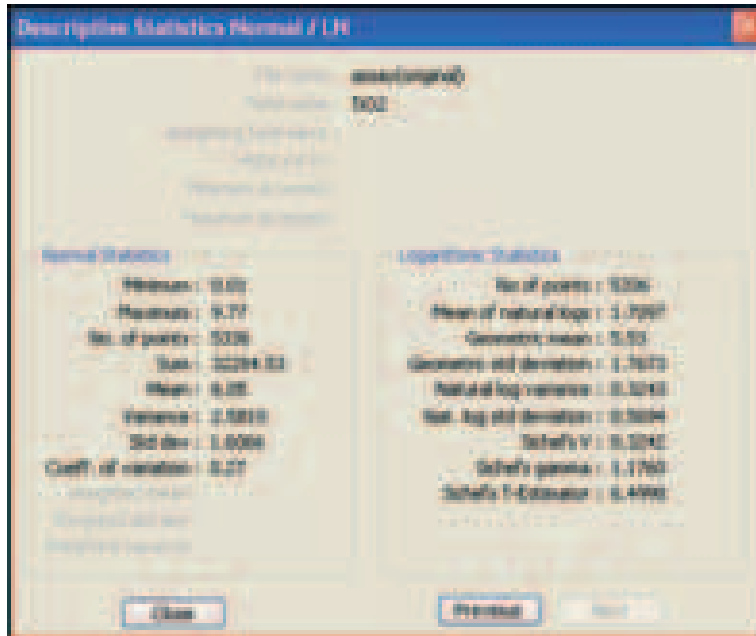


Figure 11-2: Descriptive statistics for titanium dioxide (TiO₂) for the exhaustive population

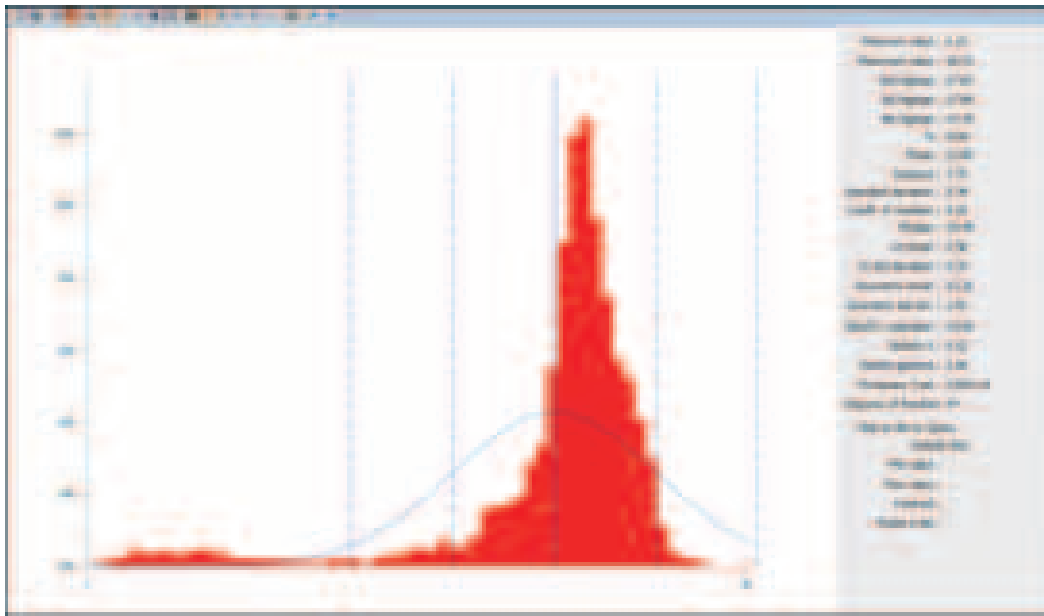


Figure 11-3: Histogram for TFe for the exhaustive population

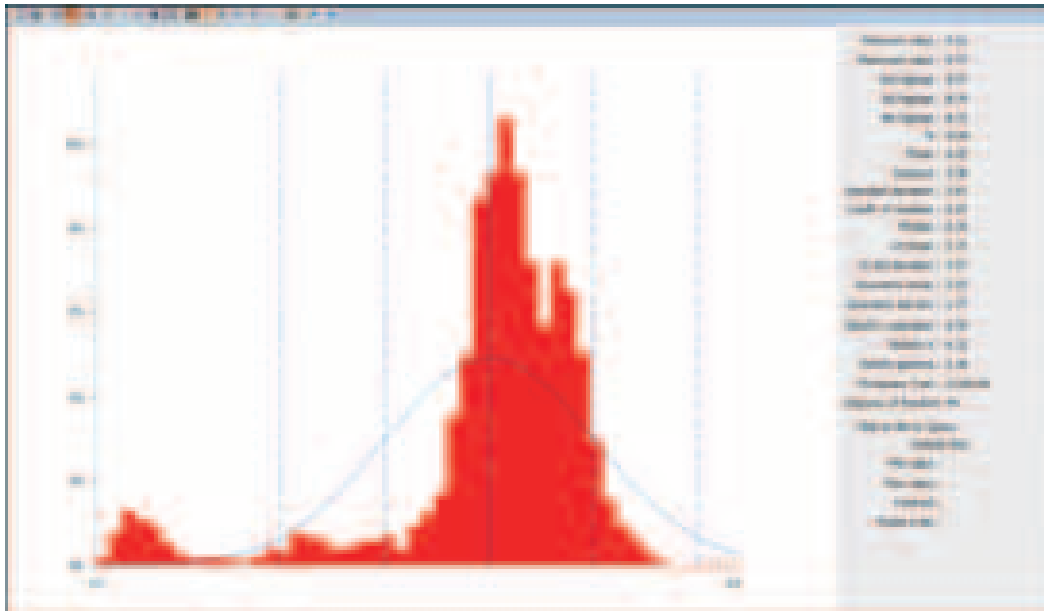


Figure 11-4: Histogram for TiO₂ for the exhaustive population

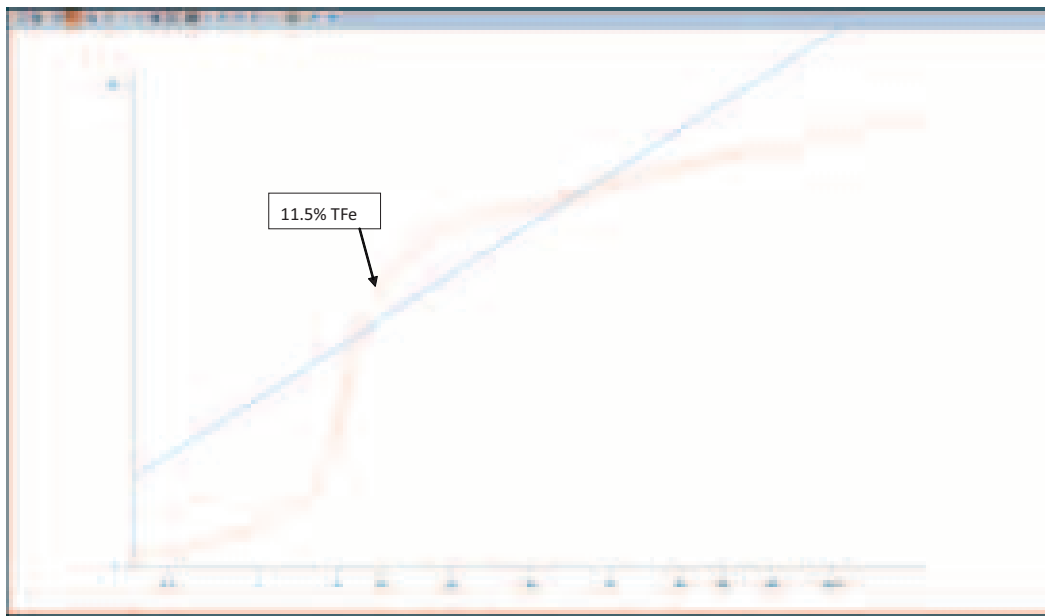


Figure 11-5: Probability plot for TFe for the exhaustive population

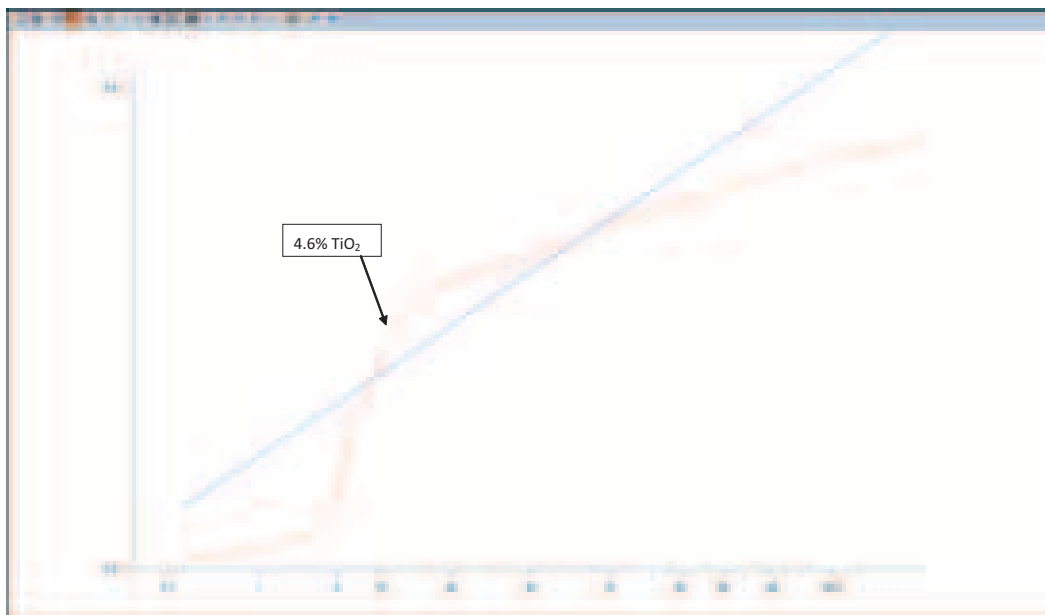


Figure 11-6: Probability plot for TiO₂ for the exhaustive population

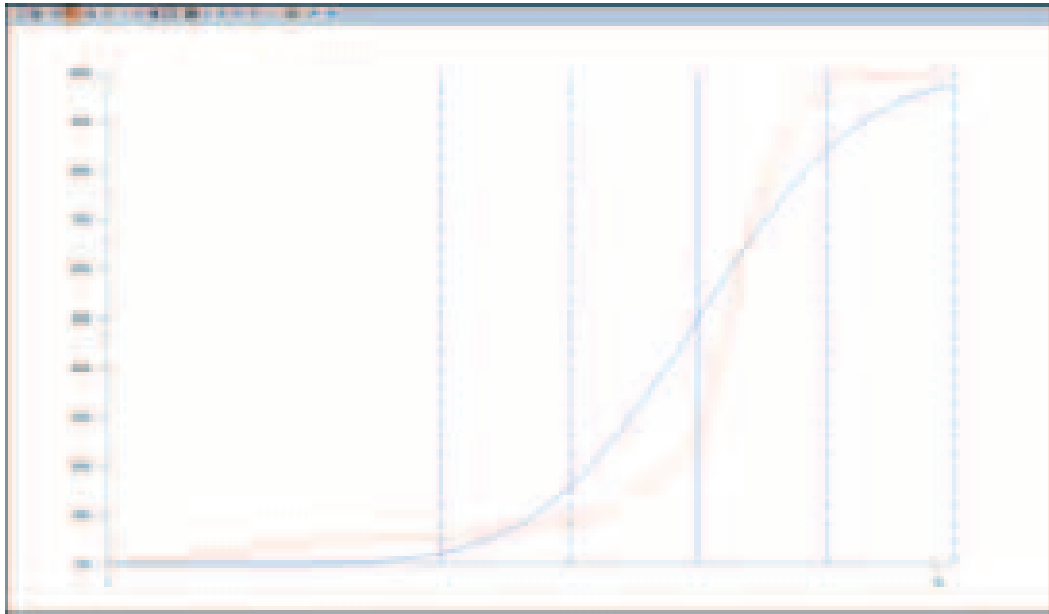


Figure 11-7: Cumulative frequency plot for TFe for the exhaustive population

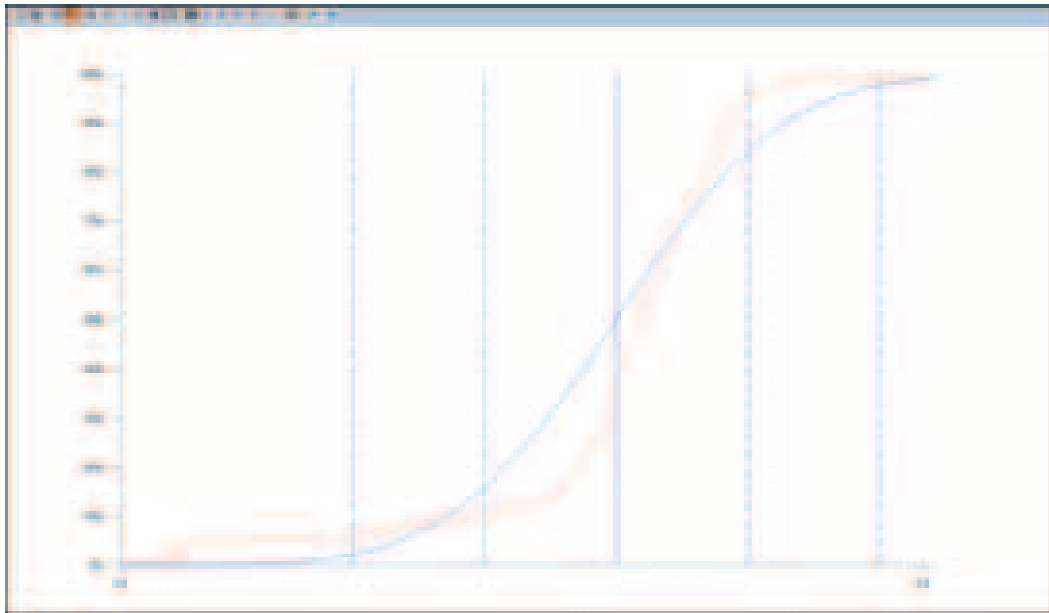


Figure 11-8: Cumulative frequency plot for TiO₂ for the exhaustive population

The second classical statistical analysis was performed using only the grades from samples within the interpreted mineralised envelopes to meet the following objectives:

- To estimate the mixing effect of grade populations for TFe and TiO₂;
- To estimate the necessity of the separation of grade populations if more than one population exists inside the wireframes;
- To determine the balancing cut grade for TFe and TiO₂ to be used for grade interpolation.

The mineralised envelopes were divided into weathered domains and unweathered domains for TFe and TiO₂.

The histograms of the TFe and TiO₂ grade populations within the unweathered mineralised wireframes are shown in Figure 11-9 and Figure 11-10. The probability plots of the TFe and TiO₂ grade populations within the unweathered mineralised wireframes are shown in Figure 11-11 and Figure 11-12, while the cumulative frequency plots for the same data are shown in Figure 11-13 and Figure 11-14. The histograms indicate there is only one normally-distributed population in the unweathered mineralised wireframes. To reduce the very few but high grade sample assays that form a tail on the histogram for TFe, a balancing cut was determined at the 97.7 percentile on the cumulative frequency plots to be 15.8% TFe. A new field for TFe cut of 15.77% was created in the assay file and the new assays cut to 15.77% were generated. For TiO₂ the population on the histogram appears regular with no tail of upper values, therefore a balancing cut was not required.

For the weathered wireframes, the histograms indicate there is one normally-distributed population for TFe and two normally-distributed populations for TiO₂. The two populations for TiO₂ were spatially separated by wireframing and flagging them separately. None of the weathered populations displayed long tails of upper values so it was decided no balancing cut was required to be applied.

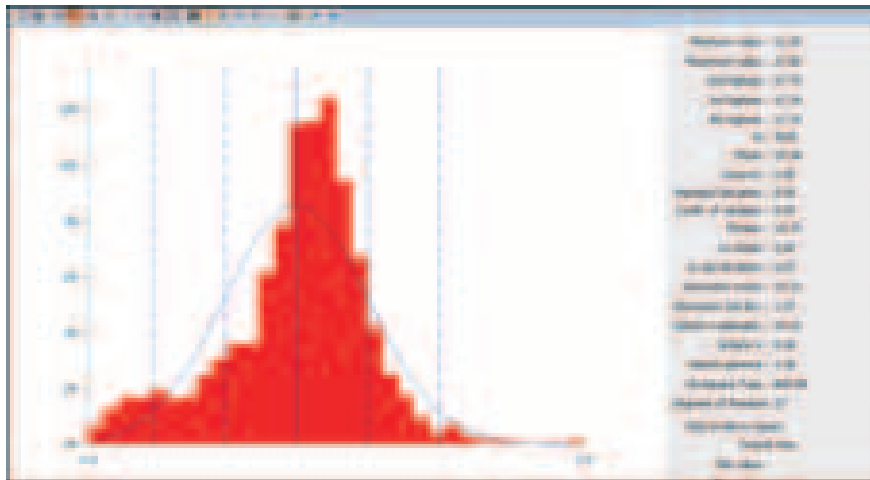


Figure 11-9: Histogram of TFe grades inside the unweathered mineralised wireframe

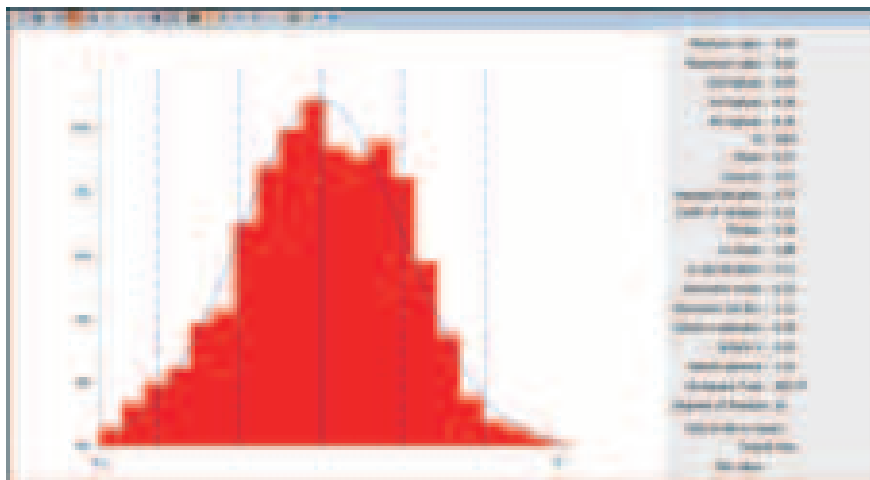
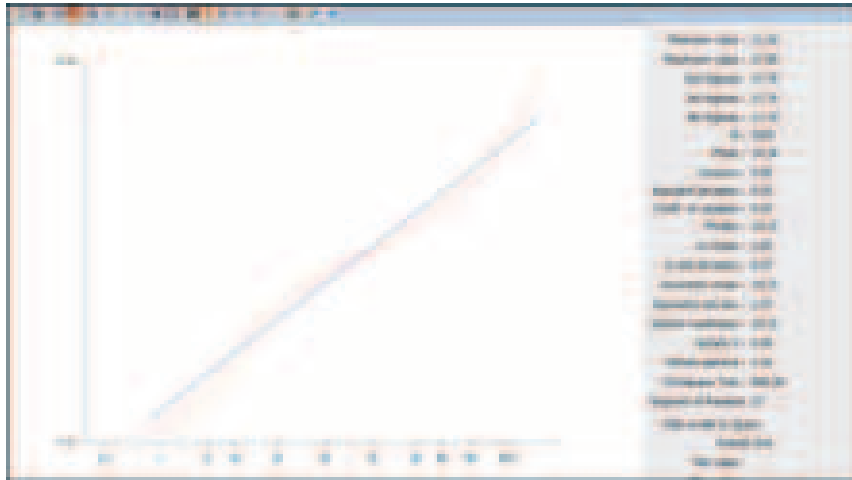
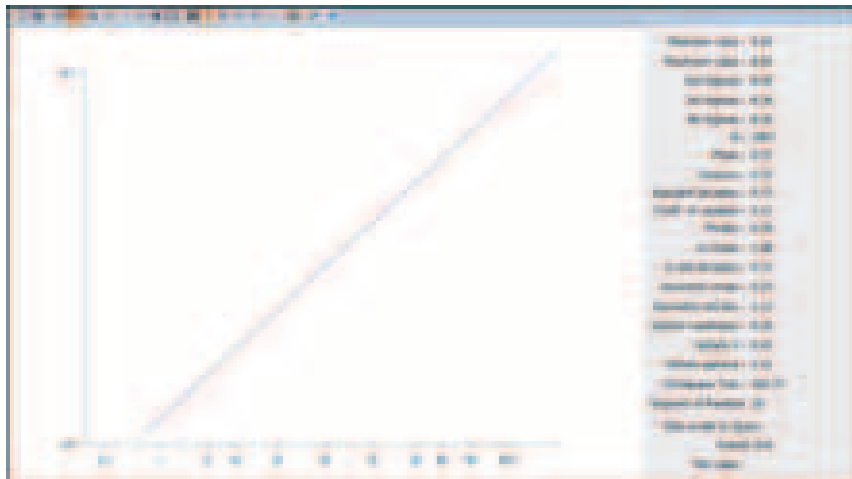


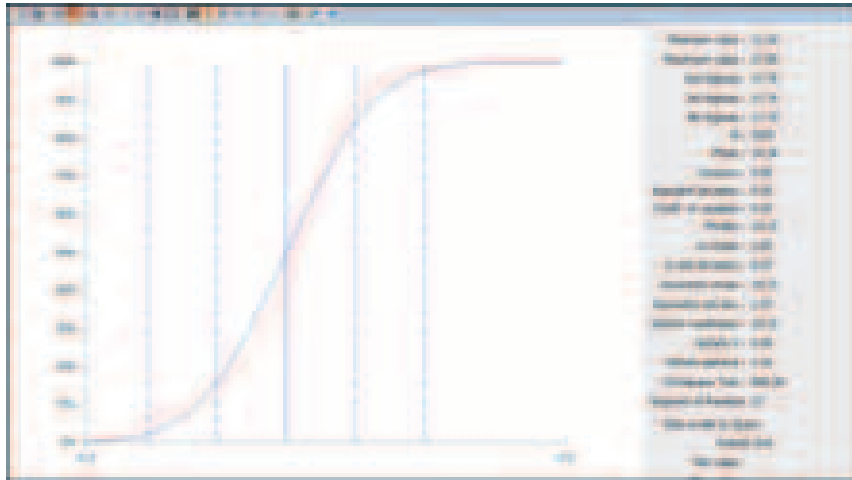
Figure 11-10: Histogram of TiO₂ grades inside the unweathered mineralised wireframe



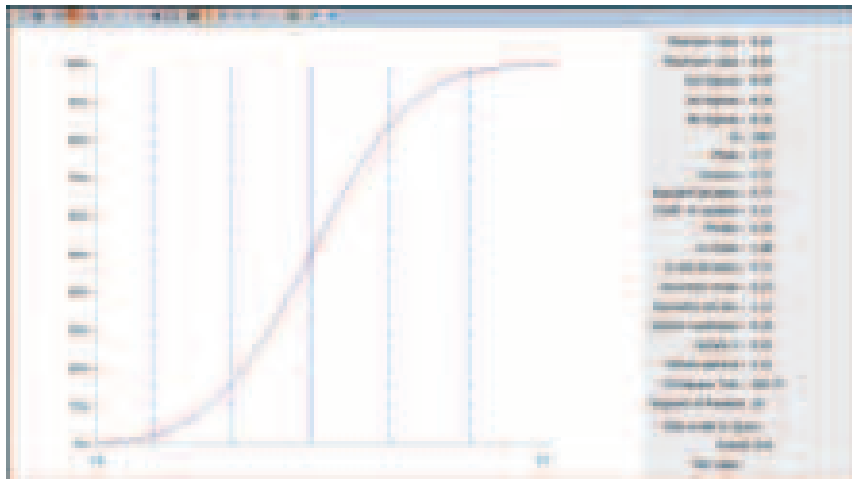
**Figure 11-11: Probability plot of TFe grades inside
the unweathered mineralised wireframe**



**Figure 11-12: Probability plot of TiO₂ grades inside
the unweathered mineralised wireframe**



**Figure 11-13: Cumulative frequency plot of TFe grades
inside the unweathered mineralised wireframe**



**Figure 11-14: Cumulative frequency plot of TiO₂ grades
inside the unweathered mineralised wireframe**

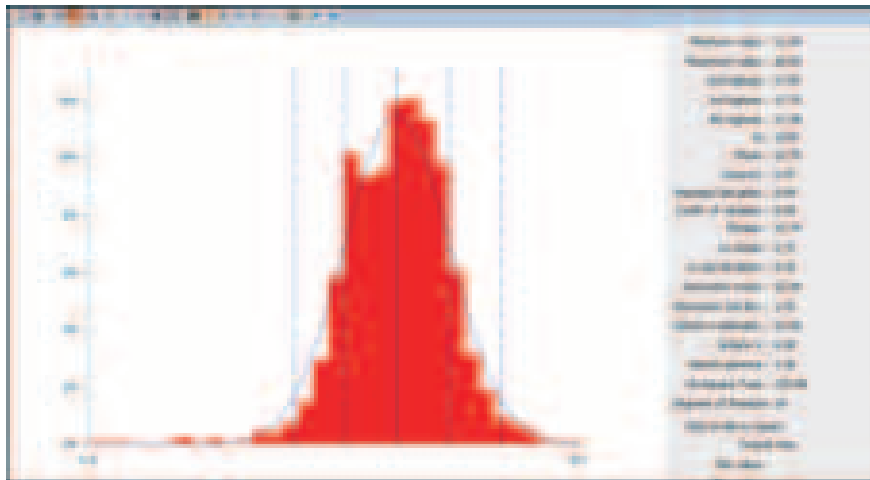


Figure 11-15: Histogram of TFe grades inside the weathered mineralised wireframe

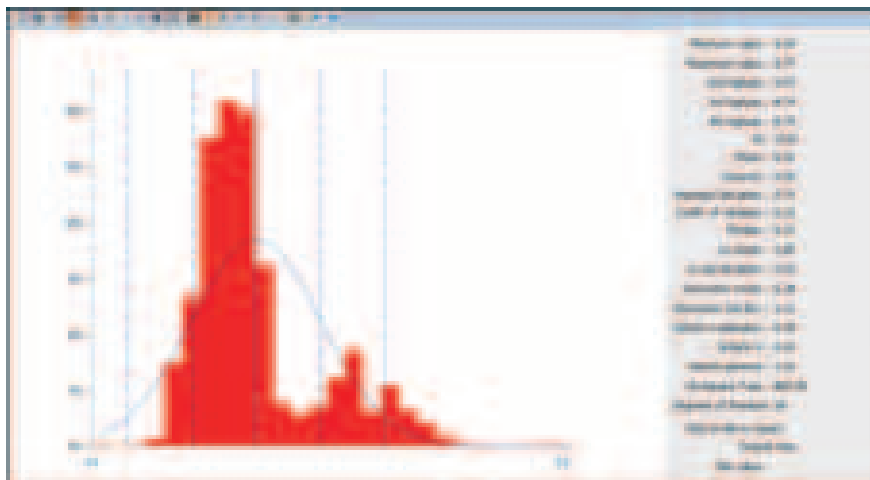


Figure 11-16: Histogram of TiO₂ grades inside the weathered mineralised wireframe

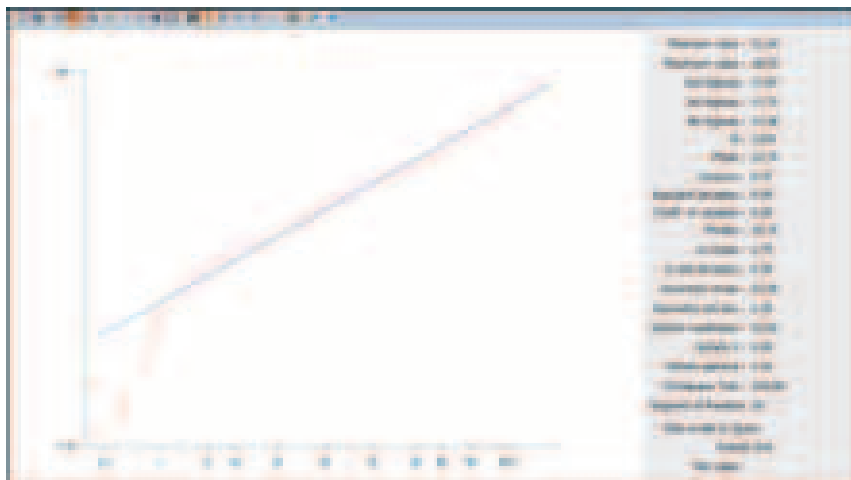


Figure 11-17: Probability plot of TFe grades inside the weathered mineralised wireframe

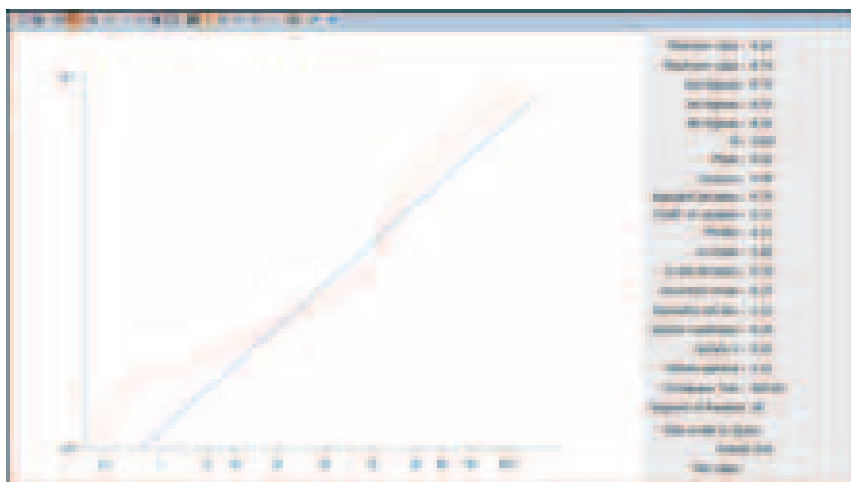


Figure 11-18: Probability plot of TiO₂ grades inside the weathered mineralised wireframe

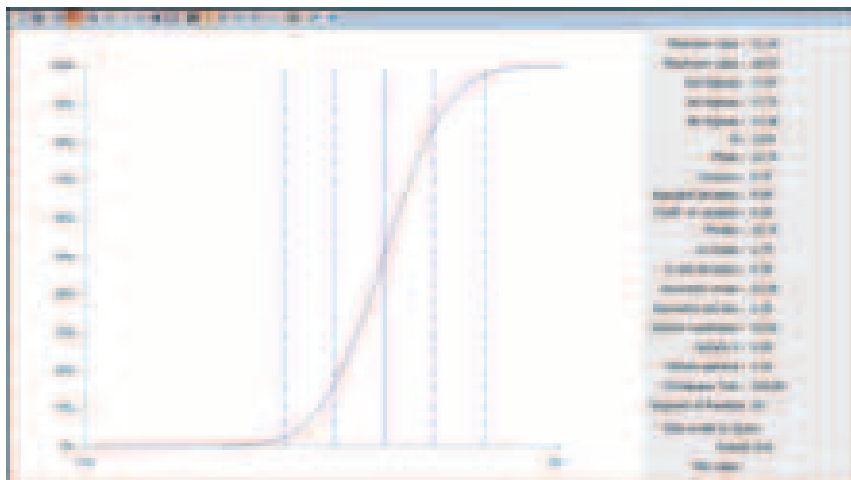


Figure 11-19: Cumulative frequency plot of TFe grades inside the weathered mineralised wireframe

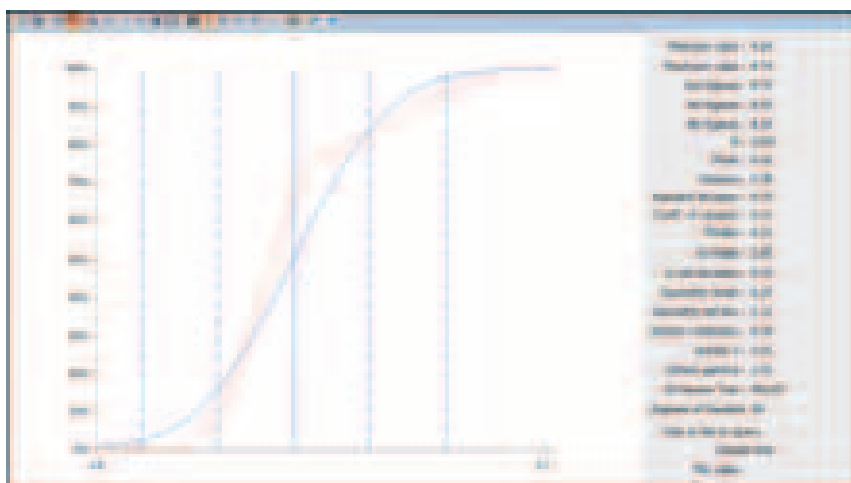


Figure 11-20: Cumulative frequency plot of TiO₂ grades inside the weathered mineralised wireframe

11.6 Interpretation

All available original cross-sections and geological maps at 1:2,000 scale were imported from MapGIS and georeferenced in MICROMINE. The geological interpretation on the cross-sections and the geological maps were used as a reference to honour the original geological interpretation where practical.

Interpretation was carried out interactively for 43 east-west cross-sections covering both ore bodies. Each section showing the drilling data and trench data was displayed in MICROMINE's Vizex environment. Total iron assays were composited to grades greater than 11.5% TFe to define the boundary between mineralised and unmineralised iron

grades and TiO₂ assays were composited to grades greater than 4.6% TiO₂ to define the boundary between mineralised and unmineralised TiO₂ grades. The raw sample grades and the composited grades were displayed on the drillhole and trenches in order to allow the snapping of interpretation strings to separate mineralised and unmineralised units. All cross-sections, with additional sections for closing off wireframes, were interpreted.

A geological cut-off grade defining the boundary between mineralisation and country rock was selected at 11.5% TFe and 4.6% TiO₂. One string file was generated to interpret TFe mineralisation at greater than or equal to 11.5% and another string file was generated to interpret TiO₂ mineralisation at greater than or equal to 4.6%.

The following techniques were employed while interpreting the mineralization:

- All trench data was draped onto the topographic surface.
- Each section and plan view was displayed on screen and interpretation checked, Figure 11-21.
- All interpreted strings were snapped to the sample intervals on the drillhole, trench or adit, i.e. the interpretation was constrained in 3 dimensions.
- If a mineralized envelope (lode) terminated on a drill section, it was projected half way to the next section and terminated (this distance varied depending on the cross-section lines). The last string forming the envelope was reduced to 80% of that on the last section. The general dip and strike of the lode was maintained.
- The mineralisation was extended in a down-dip direction generally to a distance half that between adjacent drillholes on the cross-section (around 100 m). Where only one drillhole was present on a cross-section, mineralisation was extended down-dip to a distance of 100 m. Where continuity of mineralisation was inferred from information on adjacent cross-sections, this was taken into account and the extension was increased slightly to adjust for the mineralisation on the adjacent cross-sections.

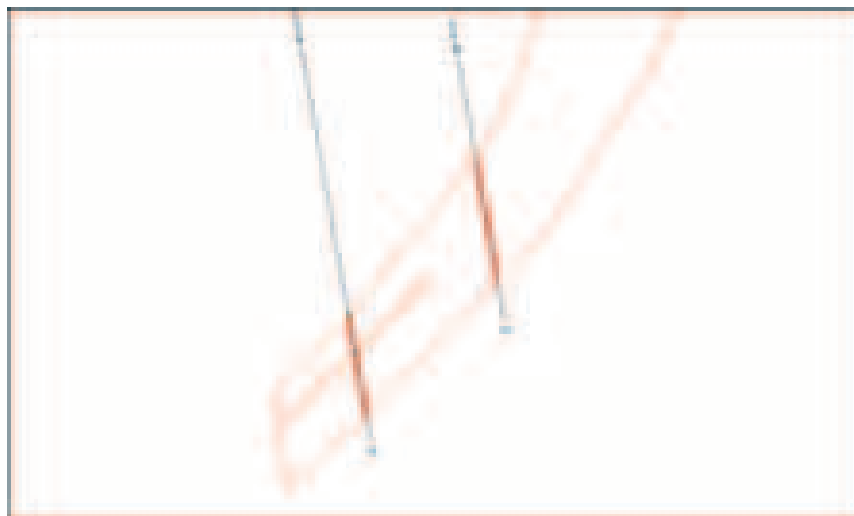


Figure 11-21: Example interpretation cross-section showing strings and composited total iron assays

11.7 Wireframing

The interpreted closed strings were used to generate three-dimensional solid wireframe models for the mineralized envelopes of TFe and TiO_2 . For the weathered domains, all wireframes within each domain were created together. For the unweathered domains, each wireframe within each domain was created separately. A total of three weathered domain wireframes (one for TFe and two for TiO_2) and four unweathered domain wireframes (one each for the southern and northern orebodies for TFe and TiO_2) were created. The wireframes were created separately to allow independent data flagging and interpolation.

A 3D view of the wireframes of TiO_2 mineralisation is shown in Figure 11-22.

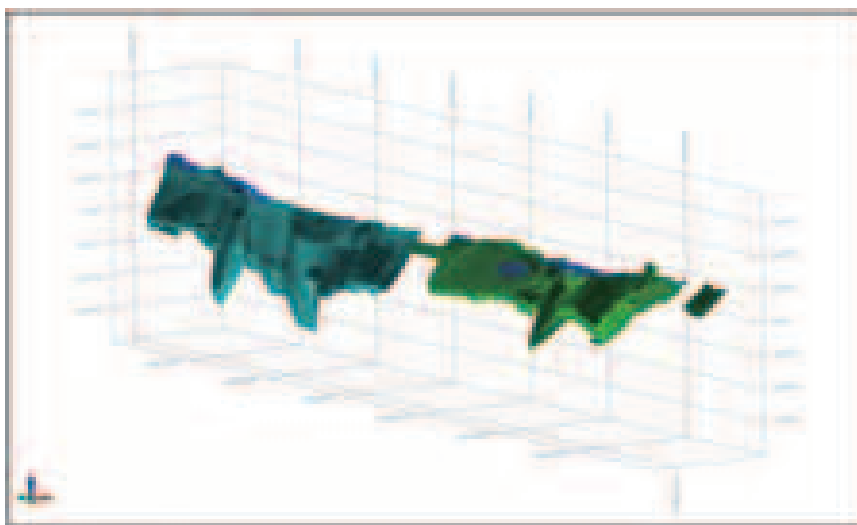


Figure 11-22: 3D view of wireframes of TiO_2 mineralisation

11.8 Drillhole Data Selection and Compositing

Drillhole data selection is a standard procedure which ensures that the correct samples are used in the classical statistical and geostatistical analyses and grade interpolation processes. For this purpose, the solid wireframes for each mineralized envelope were subsequently used to select the drillhole samples. Samples within each individual mineralized envelope were flagged and coded according to the name of the mineralized body.

Visual validation of the flagged samples was carried out in Vizex to make sure the correct samples were selected by the wireframes.

Classical statistical analysis was then repeated for the iron grades within the mineralized envelopes only, Figure 11-15 to 11-20. The analysis determined there was only one population within each mineralised wireframe for each of TFe and TiO₂.

A balancing cut is necessary to reduce the impact of a small number of very high-grade samples that can otherwise unduly influence the result. An additional field was inserted into the assay file and a balancing cut grade of 15.8% TFe was applied to the original assay data for those samples inside the unweathered iron mineralised envelopes. Balancing cuts were not required for the other mineralised wireframes.

All samples within the mineralised envelopes were composited to an equal sample interval length prior to geostatistical analysis and interpolation. A composite length of 2.0 metres was selected as it was the most prevalent interval length in the dataset. This is shown in the histogram of the interval lengths of all samples (Figure 11-23). The selected samples within each mineralized envelope were separately composite over 2.0 metre intervals, starting at the drillhole collar and progressing downhole. Trench and adit samples within the mineralized envelopes were also composited. Compositing was stopped and restarted at all boundaries between mineralized envelopes and waste material.

Basic statistical parameters were obtained for the composited data to ensure that the statistical parameters were not distorted by the compositing process (Figure 11-24 and Figure 11-25). There was no significant change to the minimum, maximum, mean, standard deviation and coefficient of variation of the data after the sample compositing.

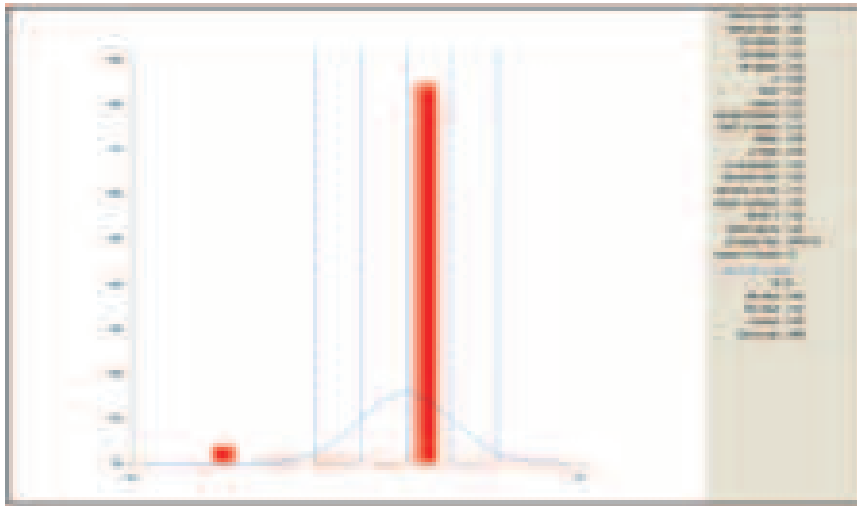


Figure 11-23: Histogram of all sample interval lengths

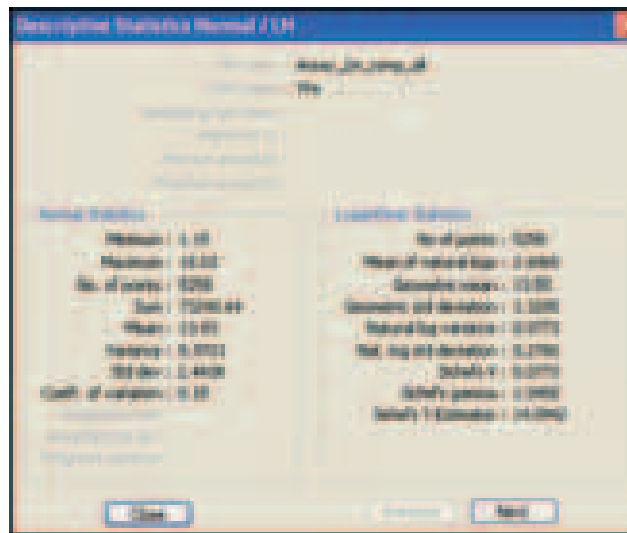


Figure 11-24: Descriptive statistics for all iron assays composited to 2 m interval lengths

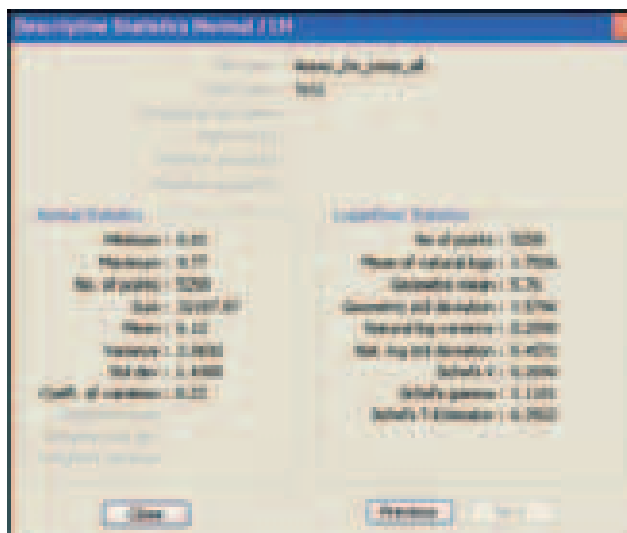


Figure 11-25: Descriptive statistics for all iron assays composited to 2 m interval lengths

11.9 Geostatistical Analysis

The purpose of geostatistical analysis is to generate a series of semivariograms for the Kriging algorithm to use for weighting the sample grades when estimating an unknown block value into the block model. The semivariogram ranges determined from this analysis can also be used to determine the search neighbourhood dimensions. Therefore geostatistical analysis was conducted in order to meet the following objectives:

- To estimate the presence of directional anisotropy of mineralisation for iron and titanium. This can be estimated by studying the directional semivariograms. There is a directional anisotropy if semivariograms reach the total sill at different distances in different directions;
- To obtain the semivariogram parameters (nugget effect, total sill and ranges) to be input into the interpolation process.

All semivariograms were modelled using the composite sample files with an applied top cut grade for the unweathered TFe domain only and constrained by the corresponding mineralised envelopes. Semivariograms were modelled for TFe and TiO₂ for the unweathered south domain and the unweathered north domain separately (four domains). Semivariograms were not modelled for the weathered domains as the number of samples was insufficient and the semivariograms would therefore not be reliable.

For each domain, a fan of horizontal semivariograms was generated to determine the direction of maximum continuity in plan. A vertical fan of semivariograms was then generated along the determined azimuth of maximum continuity in order to estimate the plunging component of the main axis. From the azimuth and plunge of the first axis, the azimuth of the second axis was calculated. A vertical fan of semivariograms was then generated to determine the plunge of the second axis. From the orientation of the first and second axes, the azimuth and plunge of the third axis was determined.

Geostatistical analysis of TFe for the south orebody showed the maximum continuity of mineralisation occurs along an axis of 2 degrees, roughly parallel to the strike of the ore zone, there was no plunge. The second direction has an azimuth of 92 degrees with no plunge, while the third direction has an azimuth of 0 degrees with a plunge of 90 degrees. The spherical experimental semivariograms and models for each direction are shown in Figure 11-26 to Figure 11-28.

Geostatistical analysis of TFe for the north orebody showed the maximum continuity of mineralisation occurs along an axis of 0 degrees, with a plunge of 3 degrees. The second direction occurs along an axis of 65 degrees, with a plunge of minus 83 degrees. The third direction occurs along an axis of 90 degrees with a plunge of 6 degrees. The spherical experimental semivariograms and models for each direction are shown in Figure 11-29 to Figure 11-31.

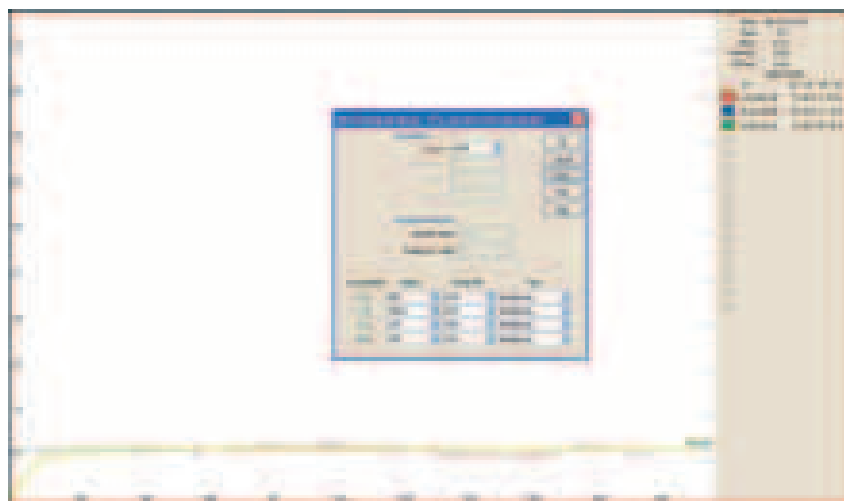


Figure 11-26: Semivariogram model for the main direction of continuity of TFe for the south orebody

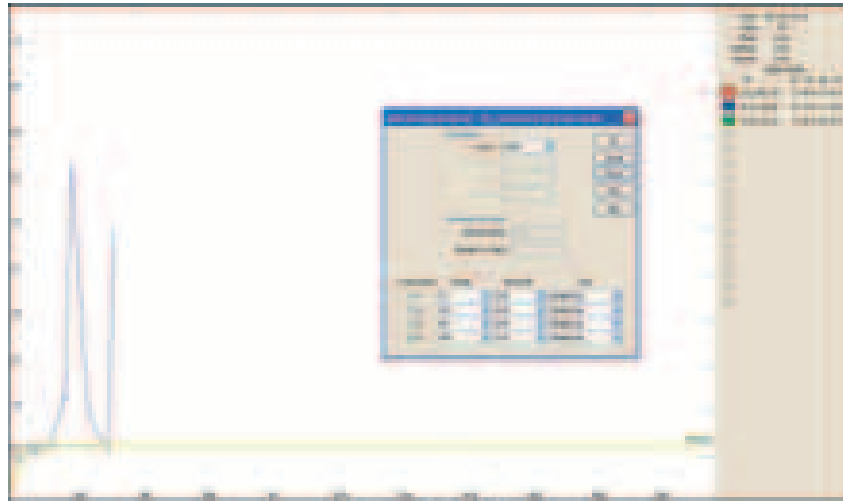


Figure 11-27: Semivariogram model for the second direction of continuity of TFe for the south orebody



Figure 11-28: Semivariogram model for the third direction of continuity of TFe for the south orebody

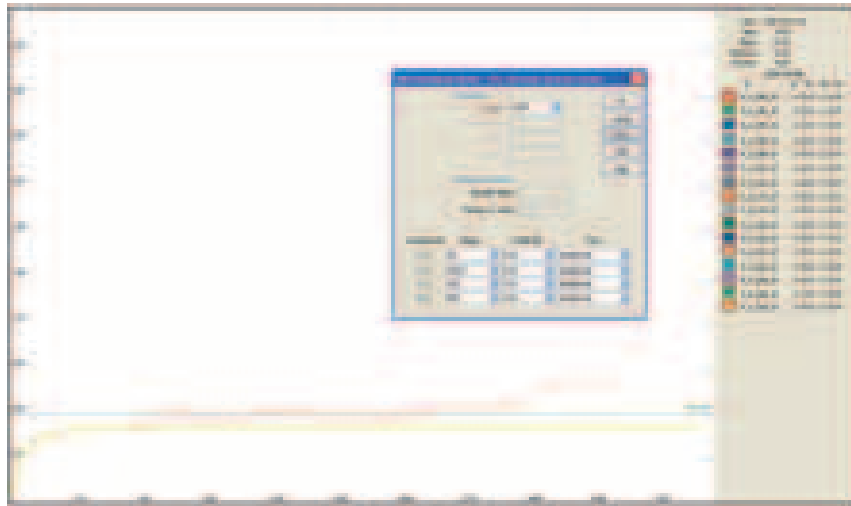


Figure 11-29: Semivariogram model for the main direction of continuity of TFe for the north orebody

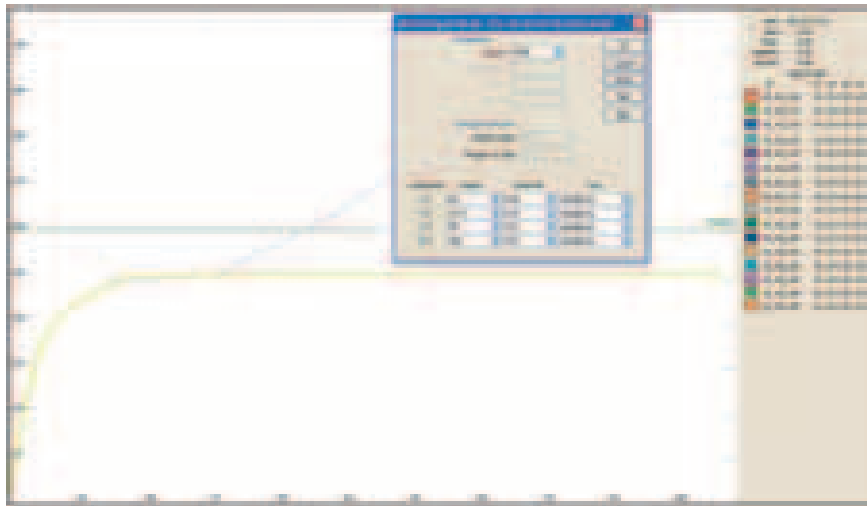


Figure 11-30: Semivariogram model for the second direction of continuity of TFe for the north orebody



Figure 11-31: Semivariogram model for the third direction of continuity of TFe for the north orebody

Geostatistical analysis of TiO_2 for the south orebody showed the maximum continuity of mineralisation occurs along an axis of 4 degrees azimuth, with no plunge. The second direction occurs along an axis of 94 degrees, with a plunge of minus 24 degrees. The third direction occurs along an axis of 94 degrees with a plunge of 66 degrees. The spherical experimental semivariograms and models for each direction are shown in Figure 11-32 to Figure 11-34.

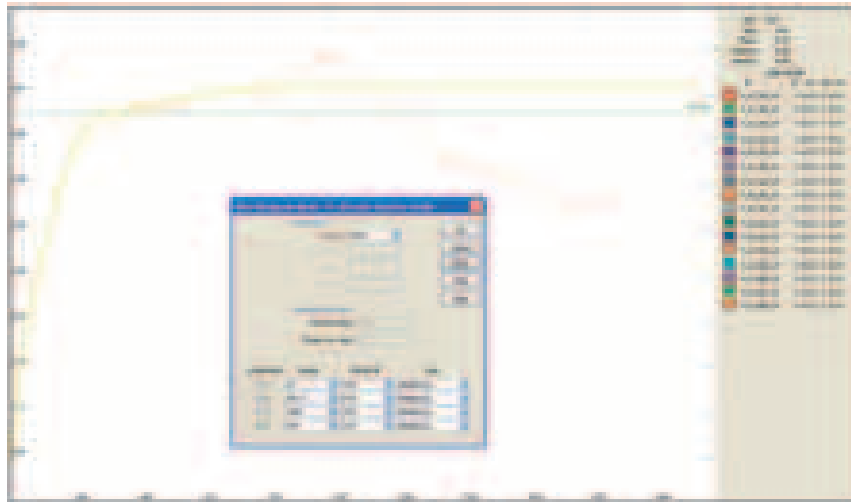


Figure 11-32: Semivariogram model for the main direction of continuity of TiO_2 for the south orebody



Figure 11-33: Semivariogram model for the second direction of continuity of TiO_2 for the south orebody

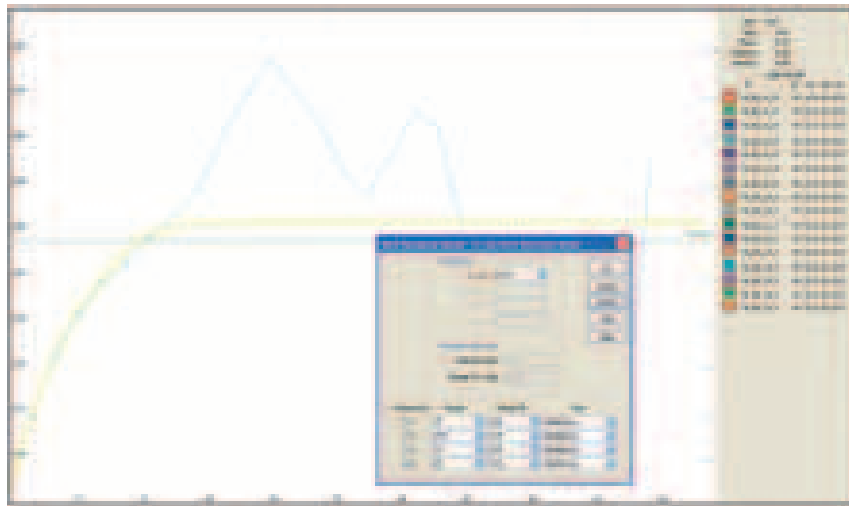


Figure 11-34: Semivariogram model for the third direction of continuity of TiO_2 for the south orebody

Geostatistical analysis of TiO_2 for the north orebody showed the maximum continuity of mineralisation occurs along an azimuth of 14 degrees, with no plunge. The second direction occurs along an axis of 104 degrees, with a plunge of minus 76 degrees. The third direction occurs along an axis of 104 degrees with a plunge of 14 degrees. The spherical experimental semivariograms and models for each direction are shown in Figure 11-35 to Figure 11-37.

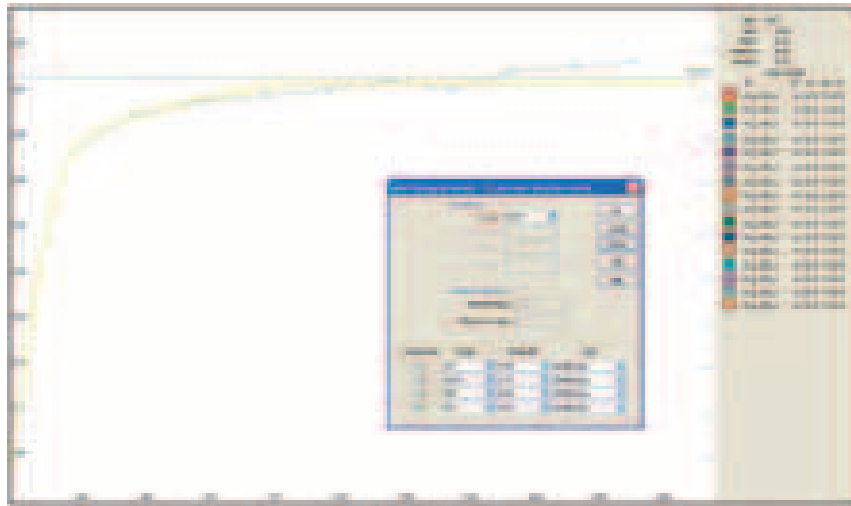


Figure 11-35: Semivariogram model for the main direction of continuity of TiO_2 for the north orebody

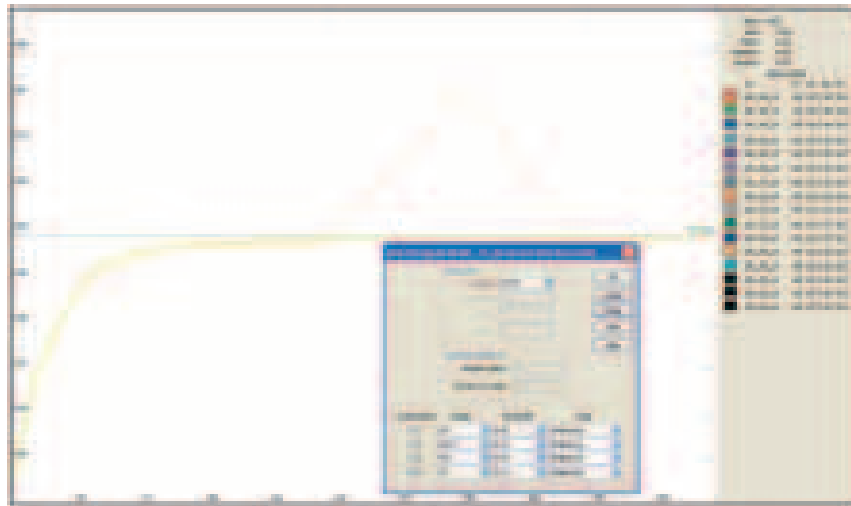


Figure 11-36: Semivariogram model for the second direction of continuity of TiO_2 for the north orebody

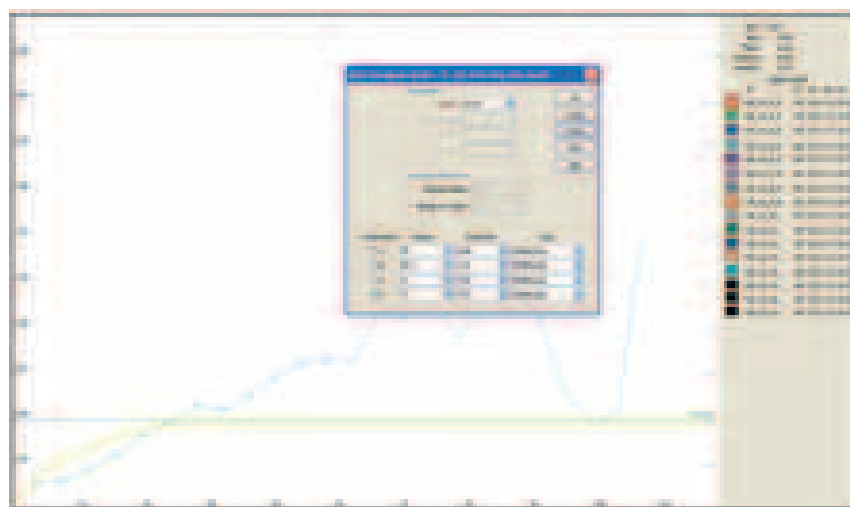


Figure 11-37: Semivariogram model for the third direction of continuity of TiO_2 for the north orebody

A summary of all semivariogram parameters is shown in Table 11-3.

Table 11-3: Summary of semivariogram parameters

| Domain | Axis | Azimuth | Plunge | Lag | Nugget | Partial | Partial | Partial | Partial | Range | Range | Range | Range |
|---------|------|---------|--------|-----|--------|---------|---------|---------|---------|-------|-------|-------|-------|
| | | | | | | Sill1 | Sill2 | Sill3 | Sill4 | 1 | 2 | 3 | 4 |
| TFe_sth | 1 | 2 | 0 | 202 | 0 | 0.05 | 0.24 | 0.58 | 0.03 | 500 | 188.5 | 130 | 783 |
| TFe_sth | 2 | 92 | 0 | 45 | 0 | 0.05 | 0.24 | 0.58 | 0.03 | 17 | 2.8 | 90 | 402 |
| TFe_sth | 3 | 0 | 90 | 15 | 0 | 0.05 | 0.24 | 0.58 | 0.03 | 13 | 34.6 | 17 | 26 |
| TFe_nth | 1 | 0 | 3 | 200 | 0 | 0.08 | 0.2 | 0.23 | 0.03 | 60 | 289.6 | 102 | 896 |
| TFe_nth | 2 | 65 | -83 | 150 | 0 | 0.08 | 0.2 | 0.23 | 0.03 | 60 | 174.9 | 58 | 386 |
| TFe_nth | 3 | 90 | 6 | 12 | 0 | 0.08 | 0.2 | 0.23 | 0.03 | 60 | 43 | 32 | 22 |
| Ti_sth | 1 | 4 | 0 | 200 | 0.017 | 0.08 | 0.35 | 0.04 | 0.03 | 20 | 281.1 | 1000 | 875 |
| Ti_sth | 2 | 94 | -24 | 100 | 0.017 | 0.08 | 0.35 | 0.04 | 0.03 | 476 | 94.6 | 75 | 44 |
| Ti_sth | 3 | 94 | 66 | 4 | 0.017 | 0.08 | 0.35 | 0.04 | 0.03 | 15 | 34.9 | 12 | 65 |
| Ti_nth | 1 | 14 | 0 | 196 | 0.014 | 0.06 | 0.31 | 0.04 | 0.1 | 143 | 233.9 | 340 | 972 |
| Ti_nth | 2 | 104 | -76 | 100 | 0.014 | 0.06 | 0.31 | 0.04 | 0.1 | 271 | 130.4 | 441 | 49 |
| Ti_nth | 3 | 104 | 14 | 5 | 0.014 | 0.06 | 0.31 | 0.04 | 0.1 | 35 | 36.1 | 8 | 9 |

11.10 Block Modelling

Empty block models were created within the closed wireframe models for the iron mineralisation and the titanium dioxide mineralisation and coded accordingly. The same parent block model was used to create separate block models for separate wireframed

domains (3 iron mineralisation domains and 4 titanium dioxide mineralisation domains). Block extents and sizes are shown in Figure 11-38. Parent cells were sub blocked to 5 metre east, 2.5 metres north and 2.5 metre in elevation. The empty cell models were then interpolated.

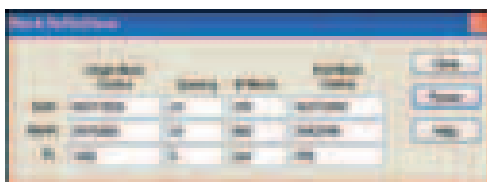


Figure 11-38: Block extents and sizes

11.11 Grade Interpolation

The three weathered domains were interpolated using the inverse distance weighting cubed algorithm, the four unweathered domains were interpolated using the ordinary kriging algorithm.

Interpolation was block kriging into parent cells only, with discretisation to 5 points east, 5 points north and 5 points in elevation. The grades from the estimated points were then averaged to produce the kriged block grade.

The search ellipsoids were oriented parallel to the mineralisation to include relevant samples and were sized to exclude redundant samples. Three different search ellipsoids were created for three different parts of the orebody with different orientations. One search ellipsoid was created for the weathering domains, one search ellipsoid was created for the unweathered southern orebody and one search ellipsoid was created for the unweathered northern orebody. Three runs were required at different radius lengths and parameters to populate all cells for all block models.

A “parent block estimation” technique was used, i.e. all subcells within a parent cell were given the same estimated grade value. The Ordinary Kriging estimation was performed at different search radii until all cells were populated. Grades were interpolated separately within each of the modelled mineralised zones using only assay composites restricted by the corresponding wireframe models. The search radii were determined by means of distance between drillholes for the inverse distance weighting estimation and by the evaluation of the semivariogram parameters for the ordinary kriging estimation, which determined the kriging weights to be applied to samples at specified distances. Model cells that did not receive a grade estimate from the first interpolation run were used in the next interpolation with greater search radii. Model cells that did not receive a grade estimate from the first two interpolation runs were used in the next interpolation with greater search radii.

Declustering was performed during the interpolation process by using eight sectors within the search neighbourhood. Each sector was restricted to a maximum of six samples, and the search neighbourhood was restricted to an overall minimum of two sample grades for the first two interpolation runs. Therefore the maximum combined number of samples allowable for the interpolation was 48.

For the unweathered iron mineralisation domain, the TFe grade with the balancing cut of 15.8% applied was used for the grade interpolation. For all other domains the raw grades were used. The assay file that was composited to 2.0 metre intervals was also used for the interpolation.

The search ellipsoid parameters used for each search ellipsoid and run is shown in Table 11-4. The search ellipsoids for run 1 are shown in Figure 11-39 and for run 2 in Figure 11-40.

Table 11-4: Search ellipsoid parameters

| Domain | Parameter | Run 1 | | | Run 2 | | | Run 3 | | |
|------------------------------|-------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | | 1st axis | 2nd axis | 3rd axis | 1st axis | 2nd axis | 3rd axis | 1st axis | 2nd axis | 3rd axis |
| Weathered orebody | Radius length (m) | 300 | 150 | 50 | 600 | 300 | 120 | 3000 | 1500 | 500 |
| Weathered orebody | Azimuth | 0 | 90 | 0 | 0 | 90 | 0 | 0 | 90 | 0 |
| Weathered orebody | Plunge | 0 | 0 | 90 | 0 | 0 | 90 | 0 | 0 | 90 |
| Weathered orebody | No. sectors | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| Weathered orebody | Max. samples per sector | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Weathered orebody | Min. total samples | 2 | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 |
| Unweathered southern orebody | Radius length (m) | 300 | 150 | 60 | 600 | 300 | 120 | 3000 | 1500 | 600 |
| Unweathered southern orebody | Azimuth | 0 | 90 | 90 | 0 | 90 | 90 | 0 | 90 | 90 |
| Unweathered southern orebody | Plunge | 0 | -35 | 55 | 0 | -35 | 55 | 0 | -35 | 55 |
| Unweathered southern orebody | No. sectors | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| Unweathered southern orebody | Max. samples per sector | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Unweathered southern orebody | Min. total samples | 2 | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 |
| Unweathered northern orebody | Radius length (m) | 300 | 150 | 60 | 600 | 300 | 120 | 3000 | 1500 | 600 |
| Unweathered northern orebody | Azimuth | 0 | 90 | 90 | 0 | 90 | 90 | 0 | 90 | 90 |
| Unweathered northern orebody | Plunge | 0 | -70 | 20 | 0 | -70 | 20 | 0 | -70 | 20 |
| Unweathered northern orebody | No. sectors | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| Unweathered northern orebody | Max. samples per sector | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Unweathered northern orebody | Min. total samples | 2 | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 |

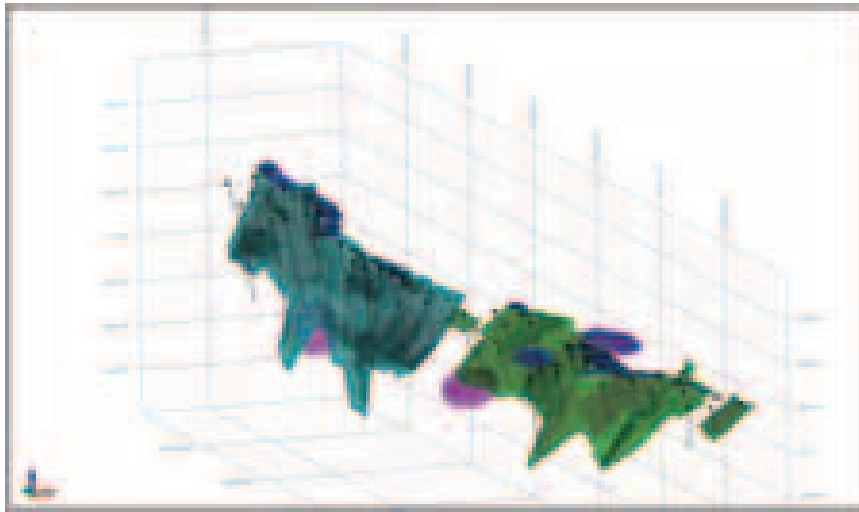


Figure 11-39: Search ellipsoids, run1

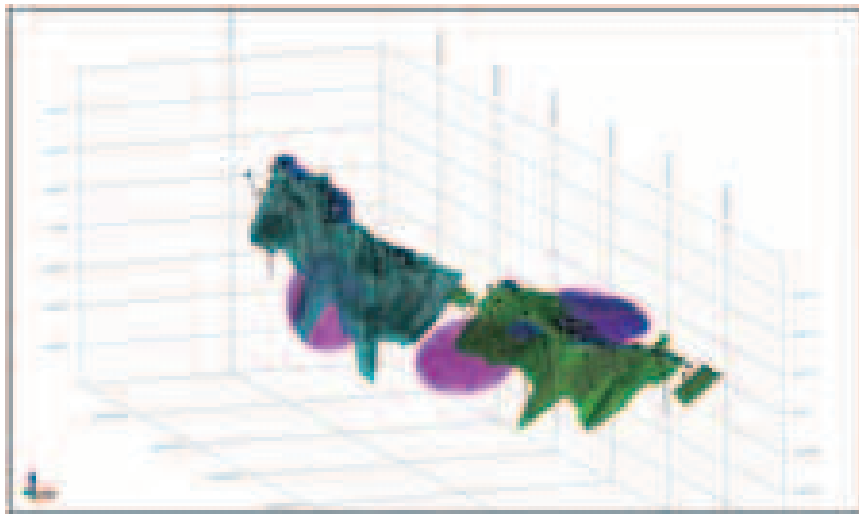


Figure 11-40: Search ellipsoids, run2

Two views are shown of the interpolated block model for each element, Figure 11-41 and Figure 11-42 show views of the interpolated TiO_2 block model and the interpolated TFe block model. Figure 11-43 and Figure 11-44 show side views of the interpolated TiO_2 block model and the interpolated TFe block model.

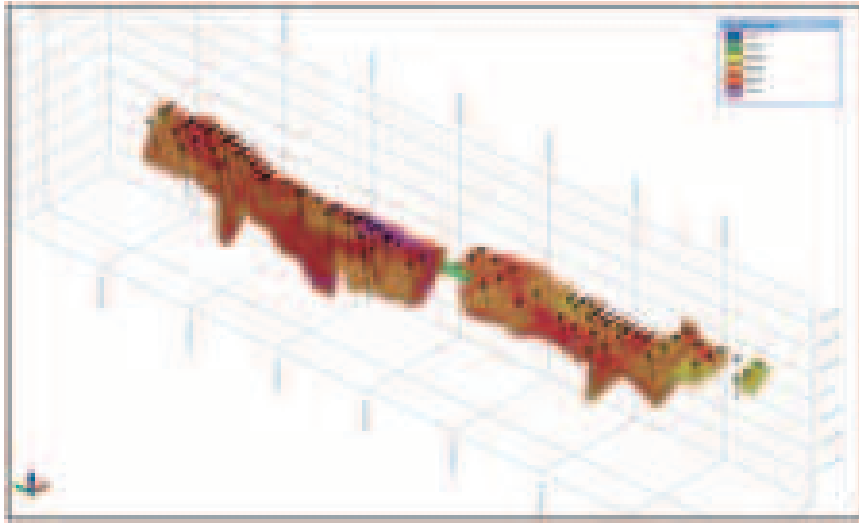


Figure 11-41: Interpolated TiO₂ block model showing interpolated TiO₂ grades

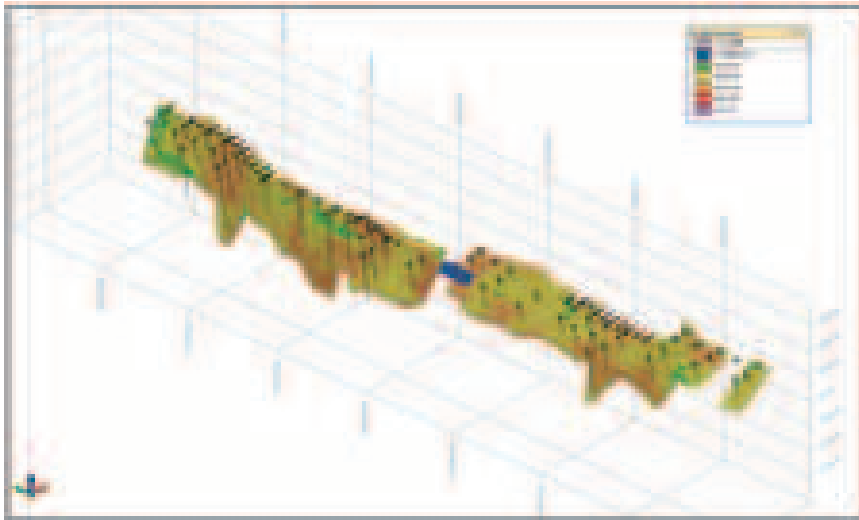


Figure 11-42: Interpolated TFe block model showing interpolated TFe grades

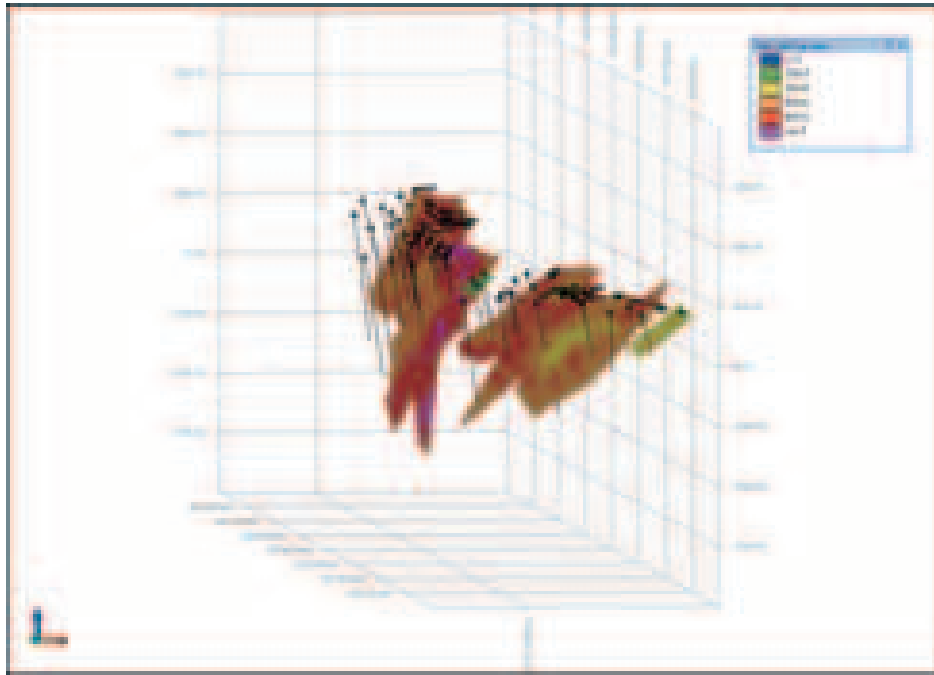


Figure 11-43: Interpolated TiO₂ block model showing interpolated TiO₂ grades, side view

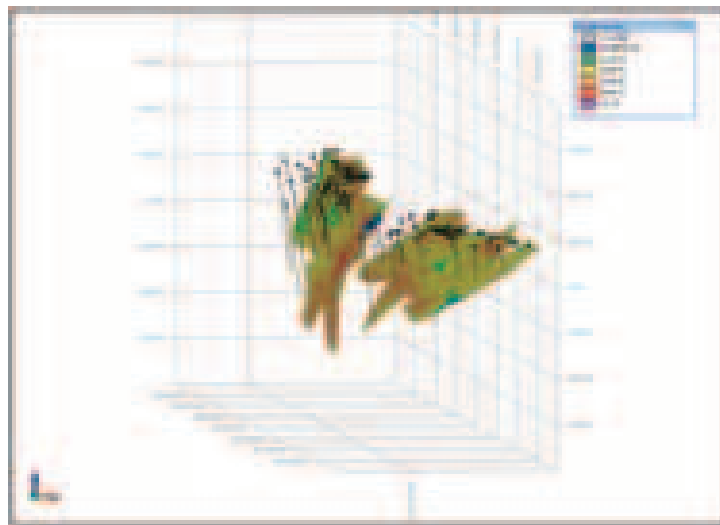


Figure 11-44: Interpolated TFe block model showing interpolated TFe grades, side view

11.12 Resource Classification Strategy

The purpose of resource estimation is to create a three-dimensional model of mineralisation that can be utilised for mining studies and economic calculations. Although the aim is to estimate as accurately as possible, there will be more confidence in some portions of the model than others.

The classification strategy was designed to reflect the level of confidence in different areas of the model based on the inherent variability of measurements, the level of support provided by the data, and the expected continuity of mineralisation provided by the geological context.

The data that was supplied to MCS and checked during the site visit, indicates that confidence in the data is moderate to high. The QA/QC data such as mean weighted core recovery, assay precision, assay bias, and verification of the data on site; supports this conclusion. The resource classification strategy was therefore based primarily on distance of samples and numbers of samples and holes used to estimate a block value. For Measured resources, a minimum of two samples from two holes had to be within a radius of 200 m. For Indicated resources, this radius was 400 m. The remainder of the resource were classified as Inferred.

After running the IDW cubed interpolation to determine the classification of the blocks, the classification was edited manually to reflect the competent person's confidence in different parts of the block model.

A view of the final, classified block model is shown in Figure 11-45.

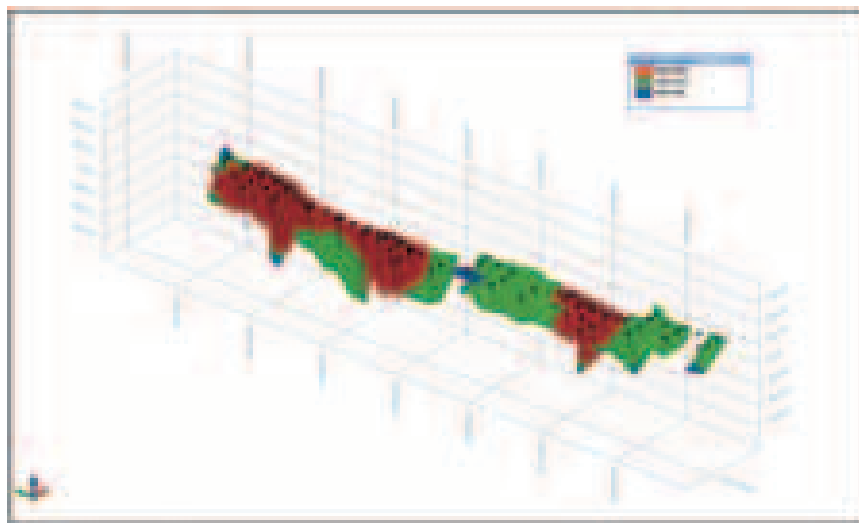


Figure 11-45: Final, classified block model

11.13 Specific Gravity Interpolation

A specific gravity database was supplied by the client that could be used for interpolation into the block model. A total of 120 specific gravity measurements spread throughout the deposit were included in the database. These measurements were interpolated into the block model using the IDW cubed interpolation method, resulting in every block in the block model containing a value for specific gravity.

11.14 Model Validation

Three methods were utilised to validate the ordinary kriged block model:

1. The ordinary kriged global grade was compared to the original sample grades in the wireframes,
2. The ordinary kriged global grade was compared to an inverse distance cubed model global grade,
3. The ordinary kriged model was checked locally in section to determine if the original sample grades were reflected in the block model grades.

The result from the interpolated block model compared to the wireframe model for both TiO₂ and TFe is shown in Table 11-5 and Table 11-6. There is a small difference in volume for the both TiO₂ and TFe; however this is less than 0.1% in both cases. For the grade, the raw grade compared to the interpolated block model grade is similar, the difference being less than 5% for TiO₂ and less than 2% for TFe. This can be explained by the fact that the kriging process tends to smooth the grade distribution, resulting in a slightly lower grade and is also a result of clustering of some of the original data points. Model and wireframe tonnages were very similar.

Table 11-5: Comparison of the interpolated model with the wireframe model for TiO₂

| Category | Volume (m³) | Tonnes (t) | SG (t/m³) | TiO₂ % |
|-----------------|-----------------------------------|-----------------------|---------------------------------|------------------------------|
| Model | 200,139,969 | 633,227,239 | 3.16 | 6.20 |
| Wireframe | 200,319,705 | 633,010,268 | 3.16 | 6.48 |

Table 11-6: Comparison of the interpolated model with the wireframe model for TFe

| Category | Volume (m^3) | Tonnes (t) | SG (t/m^3) | TFe cut |
|-----------|---------------------|---------------|-------------------|------------|
| | | | | 15.77 % |
| Model | 201,271,813 | 636,830,304 | 3.16 | 14.01 |
| Wireframe | 201,404,281 | 636,437,528 | 3.16 | 14.18 |

A comparison between the result from the ordinary kriging block model and the result from the inverse distance weighted (IDW) cubed block model is shown in Table 11-7 and Table 11-8. For TiO_2 , the ordinary kriged grade is slightly lower than the inverse distance weighted grade, less than 3%. For TFe, the ordinary kriged grade is slightly higher than the inverse distance weighted grade, less than 0.5%.

As the difference between the results from the two models is not significant, the ordinary kriging interpolation model has been validated.

Table 11-7: Comparison of the result from the ordinary kriged model with the IDW cubed model for TiO_2

| Category | Volume (m^3) | Tonnes (t) | SG (t/m^3) | TiO_2 |
|------------|---------------------|---------------|-------------------|---------|
| | | | | % |
| OK Model | 193,628,563 | 613,659,344 | 3.17 | 6.19 |
| IDW3 Model | 193,628,563 | 613,659,344 | 3.17 | 6.34 |

Table 11-8: Comparison of the result from the ordinary kriged model with the IDW cubed model for TFe

| Category | Volume (m^3) | Tonnes (t) | SG (t/m^3) | TFe |
|------------|---------------------|---------------|-------------------|-------|
| | | | | % |
| OK Model | 194,683,125 | 616,858,826 | 3.17 | 13.96 |
| IDW3 Model | 194,683,125 | 616,858,826 | 3.17 | 13.91 |

Local validation of the interpolated block model with the original drillhole sample values for TiO_2 and TFe is shown in Figure 11-46 and Figure 11-47. It can be seen there is a high correlation between the original sample grades and the interpolated block model grades. This together with the comparison of the ordinary kriging global grade with the raw sample grades and an IDW cubed model global grade supports that the ordinary kriged model is a reasonable estimate.

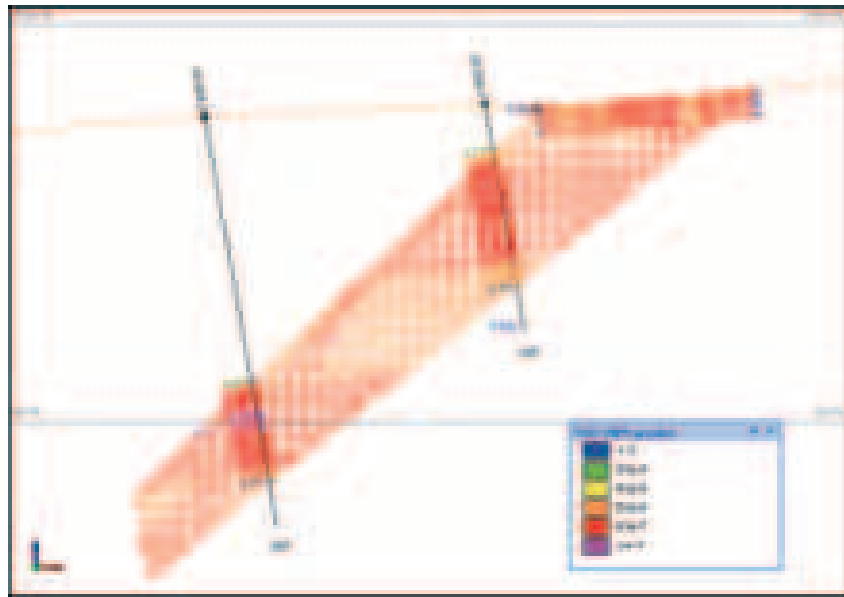


Figure 11-46: Cross-section showing local validation of raw TiO₂ grades compared to block model grades

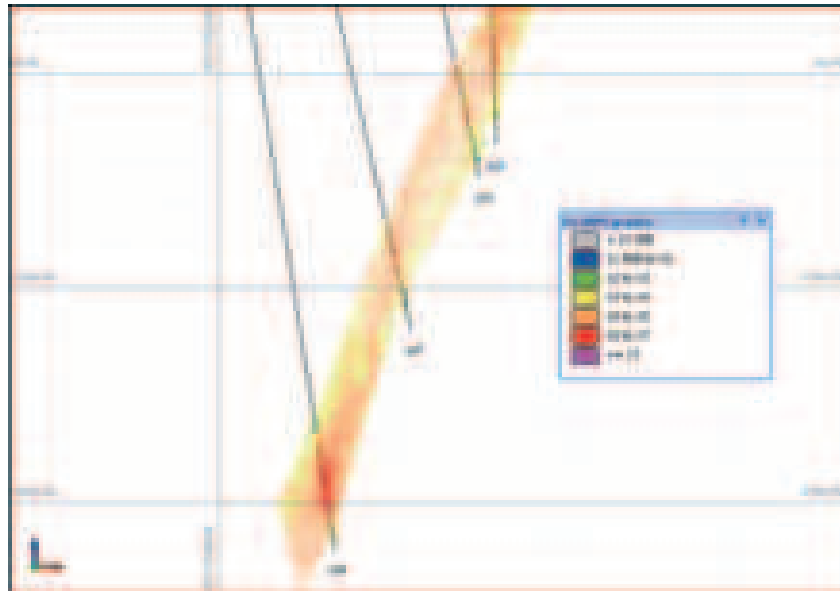


Figure 11-47: Cross-section showing local validation of raw TFe grades compared to block model grades

12 RESOURCE STATEMENT

The resources reported for the Zhuge Shangyu Iron and Titanium deposit are stated by category.

The value of contained metal per tonne of ore can be estimated for each block in the block model by creating a TiO₂ equivalent grade; this is done by adding the price weighted TFe grade to the TiO₂ grade. The TiO₂ equivalent grade was generated using annual forecast yield for TiO₂ and TFe and prices of the TiO₂ and TFe concentrate from the mining study. A ratio of 1:4.6 was determined for the value of TiO₂ to TFe. A TiO₂ equivalent grade was then determined for every block in the model. The processing recovery of TiO₂ equivalent was determined to be 27.8% and the price of the combined concentrate used was CN¥2,721 per tonne.

MCS calculated an economic cut-off grade of 9.2% TiO₂ equivalent using the following formula: Economic cut-off grade = CN¥60.43 / (27.8% * CN¥2,721)

The resource reported above a cut-off grade of 9.2% TiO₂ equivalent is shown in Table 12-1. The total resource at various TiO₂ equivalent cut-off grades is shown in Table 12-2. The Measured, Indicated and Inferred resources at various cut-off grades are shown in Table 12-3, Table 12-4 and Table 12-5 respectively.

Table 12-1: Resource statement for the Zhuge Shangyu Iron and Titanium deposit

| Resource Category | Tonnes (t) | SG (t/m ³) | TiO ₂ equivalent % | TiO ₂ % | TFe % |
|---------------------------------|---------------------------|---------------------------|----------------------------------|-----------------------|----------|
| Measured | 372,793,000 | 3.19 | 70.30 | 5.86 | 14.00 |
| Indicated | <u>260,565,000</u> | 3.13 | 70.31 | 5.81 | 14.03 |
| Total Measured and Indicated | 633,358,000 | 3.17 | 70.31 | 5.84 | 14.01 |
| Inferred | <u>3,472,000</u> | 3.13 | 69.30 | 3.63 | 14.27 |
| Total Resources | <u><u>636,830,000</u></u> | 3.16 | 70.30 | 5.83 | 14.01 |

Note: Numbers have been rounded to reflect that the resources are an estimate.

Table 12-2: Total resources at various cut-off grades

| TiO ₂ equivalent COG (%) | Density (t/m ³) | Volume (m ³) | Tonnage (t) | TiO ₂ equivalent grade (%) | TiO ₂ grade (%) | TFe grade (%) |
|--|--------------------------------|-----------------------------|----------------|--|-------------------------------|------------------|
| 0.0 | 3.16 | 212,565,000 | 672,223,000 | 66.91 | 5.84 | 13.28 |
| 5.0 | 3.16 | 211,994,000 | 670,487,000 | 67.07 | 5.85 | 13.31 |
| 10.0 | 3.16 | 201,272,000 | 636,830,000 | 70.30 | 5.83 | 14.01 |
| 20.0 | 3.16 | 201,272,000 | 636,830,000 | 70.30 | 5.83 | 14.01 |
| 30.0 | 3.16 | 201,272,000 | 636,830,000 | 70.30 | 5.83 | 14.01 |
| 40.0 | 3.16 | 201,272,000 | 636,830,000 | 70.30 | 5.83 | 14.01 |
| 50.0 | 3.16 | 201,272,000 | 636,830,000 | 70.30 | 5.83 | 14.01 |
| 60.0 | 3.16 | 199,795,000 | 632,253,000 | 70.39 | 5.87 | 14.03 |
| 70.0 | 3.17 | 118,054,000 | 373,755,000 | 72.41 | 6.43 | 14.34 |
| 80.0 | 3.03 | 1,483,000 | 4,496,000 | 81.00 | 6.21 | 16.26 |

Note: Numbers have been rounded to reflect that the resources are an estimate.

Note: Resources may not ultimately be extracted at a profit.

Table 12-3: Measured resources at various cut-off grades

| TiO ₂ equivalent COG (%) | Density (t/m ³) | Volume (m ³) | Tonnage (t) | TiO ₂ equivalent grade (%) | TiO ₂ grade (%) | TFe grade (%) |
|--|--------------------------------|-----------------------------|----------------|--|-------------------------------|------------------|
| 0.0 | 3.19 | 124,292,000 | 396,378,000 | 66.46 | 5.88 | 13.17 |
| 5.0 | 3.19 | 124,113,000 | 395,806,000 | 66.55 | 5.88 | 13.19 |
| 10.0 | 3.19 | 116,858,000 | 372,793,000 | 70.28 | 5.86 | 14.00 |
| 20.0 | 3.19 | 116,858,000 | 372,793,000 | 70.28 | 5.86 | 14.00 |
| 30.0 | 3.19 | 116,858,000 | 372,793,000 | 70.28 | 5.86 | 14.00 |
| 40.0 | 3.19 | 116,858,000 | 372,793,000 | 70.28 | 5.86 | 14.00 |
| 50.0 | 3.19 | 116,858,000 | 372,793,000 | 70.28 | 5.86 | 14.00 |
| 60.0 | 3.19 | 116,337,000 | 371,125,000 | 70.33 | 5.89 | 14.01 |
| 70.0 | 3.18 | 67,913,000 | 215,961,000 | 72.44 | 6.47 | 14.34 |
| 80.0 | 3.03 | 1,480,000 | 4,488,000 | 81.00 | 6.21 | 16.26 |

Note: Numbers have been rounded to reflect that the resources are an estimate.

Note: Resources may not ultimately be extracted at a profit.

Table 12-4: Indicated resources at various cut-off grades

| TiO ₂ equivalent COG (%) | Density (t/m ³) | Volume (m ³) | Tonnage (t) | TiO ₂ equivalent grade (%) | TiO ₂ grade (%) | TFe grade (%) |
|--|--------------------------------|-----------------------------|----------------|--|-------------------------------|------------------|
| 0.0 | 3.12 | 87,038,000 | 271,980,000 | 67.63 | 5.82 | 13.44 |
| 5.0 | 3.13 | 86,684,000 | 270,936,000 | 67.87 | 5.82 | 13.49 |
| 10.0 | 3.13 | 83,303,000 | 260,565,000 | 70.34 | 5.82 | 14.03 |
| 20.0 | 3.13 | 83,303,000 | 260,565,000 | 70.34 | 5.82 | 14.03 |
| 30.0 | 3.13 | 83,303,000 | 260,565,000 | 70.34 | 5.82 | 14.03 |
| 40.0 | 3.13 | 83,303,000 | 260,565,000 | 70.34 | 5.82 | 14.03 |
| 50.0 | 3.13 | 83,303,000 | 260,565,000 | 70.34 | 5.82 | 14.03 |
| 60.0 | 3.13 | 82,529,000 | 258,207,000 | 70.45 | 5.87 | 14.04 |
| 70.0 | 3.15 | 49,543,000 | 155,921,000 | 72.33 | 6.37 | 14.34 |
| 80.0 | 3.03 | 3,000 | 9,000 | 80.24 | 6.08 | 16.12 |

Note: Numbers have been rounded to reflect that the resources are an estimate.

Note: Resources may not ultimately be extracted at a profit.

Table 12-5: Inferred resources at various cut-off grades

| TiO ₂ equivalent COG (%) | Density (t/m ³) | Volume (m ³) | Tonnage (t) | TiO ₂ equivalent grade (%) | TiO ₂ grade (%) | TFe grade (%) |
|--|--------------------------------|-----------------------------|----------------|--|-------------------------------|------------------|
| 0.0 | 3.13 | 1,235,000 | 3,864,000 | 62.80 | 3.80 | 12.83 |
| 5.0 | 3.13 | 1,197,000 | 3,746,000 | 64.69 | 3.83 | 13.23 |
| 10.0 | 3.13 | 1,110,000 | 3,472,000 | 69.31 | 3.66 | 14.27 |
| 20.0 | 3.13 | 1,110,000 | 3,472,000 | 69.31 | 3.66 | 14.27 |
| 30.0 | 3.13 | 1,110,000 | 3,472,000 | 69.31 | 3.66 | 14.27 |
| 40.0 | 3.13 | 1,110,000 | 3,472,000 | 69.31 | 3.66 | 14.27 |
| 50.0 | 3.13 | 1,110,000 | 3,472,000 | 69.31 | 3.66 | 14.27 |
| 60.0 | 3.14 | 929,000 | 2,921,000 | 72.23 | 4.17 | 14.80 |
| 70.0 | 3.13 | 598,000 | 1,873,000 | 75.67 | 5.75 | 15.20 |

Note: Numbers have been rounded to reflect that the resources are an estimate.

Note: Resources may not ultimately be extracted at a profit.

13 COMPARISON WITH HISTORIC RESOURCE

According to Shandong Lianchuang Architectural Design Co. Ltd (2011), the total resource amounted to 462.894 Mt of ore containing 30.692 Mt of TiO_2 at a grade of 6.63% TiO_2 . In comparison, the MCS resource is approximately 29% larger in tonnage and slightly lower in TiO_2 grade (around 6%) and slightly lower in TFe grade (around 4%). The larger tonnage can be explained by the fact that the previous resource did not include the entire area of the orebody. This can be seen in Figure 13-1, with the boundary of mineralisation included in the MCS estimate annotated. In addition, a slightly larger mineralised envelope was interpreted by MCS compared to the historic resource.

The difference in TiO_2 and TFe grades can be explained by the choice of interpolation method. The ordinary kriging method tends to smooth the grade distribution resulting in slightly lower grades compared to the polygonal method.

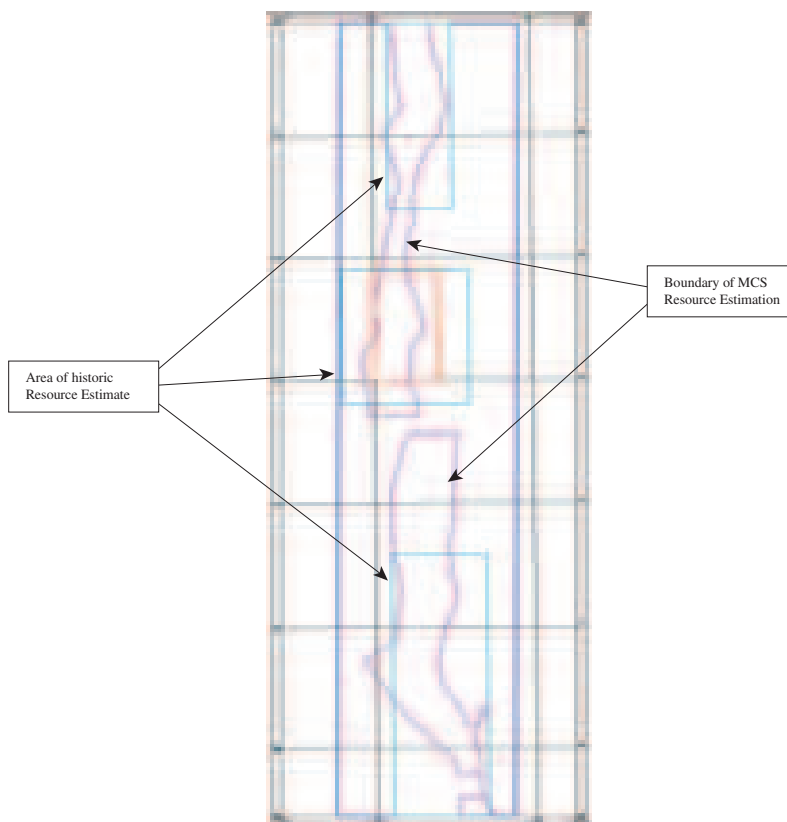


Figure 13-1: Area of historic resource estimate

Source: Shandong No.8 Exploration Institute of Geology and Mineral Resources (2009)

14 METALLURGY AND MINERAL PROCESSING

14.1 Metallurgy

According to Shandong Lianchuang Architectural Design Co. Ltd (2011), the metallurgical properties of the Zhuge Shangyu Iron and Titanium ore are:

- Grade of raw ore of TFe 14.24% and TiO₂ 6.43%;
- Grade of extracted ore of TFe 14.24% and TiO₂ 6.43%;
- Maximum lumpiness of ore of 1,000 mm;
- Ore density of 3.09 t/m³;
- Loosening coefficient of 1.6;
- Physio-mechanical property of f=6-7 (soft ore).

14.2 Mineral Processing

The processing plant would consist of a three-section closed circuit crushing unit and a four-stage ore separation plant.

Processing recoveries stated in the Feasibility Study for Zhuge Shangyu (Shandong Lianchuang Architectural Design Co. Ltd, 2011) sent to MCS on 15th September 2011 stated recoveries as 45.00% for iron and 45.00% for titanium. MCS considers processing recoveries of 45.00% for iron and 45.00% for titanium as 'unlikely' and that a processing recovery rate of 23.22% for iron and 12.70% for titanium is more realistic.

On the basis of the processing circuit design, the characteristics of the ore, and comparisons with similar operations, MCS expects the proposed processing plant to process approximately 8 million t/pa with an annual concentrate output of approximately 150,000 tonnes of 44% titanium concentrate and 450,000 tonnes of 61% iron concentrate. If the recoveries stated in the Feasibility Study for Zhuge Shangyu (Shandong Lianchuang Architectural Design Co. Ltd, 2011) were achieved, the processing plant would be expected to produce approximately 840,000 tonnes of iron concentrate and 526,100 tonnes of titanium concentrate.

MCS acknowledges that some discrepancies exist between processing recovery rates provided in different revisions of feasibility reports provided by the client, and that there is a lack of results from metallurgical test work performed to support the revised numbers. The recovery rates used in this estimation are based on the experience of the Competent Person and are considered comparable to recovery rates for other mines with similar ore types and grades. MCS recommends that pilot-scale mineral processing testwork be carried out to determine the true recovery rates for the particular ores, processing equipment and design parameters of this project. Based on the results of processing testwork recovery rates may need to be revised either upwards or downwards.

14.2.1 Crushing Circuit

The following details have been sourced from the preliminary design report of the Shandong Lianchuang Architectural Design Co. Ltd (2011). The crushing circuit consists of coarse crushing stage, medium crushing stage, a screening stage then dry concentration stage finishing with the fine ore removal and fine crushing stage.

The coarse crushing plant is 33 m in length and 18 m in width, with 50 tonne bridge cranes and overhaul space and a set of PXZ-1400/1700 type hydraulic heavy gyratory crushers. Ore is fed into the hopper of the crusher directly by tramcars. The broken ores will be sent by conveyor belt to the electric vibrating feeder and finally sent to the medium-crushing circuit. The maximum grain size after the coarse crushing stage is 225 millimetres.

The medium crushing process occurs in a separate area which is 63 m long and 18 m wide, with a 16/3.2 t type bridge crane, overhaul space and 2 sets of HP800C type standard and high efficiency cone crushers. In front of each crusher are surge bins with capacities of 500 tonnes each. The volume of ore that can be stored is sufficient for 40 minutes of production.

The screening room is 63 m long and 18 m wide with 10 tonne single-beam electric cranes and overhaul space and 5 sets of Nordberg shakers. Surge bins are installed in front of each shaker with a capacity of 500 tonnes each and can store the volume of ore for 35 minutes of production.

In the medium and fine crushing areas, crushed ore will be discharged to the surge bin and then sent to shakers to sieve through electric vibrating feeders. Material on the shaker should be returned to the fine crushing workshop to be broken again, while the materials under the shaker should be sent to the fine ore bin. The shakers are of XH3085 type, and have a screen size of 14 mm, and screening efficiency of 65%.

Fine crushing process takes place separately in an area 54 m in length and 18 m in width with 16/3.2 t type bridge cranes, overhaul space and finished by 4 sets of HP800 medium size short head cone crushers. Surge bins are installed in front of each fine crusher with a capacity of 500 tonnes each which can store volume of ore for 40 minutes production.

Five percent of the waste is removed before the sieved ores go into the fine crushing stage. The waste should be sent out of the medium-fine crushing circuit through conveyor belts and sent to a waste dump. Electric jaw valves should be installed under the waste storage area, enabling waste to be removed from the plant by trucks, Figure 14-1.

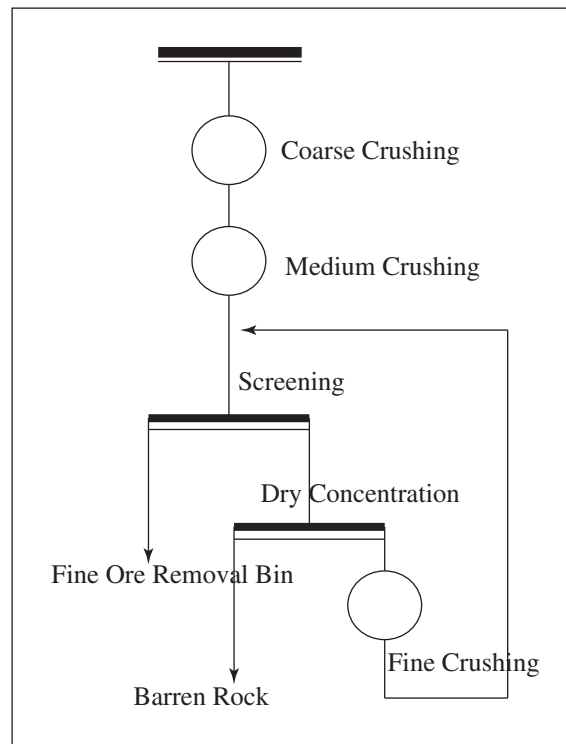


Figure 14-1: Zhuge Shangyu ore crushing flow chart

The operation of ore grinding and separating consists of four stages. Ore grinding involves two stages of grinding processes, while separation involves magnetic processes to concentrate the iron ores and the methods of re-election spiral chute, table concentrator and flotation are used to concentrate titanium ores. The flow chart of the process is shown in Figure 14-2.

The ore grinding process involves two stages of grinding and cyclone classification. The primary grinder is of the type MQG5200×6400 with an effective volume of 123 m³, achieving a fineness of 200 microns accounting for 60%. The secondary grinder is of the type MQY5030×8000, with an effective volume of 145 m³ achieving a fineness of 200 microns accounting for 85%. Both of the stages involve the use of swirlers to grade the ores.

The grading of iron ore concentrate should involve two magnetic separating processes; one for the coarse fraction and another for the fine fraction. The primary magnetic extractor is of type CTB-1540, with a magnetic field intensity of 110 mT, while the secondary magnetic extractor type is of type CTB-1540, with a magnetic field intensity of 90 mT. The result will be an iron concentrate with a grade of 61.00% TFe and production 5.244%, with a recovery of 23.22%. The iron ore tailings will pass to the titanium separating stage.

The grading of titanium concentrate involves separation using the magnetic process. After the iron tailings are concentrated by the thickener, they pass through one coarse separating process, two fine concentrating processes and three stages of spiral chute separation. Concentrate ores should be sent to the table concentrator for further separation while the intermediate products in the primary spiral chute should return to the concentrate thickener. The diameter of the primary spiral chute is 1,200 mm, while the secondary is 900 mm, and the third 600 mm. Concentrate ores in the table concentrator should be passed to a flotation process. The final grade of titanium concentrate is 44.00% with production 1.90% and a recovery ratio of 12.70%. Fourth stage tailings and the flotation tailings will be collected in the total tailings and then pass to the concentrate thickener.

Magnetic iron concentrate will be dewatered directly in 2 sets of 45 m² ceramic filters and finally become dry mine with 10% water content. The dry mine will be sent to the iron concentrate ore storage by conveyor belt and loaded onto trucks with a grab bucket crane. Finally the dry ores will be transported outside. The iron concentrate storage is of the semi-underground type, with the length of 60 m, width of 15 m and the depth of 3 m.

Flotation titanium concentrate should initially pass a thickener with a diameter of 30 m, and secondly, the concentrate should be dewatered in a set of 45 m² ceramic filters and finally become dry mine with 10% water content. The dry mine will be sent to the titanium concentrate ore storage by conveyor belt and loaded onto trucks with a grab bucket crane. Finally the dry ores will be transported outside. The titanium concentrate storage is of the semi-underground type, with the length of 24 m, width of 15 m and the depth of 3 m.

The density of the whole plant tailing pulp is about 8%, which will become 30% after passing through two sets of thickeners with diameters of 100 m. Slurry pumps will send the tailings to the pressure and filtration area, where the tailings will be dewatered. The tailings pressure and filtration plant is 142.5 m in length and 42 m in width, equipped with two sets of 10 tonne single-beam electric cranes, overhaul space and 30 sets of 600 m² plate and frame filter press machines. 28 sets will be operational while 2 sets will be standby. Tailings should be dewatered to 20% moisture content by plate and frame filter press. Dry tailings will fall to the ground directly and be sent to tailings storage by trucks.

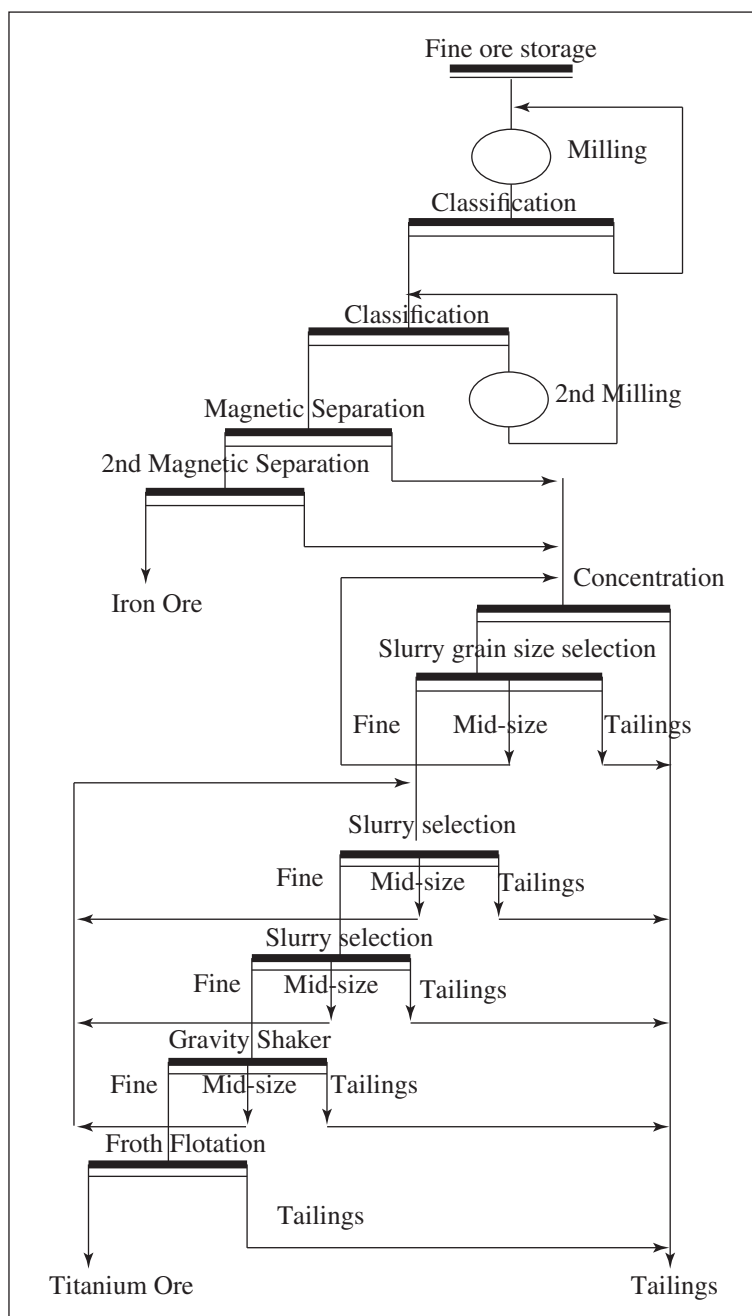


Figure 14-2: Zhuge Shangyu ore grinding and separation flow chart

15 MINING STUDY

15.1 Scope of Work

The scope of work for the mining study was to convert the resources to reserves. This involved:

- calculating cut-off grades;
- optimisation using whittle 4D;
- checking the optimisation results with the open pit design produced by the Shandong Lianchuang Architectural Design Co. Ltd (2011);
- assessing the proposed mining method;
- producing a life of mine schedule;
- assessing the cost and revenue estimates for the project.

MCS had previously completed a resource and reserve estimate of the project in June 2011. The client commissioned MCS to complete an update of the reserve estimate for the project due to changes in modifying factor information outlined in the Feasibility Study Report for Zhuge Shangyu Ilmenite Mining and Processing Project (Shandong Lianchuang Architectural Design Company Ltd, 2011). The changes in modifying factor information were as follows:

- A reduction in capital expenditure from CN¥1.61 billion previously to CN¥998.94 million.
- An increase in titanium concentrate selling price from CN¥890.00 per tonne previously to CN¥1,650.00 per tonne.

All possible modifying factors are to be considered for the conversion of resources to reserves.

15.2 Open Pit

The following information has been sourced from the Preliminary Design report of Shandong Lianchuang Architectural Design Co. Ltd (2011).

The deposit is most suitable for open pit mining due to the size, depth and shape of the orebodies, as well as the geology of the area.

The planned mining bench height is 12 metres. The geotechnical analysis indicates that a hanging wall slope angle of less than or equal to 51° and a footwall slope angle of less than or equal to 47° , are acceptable. The bench batter angle in Quaternary sediments and weathered bedrock will be 40° and the batter angle in fresh bedrock will be 60° .

The proposed production capacity is eight million tonnes of ore to be delivered to the process plant per year. This will be achieved using conventional open pit mining methods. The proposed mining equipment includes KQG-150 high pressure percussion drill rigs, 4.3 m^3 hydraulic excavators, and 50 tonne mining dump trucks.

It is noted however that the mining of some parts of the orebody will be difficult as sections of it are on the sides of steep hills. Mining of these sections will be less productive than in the main open pit area due to the need to create access and the small mining areas. For these sections a pioneering approach will be taken using vertical stripping. That is, the open pit stripping working face will be along the longitudinal line (the orebody strike), and the stripping will advance from the hanging wall downward to the footwall of the orebody.

As only a small percentage of the mining is considered as pioneering, the proposal is to maintain output by matching the relationship between the output of the last stage with the next stage. Each new level preparation of most benches will require a pioneer cut. The gradient of the pioneer cut should be 8%, the width of the trench floor should be 15 m, the slope angle should be 70° and the trench length usually should be between 150 to 300 m.

The production of the mine refers to single-bench production in most years and double-bench production for the new level preparation stage only. Multi-bench production will be required in the lower sections of the orebody when the pit is close to final depth.

MCS has reviewed the designs and reports and considers the open pit mining proposal by Shandong Lianchuang Architectural Design Co. Ltd. to be appropriate for the mining of the orebody.

15.3 Underground

A combination of shaft and decline development is preferred for underground mining. Both orebodies would share the same slope ramp for large vehicles.

There are five shafts for orebody 1 with two air shafts with a diameter of 5.5 m in the south and north parts of the deposit, which function as an upcast air shaft and emergency outlet. Inside the shaft is a metal ladderway. A skip shaft with a diameter of 5.0 m for all hoisting work of ore is located in the middle of the deposit and can also act as the return air shaft and emergency outlet. An auxiliary shaft with a diameter of 6.5 m

is located 150 m north of the skip shaft and can also act as the intake shaft and emergency outlet. The shaft contains a cage and hoisting equipment for hoisting staff, equipment, materials and waste rock. A special intake shaft with a diameter of 5.0 m is located 300 m south of the skip shaft and will act as the intake shaft and emergency outlet. The shaft contains a metal ladderway rather than hoisting facilities.

For orebody 2 there are four vertical shafts. Two intake shafts are located in southern and northern parts of the orebody and will be separately used as an intake shaft and emergency outlet. The diameter of the intake shafts is 4.5 m. Metal ladderways should be included in the shafts, and they should not contain hoisting equipment. A skip shaft should be located in the middle part of the ore body, with a diameter of 5.5 m, responsible for all ore hoisting, and should double as a return air shaft and emergency outlet. An auxiliary shaft should be located 150 m north of the skip shaft. The diameter of the auxiliary shaft is 5.5 m. Cage hoisting equipment should be installed in this shaft which will be responsible for the tasks such as hoisting of the mine personnel, equipment, materials and waste rock. The auxiliary shaft should double as an intake shaft and emergency outlet.

Slope ramps, to be used for ore removal by dump trucks, are located in the middle of the two ore bodies and are of the switchback type.

The underground mining height is 50 to 60 m. There will be 7 levels for orebody 1; -20 m (return air level), -80 m, -140 m, -200 m, -260 m, -320 m and -380 m. For orebody 2 there will be 4 levels; +30 m (return air level), -20 m, -80 m and -140 m.

According to the mining level and the type of ore body, the sublevel mining method (subsequent fill) and VCR mining method (subsequent fill) will be used. For the mining facilities, efficient drilling facilities and ore removal facilities involving trucks are suitable. It is estimated that the comprehensive recovery rate may reach about 74% and extracted ore throughput of the two mines may reach 122,730,000 t. Based on the dilution ratio of 9%, the raw ore throughput may reach 134,870,000 t.

The stopes are arranged along the strike of the orebody, with a length of 60 m, height of 70 m and the width equal to the width of the ore body. Rib pillars are included in the stope, with a width of 6 m and length of stope room of 54 m. There is no sill pillar and supporting pillar. The basic structure of the stope is the trench-type stope.

Development work other than mining includes the ore removal roadway, whose layout is the same as subsequent fill mining method of the sublevel open stoping. The project of mining cutting includes ore removal roadway, service ventilation rise and footway, stope drift and ore-pass.

Stoping work includes rock drilling, blasting, ventilation, partial ore drawing, scaling, field flattening, supporting and ore drawing in large quantities. Stoping is implemented from bottom to top according to layers with the height of 2 m. Rock drilling

is conducted by the upward and short-hole hammer drill of YSP45, which is charged manually with #2 rock explosive and detonated by a non-electric system. After blasting, the area must be ventilated and the fumes discharged. Partial ore drawing is implemented after each layer is detonated completely. About 1/3 ores are drawn, scaling and field flattening is implemented, and in unstable areas, support work with concrete rock bolts with a length of 2 to 2.5 m is carried out. The ore can be removed in quantity after the stoping has been finished completely for all layers. For partial ore drawing and ore drawing in quantity, TORO007 diesel fuelled scrapers (equipped with 5 m³ bucket capacity) are used to transport the ores to the ore pass.

Fresh air is introduced through the roadway, ore roadway and service ventilating rise to the stoping working level. The exhaust air is discharged to the upper and middle section through the service ventilating rise and then discharged to the surface through the return air shaft. To speed up the discharge, fans can be used inside the stope.

Filling in the stope is basically the same with that of subsequent fill mining method of the sublevel open stoping.

16 RESERVE ESTIMATION

16.1 Introduction

In the case of the Zhuge Shangyu project there are two commodities Iron and Titanium. The Resources and Reserves are given separately for these two commodities although they occur contiguous. Also at Zhuge Shangyu there are Surface mining resources and underground mining resources and hence there are two tables that show Resources and Reserves.

The JORC code and definitions have been used for the conversion of Resources to Reserves.

These Reserves were based on the Resource model dated 17/3/2011 and the Reserves are therefore deemed to have the same date. However, the modifying factor parameters were changed and the reserves were recalculated with these new parameters in November 2011. It should be noted that the Reserves quoted here are a “snapshot” at a specific point in time. Should any of the inputs change, such as the Resource model, the Reserves should be recalculated.

The information given in the Feasibility study was used to split the Resources into surface and underground resources.

16.2 Surface Reserves

The Resource has been classified as Measured, Indicated, and Inferred. By definition Reserves may not include Inferred Resources. Like Resources, Reserves, by definition, have two components; a quantity component (value) and a classification component (risk).

The quantity component of Resources is termed Gross Tons In Situ, (GTIS) and is the starting point in the derivation of Reserves. The process used to convert GTIS to Reserves is as follows:

- Step 1 GTIS is converted to Mineable Tons In Situ (MTIS);
- Step 2 MTIS is converted to Reserves.

The classification component of Reserves is based on the classification of the Resource.

Step 1 the conversion of the GTIS, into MTIS

Initially GTIS is split into Resources that will be mined utilising surface mining techniques and Resources that are below the optimised shell for open pit mining.

All Inferred Resources are excluded.

Step 2 the conversion of MTIS into Reserves

During this step appropriate factors are applied to the MTIS to obtain the Reserve.

These factors include grade cut-offs (where appropriate), economic cut-offs (such as block volumes) and losses due to the mining method envisaged.

A modelling estimation error is also applied.

The Reserve classification is based on the Resource classification. Once the Inferred Resources have been excluded the Reserve is classified. Indicated Resources can only go to Probable and Measured to Proven but if the bulk of the remaining Resource is Indicated then the whole of the Reserve will be classified as Probable.

Resource to Reserve Calculation

In the case of the Zhuge Shangyu project there are two commodities iron and titanium as well as Measured, Indicated and Inferred resources. In the process of converting the Resources to Reserves, all the Inferred Resources have been excluded from MTIS. Table 16-1 shows the total Resource (GTIS) and the MTIS for the Resource.

Weathered material has not been included in the Reserve as the metallurgical properties are usually different and no information is given as to any of the tests performed on the compatibility of the weathered and fresh material.

The factors applied to MTIS include the following.

- A mining loss of 10%. The plan extent of the ore-body is such that 10% is appropriate as the mining loss will only occur at the ore/gangue boundary around the edges.
- A modelling estimation error of 3%. This is an industry norm. For Measured Resources a factor of 3% is used and for Indicated a factor of 5% is used. In the case of Zhuge Shangyu the majority of the ore is Measured.

The final pit designs are shown in Figure 16-2 and Figure 16-1.

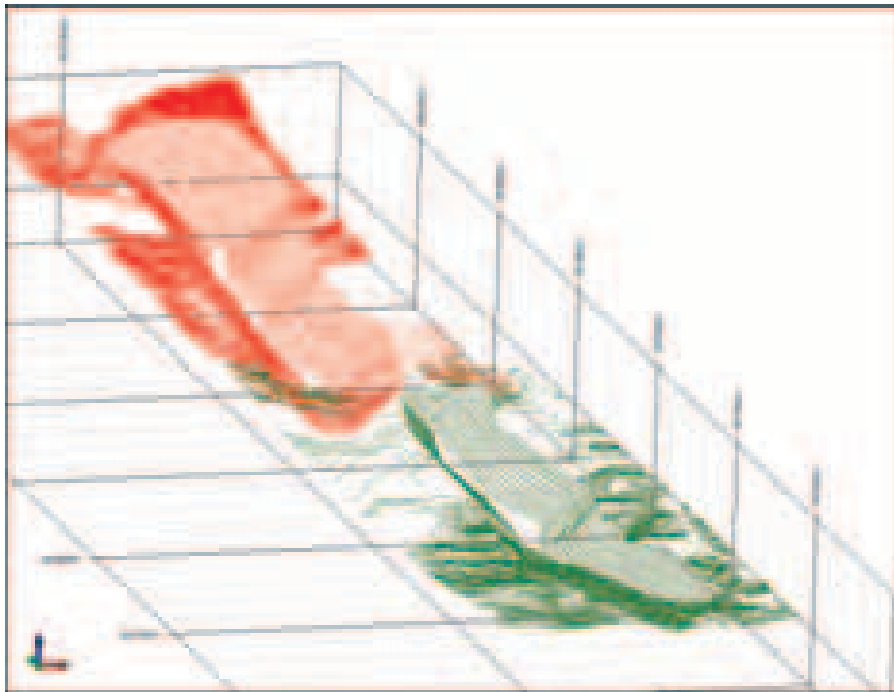


Figure 16-1: Oblique view of final pit design

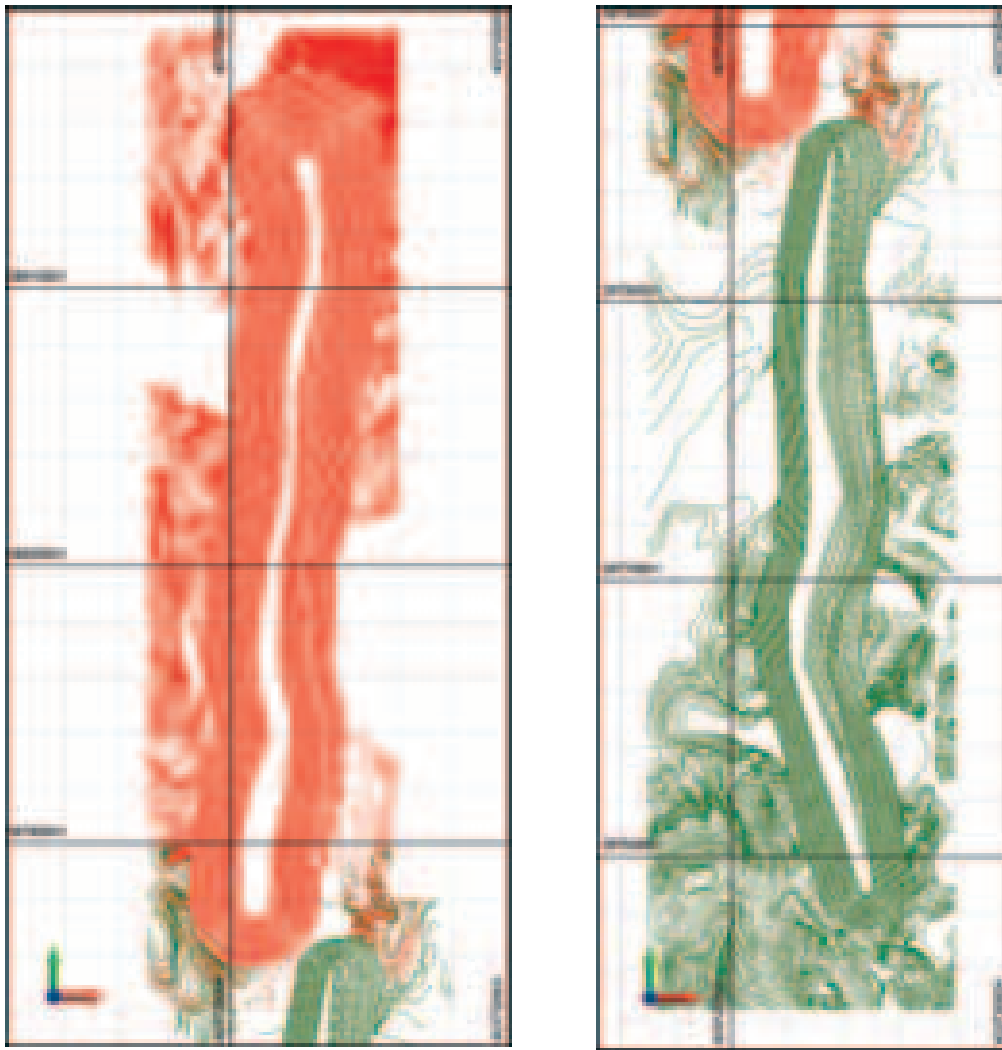


Figure 16-2: Plan views of pit design for north pit (left) and south pit (right)

**APPENDIX IV-B REPORT OF THE INDEPENDENT TECHNICAL
ADVISER – ZHUGE SHANGYU ILMENITE MINE**

**Table 16-1: Statement of Open Pit JORC compliant reserves
for the Zhuge Shangyu deposit, November 2011**

| Orebody Name | Class | GTIS (Mt) | GRADE Ti (%) | GRADE Fe (%) | MTIS (Mt) | GRADE Ti (%) | GRADE Fe (%) | Mining Recovery (%) | Dilution (%) | Proved Reserves (Mt) | Probable Reserves (Mt) | GRADE Ti (%) | GRADE Fe (%) |
|--------------------|-----------|-----------------------|-----------------|-----------------|-----------------------|-----------------|-----------------|------------------------|-----------------|-------------------------|---------------------------|-----------------|-----------------|
| T_nth_1 | MEASURED | 278.644 | 6.30 | 13.95 | 168.751 | 6.36 | 13.94 | 87.0% | 9.0% | 160.026 | – | 5.84 | 12.79 |
| T_nth_1 | INDICATED | <u>101.840</u> | 6.40 | 14.02 | <u>24.803</u> | 6.44 | 13.89 | 87.0% | 9.0% | – | <u>23.520</u> | 5.91 | 12.74 |
| Total | | 380.485 | | | 193.553 | | | | | 160.026 | 23.520 | | |
| T_nth_1 | MEASURED | 0.000 | 0.00 | 0.00 | 0.000 | – | – | 87.0% | 9.0% | 0.000 | 0.000 | – | – |
| T_nth_1 | INDICATED | <u>0.729</u> | 4.74 | 13.55 | <u>0.661</u> | 4.74 | 13.55 | 87.0% | 9.0% | – | <u>0.627</u> | 4.35 | 12.43 |
| Total | | 0.729 | | | 0.661 | | | | | 0.000 | 0.627 | | |
| T_nth_1 | MEASURED | 80.730 | 6.04 | 13.87 | 42.240 | 5.95 | 13.92 | 87.0% | 9.0% | 40.056 | – | 5.46 | 12.77 |
| T_nth_1 | INDICATED | <u>150.213</u> | 5.95 | 13.98 | <u>69.350</u> | 5.88 | 13.93 | 87.0% | 9.0% | – | <u>65.765</u> | 5.39 | 12.78 |
| Total | | <u>230.943</u> | | | <u>111.590</u> | | | | | <u>40.056</u> | <u>65.765</u> | | |
| Grand total | | <u><u>612.156</u></u> | | | <u><u>305.805</u></u> | | | | | <u><u>200.082</u></u> | <u><u>89.913</u></u> | | |

16.3 Underground Reserves

For Zhuge Shangyu there are Measured, Indicated and Inferred resources. In the process of converting the Resources to Reserves, all the Inferred Resources have been excluded from MTIS. Table 16-3 shows the GTIS and MTIS for the underground resources.

To convert the MTIS to Reserves the layout as defined by the Vertical Crater Retreat (VCR) mining method was applied to the ore wireframes. This had the effect of “blocking out” the ore wireframe with the VCR mine design parameters. These parameters are listed in Table 16-2. Figure 16-3 and Figure 16-4 shows the blocking out of the Resource based on the parameters given in Table 16-2.

Table 16-2: Parameters for Vertical Crater Retreat mining method

| Description | Unit | Short Hole Shrinkage Mining Method Parameters |
|-------------------------|------|---|
| Length of Block | m | 60 |
| Pillar between Blocks | m | 6 |
| Distance between levels | m | 60 |

The resulting blocks then constituted the MTIS. This MTIS was then further manipulated using factors to derive the Reserve.

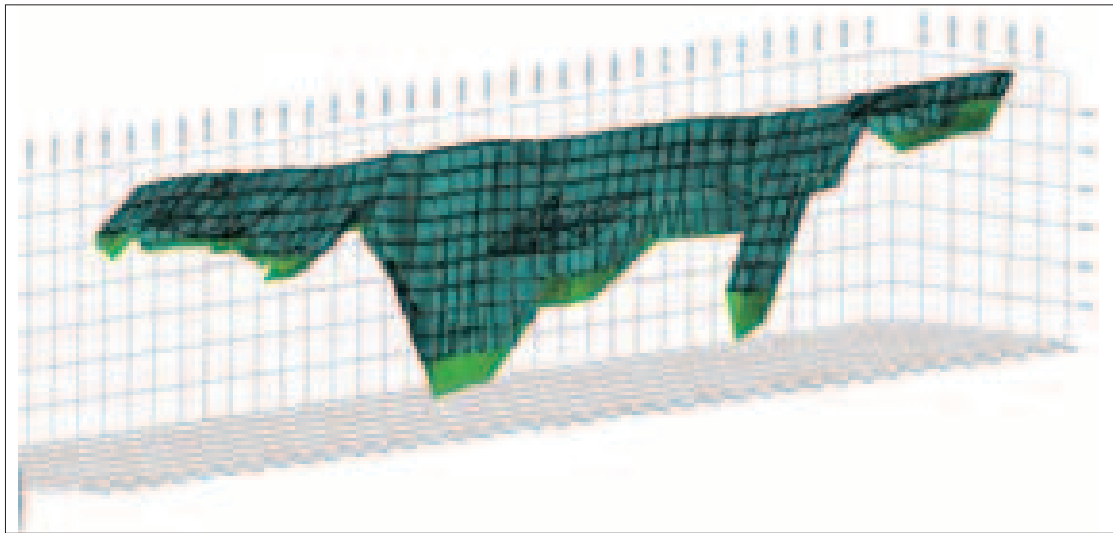


Figure 16-3: Showing the blocked out Reserves for the North Block

The factors applied to MTIS include the following.

- A loss of 10% which represents the ore left in pillars around the potential stopes.
- A modelling estimation error of 3%. This is an industry norm. For Measured Resources a factor of 3% is used and for Indicated a factor of 5% is used. In the case of Zhuge Shangyu the majority of the ore is Measured.

A schedule of tonnages was produced of the open pit and the underground levels. The schedule assumes that the production volume ramps up to 8 million tonnes per annum for the open pit and 6 million tonnes for the underground. The financial analysis was limited to 20 years. The expected project life of the open pit is 36 years and the underground mine is approximately 40 years.

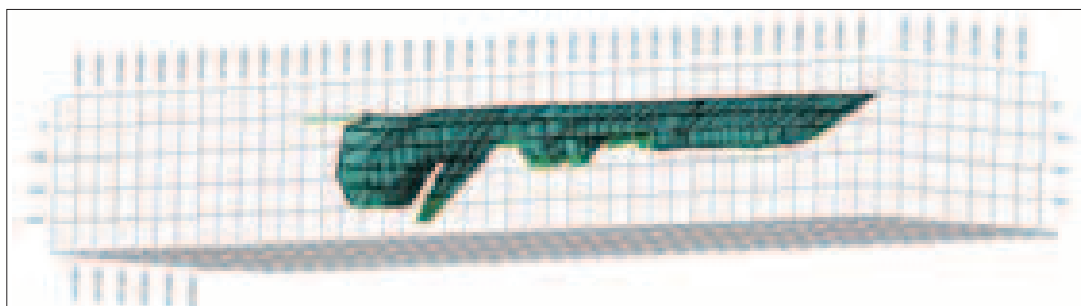


Figure 16-4: Showing the blocked out Reserves for the South Block

Table 16-3: Summary of JORC compliant underground mining reserves for the Zhuge Shangyu deposit, November 2011

| Orebody Name | Class | GTIS (Mt) | GRADE Ti% | GRADE Fe% | MTIS (Mt) | GRADE Ti% | GRADE Fe% | Mining Recovery (%) | Dilution (%) | Proved Reserves (Mt) | Probable Reserves (Mt) | GRADE Ti% | GRADE Fe% |
|--------------------|-----------|-----------------------|--------------|--------------|-----------------------|--------------|--------------|---------------------------|-----------------|----------------------------|------------------------------|--------------|--------------|
| T_nth_1 | MEASURED | 278.644 | 6.30 | 13.95 | 51.011 | 6.24 | 14.03 | 87.0% | 9.0% | | 48.374 | 5.72 | 12.87 |
| T_nth_1 | INDICATED | <u>101.840</u> | 6.40 | 14.02 | <u>113.064</u> | 6.32 | 14.01 | 87.0% | 9.0% | | <u>107.218</u> | 5.80 | 12.86 |
| Total | | 380.485 | | | 164.075 | | | | | | 155.592 | | |
| T_nth_1 | MEASURED | | | | | | | | | | | | |
| T_nth_1 | INDICATED | <u>0.729</u> | 4.74 | 13.55 | 0.000 | 0.00 | 0.00 | 87.0% | 9.0% | | | 0.00 | 0.00 |
| Total | | 0.729 | | | | | | | | | | | |
| T_nth_1 | MEASURED | 80.730 | 6.04 | 13.87 | 26.550 | 6.14 | 13.85 | 87.0% | 9.0% | | 25.177 | 5.64 | 12.71 |
| T_nth_1 | INDICATED | <u>150.213</u> | 5.95 | 13.98 | <u>79.643</u> | 6.05 | 14.02 | 87.0% | 9.0% | | <u>75.525</u> | 5.55 | 12.86 |
| Total | | <u>230.943</u> | | | <u>106.193</u> | | | | | | <u>100.703</u> | | |
| Grand total | | <u><u>612.156</u></u> | | | <u><u>270.268</u></u> | | | | | | <u><u>256.295</u></u> | | |

17 RESERVE STATEMENT

The JORC Code provides guidelines which set out minimum standards, recommendations and guidelines for the Public Reporting of exploration results, mineral resources and ore reserves. Within the code is a “Checklist of Assessment and Reporting Criteria” (Table 1 – JORC Code). This checklist is a useful method for reviewing JORC compliance. A summary of the key points are listed in Table 17-1.

Table 17-1: JORC Code Compliance Checklist for Zhuge Shangyu

| Section | Comment |
|---|--|
| 1. Is the Reserve derived from JORC compliant Resource Statement? Who are the competent persons? | This JORC Reserve is derived from JORC compliant Mineral Resources Statement signed by Mr. David Allmark of MCS. |
| 2. What is the current project status? | The mine is in development. A feasibility study has been completed and life of mine plan has been prepared. |
| 3. What cut off parameters and physical limits have been applied in estimating the Reserves? | A cut-off grade based on economic factors has been calculated and applied. Factors have been used for mining recovery and dilution based on the orebody shapes and the selected mining method. |
| 4. What mining and geotechnical assumptions have been made? | Geotechnical assumptions have been considered in the design of both the open pit mine and the underground mine. Ore quality is as per the geological model combined with recovery, dilution, and moisture adjustments. |
| 5. Is there a metallurgical process used and what is suitability to the type of operation? | The project proposal is to expand the capacity of a nearby process plant owned by the Company. Ore is crushed, milled, and separated into two concentrate streams. |
| 6. How have the project capital, operating costs and royalties been derived? | The Capital and Operating costs are based on estimates using quotes as well as costs from similar mining projects. Royalties are based on government requirements. |
| 7. What is the market demand and supply of this commodity and what are the price and volume forecasts of the Reserves based upon? | The Ore from the two mining operations is separated to produce a titanium concentrate and an iron concentrate to meet customer requirements. |

| Section | Comment |
|---|---|
| 8. Any other factors that may potentially affect the viability of the project and the status of titles and approvals required for the project? | All mining projects operate in an environment of geological uncertainty. MCS is not aware at this point in time of any other potential factors that could affect the operation viability. Approvals for the proposed mining operation and process plant expansion have been applied for. |
| 9. What is the basis for the classification of the ore reserves and proportion of ore reserves which have been derived from Measured mineral resources? | Classification of Ore Reserves has been derived by considering the Measured and Indicated Resources and the level of mine planning. Inferred resources have been excluded from the estimate. |
| 10. Results of audits or reviews of Reserves Statements | As per findings in this review, plus internal reconciliation and peer review. |
| 11. Relative accuracy and confidence of the Reserves Estimate | The Reserve estimate for the open pit is supported by greater than 50% of Measured resources. More metallurgical testing is required, however there is a fair level of confidence in the estimate. For the underground, less than 30% of the resource is Measured and the reserve classification has been assessed as Probable. |

Following on from the calculations in Table 16-1 and Table 16-1 and the checklist in Table 17-1, shows the diluted and recoverable reserves for the Zhuge Shangyu project. Only Measured Resources have been considered for conversion to Proved Reserves and only Measured and Indicated Resources have been considered for Probable Reserves.

The MCS reserve statement (**current Reserve, November 2011**) for the Zhuge Shangyu deposit is shown in Table 17-2.

**APPENDIX IV-B REPORT OF THE INDEPENDENT TECHNICAL
ADVISER – ZHUGE SHANGYU ILMENITE MINE**

Table 17-2: Reserve for the Zhuge Shangyu deposit

| Reserve Classification | Ore (Tonnes) | TiO ₂ Grade (%) | TFe Grade (%) | Contained TiO ₂ (Tonnes) | Contained TFe (Tonnes) |
|------------------------------|---------------------------|-------------------------------|------------------|---|------------------------------|
| Open Pit | | | | | |
| Proved | 200,080,000 | 5.76 | 12.78 | 11,525,000 | 25,577,000 |
| Probable | <u>89,910,000</u> | 5.52 | 12.77 | <u>4,964,000</u> | <u>11,481,000</u> |
| Total Open Pit | <u>289,990,000</u> | 5.69 | 12.78 | <u>16,489,000</u> | <u>37,058,000</u> |
| Underground | | | | | |
| Proved | – | – | – | – | – |
| Probable | <u>256,290,000</u> | 5.69 | 12.85 | <u>14,595,000</u> | <u>32,922,000</u> |
| Total Underground | <u>256,290,000</u> | 5.69 | 12.85 | <u>14,595,000</u> | <u>32,922,000</u> |
| Combined | | | | | |
| Proved | 200,080,000 | 5.76 | 12.78 | 11,525,000 | 25,577,000 |
| Probable | <u>346,210,000</u> | 5.65 | 12.83 | <u>19,559,000</u> | <u>44,402,000</u> |
| Total reserve | <u>546,290,000</u> | 5.69 | 12.81 | <u>31,084,000</u> | <u>69,979,000</u> |

Notes:

- *The ore resources are inclusive of the ore reserve.*
- *The reserve includes diluting material with an assumed diluent grade of 0%, total dilution used was 9%.*
- *The MCS reserve is stated based on titanium with an iron credit.*

18 COSTS

18.1 Open Pit Cash Operating Costs

All open pit cash operating costs have been supplied by the Client. MCS has not been able to independently verify these costs, however they appear appropriate considering the mining method used and are comparable to other mines located in China that have similar mining methods and orebody characteristics. MCS has assessed the cost estimates provided in the Preliminary Design report and made some modifications including the addition of an environmental allowance (refer Chapter 22) and a contingency of 5%. These modifications bring the estimated operating costs (excluding capital expenditure) up to RMB60.38 per tonne of ore processed.

**APPENDIX IV-B REPORT OF THE INDEPENDENT TECHNICAL
ADVISER – ZHUGE SHANGYU ILMENITE MINE**

Table 18-1 below summarises the open pit operating costs presented in the preliminary design report.

Table 18-1: Zhuge Shangyu Open Pit – Average Cash Operating Costs

| No. | Item | Unit cost (RMB/t Ore) | Annual total cost (10,000 RMB) |
|-----|------------------------------|--------------------------|---|
| | Mining Cost | | |
| I | Material | 15.89 | 12,713.92 |
| II | Fuel and power | 4.57 | 3,654.90 |
| III | Wage and welfare expense | 0.62 | 496.80 |
| | Total Mining cost | 21.08 | 16,865.62 |
| | Process Cost | | |
| I | Material | 18.64 | 14,913.58 |
| II | Fuel and power | 14.58 | 11,661.36 |
| III | Wage and welfare expense | 0.88 | 701.04 |
| | Total Processing cost | 34.10 | 13,300 |
| | Other Costs | | |
| | Overheads and Admin | 2.18 | 1,747.46 |
| | Environmental Allowance | 0.15 | 117.35 |
| | Total Other Cost | 2.33 | 1,864.81 |
| | Contingency (5%) | 2.88 | 2,300.32 |
| | Total Operating Cost | 60.38 | 48,306.73 |

Source: Shandong Lianchuang Architectural Design Co. Ltd (2011)

18.2 Underground Cash Operating Costs

All underground cash operating estimates have been supplied by the Client. MCS has not been able to independently verify these costs, however they appear appropriate considering the mining method used and are comparable to other mines located in China that have similar mining methods and orebody characteristics. MCS has assessed the cost estimates provided in the Preliminary Design reports and made some modifications including the addition of an environmental allowance (refer Chapter 20) and a contingency of 5%. These modifications bring the estimated operating costs (excluding capital expenditure) up to RMB117.05 per tonne of ore processed.

**APPENDIX IV-B REPORT OF THE INDEPENDENT TECHNICAL
ADVISER – ZHUGE SHANGYU ILMENITE MINE**

Table 18-2 below summarises the underground operating costs presented in the preliminary design report.

Table 18-2: Zhuge Shangyu Underground – Average Cash Operating Costs

| No. | Item | Unit cost <i>(RMB/t Ore)</i> | Annual total cost <i>(10,000 RMB)</i> |
|-----|------------------------------|---------------------------------|---|
| | Mining Cost | | |
| I | Material | 20.37 | 16,216 |
| II | Fuel and power | 13.86 | 11,088 |
| III | Wage and welfare expense | 9.45 | 7,560 |
| IV | Maintenance and Repair | 31.47 | 25,176 |
| | Total Mining cost | 75.05 | 60,040 |
| | Process Cost | | |
| I | Material | 18.64 | 14,913.58 |
| II | Fuel and power | 14.58 | 11,661.36 |
| III | Wage and welfare expense | 0.88 | 701.04 |
| | Total Processing cost | 34.10 | 13,300 |
| | Other Costs | | |
| | Overheads and Admin | 2.18 | 1,747.46 |
| | Environmental Allowance | 0.15 | 117.35 |
| | Total Other Cost | 2.33 | 1,864.81 |
| | Contingency (5%) | 5.57 | 4,459.20 |
| | Total Operating Cost | 117.05 | 93,643.2 |

Source: Shandong Lianchuang Architectural Design Co. Ltd (2011)

18.3 Capital Costs

The Zhuge Shangyu project will be developed in two Phases:

1. Phase 1: 8 Mtpa Process Facility with Open Pit Mine
2. Phase 2: Underground Mine when Open Pit Reserves are exhausted

18.3.1 Phase 1

The total estimated capital expenditure for Phase 1 is 999 Million RMB which will be spent in three stages. A brief summary of the estimate is provided in Table 18-3 and a summary of the stages with proposed timings is shown in Table 18-4 below.

Table 18-3: Zhuge Shangyu Project Capital Phase 1

| SN. | Items | Construction | | | | Total (10,000 RMB) |
|-----|------------------------------|------------------------------|------------------------------|---------------------------------|---------------------------|--------------------------|
| | | Buildings (10,000 RMB) | Equipment (10,000 RMB) | Installation (10,000 RMB) | Others (10,000 RMB) | |
| 1 | Construction | 28,293.05 | 25,377.23 | 7,843.48 | 0 | 61,513.76 |
| 2 | Others | 0 | 0 | 0 | 16,321.28 | 16,321.28 |
| 2.1 | Other | 0 | 0 | 0 | 9,911.28 | 9,911.28 |
| 2.2 | Relocate | 0 | 0 | 0 | 6,410.00 | 6,410.00 |
| 3 | Contingencies | 0 | 0 | 0 | 7,783.50 | 7,783.50 |
| 4 | Total Construction | 28,293.05 | 25,377.23 | 7,843.48 | 24,104.78 | 85,618.54 |
| | Interest During Construction | | | | | |
| 5 | Period | 0 | 0 | 0 | 4,239.11 | 4,239.11 |
| 6 | Working Capital | 0 | 0 | 0 | 6,572.02 | 6,572.02 |
| 7 | Total Capital | <u>28,293.05</u> | <u>25,377.23</u> | <u>7,843.48</u> | <u>34,915.91</u> | <u>96,429.67</u> |

Source Data: Shandong Lianchuang Architectural Design Co. Ltd (2010 and 2011)

Table 18-4: Zhuge Shangyu Project Capital Stages for Phase 1

| Stages | Date | Construction Items | Construction Capital <i>Million RMB</i> |
|--------|--------------------------------|---|---|
| 1st | June 2012- December 2013 | Finish off the basic engineering design, Safety chapter and approvals, equipment purchase tendering and construction design, land acquisition, road facilities area earth work, connect water and power etc. Complete the construction work and equipment installations, as well as commissioning. Then production achieves 2 million tonnes per annum. | 228.2287 |
| 2nd | January 2014- December 2014 | Achieve 4 million tonnes per annum production capacity. | 239.5 |
| 3rd | January 2015- June 2016 | Achieve 8 million tonnes per annum production capacity. | 496.5652 |

Source Data: Shandong Lianchuang Architectural Design Co. Ltd (2010 and 2011)

18.3.2 Phase 2

The proposed capital expenditure to develop the underground mine when the open pit reserve has been depleted has been estimated to be 709 million RMB. Based on the current reserve and proposed mining rates, this expenditure will not be incurred before 2040.

19 PRICE ESTIMATION AND FORECAST

19.1 Titanium Concentrate Prices

The following information on Titanium concentrate price forecasts was sourced directly from the Feasibility Study report prepared by Shandong Lianchuang Architectural Design Co. Ltd (2011).

“Although titanium products are widely applied in cutting-edge industries, titanium concentrate, which is the main product of titanium (occupying 90% of TiO₂ output), is also used in general industrial fields like coating factory. Usually, the price of titanium changes with economic situation and fluctuate periodically. In 2006, the average price of domestic titanium concentrate (TiO₂>45%) was RMB664 Yuan/ton. The price rose to RMB1,100 Yuan/ton during the upsurge period of economic development at home and

abroad in 2007. However, it dropped to RMB900 Yuan/ton affected by international financial crisis in 2008 and dropped to RMB705 Yuan/ton in 2009. With the remission of international financial crisis in 2010, the price of titanium concentrate presented the status of slow growth. The quotation of titanium concentrate ($TiO_2 > 45\%$) reached RMB780~800 Yuan/ton at the end of June, 2010, while the port price of titanium concentrate ($TiO_2 > 50\%$) imported from abroad is between RMB920~1,100 Yuan/ton. The price of titanium concentrate of 43%-45% arrived RMB2,050/t in 3rd Quarter of 2011. It is predicted that the titanium concentrate price of 43%-45% will be between RMB1,500 and 2,300 in coming years and medium and long term pricing will be between RMB1,800 and 2,500”.

A marketing study was not part of the scope of this report, however MCS is aware that prices for titanium concentrate in China increased markedly this year due to a ban on exports of titanium concentrates by Vietnam. There is a risk of this ban being lifted hence the market price could return to pre-ban prices. Assuming this does not happen, MCS still considers that the price analysis provided by the client seems optimistic when compared to historical prices and other forecasts used by companies within China.

The titanium product from the Zhuge Shangyu project is expected to have an average grade of 44% titanium. Whilst MCS is in agreement with the analysis that future demand for titanium in China will remain strong assuming the Vietnam export ban remains in place, for the purposes of this report, MCS has elected use a more conservative price of RMB1,650/tonne for the 44% titanium product from Zhuge Shangyu.

19.2 Iron Concentrate Prices

The following information on iron concentrate price forecasts was sourced directly from the Feasibility Study report prepared by Shandong Lianchuang Architectural Design Co. Ltd (2011).

“In 2010, the price of iron concentrate powders (58% grade) in domestic was between RMB1,400 to RMB1,500/tonne, and the average price in December was RMB1,380/tonne.

Analysing the fluctuation of iron ores prices and market factors at home and abroad, forecast the selling prices of iron concentrate (58% grade) will remain approximately at RMB1,480/tonne. The four trillion investment item and the top ten industry plan are under execution at present. The demand for steel and iron will increase continuously and stably for a long time. The iron ore price will remain synchronous and stable growth.”

A marketing study was not part of the scope of this report, however MCS considers that the financial analysis provided by the client seems slightly optimistic when compared to forecasts used by companies outside of China.

The product from the Zhuge Shangyu project is expected to be 61% Fe iron concentrate which would ordinarily attract a small premium to the price quoted for 58% Fe concentrate. Whilst MCS tends to agree with the analysis that future demand for iron ore in China will remain strong, given that recent prices have been in the range of RMB1,200/tonne to RMB1,300/tonne for 58% Fe concentrate, MCS has elected to use the price of RMB1,390/tonne for the 61% Fe product from Zhuge Shangyu.

20 ENVIRONMENTAL PROTECTION

20.1 Design Standards and Environmental Regulations

The Company has undertaken to conform to the following design standards and regulations:

- (1) *Regulations on the Administration of Construction Project Environmental Protection* Promulgated by Decree No. 253 of the State Council;
- (2) GuoHuan Zi (87) No. 002 Document *Design Regulations of Construction Project Environmental Protection*;
- (3) *Design Regulations of Environmental Protection for Metallurgical Industry* YB9066-95;
- (4) *Regulations on Environmental Protection Facilities Division Scope for Metallurgical Industry* YB9067-95;
- (5) *Integrated Emission Standard of Air Pollutants* GB16297-1996;
- (6) *Emission Standard of Air Pollutants for Coal-burning Oil-burning Gas-fired Boiler* GB13271-2001;
- (7) *Integrated Wastewater Discharge Standard* GB8978-1996;
- (8) *Standard of Noise at Boundary of Industrial Enterprises* GB12348-90.

20.2 Major Pollutants and the Control Measures

20.2.1 Mining operations

Mining operations such as drilling, blasting, and ore movement produce dust and noise, as well as noise produced by motors and compressors etc. Preventive measures are designed to reduce or prevent pollution to the ambient environment.

(1) Dust suppression during drilling

Dust suppression measures shall be taken into consideration when selecting the drilling equipment. The KQG-150 drill rig is equipped with a dry dust remover, with dust collection efficiency greater than 95%. Specifications given for the FC-20 dry type dust remover at various distances are shown in Table 20-1.

Table 20-1: Table of dust concentrations

| Measurement location | Dust concentration <i>mg/m³</i> | Distance from the dust emission point <i>(m)</i> | Air temperature <i>(°C)</i> |
|-----------------------------|--|--|---|
| Drill hole | 19 | 0.5 | 22 |
| Adjacent Drill hole | 5 | 5 | 22 |
| Return air exit | 53 | 0.2 | 22 |
| Operator position | 7 | 0.5 | 22 |

The dust concentration of the discharged air after treatment by the dust remover is 53 mg/m³, which is lower than the permissible limit of 150 mg/m³ specified by the national concentration emission standard.

(2) Dust suppression on haul roads

Heavy traffic on haul roads will produce dust, especially during dry seasons. A water sprinkler system will be used in order to keep dust concentrations below the 10 mg/m³ level specified by the national standard. Saline water will be used on the roads during winter to prevent the water freezing. Trees will be planted beside the mining roads for dust retention and noise abatement.

(3) Dust suppression in mining and loading

Dust control measures during mining and loading mainly involve minimising the dumping height to reduce the amount of dust generated during dumping and transferring loads. Dust can be suppressed further by spraying water.

(4) *Dust generated by blasting*

Dust concentrations in the mine immediately after a blast can exceed 100 mg/m³. This dust will naturally dissipate and settle, and its impact is largely confined to the mine environment, so will cause minimal environmental pollution outside the mining area.

(5) *Noise suppression*

Mining operations have a large footprint and make extensive use of motorised and electromechanical equipment which can generate considerable noise (Table 20-2). Noise from blasting and movement of rock also contribute significantly to ambient noise levels.

Table 20-2: Sound levels produced by operating mining equipment

| Name of equipment | Sound level (decibels) | Spectral characteristic | Remarks |
|------------------------|---------------------------|------------------------------------|---------------------|
| Drill rig | 107 | High frequency | Working environment |
| Excavator | 88-98 | | |
| Movable air compressor | 85 | Ingersoll Rand VHP-750E Type | |
| 50 t Haul truck | 75-95 | | |

Noise control measures:

- (a) Control noise source by selecting equipment fitted with noise suppression devices. Equipment to be regularly inspected to ensure normal and safe operation of noise suppression devices. The selected air compressor is of low noise design (85dB), which is lower than the 90dB limit specified by national standards.
- (b) Ensure earplugs or earmuffs are worn at all times by mine personnel.
- (c) Blasting to take place infrequently and only during daytime to reduce impact on the environment and people.

The above measures are expected to be sufficient to minimise the impact on workers and operators. Additionally, there are no accommodation within 400 meters of the mine so as to reduce the impact of noise pollution outside of the mine environment.

(6) *Greening*

The greening works comprise a combination of strategic planting and general greening. Trees and plants will be established in administrative and living areas to improve the living environment, provide shade and block noise and dust. Barriers of vegetation around the mining & dressing yard, will similarly reduce the spread of noise and dust. Waste dumps and tailing ponds will be replanted and rehabilitated after completion of operations.

Plans allow for greening at the road sides and building surrounds to an area of 3.3ha, or a greening rate of 15%.

20.2.2 Beneficiation operations

(1) *Dust*

Dust will be produced during the crushing and screening process, and in fine ore bins. Wet scrubbers of type CJ1226 and CJ1223 are designed to be equipped to the intermediate and fine crushing plants respectively, with designed air capacities of 42,000 m³/h and 36,000 m³/h respectively. Four sets of CJ1220 type wet scrubbers and one set CJ1200 type wet scrubber is designed to be equipped to the screening plant, with air flow capacity of 25,000 m³/h. One set CJ1213 type wet scrubber will be fitted to the fine ore bin, with designed air flow capacity of 12,000 m³/h. Scrubbers are expected to perform with a collection efficiency is 99% and a tolerable dust discharge concentration not larger than 80 mg/m³.

(2) *Waste water*

Waste water from the beneficiation plant will be discharged into the tailing pond and reused for ore processing after sediments have settled out.

Total water consumption of the project is 47,240 m³/d (including 1,700 m³/d contingency). Recycled water comprises 27,460 m³/d; the ratio of water reuse is 64%. Drainage requirements for the mine are anticipated to be up to 920 m³/d (includes 850 m³/d excess capacity). Domestic sewage amount is 60 m³/d, which could be used for greening and agricultural irrigation after treatment by septic tank.

(3) *Equipment noise*

The design includes an anti-vibration pad and building insulation to reduce noise intensity, such that the noise beyond the boundary of the plant site will meet the requirements of the *Standard of Noise at Boundary of Industrial Enterprises GB12348-90*.

20.2.3 Auxiliary production facilities and living quarters

- (1) Boiler Flue Gas; The design incorporates two sets of 4.2 MW hot-water boilers for shower and heating purposes, with both run during the winter period and one run intermittently during other seasons for shower heating.
- (2) An industrial boiler will consume 5,000 tonnes per annum of bituminous coal. A multicyclone will be fitted to remove dust from boiler flue gas, with a collection efficiency of 92%~95%. Smoke and dust emission from boiler flues will be less than 144 mg/m³ with SO₂ emission concentrations around 505 mg/m³. The boiler flue gas smokestack will be 40 m high to minimise the impact at ground level.
- (3) Domestic sewage of 60 m³/d could be used for greening and agricultural irrigation after be treated by septic tank.
- (4) Boiler ash of 1,250 t/a can be used in various applications.
- (5) Air blower noise; The boiler air blower is positioned in the ventilator room, which will be insulated to reduce noise propagation.

20.3 Environmental Impact Analysis of Mine Construction to the Surrounding Region

The ground water near the mining area and in local villages is of average quality and generally free from pollution. No significant geothermal anomaly or harmful gases have been found within the mine rocks. The chemical composition of the ore is stable and considered unlikely to cause harmful pollution of groundwater. The area is hilly but is considered to have a low risk of geological hazards such as mass slumping, landslides and debris flows. No radioactive elements are found in the ore and surrounding rocks.

Dust suppression will be carried out by spraying dust generating areas with water and using wet scrubbers with 99% collection efficiency fitted to coarse crushing plant, intermediate and fine crushing plants, screening plant and ore bins. Discharged waste gases will have a low concentration of dust, CO and NOX. The discharged waste gas should have an insignificant impact on atmospheric air quality after dilution and diffusion by the air.

Waste water from processing, beneficiation and mine dewatering will be allowed to settle and precipitate suspended solids before recycling or discharge. The majority can be reused without any discharging, so will have no impact on the surrounding environment or water quality.

The amount of domestic sewage production is small, and can be used for greening and agricultural irrigation after be treatment, which should have minimal adverse impact on environmental water quality.

The ratio of water reuse for the project is 64%, which is lower than the lowest permissible ratio of water reuse for non-ferrous metal system of 75% specified by the *Integrated Wastewater Discharge Standard* GB8978-1996. The reason is that the partial wastewater from the beneficiation process will be used to cover tailings surface and for dust suppression. Other treated tailings water can be fully recycled after treatment without discharging into the environment, but water used in drilling and dust suppression is less than is available from recycling.

Barren rocks and tailings in mining are all solid wastes. During later stage underground mining, the majority of barren rocks and tailings can be used for backfilling of underground stopes, and will reduce the size of waste dumps and environmental impact. Tailings will be accumulated in the tailing pond if not used for backfilling operations.

Boiler ashes are mostly inert solid wastes which can be completely consumed in road works and coal ash brick making, with minimal adverse impact on the environment.

The mine site will be sufficiently distant from surrounding accommodation and villages, and the noise from equipment and the boiler air blower can be reduced by vibration reduction and building insulation, such that there will be limited impact on the surrounding sound environmental quality.

The use of a multicyclone will remove dust from the boiler flue gas with an efficiency of 92%~95%. Smoke and dust emission from boilers of 144 mg/m³ and SO₂ emission concentrations of 505 mg/m³ meet the permissible concentrations (200 mg/m³) for Class II area II time interval smoke and dust of coal-fired boiler, and the maximum permissible SO₂ emission concentration 900 mg/m³ specified in *Emission Standard of Air Pollutants for Coal-burning Oil-burning Gas-fired Boiler* GB13271-2001.

The environmental impact of the Shangyu ilmenite mine meets the applicable standards, so the construction is feasible.

20.4 Environmental Management and Monitoring

20.4.1 Environmental management organization

Environmental protection and labour safety & health management of the Shangyu Project apply at the institutional and management levels. A department of Security and Environmental Protection will be established to implement and manage the environmental protection and monitoring processes. Part-time environmental protection and labour safety & health personnel will be appointed in the mine, processing plant and each working department to assist the Security and Environmental Protection management team, by monitoring emission levels and ensuring the safety and health of the labourers.

The main responsibilities of the Security and Environmental Protection Department are:

- (1) Implement codes and standards of environmental protection across the scope of operations, establish an environmental protection work plan for the mine;
- (2) Monitor operating conditions and environmental protection facilities to ensure normal and effective control of pollution;
- (3) Conduct investigations and tests, and report on any environmental incidents;
- (4) Comply with statutory environmental reporting requirements in accordance with regulations of the environmental protection authorities at the provincial, municipal and county levels;
- (5) Coordinate with the environmental protection administrative departments to administrate and monitor the environment of the enterprise.

20.4.2 Environmental monitoring

The Yishui County or Linyi City Environmental Monitor Station is authorised to conduct regular environmental monitoring to check whether the pollutant emission levels of the mine meet the standards and requirements, and to understand the environmental quality and its impact in and around the mining area.

Tailings and water discharges from the mine will be monitored for pH, SS etc.

20.5 Environmental Protection Investment

Projected expenditure for environmental protection totals RMB42.54 million, which constitutes approximately 4.79% of the total project investment.

20.6 Water & Soil Conservation and Reclamation

The water and soil conservation program aims to control water loss and soil erosion around the mining area, processing plant, roads, excavated slopes and waste dumps etc. during the construction period and to minimise the environmental impact from mining operations.

Most of the preventive measures will be implemented in the construction phase of the project. Additional controls will be implemented according to requirements at various stages though the life of mining operations.

Reclamation works involve stabilising slopes by injecting cement or by covering with soil and vegetation. Rehabilitation of waste dumps and tailing ponds will be conducted at the end of their service life by replacing topsoil and planting grasses and trees.

21 HEALTH, SAFETY AND FIRE FIGHTING

21.1 Labour Safety & Health

21.1.1 Design Standards and Principles

- (1) *Production Safety Law* of the People's Republic of China;
- (2) *Law of the People's Republic of China on Safety in Mines*, No. 65 Decree of the President of the People's Republic of China, 1992;
- (3) *Regulations for the Implementation of the Law of the People's Republic of China on Safety in Mines*, 1996.10.30;
- (4) *No. 3 Decree of the Ministry of Labor, Supervisory Provisions of Labor Safety and Health in Construction Project* (Engineering);
- (5) *Safety Regulation of Metal and Non-metal Mine* GB16424-1996;
- (6) *Safety regulations for Blasting* GB6722-2003;
- (7) *Mine Safety Signs* GB14161;
- (8) *Hygienic Standards for the Design of Industrial Enterprises* GBZ1-2002;
- (9) *Standard for the Design of Noise Control System in Industrial Enterprises* GBJ87-85;
- (10) *Sanitary Standard for Drinking Water* GB5749-85.

21.1.2 Environmental and other Hazards

- (1) Thunder and lightning.
- (2) Earthquakes-earthquake intensity in this area is 7-magnitude.
- (3) Landslides-localised landslides are likely around excavations.
- (4) Mine flooding.

- (5) Mining and earthmoving equipment hazards.
- (6) Blasting hazards (explosives).
- (7) Explosive material management.
- (8) Pollution hazards; Smoke, dust and noise produced by rock drilling and blasting, as well as the dust emission and gases produced by mining equipment and other vehicles.
- (9) Processing plant hazards; Personal injury may be caused by equipment failure, improper use, mechanical damage of moving parts, as well as dust and noise.

21.1.3 Hazard control measures

21.1.3.1 Stability and hazard control of slopes

The open cut mine has been designed to take into account the rock properties and fracture characteristics to reduce the likelihood of dangerous slope failure. The final slope angle is designed to be between 33°~49°, with permanent bench slope angles of 50~60° and bench height of 12 m. The minimum bench width is 3 m with minimum operating platform width of 6 m.

Slope stability management measures aim to reduce the hazards to people and minimise environmental impacts:

- (1) Control of mine design parameters

Mine design parameters are the primary method of preventing rock falls and landslides in the mine environment. Parameters include mining (bench) height, mining sequence and stripping. Slope angles will be less than 70° at working faces and less than 60° for other slopes.

- (2) Control of blasting parameters

The use of reliable and predictable blasting technology will reduce the impact of blasting on slope degradation as far as possible.

21.1.3.2 Control of falling hazards

- (1) Loose rocks and rubble will be removed from slopes and roads to reduce the likelihood of falling debris.
- (2) Safety harnesses will be used when working at heights above 2 m or on slopes where the angle exceeds 30°. The safety harness shall be fastened by rope to a secure fastening point, and only one harness per rope is permitted.

- (3) The operators shall not work on collapsed rock and rubble or ride on equipment. Upper and lower benches of the mine will not be worked on simultaneously.

21.1.3.3 Flood control and drainage

Flood retention ditches will be dug around the pit to avoid surface rainwater runoff from draining into the mine. Pumps will be used to drain out normal daily water inflows and maximum daily water inflows within 20 hours.

21.1.3.4 Hazards during mining and loading

- (1) According to requirements of Safety Regulation of Metal and Non-metal Mine, the step height and slope angle of mining shall not be larger than the design values;
- (2) Safety and hazard identification training will be mandatory for operators, who will work to safe operating procedures;
- (3) The safety rope shall be firmly fastened when takes rock drilling on steep slopes;
- (4) When overhanging rocks are present at the mining and working face, the operation of excavators is not allowed;
- (5) Excavators are to be operated by trained personnel in accordance with operating instructions and safe work practices;
- (6) Persons are not allowed below the scraper bucket or near working face when the excavator is in operation;
- (7) Work must stop if there are dangerous suspended rocks, collapses, or in the event of a misfire;
- (8) Horns and warning alarms shall be fitted to excavators, and warning signals shall be used in accordance with safe working practices during operation;
- (9) Dust suppression measures are to be taken at the working face, to protect operators' health and minimise environmental pollution.

21.1.3.5 Safety operation of vehicles in the mine

- (1) Vehicles will be maintained to ensure safe operation at all times.
- (2) Operating areas must be adequately lit for night work.

- (3) Road maintenance personnel shall be assigned in the mine to conduct daily road maintenance work. The maintenance personnel shall check the roads regularly, clear road shoulders and side ditches, and repair uneven road surfaces. Speed limits will be imposed on mining roads, with reduced speeds at corners and on slopes or other hazardous locations. Speed limits will be reduced in areas where people are working or in hazardous or wet conditions.
- (4) Personnel are not to approach dump trucks when tipping or when the bucket is rising and falling. The tipping bucket shall be operated only by the vehicle operator. Inflammables and explosives are not allowed to be carried by dump truck. Personnel will not be transported on dump trucks or on any other vehicles not designed for the transport of people. The tipping bucket shall not be raised while the vehicle is moving.
- (5) All vehicle operators must have the correct licenses, and must not operate vehicles overweight or overloaded. Drunk driving is strictly prohibited and should be enforced through mandatory testing of operators prior to commencement of shift.
- (6) Continuous improvement of safety will be implemented through education, training, and the implementation of rules and procedures to minimise hazards and encourage safe work practices.

21.1.3.6 Blasting safety

- (1) Safety regulations for blasting will be strictly followed. Blast design will be carried out in accordance with safe blasting practices and adjusted according to rock properties;
- (2) All full-time and part-time blasting personnel shall be certified according to local regulations and must receive training in safe blast practices;
- (3) Alerts and warnings will be sounded prior to blasting, and checks must be performed to ensure nobody is within the alert zone before blasting. Personnel will not be permitted into the blast area until the all-clear is given;
- (4) Non-blasting personnel shall be outside the security cordon during blasting operation. Blasting personnel shall enter a blast-proof room during blasting;
- (5) The direction and size of blast shall be designed to minimise the amount of explosive required, so as to reduce the amount and distance of fly-rock;

- (6) The mine shall provide steel blast-proof room for blasting personnel, the room shall be welded with steel plates, and located more than 75 m from the blasting point.

21.1.3.7 Safety measures for blasting materials management

An appropriate blasting system will be adopted for the mine design, and blasting for mining will be conducted once a week. The specific consumption of explosive should not exceed 0.22 kg/t. Blasting (ore) volume for each blast is 38,190 t and the maximum explosive load is 8.56 t.

Blasting will be conducted only by certified companies to ensure safe blasting. Blast parameters shall be designed and adjusted by the blasting company according to the specific onsite conditions. The processing, transport and storage of explosives shall be done only by qualified and certified persons.

Blasting materials must be of approved type and design and shall be stored and transported securely. The working face and areas where explosives are stored shall be protected against fire, water and explosion. Blast signs will be prominently displayed to indicate the presence of explosive hazards (red flag at daytime and red light at night-time). Explosive and blasting caps shall not be blended.

21.1.3.8 Protection of Electrical Equipment

Electrical equipment should be isolated and protected with appropriate devices to prevent electrical shock.

- (1) Mine electrical installations should comply with GBJ70 and related specifications and procedures.
- (2) Regular checks and maintenance of electrical equipment shall be performed to prevent hazards developing due to wear and tear.
- (3) Power transmission systems and maintenance of power supply equipment shall be carried out in strict accordance with the regulations and design principles.
- (4) Lock-out systems will be implemented during maintenance or when working on electrical systems to prevent them being turned on.
- (5) Overriding of safety trip-outs on power transmission lines is not allowed. Causes of any faults or leakage shall be immediately identified and power transmission is not allowed until faults have been rectified.

21.1.3.9 Measures against Lightning

- (1) Mine buildings require third class lightning protection. Appropriate measures should be taken for protecting facilities against lightning based on the lightning activity, topography and surface features of the mine.
- (2) Pipelines and transmission lines will be protected from lightning strike using appropriate lightning strike protection measures.
- (3) Electrical equipment should be in suitably locked and earthed enclosures. The grounding resistance should not exceed 4 ohms.
- (4) Grounding wires should be installed in parallel. It is prohibited to ground the earth wires of electrical equipment in series.
- (5) Grounding resistance shall be measured once a year and the measurement work shall be done in the driest season when the groundwater level in the region is the minimum.
- (6) Lightning protection measures should be prepared in the open-pit mine. The weather forecast should be closely monitored and mining is to cease and personnel are to be evacuated during thunderstorms.

21.1.3.10 Protective Measures for Severe Weather

In the summer (winter) season, open-air operations and equipment operators may be at risk of heatstroke (frostbite) due to the high (low) temperature; the impact of thunder, rain and snow weather on mine production may be significant, and preventive measures must be taken.

- (1) Schedule work appropriately to the seasonal conditions.
- (2) Establish shade/cooling for summer and heating equipment for winter in rest and accommodation areas.
- (3) In summer, set up fans or air conditioners in cabs of excavators and motor vehicles. Provide protective clothing, cold drinks and electrolytes for preventing heatstroke and sunburn.
- (4) Provide heating equipment and appropriate warm clothing for winter.
- (5) Provide washing and shower facilities in the accommodation area.

- (6) In storms and rainy season, when roads are slippery, anti-slip measures are required and the speed on roads shall be lowered. Distances from the car in front shall be not less than 40 m. Hard braking, overtaking or towing other vehicles is not allowed; if it is necessary to pull other vehicles, then effective security measures should be taken, and should be conducted by trained personnel. Roads are to be kept free of snow. Transport vehicles should be equipped with tire chains in icy conditions.

21.1.4 Occupational Health Design

21.1.4.1 Dust Control

In the production process of open-pit mine, rock drilling, blasting, ore loading, ore transportation, ore unloading (waste rock) and other production processes will produce large amounts of dust. It is directly affected by the surface wind sources and other weather conditions. If effective dust control measures are not taken, dust can seriously affect the health of workers.

Dust and noise control measures also applicable to occupational health and safety are detailed in Section 20.2 (Major Pollutants and the Control Measures).

21.1.4.2 Water Supply Hygiene

Domestic water is taken from the Bashan Reservoir. After clarification and disinfection, the water quality shall meet the Sanitary Standard for Drinking Water GB5749-85.

21.1.5 Occupational Safety and Health Management

Mine Department has a safety and environmental protection agency with 6 members, the details of which are contained in Section 20.4 Environmental Management and Monitoring.

21.2 Fire Water Supply

21.2.1 Fire Water Standards and Water Consumption

Fire suppression systems must meet or exceed the following designed capabilities:

Outdoor fire water supply 20L/s

Indoor fire water supply 10L/s

The number of fire at the same time is one.

Continuous supply for up to 2h

Water consumption of up to 216 m³ for each fire.

21.2.2 Fire Water Supply System

Water for fire fighting is supplied using the mine and production water supply piping system. The supply network is ring-shaped, with dual-port underground fire hydrants. Fire water is stored in a 3,000 m³ water tank. In the event of fire, water will be pressurised with a fire pump. Two XBD6.8-30 fire pumps are to be installed in the pressure pump room of the fire station, one for use and one as backup. In order to ensure safe water supply, water pumps are to be equipped with a redundant power supply.

21.2.3 Personnel Quota

When full production of 8,000,000 t/a is reached, the total workforce of the project is 974 people, including 669 in the mining plant and 208 for the beneficiation plant. See Table 21-1 below for details. Personnel quota were determined on the basis of the planned equipment and processing facilities with reference to similar mines.

Table 21-1: Project Personnel Quota Estimation

| No. | Department | Number of people in the register | Production workers | Management and service personnel | Maximum group size |
|-----|----------------------------|----------------------------------|--------------------|----------------------------------|--------------------|
| 1 | Mining workshop | 669 | 639 | 30 | 223 |
| 2 | Ore beneficiation workshop | 208 | 198 | 10 | 69 |
| 3 | Flexible workshop | 34 | 27 | 7 | 12 |
| 4 | Ore Department | 63 | – | 63 | 21 |
| | Total | <u>974</u> | <u>864</u> | <u>110</u> | <u>325</u> |

22 RISK ASSESSMENT

The Mining Industry and the projects within it, are relatively high risk when compared to projects in industrial and commercial spheres. Each project is based on an estimate of the mineral deposit and each deposit has unique quality characteristics and response to mining and processing operations which, despite many advances in technology can still not be wholly predicted.

A risk analysis has been undertaken of the financial implications of using AS 4360 as the basis, in line with the requirements of the Valmin Code (2005).

The MCS risk analysis (Table 22-1 and Table 22-2) of the Zhuge Shangyu project has not indicated that there are any risks with catastrophic consequences in the data presented for review. It is MCS view that the Zhuge Shangyu project has a project risk profile that is typical of mining projects at similar levels of resource estimation, mine planning and project development. Information from the risk assessment was used for the resource and reserve categorisation.

MCS notes that in most instances the risk identified in Table 22-2 could be mitigated by undertaking more detailed technical studies and providing additional information.

Table 22-1: Risk Assessment Matrix

| | | Consequence | | | | |
|----------------|------------------|---------------------|-----------------------|-----------------------|------------------------|-----------------|
| | | 1% of Project Value | 2.5% of Project Value | > 5% of Project Value | > 15% of Project Value | Project Failure |
| Likelihood ↑ | Numerical: | | | | | |
| | Historical: | | | | | |
| | >1 in 10 | | | | | |
| | 1 in 10 - 100 | | | | | |
| | 1 in 100 – 1,000 | | | | | |
| | | Insignificant | Minor | Moderate | Major | Catastrophic |
| | | 1 | 2 | 3 | 4 | 5 |
| Almost Certain | 5 | 6 | 7 | 8 | 9 | 10 |
| Likely | 4 | 5 | 6 | 7 | 8 | 9 |
| Possible | 3 | 4 | 5 | 6 | 7 | 8 |
| Unlikely | 2 | 3 | 4 | 5 | 6 | 7 |
| Rare | 1 | 2 | 3 | 4 | 5 | 6 |

Table 22-2: Project Risk Summary

| Items | Discussion | Risk |
|--|---|------|
| Geological/Resource Risk | | |
| Drilling Techniques | Standard industry methods of diamond drilling were used, with regular downhole surveys taken. | 4 |
| Drill Sample Recovery | Mean weighted core recovery 96%. | 2 |
| Sampling Techniques and Sample Preparation | Core was split and samples prepared using industry standard methods. Documented sample handling procedures appear appropriate. | 3 |
| Quality of Assay Data | Assay precision 412 samples (7.7% all assays) 3.10% TFe, 5.29% TiO ₂ . Assay bias of 206 samples (3.9% all assays) no sig bias. | 3 |
| Verification of Sampling and Assaying | A selection of diamond drill core was checked on site. All results checked were verified. | 3 |
| Location of Sampling Points | Surveying methods were adequate and but no collar locations could be identified as all under farm land. Plans and data independently verified. Downhole surveys utilised industry standard methods. | 5 |
| Data Density and Distribution | Mineralisation defined on adequate drill spacing and with trenches for the type of deposit and style of mineralisation. Sparser data at margins and deeper parts of the mineralisation reflected by lower confidence. | 4 |
| Audits and Reviews | Micromine is unaware of any external reviews. | 3 |
| Database Integrity | Verification of original drawings by MCS. | 3 |
| Geological Interpretation | The mineralisation constraints are considered appropriate for the type and grade of mineralisation. | 3 |

| Items | Discussion | Risk |
|-------------------------------------|---|------|
| Specific Gravity Determinations | SG database from drillhole samples, representative throughout deposit. | 4 |
| Estimation and Modelling Techniques | Domaining and interpolation by Ordinary Kriging with the result cross-checked by Inverse Distance Weighting. | 2 |
| Mining/Reserve Risk | | 2 |
| Mining Method | The proposed mining method is standard open pit mining using owner operated equipment. No significant problems are expected. | 3 |
| Pit Optimisation and Design | No optimisation has been carried out for the project at this stage and the final designs have been prepared manually. MCS checked the design against an optimised shell created using the parameters in this report and found the designs reasonably approximated the optimised shell. | 4 |
| Mine Scheduling | MCS developed a simple life of mine schedule based on sequential development of the proposed pit. No optimisation of the schedule and/or selection of pushbacks to improve cash flow has been carried out as yet. MCS believes there may be scope to improve the cash flow of the project by undertaking this work. | 2 |
| Reserves Estimation | The reserves have been calculated using a block model as well as, product prices, costs and assumptions that are all susceptible to change. | 7 |
| Processing | Producing Titanium and Iron concentrates from the Zhuge Shangyu ore is possible using conventional methods widely used in China. Although more testing is required, the proposed recoveries are within the ranges achieved at other mining operations in the region. Provided the ore characteristics are relatively homogeneous, the risk of failing to achieve planned recoveries is minor to moderate. | 5 |

This information was used for the resource and reserve categorisation.

23 CONCLUSIONS AND RECOMMENDATIONS

23.1 Resource Estimation

The resource statement for the Zhuge Shangyu project as estimated by MCS is shown in Table 23-1.

The resource is reported to a cut-off grade of 9.2% TiO₂ equivalent with a top cut of 15.8% applied to TFe and no top cut applied to TiO₂.

Table 23-1: Resource statement for the Zhuge Shangyu Iron and Titanium deposit

| Resource Category | Tonnes (t) | SG (t/m ³) | TiO ₂ equivalent (%) | TiO ₂ (%) | TFe (%) |
|---|---------------------------|---------------------------|---------------------------------------|-------------------------|------------|
| Measured | 372,793,000 | 3.19 | 70.30 | 5.86 | 14.00 |
| Indicated | <u>260,565,000</u> | 3.13 | 70.31 | 5.81 | 14.03 |
| Total Measured and Indicated | 633,358,000 | 3.17 | 70.31 | 5.84 | 14.01 |
| Inferred | <u>3,472,000</u> | 3.13 | 69.30 | 3.63 | 14.27 |
| Total Resources | <u><u>636,830,000</u></u> | 3.16 | 70.30 | 5.83 | 14.01 |

Note: Numbers have been rounded to reflect that the resources are an estimate.

Additional resource potential could be realised at both ends of the southern orebody and at depth for both orebodies where the orebodies remain open. Additional infill drilling could upgrade the Indicated and Inferred resource to Measured category.

23.2 Mining Study

The scope of work for the mining study was to convert the resources to reserves.

The deposit is most suitable for open pit mining due to the size, depth and shape of the orebodies, as well as the geology of the area.

The original preliminary design report prepared by the Shandong Lianchuang Architectural Design Co. Ltd. contained a design and reserves calculations for an underground mine which would extend the mine life beyond the life of the open pit. Only Measured Resources have been considered for conversion to Proved Reserves and only Measured and Indicated Resources have been considered for Probable Reserves.

The MCS reserve statement (**current Reserve, November 2011**) for the Zhuge Shangyu deposit is shown in Table 23-2.

Table 23-2: Reserves for the Zhuge Shangyu deposit

| Reserve Classification | Ore (Tonnes) | TiO ₂ Grade (%) | TFe Grade (%) | Contained TiO ₂ (Tonnes) | Contained TFe (Tonnes) |
|--------------------------|---------------------------|----------------------------|---------------|-------------------------------------|--------------------------|
| Open Pit | | | | | |
| Proved | 200,080,000 | 5.76 | 12.78 | 11,525,000 | 25,577,000 |
| Probable | <u>89,910,000</u> | 5.52 | 12.77 | <u>4,964,000</u> | <u>11,481,000</u> |
| Total Open Pit | <u>289,990,000</u> | 5.69 | 12.78 | <u>16,489,000</u> | <u>37,058,000</u> |
| Underground | – | – | – | – | – |
| Proved | – | – | – | – | – |
| Probable | <u>256,290,000</u> | 5.69 | 12.85 | <u>14,595,000</u> | <u>32,922,000</u> |
| Total Underground | <u>256,290,000</u> | 5.69 | 12.85 | <u>14,595,000</u> | <u>32,922,000</u> |
| Combined | – | – | – | – | – |
| Proved | 200,080,000 | 5.76 | 12.78 | 11,525,000 | 25,577,000 |
| Probable | <u>346,210,000</u> | 5.65 | 12.83 | <u>19,559,000</u> | <u>44,402,000</u> |
| Total reserve | <u>546,290,000</u> | 5.69 | 12.81 | <u>31,084,000</u> | <u>69,979,000</u> |

Notes:

- *The ore resources are inclusive of the ore reserve.*
- *The reserve includes diluting material with an assumed diluent grade of 0%, total dilution used was 9%.*
- *The MCS reserve is stated based on titanium with an iron credit.*

It is recommended that the following actions be undertaken to increase the amount of Proved reserves:

- Additional holes be drilled to upgrade the Resource so additional Resource falls into the Measured category to enable detailed mine planning to be undertaken on the remainder of the resource.
- Perform metallurgical tests on the fresh and weathered material for compatibility.
- Metallurgical testwork be conducted to determine the levels of the penalty elements in the final concentrates.
- MCS recommends that pilot-scale mineral processing testwork be carried out to determine the true recovery rates for the particular ores, processing equipment and design parameters of this project. Based on the results of processing testwork recovery rates may need to be revised either upwards or downwards.

24 COMPETENT PERSON STATEMENT

This report was prepared and signed herein by Competent Persons who, having relevant experience to the style of mineralisation and the type of the deposit under consideration, are thereby considered Competent Persons according to the definition explained in the JORC Code.

Neither MCS nor any of the authors of this Report has any material, present or contingent interest in the outcome of this Report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of MCS. MCS' fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. Payment of that professional fee is not contingent upon the outcome of the Report.

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The issuer has not provided any indemnities to the Competent Person. By signing this report, we hereby confirm that the reporting terminology, mineral resource classification, and estimation results in this report are compliant with the policy and procedures (required for the control of the quality of reporting of mineral resource estimates) as specified by the JORC Code.

17 April 2012

Signed by

David Allmark
MCS Senior Geological Consultant
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David Allmark, Senior Resource Estimation Consultant; BSc (Geology), MAIG, MAusIMM, graduated in 1993 from Curtin University of Technology in Perth, Western Australia with a Bachelor of Science (Applied Geology) and Postgraduate Diploma in Applied Geology. David later completed an Advanced Diploma of Business Systems majoring in Java programming from Spherion Institute. David has twelve years experience in the mining and exploration industry involved predominantly in iron ore, base metals and gold exploration and mining. David has worked on the Higginsville and Chalice Gold Projects and the Bulong Nickel Project for Resolute Ltd, the Koolyanobbing and Windarling iron ore projects for Portman Ltd and the West Pilbara iron ore project for Aquila Resources. David has recent experience as Senior Project Geologist for Dragon Mountain Gold's Lixian Project in Gansu Province, China, and has conducted JORC resource estimate related work on gold and base metals projects in Mongolia for Micromine Pty Ltd.

Tony Cameron, Associate Mining Consultant; B Eng (Mining), Grad Dip Bus, M Comm Law, FAusIMM, graduated in 1987 from the University of Queensland and also has a Graduate Diploma in Business from Curtin University (WA), and a Masters in Commercial Law from Melbourne University. Tony has more than 20 years' experience in the mining industry involved predominantly in iron ore, base metals, gold, copper, and mineral sands mining. He held senior management positions with mining companies in Western Australia including St Barbara Mines, Sons of Gwalia, Tiwest, and McMahon between 1995 and 2001. Tony has worked as an independent mining consultant since 2001 and is expert in the use of mine optimisation, design, and scheduling software, having evaluated numerous international minerals projects to JORC and NI-43101 standards.

25 ACKNOWLEDGEMENTS

MCS would like to acknowledge the staff of JLL, particularly Mr. Jack Li and Ms. Annie Zhang, all the staff of Shandong Xingsheng Mining Company Limited and the Shandong No.8 Exploration Institute of Geology and Mineral Resources who assisted on site and in the preparation of this independent technical report. Report sections for Location and Transport, Geology and Project History were provided by the JLL team led by Mr. Simon Chan and assisted by Ms. Annie Zhang of JLL.

26 REFERENCES

1. Shandong Lianchuang Architectural Design Co. Ltd., (2011). *Feasibility Study Report for Shangyu Ilmenite Mining and Processing Project of Shandong Xingsheng Mining Co. Ltd (Revised)*.
2. Shandong No.8 Exploration Institute of Geology and Mineral Resources (2009), *Report of Detailed Survey on Titaniferous Iron Ore in Shangyu Mining Area, Yishui County, Shandong Province*.

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28 APPENDIX 1: TENEMENT LICENCE CERTIFICATES



Figure 28-1: Zhuge Shangyu mining licence



Figure 28-2: Detailed exploration licence

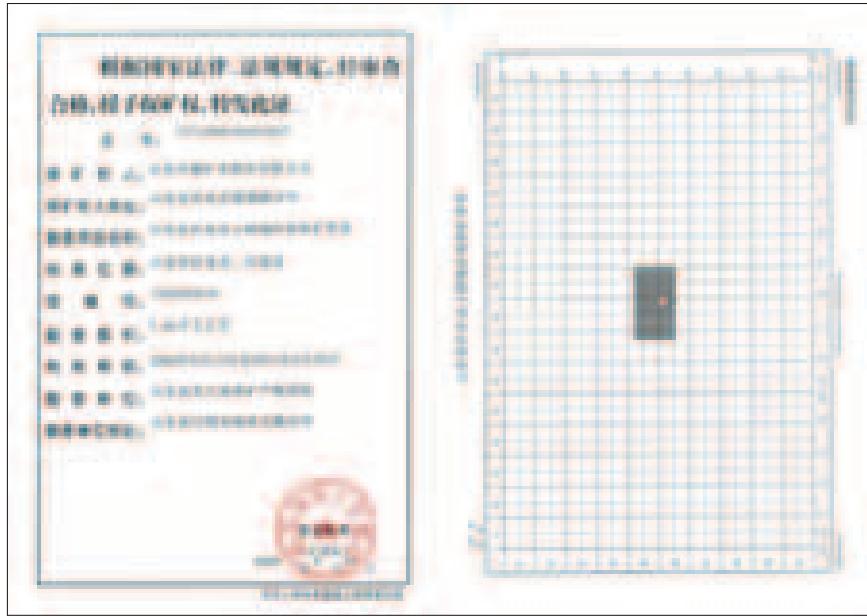


Figure 28-3: Reconnaissance exploration licence

29 APPENDIX 2: DATABASE VALIDATION AND ACCEPTANCE REPORT



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**Zhuge Shangyu Iron and Titanium Project
Database Validation and Acceptance Report
For
Shandong Xingsheng Mining Company Limited**

12 February 2011

DATA FOR ACCEPTANCE

Database Contents

Data was provided by Shandong Xingsheng Mining Company Limited on 11th and 20th January 2011 and was compiled by JLL.

The provided data consisted of one Excel spreadsheet, containing collar, survey, assay, core recovery, specific gravity data and lithological descriptions and other information in 8 worksheets.

The Excel spreadsheet provided was titled as follows:

2. Xingsheng drilling data – Shangyu.xls

The contents of each worksheet in the Xingsheng drilling data – Shangyu.xls spreadsheet is shown in Table 29-1.

Table 29-1: Contents of spreadsheet Xingsheng drilling data – Shangyu.xls as supplied

| Worksheet | No. of Holes and Trenches | No. of Records |
|------------------|--------------------------------------|---------------------------|
| Survey | 156 | 156 |
| Collar | 156 | 156 |
| Assay | 104 | 5,336 |
| Geology | 100 | 450 |
| Recovery | 61 | 8,781 |
| SG | 67 | 120 |
| Lookup Codes | NA | NA |
| Notes | NA | NA |

Database Preparation and Validation

The spreadsheet was prepared so it could be imported into MICROMINE. To import the spreadsheet, the following was carried out:

1. Hole IDs were sorted A-Z for all excel worksheets.
2. Unmerge cells in Assay worksheet and copy value to all cells previously merged.
3. Concatenate and change sample numbers in both assay and SG files so sample numbers are unique. Change all double dashes ‘—’ to single dash ‘-’ in sample and hole ID.

4. Delete top header rows of Chinese characters.
5. Unmerge cells in recovery worksheet, cut and paste and calculate values for depths in new cells.

The resulting MICROMINE files were named as follows:

- collar.DAT
- survey.DAT
- assay.DAT
- recovery.DAT
- SG.DAT
- geology.DAT

In addition, minor changes were made to the files after import into MICROMINE to enable production of a drillhole database in MICROMINE:

1. There were 2 trenches with the hole ID 'STC1'. One of them was changed to have the hole ID 'STC1A' (collar coordinates 3979191.000 N, 40372123.000 E, RL 216.00 m). The hole ID was changed in all applicable files (collar, survey, assay and SG files).
2. There were 2 trenches with the hole ID 'STC4'. One of them was changed to have the hole ID 'STC4A' (collar coordinates 3979489.000 N, 40372169.000 E, RL 220.11 m). The hole ID was changed in all applicable files (collar, survey and assay files).
3. A minus sign '-' was prefixed for all dip values in the survey.DAT file.
4. All blank records were replaced with 'ND' in required fields in all files.
5. Changed name of field in survey.DAT from 'Depth (m)' to 'SDepth'.
6. Changed names of fields in SG.DAT from 'Depth (from)', 'Depth (to)' and 'Length (cm)' to 'From', 'To' and 'Interval' respectively.
7. Changed all interval lengths in SG.DAT to metres from centimetres.

**APPENDIX IV-B REPORT OF THE INDEPENDENT TECHNICAL
ADVISER – ZHUGE SHANGYU ILMENITE MINE**

The original drawings from the exploration report were then supplied by the client on 20th January 2011 and MCS performed the following:

- Displayed geology plans and cross-sections in MapGIS then imported into MICROMINE. The plans and sections were then geo-referenced in MICROMINE and the collar positions and traces were checked
- Checked collar coordinates, survey and assay data with the original data on the drawings
- Entered additional downhole survey data for each drillhole that had not been included in the supplied data previously

Several mistakes were discovered and corrected as detailed below:

File collars.DAT:

- For drillhole ZK219-2, easting coordinate was changed from 4037216.200 E to 40372116.200 E.
- For drillhole ZK203-3, coordinates changed from 3977304.000 N, 40372371.700 E, RL 185.87 m to 3977300.000 N, 40372177.160 E, RL 175.384 m.
- For trench TC113, easting was changed from 40392246.000 E to 40372246.000 E.
- For trench TC109, easting was changed from 40392169.000 E to 40372169.000 E.

File surveys.DAT:

- All dips for trenches were changed to '0.00' from '90.00' or '95.00'.
- The azimuth for trench STC4A was changed from '90.00' to '95.00'.

File assays.DAT:

- For drillhole ZK100-1, interval 398.00 m to 390.40 m, the 'From' value was changed from '398.00'.
- For ZK114-1, interval for the sample H66 was previously incorrectly entered as 101.30-103.30 m and resulted in the entire sequence of samples from 101.30 m to 139.30 m having incorrect intervals.
- The interval for sample H66 was corrected to 137.30-139.30 from 101.30-103.30 and the entire sequence of sample numbers and intervals was adjusted to 139.30 m.

**APPENDIX IV-B REPORT OF THE INDEPENDENT TECHNICAL
ADVISER – ZHUGE SHANGYU ILMENITE MINE**

- For trench STC1, the ‘From’ value was missing from the interval ending at 88.00 m. The problem was corrected by inserting ‘86.00’ as the ‘From’ value.
- For trench TC201, the entire sequence of intervals from 4.50-106.00 m was incorrectly entered after verification with the original data. The interval data was re-entered.
- For trench STC24, interval 129.60-131.40 m, the ‘From’ value was changed from ‘129.00’ to ‘129.60’.
- For trench STC3, interval 110.20-112.40 m, the ‘To’ value was changed from ‘12.40’ to ‘112.40’.
- For trench TC107, the hole ID was changed to STC8. The original drawings were checked and confirmed that the assays assigned to TC107 were those for STC8.

The altered versions of the MICROMINE files were resaved under a different filename as below:

- collars.DAT saved as (v.2)collar.DAT
- surveys.DAT saved as (v.2)survey.DAT

The final database compiled from the altered files and to be used for resource estimation contains records for 64 drillholes and 92 trenches.

The number of records in the final database for each hole ID is shown in Table 2.

Table 2: Number of records of each type for each hole ID

| Hole ID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|---------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| QZ130-1 | 3978788.000 | 40372138.000 | 189.00 | 9.50 | 1 | 0 | 0 | 0 | 0 |
| QZ130-2 | 3978788.000 | 40372155.000 | 189.00 | 9.50 | 1 | 0 | 0 | 0 | 0 |
| QZ130-3 | 3978788.000 | 40372146.000 | 189.00 | 10.00 | 1 | 0 | 0 | 0 | 0 |
| QZ130-4 | 3978788.000 | 40372138.000 | 189.00 | 18.00 | 1 | 0 | 0 | 0 | 0 |
| QZ130-5 | 3978788.000 | 40372255.000 | 183.65 | 16.25 | 1 | 0 | 0 | 0 | 0 |
| QZ130-6 | 3978788.000 | 40372138.000 | 183.65 | 6.50 | 1 | 0 | 0 | 0 | 0 |
| QZ130-7 | 3978788.000 | 40372265.000 | 183.65 | 4.80 | 1 | 0 | 0 | 0 | 0 |
| QZ130-8 | 3978788.000 | 40372270.000 | 183.65 | 11.00 | 1 | 0 | 0 | 0 | 0 |
| QZ134-1 | 3978588.000 | 40372150.000 | 186.25 | 13.00 | 1 | 0 | 0 | 0 | 0 |

| Hole ID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|----------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| QZ134-2 | 3978588.000 | 40372170.000 | 185.80 | 13.00 | 1 | 0 | 0 | 0 | 0 |
| QZ134-3 | 3978588.000 | 40372160.000 | 185.95 | 16.00 | 1 | 0 | 0 | 0 | 0 |
| QZ134-4 | 3978588.000 | 40372155.000 | 186.00 | 16.00 | 1 | 0 | 0 | 0 | 0 |
| QZ134-5 | 3978588.000 | 40372230.000 | 184.40 | 17.00 | 1 | 0 | 0 | 0 | 0 |
| QZ134-6 | 3978588.000 | 40372250.000 | 184.00 | 11.00 | 1 | 0 | 0 | 0 | 0 |
| QZ134-7 | 3978588.000 | 40372240.000 | 184.20 | 11.00 | 1 | 0 | 0 | 0 | 0 |
| QZ134-8 | 3978588.000 | 40372235.000 | 184.35 | 15.00 | 1 | 0 | 0 | 0 | 0 |
| QZ138-1 | 3978388.000 | 40372048.000 | 184.80 | 5.70 | 1 | 0 | 0 | 0 | 0 |
| QZ138-2 | 3978388.000 | 40372067.000 | 185.35 | 9.00 | 1 | 0 | 0 | 0 | 0 |
| QZ138-3 | 3978388.000 | 40372097.000 | 184.96 | 12.00 | 1 | 0 | 0 | 0 | 0 |
| QZ138-4 | 3978388.000 | 40372117.000 | 184.78 | 11.00 | 1 | 0 | 0 | 0 | 0 |
| QZ138-5 | 3978388.000 | 40372138.000 | 183.23 | 14.00 | 1 | 0 | 0 | 0 | 0 |
| QZ138-6 | 3978388.000 | 40372157.000 | 183.00 | 13.00 | 1 | 0 | 0 | 0 | 0 |
| QZ138-7 | 3978388.000 | 40372203.000 | 182.20 | 17.50 | 1 | 0 | 0 | 0 | 0 |
| QZ138-8 | 3978388.000 | 40372183.000 | 182.20 | 11.00 | 1 | 0 | 0 | 0 | 0 |
| QZ138-9 | 3978388.000 | 40372213.000 | 182.13 | 16.50 | 1 | 0 | 0 | 0 | 0 |
| QZ138-10 | 3978388.000 | 40372233.000 | 182.00 | 16.20 | 1 | 0 | 0 | 0 | 0 |
| QZ138-11 | 3978388.000 | 40372253.000 | 181.84 | 17.40 | 1 | 0 | 0 | 0 | 0 |
| QZ138-12 | 3978388.000 | 40372280.000 | 181.48 | 16.40 | 1 | 0 | 0 | 0 | 0 |
| QZ138-13 | 3978388.000 | 40372300.000 | 181.16 | 13.50 | 1 | 0 | 0 | 0 | 0 |
| QZ211-1 | 3977700.000 | 40372485.000 | 179.70 | 12.50 | 1 | 0 | 0 | 0 | 0 |
| QZ211-2 | 3977700.000 | 40372465.000 | 179.00 | 8.00 | 1 | 0 | 0 | 0 | 0 |
| QZ211-3 | 3977700.000 | 40372445.000 | 178.42 | 7.00 | 1 | 0 | 0 | 0 | 0 |
| QZ211-4 | 3977700.000 | 40372425.000 | 176.45 | 7.50 | 1 | 0 | 0 | 0 | 0 |
| QZ211-5 | 3977700.000 | 40372435.000 | 178.15 | 10.00 | 1 | 0 | 0 | 0 | 0 |
| QZ211-6 | 3977700.000 | 40372440.000 | 178.28 | 9.00 | 1 | 0 | 0 | 0 | 0 |
| QZ211-7 | 3977700.000 | 40372505.000 | 180.20 | 15.00 | 1 | 0 | 0 | 0 | 0 |
| QZ211-8 | 3977700.000 | 40372515.000 | 180.55 | 11.00 | 1 | 0 | 0 | 0 | 0 |
| QZ215-1 | 3977900.000 | 40372446.000 | 178.00 | 10.00 | 1 | 0 | 0 | 0 | 0 |
| QZ215-2 | 3977900.000 | 40372466.000 | 178.16 | 13.00 | 1 | 0 | 0 | 0 | 0 |
| QZ215-3 | 3977900.000 | 40372456.000 | 178.16 | 17.00 | 1 | 0 | 0 | 0 | 0 |
| QZ215-4 | 3977900.000 | 40372500.000 | 178.40 | 15.00 | 1 | 0 | 0 | 0 | 0 |
| QZ215-5 | 3977900.000 | 40372510.000 | 178.40 | 6.50 | 1 | 0 | 0 | 0 | 0 |
| QZ215-6 | 3977900.000 | 40372520.000 | 179.00 | 15.50 | 1 | 0 | 0 | 0 | 0 |
| QZ215-7 | 3977900.000 | 40372530.000 | 179.46 | 22.00 | 1 | 0 | 0 | 0 | 0 |
| QZ215-8 | 3977900.000 | 40372540.000 | 179.88 | 18.00 | 1 | 0 | 0 | 0 | 0 |
| QZ215-9 | 3977900.000 | 40372550.000 | 180.50 | 10.00 | 1 | 0 | 0 | 0 | 0 |
| QZ219-1 | 3978100.000 | 40372521.000 | 179.38 | 14.00 | 1 | 0 | 0 | 0 | 0 |
| QZ219-2 | 3978100.000 | 40372526.000 | 179.34 | 14.00 | 1 | 0 | 0 | 0 | 0 |
| QZ219-3 | 3978100.000 | 40372541.000 | 179.23 | 6.00 | 1 | 0 | 0 | 0 | 0 |

| Hole ID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|---------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| QZ219-4 | 3978100.000 | 40372533.000 | 179.30 | 10.00 | 1 | 0 | 0 | 0 | 0 |
| STC0 | 3981030.050 | 40372300.000 | 243.00 | 138.40 | 1 | 67 | 3 | 2 | 0 |
| STC1 | 3981130.310 | 40372328.220 | 244.06 | 124.00 | 1 | 58 | 3 | 1 | 0 |
| STC1A | 3979191.000 | 40372123.000 | 216.00 | 115.00 | 1 | 50 | 0 | 3 | 0 |
| STC2 | 3979389.000 | 40372170.000 | 215.00 | 151.50 | 1 | 71 | 3 | 4 | 0 |
| STC3 | 3979588.000 | 40372178.000 | 219.51 | 114.00 | 1 | 57 | 3 | 6 | 0 |
| STC3-1 | 3981230.010 | 40372357.020 | 251.91 | 122.00 | 1 | 59 | 3 | 0 | 0 |
| STC4 | 3980830.050 | 40372204.120 | 224.00 | 123.00 | 1 | 60 | 3 | 3 | 0 |
| STC4A | 3979489.000 | 40372169.000 | 220.11 | 130.30 | 1 | 61 | 0 | 2 | 0 |
| STC7 | 3981430.060 | 40372348.500 | 264.14 | 104.00 | 1 | 50 | 3 | 2 | 0 |
| STC8 | 3980630.120 | 40372180.050 | 221.30 | 94.00 | 1 | 0 | 3 | 2 | 0 |
| STC11 | 3981630.050 | 40372322.000 | 287.15 | 89.00 | 1 | 44 | 3 | 2 | 0 |
| STC15 | 3981870.000 | 40372294.000 | 326.94 | 84.00 | 1 | 42 | 3 | 1 | 0 |
| STC20 | 3977300.820 | 40372456.750 | 196.35 | 104.80 | 1 | 47 | 3 | 2 | 0 |
| STC24 | 3977108.030 | 40372393.820 | 189.21 | 135.40 | 1 | 68 | 5 | 2 | 0 |
| STC26 | 3977004.020 | 40372366.570 | 189.82 | 146.00 | 1 | 70 | 3 | 2 | 0 |
| STC28 | 3976906.050 | 40372350.220 | 197.48 | 141.00 | 1 | 69 | 6 | 2 | 0 |
| STC32 | 3976600.000 | 40372364.120 | 195.74 | 127.60 | 1 | 61 | 3 | 2 | 0 |
| STC36 | 3976505.750 | 40372364.250 | 193.80 | 133.00 | 1 | 61 | 3 | 2 | 0 |
| SZK0 | 3981030.230 | 40372333.120 | 240.25 | 81.69 | 1 | 24 | 0 | 2 | 0 |
| SZK1 | 3979386.120 | 40372212.400 | 207.79 | 50.00 | 1 | 25 | 1 | 8 | 50 |
| SZK2 | 3979583.000 | 40372227.000 | 211.03 | 50.00 | 1 | 25 | 3 | 8 | 42 |
| SZK3 | 3981230.050 | 40372373.210 | 250.87 | 65.43 | 1 | 28 | 0 | 2 | 0 |
| SZK24 | 3977106.080 | 40372416.000 | 186.20 | 100.00 | 1 | 43 | 0 | 2 | 0 |
| SZK28 | 3977297.000 | 40372177.220 | 175.58 | 57.74 | 1 | 23 | 0 | 2 | 0 |
| TC100 | 3980230.000 | 40372190.000 | 210.33 | 53.00 | 1 | 22 | 3 | 0 | 0 |
| TC103 | 3980430.000 | 40372200.000 | 208.35 | 56.00 | 1 | 27 | 4 | 0 | 0 |
| TC104 | 3980030.000 | 40372150.000 | 227.90 | 55.00 | 1 | 23 | 7 | 0 | 0 |
| TC108 | 3979830.000 | 40372170.000 | 227.20 | 54.00 | 1 | 23 | 4 | 0 | 0 |
| TC109 | 3980730.000 | 40372169.000 | 216.80 | 153.00 | 1 | 75 | 7 | 0 | 0 |
| TC112 | 3979688.000 | 40372147.000 | 221.80 | 112.00 | 1 | 49 | 4 | 0 | 0 |
| TC113 | 3980930.000 | 40372246.000 | 232.58 | 140.00 | 1 | 64 | 4 | 0 | 0 |
| TC120 | 3979288.000 | 40372146.000 | 214.87 | 103.00 | 1 | 51 | 5 | 0 | 0 |
| TC121 | 3981330.000 | 40372354.000 | 265.40 | 109.00 | 1 | 51 | 4 | 0 | 0 |
| TC124 | 3979088.000 | 40372115.000 | 203.00 | 122.00 | 1 | 60 | 4 | 0 | 0 |
| TC125 | 3981530.000 | 40372334.000 | 279.73 | 116.00 | 1 | 59 | 3 | 0 | 0 |
| TC201 | 3977200.000 | 40372450.002 | 199.24 | 108.00 | 1 | 51 | 9 | 0 | 0 |
| TC205 | 3977421.020 | 40372415.050 | 183.85 | 104.00 | 1 | 50 | 4 | 0 | 0 |
| TC206 | 3976800.000 | 40372340.000 | 191.20 | 138.00 | 1 | 69 | 4 | 0 | 0 |
| TC210 | 3977103.430 | 40372416.000 | 189.47 | 93.00 | 1 | 46 | 3 | 0 | 0 |

| Hole ID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|---------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| TC216 | 3976300.000 | 40372513.000 | 218.10 | 42.00 | 1 | 8 | 4 | 0 | 0 |
| TC216-1 | 3976300.000 | 40372657.000 | 219.55 | 38.00 | 1 | 19 | 4 | 0 | 0 |
| TC219 | 3978100.000 | 40372444.000 | 185.27 | 21.60 | 1 | 10 | 3 | 0 | 0 |
| TC220 | 3976100.000 | 40372561.000 | 210.70 | 103.00 | 1 | 51 | 3 | 0 | 0 |
| TC223 | 3978300.000 | 40372462.000 | 190.90 | 95.00 | 1 | 35 | 4 | 0 | 0 |
| TC224 | 3975900.000 | 40372638.280 | 200.60 | 35.00 | 1 | 17 | 5 | 0 | 0 |
| TC227 | 3978500.000 | 40372502.000 | 193.15 | 56.00 | 1 | 28 | 3 | 0 | 0 |
| TC228 | 3975700.000 | 40372633.000 | 197.86 | 32.50 | 1 | 15 | 3 | 0 | 0 |
| TC232 | 3975500.000 | 40372696.180 | 196.83 | 23.50 | 1 | 12 | 4 | 0 | 0 |
| ZK100-1 | 3980229.020 | 40372123.360 | 224.35 | 608.40 | 6 | 112 | 4 | 2 | 306 |
| ZK100-2 | 3980229.980 | 40372121.360 | 224.70 | 445.50 | 10 | 89 | 3 | 2 | 219 |
| ZK107-1 | 3980630.020 | 40372112.040 | 214.93 | 480.60 | 5 | 70 | 4 | 1 | 234 |
| ZK107-2 | 3980630.000 | 40372154.880 | 217.30 | 329.20 | 4 | 88 | 8 | 1 | 173 |
| ZK108 | 3979831.010 | 40372118.000 | 225.31 | 500.10 | 5 | 191 | 9 | 2 | 303 |
| ZK108-1 | 3979828.150 | 40372044.630 | 226.14 | 808.00 | 5 | 124 | 6 | 2 | 466 |
| ZK114-1 | 3979588.030 | 40372175.890 | 218.90 | 245.80 | 3 | 115 | 3 | 0 | 110 |
| ZK114-2 | 3979588.040 | 40372121.730 | 221.54 | 351.75 | 4 | 117 | 10 | 1 | 165 |
| ZK114-3 | 3979587.980 | 40372031.720 | 239.50 | 446.00 | 5 | 11 | 4 | 0 | 215 |
| ZK115-1 | 3981030.010 | 40372311.510 | 241.92 | 324.80 | 3 | 88 | 6 | 2 | 109 |
| ZK115-2 | 3981029.000 | 40372226.300 | 241.20 | 369.80 | 4 | 59 | 4 | 1 | 124 |
| ZK115-3 | 3981035.010 | 40372100.451 | 234.98 | 546.80 | 5 | 51 | 4 | 1 | 187 |
| ZK115-4 | 3981030.000 | 40372012.000 | 222.05 | 785.80 | 5 | 72 | 4 | 1 | 407 |
| ZK118-1 | 3979388.000 | 40372186.320 | 211.65 | 284.60 | 3 | 138 | 8 | 1 | 109 |
| ZK118-2 | 3979388.000 | 40372102.140 | 223.80 | 348.20 | 4 | 62 | 4 | 1 | 139 |
| ZK118-3 | 3979388.000 | 40371980.770 | 211.16 | 495.90 | 5 | 62 | 4 | 1 | 190 |
| ZK119-1 | 3981229.020 | 40372362.450 | 251.57 | 198.90 | 2 | 88 | 2 | 1 | 84 |
| ZK119-2 | 3981229.000 | 40372302.890 | 253.80 | 310.00 | 3 | 53 | 3 | 1 | 114 |
| ZK119-3 | 3981234.000 | 40372152.170 | 239.56 | 436.50 | 4 | 35 | 3 | 2 | 153 |
| ZK122-1 | 3979207.000 | 40372102.520 | 214.90 | 336.00 | 4 | 142 | 4 | 2 | 193 |
| ZK122-2 | 3979188.000 | 40372060.210 | 209.15 | 380.30 | 4 | 97 | 4 | 1 | 204 |
| ZK122-3 | 3979188.000 | 40371893.040 | 194.82 | 428.00 | 5 | 23 | 6 | 1 | 211 |
| ZK122-4 | 3979188.000 | 40371780.340 | 207.77 | 501.00 | 5 | 0 | 2 | 0 | 249 |
| ZK123-1 | 3981430.000 | 40372349.130 | 264.25 | 216.30 | 3 | 80 | 4 | 0 | 83 |
| ZK123-2 | 3981430.020 | 40372302.050 | 263.80 | 306.90 | 3 | 81 | 4 | 2 | 113 |
| ZK123-3 | 3981430.000 | 40372143.120 | 256.84 | 364.40 | 4 | 28 | 4 | 1 | 133 |
| ZK123-4 | 3981419.000 | 40371984.660 | 251.85 | 541.70 | 5 | 0 | 2 | 0 | 286 |
| ZK127-1 | 3981631.980 | 40372313.080 | 288.00 | 195.50 | 2 | 68 | 6 | 1 | 66 |
| ZK127-2 | 3981629.000 | 40372240.220 | 279.72 | 262.40 | 5 | 40 | 4 | 2 | 90 |
| ZK127-3 | 3981630.000 | 40372125.630 | 270.64 | 425.10 | 4 | 60 | 4 | 1 | 143 |
| ZK130-1 | 3978788.000 | 40372081.940 | 191.80 | 258.60 | 3 | 63 | 4 | 1 | 87 |

| Hole ID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|---------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| ZK130-2 | 3978788.000 | 40371933.200 | 201.88 | 386.10 | 4 | 51 | 4 | 1 | 134 |
| ZK131-1 | 3981869.000 | 40372230.410 | 304.10 | 234.90 | 3 | 52 | 4 | 0 | 82 |
| ZK131-2 | 3981872.000 | 40372070.630 | 283.03 | 419.10 | 5 | 40 | 3 | 1 | 148 |
| ZK200-1 | 3977100.000 | 40372318.720 | 182.86 | 179.00 | 2 | 26 | 6 | 0 | 101 |
| ZK200-2 | 3977095.060 | 40372123.700 | 183.07 | 334.40 | 4 | 63 | 7 | 1 | 187 |
| ZK203-1 | 3977301.000 | 40372448.740 | 196.61 | 118.40 | 1 | 29 | 3 | 1 | 68 |
| ZK203-2 | 3977304.000 | 40372371.700 | 185.87 | 176.10 | 2 | 44 | 10 | 0 | 99 |
| ZK203-3 | 3977300.000 | 40372177.160 | 175.38 | 284.70 | 3 | 39 | 8 | 1 | 160 |
| ZK204-1 | 3976900.020 | 40372317.250 | 199.75 | 143.60 | 2 | 46 | 4 | 1 | 79 |
| ZK204-2 | 3976899.070 | 40372141.600 | 191.65 | 259.60 | 3 | 34 | 5 | 1 | 129 |
| ZK208-1 | 3976700.000 | 40372335.050 | 199.52 | 117.80 | 2 | 40 | 4 | 1 | 39 |
| ZK208-2 | 3976700.000 | 40372249.060 | 194.10 | 148.80 | 2 | 31 | 4 | 1 | 51 |
| ZK208-3 | 3976700.000 | 40372067.930 | 188.30 | 330.80 | 4 | 29 | 4 | 0 | 111 |
| ZK208-4 | 3976744.000 | 40371920.000 | 174.30 | 482.20 | 5 | 14 | 4 | 1 | 162 |
| ZK211-1 | 3977700.000 | 40372322.620 | 175.60 | 201.80 | 2 | 23 | 4 | 1 | 74 |
| ZK211-2 | 3977700.000 | 40372096.000 | 177.68 | 300.60 | 3 | 34 | 4 | 1 | 112 |
| ZK216-1 | 3976292.250 | 40372522.180 | 219.75 | 258.00 | 3 | 7 | 6 | 1 | 92 |
| ZK216-2 | 3976294.000 | 40372364.630 | 199.85 | 362.50 | 4 | 74 | 8 | 1 | 125 |
| ZK216-3 | 3976288.000 | 40372175.000 | 192.92 | 470.00 | 5 | 63 | 6 | 1 | 180 |
| ZK219-1 | 3978100.000 | 40372290.210 | 177.80 | 167.00 | 2 | 27 | 4 | 1 | 65 |
| ZK219-2 | 3978117.000 | 4037216.200 | 178.30 | 301.00 | 3 | 33 | 4 | 1 | 116 |
| ZK224-1 | 3975900.000 | 40372520.810 | 196.64 | 122.20 | 2 | 20 | 6 | 1 | 88 |
| ZK224-2 | 3975900.000 | 40372328.280 | 212.17 | 222.10 | 3 | 6 | 6 | 0 | 129 |
| ZK227-1 | 3978501.350 | 40372384.280 | 179.65 | 128.40 | 2 | 15 | 4 | 2 | 69 |
| ZK227-2 | 3978500.030 | 40372201.620 | 184.30 | 266.30 | 3 | 32 | 8 | 0 | 156 |
| ZK232-1 | 3975497.500 | 40372529.220 | 185.65 | 167.40 | 2 | 11 | 8 | 1 | 125 |
| ZK232-2 | 3975503.000 | 40372399.170 | 196.74 | 235.40 | 3 | 22 | 12 | 0 | 137 |

- A file containing elevations of the topographic surface for a total of 4,116 points in the project area has been supplied to MCS. A DTM of the topographic surface will be constructed from this data.

Missing Data

- All 50 drillholes prefixed QZ- in the database have no assay data. MCS queried this with the client and were informed that assays were not available for these drillholes.
- All data available for resource estimation has been supplied to MCS by the client.



30 APPENDIX 3: GLOSSARY OF TECHNICAL TERMS & ABBREVIATIONS

| | |
|-------------------------------|---|
| 3D | Three-dimensional. |
| % | Percentage. |
| Anisotropy | Quality of a variably to having different physical properties when measured in different directions. |
| ASL | Above sea level. |
| Assay | A measured quantity of material within a sample. |
| Azimuth | Azimuth angle on which an exploration hole was drilled (deviation to North). |
| Balancing cut | Value to which erratic high grades should be reduced to prevent bias in estimation. Also known as a top cut. |
| Coefficient of variation (CV) | In statistics, a normalised measure of the variation present in a sample population. |
| Collar | Geographical co-ordinates of a drillhole or shaft starting point. |
| Compositing | In sampling and resource estimation, process designed to carry all samples to certain equal length. |
| Correlation coefficient | A statistical measure of the degree of similarity between two parameters. |
| Cumulative frequency graph | Graphical representation of data ranked in ascending or descending order, which are shown in a non-decreasing function between 0% and 100%. The percentage frequency and cumulative percentage frequency forms are interchangeable, since one can be obtained from the other. |
| Cut-off grade | The threshold above which material is selectively mined or queried. |

| | |
|----------------------------|---|
| Declustering | In geostatistics, the procedure allowing for restricted grouping of samples within octant sectors. |
| DTM | Digital Terrain Model. |
| Geostatistics | Science studying and describing the spatial continuity of any kind of natural phenomena: Zn grades in this study. |
| GTIS | Gross Tons In Situ |
| Histogram | A graphical presentation of the distribution of data by frequency of occurrence. |
| IDW | Inverse Distance Weighting. |
| Inverse Distance Weighting | Geostatistical method to calculate mineral resource. Since this method makes the weight for each sample inversely proportional to its distance from the point being estimated it gives more weight to the closest samples and less to those that are farthest away. Method works very efficiently with regularly gridded data. Extreme versions of inverse distance weighting are the global declustering methods like the polygonal method and the local sample mean method. |
| JORC Code | Australasian Code for Reporting of Mineral Resources and Ore Reserves |
| L/s | Litres per second |
| m | Metre |
| M | Million or mega (10^6). |
| Mean | Average. |
| Median | Value of the middle sample in a data set arranged in rank order. |
| mFe | Iron in magnetite. |

| | |
|-------------------------------|--|
| MICROMINE. | Mining and exploration software. |
| Micromine | Micromine Pty Ltd. |
| Micromine Consulting Services | Consulting division of Micromine Pty Ltd. |
| Mt | Million tonnes. |
| MTIS | Mineable Tons In Situ. |
| Nugget effect | Measure of the variability in re-analysing a sample due to sampling errors or short scale variability. Though the value of a variogram at 0 distance should be 0, several factors, such as sampling errors and short scale variability, may cause sample values to be separated by extremely small distances. The vertical jump at the origin of a variogram graph from 0 to a certain value at extremely small separation distance is called the nugget effect. |
| Omni | In all directions. |
| OK | Ordinary Kriging interpolation method. |
| Operating cost | The threshold cost below which mining a block would be un-economic. |
| Percentile | One hundredths of the total data. 50th percentile corresponds to the median. |
| Population | In geostatistics population encompasses grades which show the same or close geostatistical characteristics. Ideally, one population is characterised by linear distribution. |
| Probability plot | Plot showing cumulative frequencies over different intervals on a log scale probability plot. |
| Range | Distance at which a variogram reaches its plateau. |
| Recovery ratio | Proportion of mineral or metal recovered from the ore. |

| | |
|------------------------------|---|
| Resource | Geological mineral resource (mineable and unmineable). |
| RL | Reduced Level i.e. elevation relative to a local datum. |
| SEHK | Stock Exchange of Hong Kong. |
| SG | Specific gravity (unit tonnes per cubic metre). |
| Short-hole shrinkage stoping | Underground mining method in which blasted ore is left in the stope for support purposes until it is to be mined. Blasting resulting from the drilling and loading of short holes. |
| Sill | Distance at which variogram reaches its sill. Physically, there is no correlation between paired samples at that distance. |
| Spatial continuity | The description or function how continuous is the data values over a certain distance in three dimensions. |
| Standard deviation | A statistical measure of the dispersion of sample data around the mean value. |
| Stope | Open space left behind after the removal of ore from an under-ground mine. |
| t | Tonne. |
| TFe | Total iron. |
| TiO ₂ | Titanium dioxide. |
| t/m ³ | Tonne per cubic metre. |
| TO | End of an intersection. |
| Top cut | See balancing cut. |

| | |
|-----------------|--|
| Variance | In statistics, a measure of dispersion about the mean value of a data set. |
| Wireframe | Three-dimensional surface defined by triangles. |
| Wireframe solid | Closed wireframe. |

**Resource and Reserve Estimation
Of the
Qinjiazhuang Iron and Titanium Project,
Shandong Province, People’s Republic of China
For
China Zhongsheng Resources Holdings Limited**



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Prepared by

MICROMINE PROPRIETARY LIMITED

17 April 2012

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1 EXECUTIVE SUMMARY

China Zhongsheng Resources Holdings Limited (together with its subsidiaries, “Shandong Xingsheng Mining Company Limited” or “the Client”) commissioned Micromine Consulting Services (“MCS”, a division of Micromine Proprietary Limited) in January of 2011 to complete a JORC standard reporting guidelines compliant resource and reserve estimation report for the Qinjiazhuang Iron and Titanium Project (“the Project”), located in Shandong province, People’s Republic of China. MCS contracted the writing of several sections of the report that had no material bearing on the resource and reserve estimate result to Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLL”). JLL compiled the database for the project that was subsequently validated by MCS. The JORC standard reporting guidelines compliant resource and reserve estimation report would be used for a submission to the Stock Exchange of Hong Kong Limited (“HKEx”) and would conform to the Chapter 18 requirements of the exchange.

This report updates a resource and reserve estimation completed by MCS in June 2011. The client again commissioned MCS in September of 2011 to complete an update of the reserve estimation for the project due to the changes in modifying factor information. These included reduced capital expenditure and an increase in the titanium concentrate selling price. The previous resource estimate has remained unchanged while the reserve estimate has been updated. The effective date of this report is the 17th April 2012.

The Qinjiazhuang Iron and Titanium Project is located close to Qinjiazhuang village near Yangzhuang town in Yishui County, Shandong Province, People’s Republic of China. The project is covered by exploration licence T37120080802012961 which covers both the Qinjiazhuang and Yang Zhuang deposits and is valid from the 4th of January 2011 to the 31st of December 2012, and was issued by the Shandong Provincial Bureau of Land and Mineral Resources.

The project area is located in the uplifted Gongdanshan horst part of the Luxi anticline in the Yishui fracture belt. The Eastern area is comprised of a basement of Archaean metamorphic rocks from the Yanlingguan Formation of the Taishan Group and Shancaoyu Group. The primary host rock for mineralisation is the Sanguanzhai gabbro which intrudes the Aolaishan Monzogranite. The mineralisation is composed of two separate orebodies; orebody 1 and orebody 2. Orebody 1 is around 1,200 metres long and 50 to 130 metres in width. Average thickness of the orebody is 75 metres. Orebody 2 is around 600 metres in length and 200 metres in width. Mineralisation is ilmenite, magnetite, and pyrite.

Mr. David Allmark (MCS geologist) was Competent Person (as defined by the JORC guidelines) for the preparation of this report.

The project site was visited from the 3rd to 4th of March 2011 by Mr. David Allmark and Mr. Jeff Zhang of MCS, accompanied by Ms. Annie Zhang and Mr. Jack Li of JLL. JLL attempted to check the locations of drillhole collars for the project. MCS found that all of the

collar locations were in farming areas and that many collar locations had been disturbed. MCS was able to locate and identify two collars on the geological plan and on the ground and found the coordinates in the database were within a few metres of the coordinate read from the GPS; an acceptable result. MCS was able to check a random selection of drillcore intervals from 4 drillholes. The core for each interval was checked with the original drillhole logs (supplied by the client for the site visit) and the assays for the intervals. MCS found the geology, mineralisation and approximate grade of each interval inspected matched the original drill logs.

All exploration was carried out by the Shandong No. 8 Exploration Institute of Geology and Mineral Resources. For orebody 1, all drillholes were drilled on sections orientated south-west to north-east at a spacing of approximately 200 metres. On each exploration section line, drillholes were spaced between 150 metres and 220 metres. For orebody 2, the two most southern exploration lines have a spacing of 200 metres; the two northern lines have a spacing of 100 metres. 22 holes for 1,926.09 metres were drilled for orebody 1. For orebody 2, 2 holes for 101.09 m were drilled. All drilling was carried out by the No. 8 Exploration Institute of Geology and Mineral Resources using Jiang Tan XY-4 drill rigs. The drill rigs produced NQ size core with a drilling diameter of 91 mm at the top of the hole in the weathered rock and then 75 mm to hole completion.

Drillholes from the surface were generally vertical or inclined steeply at around 80 degrees. Downhole surveys were performed every 50 m downhole, and at orebody contacts using XJL-42 and JXY-2 electronic inclinometers.

Core recovery data was recorded for 9 drillholes for orebody 1 and two drillholes for orebody 2. Linear core recovered length for orebody 1 was 1,581.44 metres compared to 1,622.75 drill metres, where core recovery was recorded. The mean drill hole core recovery was 97.60%. Linear core recovered length for orebody 2 was 86.30 metres compared to 101.09 drill metres. The mean drill hole core recovery was 85.37%. Core recovery for orebody 1 was acceptable while core recovery for orebody 2 was moderate.

Six trenches for 777.20 metres were excavated for orebody 1. All trenches were orientated approximately 45 degrees (south-west to north-east) and ranged in length from 50.1 metres to 192.5 metres. For orebody 2, four trenches for 814.0 metres were excavated orientated east-west and ranged in length from 108.0 metres to 274.0 metres. All trenches were sampled as continuous channel samples taken from the base of the trench on the northern face.

The primary laboratory for the project was the laboratory of the Shandong No. 8 Exploration Institute of Geology and Mineral Resources, in Rizhao city, Shandong province. The laboratory was inspected by Mr. David Allmark and Mr. Jeff Zhang of MCS accompanied by Mr. Jack Li and Ms. Annie Zhang of JLL with Mr. Liu Jiazhao, the Manager of the No. 8 Exploration Institute of Geology and Mineral Resources on the 5th of March 2011. MCS observed during the visit that laboratory hygiene was of a high standard and the Chinese procedures for sample preparation and analysis were being followed and observed by laboratory staff.

Assay precision was calculated for total iron (TFe) and titanium dioxide (TiO₂) from the repeat analysis results. For orebody 1, the repeat data provided occurred at a frequency of 55 results from a total of 967 analyses (5.7% of total analyses). Assay precision for TFe was $\pm 0.26\%$, while assay precision for TiO₂ was $\pm 0.79\%$. Precision for both TFe and TiO₂ was strong.

Samples were routinely sent to an umpire laboratory for analysis to establish if a baseline difference in reportable grades existed between the No. 8 Exploration Institute of Geology and Mineral Resources laboratory in Rizhao city, Shandong province and an independent laboratory. The independent laboratory was the laboratory of the Shandong Province Experimental Institute of Geological Sciences, located in Jinan city, Shandong province. The umpire analytical data provided occurred at a frequency of 30 samples out of 967 analyses (3.1% of the total analyses). For TFe, the data points all lie very close to the straight line on a quantile-quantile plot which indicates there is no assay bias present between the results of the two laboratories at different grade cut-offs, and for TiO₂, the results from the external laboratory are consistently slightly higher than the results from the primary laboratory indicating a minor amount of bias is present between the results of the two laboratories at different grade cut-offs.

Data was provided by the Shandong Xingsheng Mining Company Limited on the 11th and 20th of January 2011. The client provided MCS with additional data for a second orebody (orebody 2) of the Qinjiazhuang Project on the 24th of February 2011. The final database for the original data contained records for 22 drillholes and 6 trenches and the final database for the additional data (orebody 2) contained records for 4 trenches and 2 drillholes.

Resource Estimation

A geological cut-off grade of 8.7% TFe and 1.9% TiO₂ was determined from the classical statistical analysis of the data for both orebody 1 and orebody 2. These values were used as trigger values to create grade composites for mineralisation interpretation. Geological data was used to assist in the interpretation of mineralised envelopes. Interpretation and wireframing was then carried out for all mineralised envelopes using seven cross-sections for orebody 1 and four cross-sections for orebody 2.

A balancing cut grade of 18.4% TFe (chosen from examination of the histogram) and 7.5% TiO₂ (at the 97.7 percentile on the cumulative frequency plot) was chosen and applied to all assays inside the mineralised envelopes for orebody 1. For orebody 2 a balancing cut was not required. All samples within the mineralised envelopes were composited to an equal sample interval length before geostatistical analysis and interpolation. A composite length of 2.0 metres was selected as it was the most prevalent interval length in the dataset.

Empty block models were created and TiO₂, TFe grades and SG data was interpolated into the blocks. Geostatistical analysis was completed for TiO₂ and TFe for orebody 1 and used as input into the ordinary kriging algorithm which was used for interpolation into the block model. Orebody 2 was interpolated using the inverse distance weighting cubed algorithm.

QA/QC data supplied and obtained from the site visit was moderate to high in quality for orebody 1 and resources were classified for Measured, Indicated and Inferred categories. For Measured Resources, a minimum of two samples from two holes had to be within a radius of 150 m. For Indicated Resources this radius was 300 m. All other blocks in the model were classified as Inferred.

For orebody 2, the risk assessment demonstrated confidence in the data was low to moderate, as the data came from four trenches and only two drillholes. Additionally no analytical QA/QC data was provided and core recovery was less than 95%. As a result, no Measured Resources were estimated and for Indicated Resources, a minimum of two samples from two holes had to be within a radius of 150 m. The remainder of the resource for orebody 2 was classified as Inferred.

The resources reported for the Qinjiazhuang Iron and Titanium Project are stated by category with the total of Measured, Indicated and Inferred Resources for orebody 1 and total of Measured and Indicated Resources for orebody 2.

An economic cut-off grade was determined using the parameters from the MCS mining study. A TiO₂ equivalent grade was generated using details of annual forecast yield for TiO₂ and TFe and prices of the TiO₂ and TFe concentrate from the mining study. A ratio of 1:4.6 was determined for the value of TiO₂ to TFe. A TiO₂ equivalent grade was then determined for every block in the model. The processing recovery of TiO₂ equivalent was determined to be 26.9% and the sale price of the combined concentrate used was CN¥2,656. MCS calculated an economic cut-off grade of 9.2% TiO₂ equivalent using the following formula: Economic cut-off grade = CN¥64.86 / (26.9% * CN¥2,656).

The MCS resource (**current resource**) reported above a cut-off grade of 9.2% TiO₂ equivalent is shown in Table 1-1.

Additional resource potential exists at both ends and at depth of orebody 1. Also infill drilling may upgrade the resource from Indicated and Inferred to Measured category. For orebody 2 additional resource potential exists in the southern part where there are no drillholes and the orebody has not been tested at depth. For the northern part of orebody 2 additional drilling with improved core recovery and provision of QA/QC data could upgrade the Indicated resource to Measured category.

Table 1-1: Total resource for the Qinjiazhuang Project

| Resource Category | Tonnes (t) | SG (t/m ³) | TiO ₂ equivalent (%) | TiO ₂ (%) | TFe (%) |
|-------------------------------------|--------------------------|---------------------------|---------------------------------------|-------------------------|------------|
| Measured | 46,210,000 | 3.23 | 72.61 | 4.9 | 14.72 |
| Indicated | <u>42,101,000</u> | 3.19 | 73.14 | 4.88 | 14.84 |
| Total Measured and Indicated | 88,311,000 | 3.21 | 72.86 | 4.89 | 14.78 |
| Inferred | <u>11,254,000</u> | 3.29 | 74.31 | 5.06 | 15.05 |
| Total Resources | <u><u>99,565,000</u></u> | 3.22 | 73.02 | 4.91 | 14.81 |

Note: Numbers have been rounded to reflect that the resources estimate is approximate.

Mining Study

The deposit is most suitable for open pit mining according to the size, depth and shape of the orebodies.

Production capacity is calculated to be two million tonnes per year.

The MCS reserve statement (**current reserve, revised October 2011**) for the Qinjiazhuang Project is shown in Table 1-2.

Table 1-2: Total reserve for the Qinjiazhuang Project

| Reserve Classification | Ore (Tonnes) | TiO ₂ Grade (%) | TFe Grade (%) | Contained TiO ₂ (Tonnes) | Contained TFe (Tonnes) |
|------------------------|--------------------------|----------------------------------|---------------------|---|------------------------------|
| Proved | 45,330,000 | 4.52 | 13.50 | 2,049,000 | 6,120,000 |
| Probable | <u>41,300,000</u> | 4.48 | 13.61 | <u>1,850,000</u> | <u>5,621,000</u> |
| Total reserve | <u><u>86,630,000</u></u> | 4.50 | 13.56 | <u><u>3,898,000</u></u> | <u><u>11,747,000</u></u> |

Note: Contained TFe and TiO₂ do not imply that all the TFe and TiO₂ can be recovered. Processing recovery has not been accounted for in the calculation.

The ore resources are inclusive of the ore reserve. The reserve includes diluting material with an assumed diluent grade of 0%, total dilution used was 9%. The MCS reserve is stated based on titanium with an iron credit.

A schedule of tonnages was produced of the open pit. There were no declared underground reserves as they were uneconomic. The schedule assumes that the production commences when the Yang Zhuang reserves are depleted and the mining at Qinjiazhuang remains constant over the life of the mine at 2 million tonnes per annum for the open pit mine life.

The expected project life of the open pit is 43.3 years.

MCS recommends that pilot-scale mineral processing testwork be carried out to determine the true recovery rates for the particular ores, processing equipment and design parameters of this project. Based on the results of processing testwork recovery rates may need to be revised either upwards or downwards.

Respectfully submitted

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Regional Director
**Jones Lang LaSalle Corporate Appraisal
and Advisory Limited**

INTRODUCTION

China Zhongsheng Resources Holdings Limited (together with its subsidiaries, “Shandong Xingsheng Mining Company Limited” or “the Client”) commissioned Micromine Consulting Services (“MCS”, a division of Micromine Proprietary Limited) in January of 2011 to complete a JORC standard reporting guidelines compliant resource and reserve estimation report for the Qinjiazhuang Iron and Titanium Project (“the Project”), located in Shandong province, People’s Republic of China. MCS contracted the writing of several sections of the report that had no material bearing on the resource and reserve estimate result to Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLL”). The JORC standard reporting guidelines compliant resource and reserve estimation report would be used for a submission to the Stock Exchange of Hong Kong Limited (“HKEx”) and would conform to the Chapter 18 requirements of the exchange.

The competent person for the project, MCS geologist Mr. David Allmark visited the site from the 2nd to 6th of March 2011, accompanied by Mr. Jeff Zhang of MCS and Ms. Annie Zhang and Mr. Jack Li of JLL. MCS checked the site layout and verified the provided data and visited the laboratory used for the primary analytical work.

The final technical report was compiled by the competent person, Mr. David Allmark of MCS assisted by Dr Matthew Godfrey, Mr. Alexander Winant and Mr. Andrew White of MCS. Mr. David Allmark completed the data validation, classical statistical analysis, sectional interpretation and wireframing, block modelling, grade interpolation, resource categorisation and the project management. Reserve estimation was completed by mining engineer Mr. Tony Cameron. Report sections for Location and Transport, Geology and Project History were provided by the JLL team led by Mr. Simon Chan and assisted by Ms. Annie Zhang of JLL. Technical translation and liaison with the client was conducted by Mr. Jeff Zhang of MCS. The project was supervised by MCS General Manager Mr. Dean O’Keefe.

The client again commissioned MCS in September of 2011 to complete an update of the reserve estimation for the project due to the changes in modifying factor information. This report contains the updated and current reserve estimate for the project.

A glossary of terms and abbreviations is listed in Appendix 3.

2 SCOPE OF WORK

The primary objective of this study was to produce a JORC standard reporting guidelines compliant resource and reserve estimation report for the Qinjiazhuang Iron and Titanium Project (“the Project”), located in the Shandong Province of the People’s Republic of China.

The specific objectives of the work were as follows:

Resource Estimation

- Import all topographical, analytical and geological data into MICROMINE software for data validation, error detection and error elimination, modelling and resource estimation.

- Georeferencing of all available graphical information in 3D.
- Classical statistical analysis of the sampling data to determine possible domains and natural cut-offs.
- Interpretation of mineralised bodies on cross sections and/or plans.
- Wireframe modelling of the interpreted mineralised bodies, topographic surface and, if necessary, geological formations, tectonic elements and oxidation zones.
- Coding and selection of samples for further geostatistical analysis and grade interpolation.
- Classical statistical analysis of selected samples and selection of balancing cut grades.
- Compositing of samples within mineralisation (sample length adjustment).
- Geostatistical analysis of the sampling results and determination of the spatial distribution of the mineralisation.
- Creation of block models restricted by wireframe models.
- Grade interpolation into block models.
- Classification of the resources in accordance with international standards (JORC) and reporting in accordance with Hong Kong stock exchange requirements guidelines.
- Statement of the grade and tonnage at a set of different cut-off grades.

Open Pit and Underground Mining Reserve Estimation, Mine Design and Modifying Factors Assessment

Conduct open pit and underground mine design and scheduling, mining costs and other related parameters.

MCS will consider all modifying factors and if possible convert Resources to Reserves and state the Reserves. If not possible then MCS will conduct a preliminary assessment based on assumptions and produce potentially economically viable Resources. It may not be possible to convert Resources to Reserves if the modifying factor information is inadequate or lacks detail.

Site Visit and QA/QC Audit

The above work was supplemented by a site verification visit and a QA/QC audit. This included field observations and interviews with responsible personnel to document procedures and methodologies, supported by digital, archive and report data. These data and observations were used in assessing the following QA/QC parameters:

1. Methodology and quality of drilling;
2. Methodology and quality of sampling and assaying;
3. Methodology and quality of drill collar, topographical and downhole positional information;
4. Presence and quality of any procedural or analytical checks and controls;
5. Specific gravity determination methodology.

All findings, conclusions and recommendations are summarised in the Risk Assessment section of the report.

3 LOCATION, ACCESS AND GENERAL INFORMATION

The Qinjiazhuang Iron and Titanium Project is located close to Qinjiazhuang village near Yangzhuang town in Yishui County, Shandong Province, People’s Republic of China. The project is included in a tenement with the Yang Zhuang project which covers an area of 17.88 km². The geographical coordinates of the Qinjiazhuang Project are shown in Table 3-1.

Table 3-1: Geographical Coordinates of the Qinjiazhuang Iron and Titanium Project

| | Longitude | Latitude |
|---------|------------------|-----------------|
| Minimum | 118°46’46” | 36°01’47” |
| Maximum | 118°47’50” | 36°02’36” |

The project is located approximately 4.7 km from the Yangzhuang Highway, around 1 km from the Taixue Road (S329 provincial highway) and approximately 4 km from the Yanglin Road (S227 provincial highway) to the west (Figure 4-1).



Figure 3-1: Location of the Qinjiazhuang Project

3.1 Climate and Topography

This region experiences a continental monsoon climate and is in a temperate weather zone. The average annual temperature is 13°C, the average number of days of precipitation is 85.9 days and the average amount of precipitation is 851.8 millimetres. Most precipitation occurs in August and September and comprises 65% of the total annual precipitation. The prevailing wind direction in spring and summer is from the south-east and in autumn and winter from the north-west.

The topography in the project area consists of low hills with higher topography in the north-east and lower topography in the south-west. The highest elevation is 413.5 metres ASL in the south-east of the mining area and the lowest elevation is 201.0 metres ASL in the south-west of the mining area. The relative difference in elevation is 212.50 metres.

The Xiuzhen River flows through the area from north to south. The river is wide and meandering and has several dams along its course. The water flow in the river is significantly affected by seasons; in the summer and autumn the river has a powerful flow but in winter and spring the flow is much less and even discontinuous in some areas.

3.2 Licence Status

The Qinjiazhuang Iron and Titanium Project is covered by exploration licence T37120080802012961. This project was initially covered by a separate exploration licence which has now been combined with the original Yang Zhuang exploration licence. The current licence number T37120080802012961 covers both the Qinjiazhuang and Yang Zhuang deposits and is valid from the 4th of January 2011 to the 31st of December 2012, and was issued by the Shandong Provincial Bureau of Land and Mineral Resources.

The current tenement licence certificate is in Appendix 1: Tenement Licence Certificate.

3.3 Local Infrastructure and land use

The project area has access to an electricity supply via the East China Grid which has high voltage and low voltage lines. It also has access to communication facilities. In the project area there are many small reservoirs, sufficient rainfall and perennial water storage. The water quality meets or exceeds the national standards on drinking water.

Shandong Xingsheng Mining Co. Ltd is a large Company who owns many mines and has sufficient ability to source and maintain the required mechanical, automobile and electrical equipment and parts for a mining operation.

The economy in the project area is focused on agriculture including wheat, maize, sweet potato, peanut, cotton, tobacco, forest products, vegetables and medical materials. Mining is starting to become a significant economic factor in the region.

4 REGIONAL GEOLOGY

The following information is sourced from Shandong No. 8 Exploration Institute of Geology and Mineral Resources (2010).

The project area is located in the uplifted Gongdanshan horst part of the Luxi anticline in the Yishui fracture belt. The Eastern area is comprised of a basement of Archaean metamorphic rocks from the Yanlingguan Formation of the Taishan Group and Shancaoyu Group. The main rock type in the formation is a metamorphic rock of medium to upper amphibolite facies. West of the Yishui-Tangtou fracture, the Mesozoic-Cretaceous Dasheng Group is exposed, comprising dark purple sandstone and sandy glauconitic shale. The area is structurally complex.

There are several ore deposits in the area such as the Yangzhuang iron deposit, Beiguozhang iron deposit, Tianbao ilmenite, Mazhan and Gaoqiao iron deposits, Guanzhuang bentonite and large amounts of limestone, dolomite, building stone and river sand.

5 GEOLOGY OF THE TENEMENT AREA

The following information is sourced from Shandong Lianchuang Architectural Design Co. Ltd (2011).

5.1 Stratigraphy

The stratigraphy of the project area consists of the Archaean Liuhang Formation of the Taishan Group and Cainozoic Quaternary unconsolidated sediments.

5.1.1 *Archaean*

The Liuhang Formation is part of the Taishan Group which is in the Proterozoic Aolaishan Monzogranite. It is exposed in the western part of the area, has a defined contact with the monzogranite, and is parallel to the regional schistosity ranging from 100 to 130 degrees azimuth and 50 to 70 degrees dip. It consists of biotite anorthosite, biotite amphibolites and magnetite quartz amphibolites.

5.1.2 *Quaternary*

Quaternary unconsolidated sediments are found in low-lying areas and consist of alluvium and colluvium of the Shanqian and Linyi formations.

The Shanqian formation is distributed through low hills and consists of gravelly sandy soil, clayey silt and sandy gravel beds. The Linyi formation is found on the floodplain on both banks of the river system and consists of fine sand, silty clay and gravel.

5.2 Structure

The structure of the area consists of a ductile shear belt and a brittle fracture belt.

The ductile shear belt extends from Gongshancun in the south to Eshan in the north for a distance of about five kilometres. The belt consists of weak gneissic, medium to fine grained monzonitic granite of the Songshan unit of the Proterozoic Aolaishan unit. The gneissic foliation of the rocks is generally subparallel to the mylonite foliation in the belt. The belt ranges in width from 800 to 1,000 metres. Along the mylonite zones the rocks consist of mica-quartz schist with amphibolite and biotite granulite inclusions and fuchsite-quartz schist. Structures are well developed inside the belt, with abundant s-c fabrics, stretching lineations and asymmetric folds. The foliation penetrates the middle of the shear zone and develops into lamellar-slip cleavages, producing a stratiform appearance similar to a sedimentary rock.

Brittle fracture structures within the project area are also well developed with two main fracture sets; the lower Yanglin fracture (F4) of the Qinjiazhuang orebody and the south end of Eshan fracture (F7).

The F4 fracture extends from south of Qinjiazhuang to Xiayanglin for a length of three kilometres. This fracture produces a right lateral translation in Liuhang Group rocks with a maximum horizontal displacement of around 700 metres.

The F7 fracture occurs at the south end of Eshan. It passes through the orebody and produces a maximum displacement of 70 metres.

5.3 Mineralisation

The primary host rock for mineralisation is the Sanguanzhai gabbro of the middle Proterozoic Era. The gabbro intrudes the Aolaishan Monzogranite. The mineralisation is composed of two separate orebodies; orebody 1 and orebody 2. Orebody 1 is around 1,200 metres long and 50 to 130 metres in width. Average thickness of the orebody is 75 metres. Orebody 2 is around 600 metres in length and 200 metres in width. Mineralisation is in the form of ilmenite, magnetite, and pyrite.

5.3.1 *Ilmenite*

Ilmenite mineralisation is not evenly distributed as most is concentrated in the upper part of the mineralisation.

5.3.2 *Magnetite*

Magnetite crystals are xenomorphic and in a star shaped distribution.

5.3.3 *Pyrite*

Pyrite mineralisation is concentrated in the lower part of the ore body. The mineral fills hairline fractures and forms veinlets. It is also found disseminated throughout the rocks, sometimes occurring as massive pyrite blebs. Intense pyrite mineralisation is associated with silicified rock.

6 PROJECT HISTORY

6.1 Ownership History

The Qinjiazhuang Iron and Titanium Project is currently owned by Shandong Xingsheng Mining Co. Ltd. The Company was founded in 2001 and at present is a foreign company joint venture with a registered capital of \$16,850,903 USD. The Company is focused in iron exploration, mining, processing and import and export of iron ore and iron concentrate.

6.2 Exploration History

The following information is sourced from Shandong No. 8 Exploration Institute of Geology and Mineral Resources (2010) report.

6.2.1 Regional Exploration

1950-2005: Geological exploration of the area began in the 1950s and more regional geological survey and comprehensive research work was conducted in 1996.

2005: Shandong Xingsheng Mining Company Limited requested the No. 8 Exploration Institute of Geology and Mineral Resources of Shandong Province (N8GEP) to complete a general survey of the iron ore in the mining district in October of 2005. They determined a resource of 21.354 million tonnes of iron ore consisting of both controlled intrinsic economic resources (category 332) and predicted intrinsic economic resources (category 333). The report was filed as “LZJBZ [2005] No.79” Document by Department of Land and Resources of Shandong Province on December 28, 2005”.

2007: In June of 2007, N8GEP undertook further exploration work for the client. This consisted of 1:2,000 scale geological mapping, a 1:100,000 scale high-resolution magnetic survey, field measurements and sampling in mining pits and drillholes and chemical analysis of composite samples.

6.2.2 Detailed Exploration

Exploration rights for 11.63 square kilometres in the Qingjiazhuang area were obtained by Shandong Xingsheng Mining Co. Ltd. on 18th January 2004. Exploration rights were extended and the current exploration license is valid until 31st December 2012.

7 QA/QC ANALYSIS

The quality assurance/quality control (QA/QC) analysis comes from a combination of information from the geological exploration reports for the project, the assay QA/QC data that was supplied by the client, and information and observations gathered by MCS during the site visit.

7.1 Drill hole sampling

All drill hole core sample boundaries were determined by lithology and mineralisation. 597 samples were taken from orebody 1 and 51 samples were taken from orebody 2. All samples had an average length of around 2 metres. Drill core was broken into 2 halves using a manual core splitter and half of the core was sampled.

7.2 Assay Precision

Precision is a measure of the reproducibility of a result when using the same process. Assay precision was calculated for total iron (TFe) and titanium dioxide (TiO_2) from the repeat analysis results. For orebody 1, the repeat data occurred at a frequency of 55 results from a total of 967 analyses (5.7% of total analyses). The scatterplot for TFe results versus TFe repeat results is shown in Figure 7-1. Assay precision for TFe was $\pm 0.26\%$. The scatterplot for TiO_2 results versus TiO_2 repeat results is shown in Figure 7-2. Assay precision for TiO_2 was $\pm 0.79\%$.

The number of samples taken for the repeat analysis is representative of the population (5.7%). Precision for both TFe and TiO_2 is acceptable.

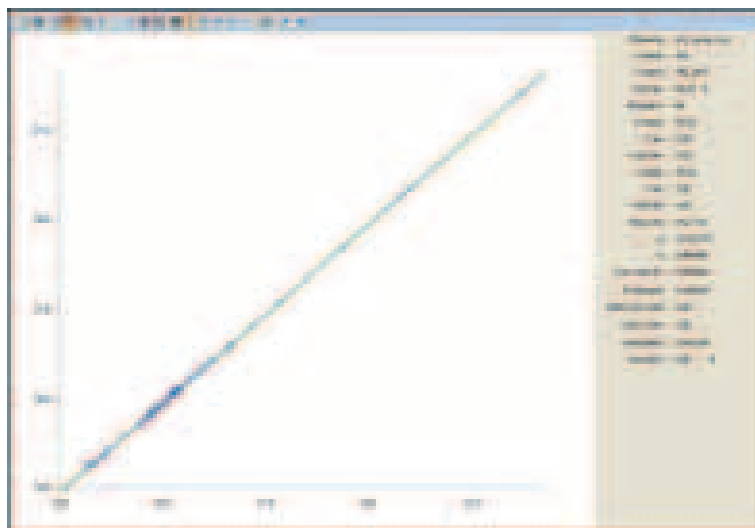


Figure 7-1: Scatterplot of TFe results versus TFe repeat results

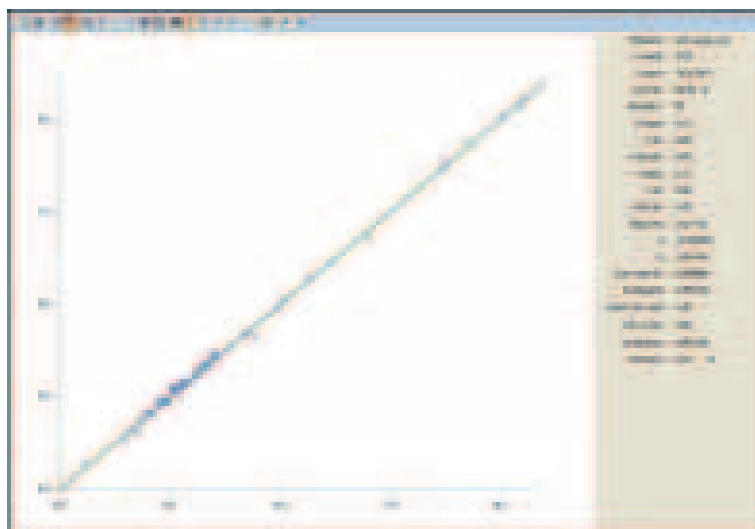


Figure 7-2: Scatterplot of TiO₂ results versus TiO₂ repeat results

7.3 Assay Bias

Samples were routinely sent to an umpire laboratory for analysis to establish if a baseline difference in reportable grades existed between the No. 8 Exploration Institute of Geology and Mineral Resources laboratory in Rizhao city, Shandong province and an independent laboratory. The independent laboratory was the laboratory of the Shandong Province Experimental Institute of Geological Sciences, located in Jinan city, Shandong province. The umpire analytical data provided occurred at a frequency of 30 samples out of 967 analyses (3.1% of the total analyses). A quantile-quantile plot of TFe results from the primary laboratory versus TFe results from the external umpire laboratory is shown in Figure 7-3. The data points all lie very close to the straight line which indicates there is no assay bias present between the results of the two laboratories at different grade cut-offs.

A quantile-quantile plot of TiO₂ results from the primary laboratory versus TiO₂ results from the external umpire laboratory is shown in Figure 7-4. The results from the external laboratory are consistently slightly higher than the results from the primary laboratory. There is also some difference in results at low and high grades. There is some departure from the straight line which indicates a minor amount of bias present between the results of the two laboratories at different grade cut-offs.

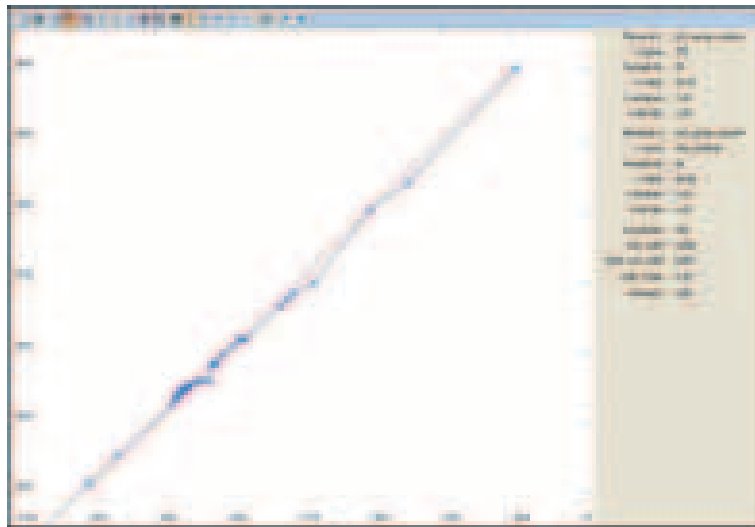


Figure 7-3: Quantile-quantile plot of TFe results from the primary laboratory versus those for the umpire laboratory

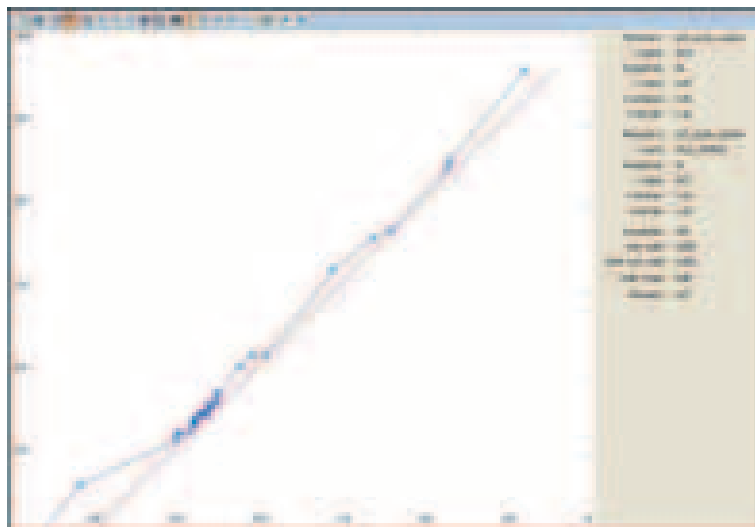


Figure 7-4: Quantile-quantile plot of TiO₂ results from the primary laboratory versus those for the umpire laboratory

7.4 Drilling Method

22 holes for 1,926.09 metres were drilled for orebody 1. For orebody 2, 2 holes for 101.09 m were drilled. All drilling was carried out by the No. 8 Exploration Institute of Geology and Mineral Resources using Jiang Tan XY-4 drill rigs. These drill rigs used 3 metre rods and were capable of drilling to depths of 1,000 metres.

The drill rigs produced NQ size core with a drilling diameter of 91 mm at the top of the hole in the weathered rock and then 75 mm to hole completion.

7.5 Drill hole survey

Drillholes from the surface were generally vertical or inclined steeply at around 80 degrees. Downhole surveys were performed every 50 metres downhole, and at orebody contacts using XJL-42 and JXY-2 electronic inclinometers.

7.6 Core Recovery

Core recovery data was recorded for 9 drillholes for orebody 1, and 2 drillholes for orebody 2. Linear core recovered length for orebody 1 was 1,581.44 metres compared to 1,622.75 drill metres, where core recovery was recorded. Recovery was weight averaged for each hole and where no data was provided for an interval, the interval was ignored.

The mean drill hole core recovery was 97.60%. This is acceptable and indicates that the drill core samples were representative of the drill interval.

Linear core recovered length for orebody 2 was 86.30 metres compared to 101.09 drill metres, where core recovery was recorded. Recovery was weight averaged for each hole and where no data was provided for an interval, the interval was ignored.

The mean drill hole core recovery was 85.37%. Core recovery for orebody 2 is moderate.

7.7 Trenching and Trench Sampling

Six trenches for 777.20 metres were excavated for orebody 1. All trenches were orientated approximately 45 degrees (south-west to north-east) and ranged in length from 50.1 metres to 192.5 metres. For orebody 2 four trenches for 814.00 metres were excavated orientated east-west and ranged in length from 108.0 metres to 274.0 metres.

All were sampled as continuous channel samples taken from the base of the trench on the northern face.

7.8 Standards and Blanks

The client did not provide any results of external standard analysis or details of the standards. Internal standards were implemented by No. 8 Exploration Institute of Geology and Mineral Resources laboratory. Some of these standards were observed during the site visit, but no data of the results for QA/QC purposes was provided by the client.

7.9 Laboratory inspection

The primary laboratory for the project was the laboratory of the Shandong No. 8 Exploration Institute of Geology and Mineral Resources, in Rizhao city, Shandong province. The laboratory was inspected by Mr. David Allmark and Mr. Jeff Zhang of MCS accompanied by Mr. Jack Li and Ms. Annie Zhang of JLL with Mr. Liu Jiazhao, the Manager of the No. 8 Exploration Institute of Geology and Mineral Resources on 5th March 2011. Sample receipt, sample preparation and sample analysis facilities were viewed and procedures were documented. The laboratory is certified by the Shandong Provincial Quality and Technology Supervision Bureau and the State Recognising Supervision Administration Committee. Certificates for both authorities are shown in Figure 7-5.

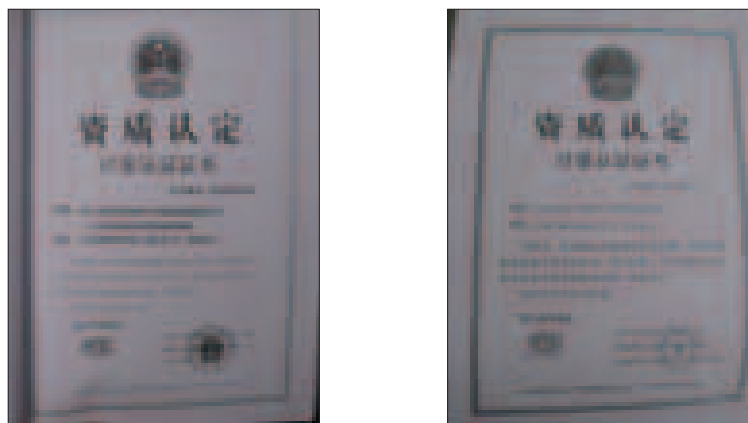


Figure 7-5: Laboratory accreditation certificates

Upon sample receipt, all details of the samples were logged and entered into a spreadsheet. Sample batch numbers and internal QA/QC sample numbers were then allocated. Details of all required element analyses were then recorded and staff members were allocated their own particular responsibility for the sample batch.

Sample preparation involved two stages of crushing and one of pulverisation. For the first stage, the sample was crushed in the primary jaw crusher to a size of 10 millimetres. In the second stage, the sample was crushed further by ‘cold crushers’ to a size of 1 millimetre. For the pulverisation stage, the sample was crushed by roll crushers

to 0.074 millimetres. The machines for the first and second stages of crushing are shown in Figure 7-6 while the roll crusher machine for pulverisation is shown in Figure 7-7. The storage area for the pulverised sample is shown in Figure 7-8.



Figure 7-6: First stage jaw crusher (left) and second stage cold crusher (right)



Figure 7-7: Photograph of roll crushers for pulverisation stage



Figure 7-8: Storage of pulverised samples

7.10 Analytical Method

After sample preparation, the weight of each sample was checked by weighing on a set of scales and the weight was recorded. A mixture of sulphuric and phosphoric acid was added to the dry sample. The mixture was then heated on a hot plate if the sample did not dissolve. The final solution was analysed for total iron (TFe) and titanium dioxide (TiO₂) using a Thermo Scientific iCAP 6000 series inductively coupled plasma optical emission spectrometer (ICP-OES) machine housed in a temperature and humidity controlled room Figure 7-9.



Figure 7-9: Technician operating ICP-OES machine at the primary Rizhao laboratory

A second split of the pulverised sample was taken and analysed for magnetite Fe content (mFe). This was done simply by magnetic separation and weighing of the sample to determine the proportional magnetite content. The proportion of Fe in the magnetite was then calculated.

7.10.1 Laboratory Inspection Summary

MCS observed during the visit that laboratory hygiene was of a high standard and the Chinese procedures for sample preparation and analysis were being followed and observed by laboratory staff.

7.11 Site Visit

The Qinjiazhuang Project site was visited from the 3rd to 4th of March 2011 by Mr. David Allmark and Mr. Jeff Zhang of MCS, accompanied by Ms. Annie Zhang and Mr. Jack Li of JLL. MCS checked the site layout and verified the provided data and later visited the laboratory used for the primary analytical work in Rizhao. MCS visited the No. 8 Exploration Institute of Geology and Mineral Resources that had conducted the exploration.

7.11.1 Drillhole collar location verification

The purpose of the site visit was to independently verify a selection of drillhole collar positions and inspect and verify core intersections to confirm the geology and mineralisation.

Within the time permitting, MCS attempted to check the locations of drillhole collars for the project. MCS found that all of the collar locations were in farming areas and that the original collar locations had been disturbed. With the assistance of the Yang Zhuang Deputy Mine Manager, Mr. Li, MCS was able to locate and identify two collars on the geological plan and on the ground, ZK1202 (Figure 7-10) and ZK1601 of orebody 1. MCS used the client's GPS unit to locate the collar position and found the coordinates in the database were within 4 metres of the coordinate read from the GPS, an acceptable result.



Figure 7-10: Concrete cap on collar of ZK1202

7.11.2 Drill core verification

MCS viewed the drillcore for the project at the Yang Zhuang minesite. Most of the core was in reasonably good condition, and appeared to be stored in discrete stacks for each drillhole (Figure 7-11). The core was stored in an unprotected area.



Figure 7-11: Drill core storage facilities for Qinjiazhuang Project

MCS was able to check a random selection of drillcore intervals from 4 drillholes. The details of the core inspected are given in Table 7-1.

The core for each interval was checked with the original drillhole logs (supplied by the client for the site visit) and the assays for the intervals. MCS found the geology, mineralisation and approximate grade of each interval inspected matched the original drillhole logs. All core appeared to have been correctly split and sampled. Marker tags for the depths of each interval in the boxes were available and also inspected. All were found to be correct, and were generally in the correct position. Photographs of the core that was inspected are shown in Figure 7-12 to Figure 7-15.

Table 7-1: Details of drillcore inspected

| HoleID | Depth from (m) | Depth to (m) | Comments |
|--------|-------------------|-----------------|--|
| ZK102 | 46.30 | 49.15 | High grade TiO ₂ ore, 8%. Checked with logs. |
| ZK402 | 161.80 | 163.80 | Fe-Ti ore concurs with logs and assays. |
| ZK801 | 76.00 | 78.00 | Fe-Ti ore concurs with logs and assays. |
| ZK1601 | 32.00 | 34.00 | Fe-Ti ore concurs with logs and assays. |



Figure 7-12: Drill core from ZK102 (46.30-49.15m)



Figure 7-13: Drill core from ZK402 (161.80-163.80 m)



Figure 7-14: Drill core from ZK801 (76.00-78.00 m)



Figure 7-15: Drill core from ZK1601 (32.00-34.00 m)

7.12 Specific Gravity and Moisture

Specific gravity was determined by the quick immersion method according to the Chinese geological exploration code. The sample was first coated in wax to prevent absorption of water. The weight of the sample in air was obtained then the sample was immersed in water and a second weight in water was obtained. The amount of water displaced by the immersion of the sample was recorded. The specific gravity was then determined according to the following formula:

W2 = wax plus sample weight

W1 = dry weight

Wax density 0.9 t/m³

Wax volume, VP = (W2 – W1)/0.9

VC = displaced water volume

Sample volume, V = VC – VP

Density = W1/V

8 EXPLORATION GRID DENSITY

For orebody 1, all drillholes were drilled on sections orientated south-west to north-east at a spacing of approximately 200 metres. On each exploration section line, drillholes were spaced between 150 metres and 220 metres. One infill line at a spacing of around 100 m at the north end of the orebody was also drilled.

For orebody 2, the two most southern exploration lines have a spacing of 200 metres, while the two northern lines have a spacing of 100 metres.

9 PREVIOUS RESOURCE AND RESERVE ESTIMATES

In 2008, a resource estimate was carried out by the Shandong No. 8 Exploration Institute of Geology and Mineral Resources for orebody 1. The '332' category resource was 23,171,000 tonnes at a grade of 5.24% TiO₂ and 15.40% TFe, and the '333' category resource was 54,482,000 tonnes at a grade of 4.95% TiO₂ and 14.74% TFe. The combined '332' and '333' category resource was 77,653,000 tonnes at a grade of 5.03% TiO₂ and 14.94% TFe. The resource is shown in Table 9-1. Orebody 2 has not been estimated previously.

Table 9-1: Historic resource for the Qinjiazhuang Project

| Areas | Resource Category | Ore Qty (x10 ⁴ t) | Average Grade (%) | | |
|------------|-------------------|---------------------------------|------------------------|-------|------------------|
| | | | TFe + TiO ₂ | TFe | TiO ₂ |
| 1 | 2 | 3 | 4 | 5 | 7 |
| Ore Body I | 332 | 2317.1 | 20.64 | 15.4 | 5.24 |
| | 333 | 5448.2 | 19.69 | 14.74 | 4.95 |
| | 332+333 | 7765.3 | 19.97 | 14.94 | 5.03 |

This resource estimate will be treated herein as a 'historic' resource. This resource is not JORC compliant.

10 RESOURCE ESTIMATION METHODOLOGY

10.1 Methodology

The modelling methodology involved the following steps:

- Database compilation;
- Data validation;
- Exploratory data analysis;
- Interpretation of mineralisation based on the geological cut-off grade;
- Wireframing of interpreted mineralised polygons;
- Modelling of experimental semivariograms;
- Determination of modelling search neighbourhood parameters;
- Block modelling and grade interpolation;
- Removal of mined out areas;
- Resource classification;
- Resource reporting at a cut-off that indicated the resources were potentially economically viable.

10.2 Software

The Qinjiazhuang Project resources were estimated using MICROMINE (Version 12.0.4) software.

10.3 Database Compilation

Data was provided by Shandong Xingsheng Mining Company Limited on the 11th and 20th of January 2011.

The provided data consisted of one Excel spreadsheet, containing collar, survey, assay, core recovery, specific gravity data and lithological descriptions and other information in 8 worksheets.

The Excel spreadsheet provided was titled as follows:

1. Xinsheng drilling data – Yangzhuang part 2 – 70 million ton.xls

The contents of each worksheet in the Xinsheng drilling data – Yangzhuang part 2 – 70 million ton.xls spreadsheet is shown in Table 10-1.

**Table 10-1: Contents of spreadsheet Xinsheng drilling data
– Yangzhuang part 2 – 70 million ton.xls as supplied**

| Worksheet | No. of Holes and Trenches | No. of Records |
|------------------|--------------------------------------|---------------------------|
| Survey | 28 | 28 |
| Collar | 28 | 28 |
| Assay | 26 | 967 |
| Geology | 15 | 94 |
| Recovery | 9 | 728 |
| SG | 20 | 51 |
| Lookup Codes | NA | NA |
| Notes | NA | NA |

The client provided MCS with additional data for a second orebody (orebody 2) of the Qinjiazhuang Project on the 24th of February 2011. The provided data consisted of one excel spreadsheet containing collar, survey, geology, assay, recovery, SG and other information including composite sample results in 8 worksheets. The spreadsheet was titled as follows:

1. Xingsheng additional drilling data – Qinjiazhuang.xls

The contents of each worksheet are shown below in Table 10-2.

**Table 10-2: Contents of spreadsheet Xingsheng additional drilling data
– Qinjiazhuang.xls as supplied**

| Worksheet | No. of Holes and Trenches | No. of Records |
|-----------------------|--------------------------------------|---------------------------|
| Collar | 6 | 6 |
| Survey | 6 | 6 |
| Geology | 6 | 13 |
| Composite Sample Res. | NA | 8 |
| Assay | 6 | 445 |
| Recovery | 2 | 53 |
| SG | 6 | 30 |
| Lookup codes | NA | NA |

10.4 Data Validation

The files of both spreadsheets were then prepared so that they could be imported into MICROMINE software. Minor changes were made to the files after import into MICROMINE to enable production of a drillhole database in MICROMINE.

The original drawings from the exploration report were then supplied by the client on the 20th of January 2011 and MCS performed the following:

- Displayed geology plans and cross-sections in MapGIS then imported into MICROMINE. The plans and sections were then geo-referenced in MICROMINE and the collar positions and traces were checked;
- Checked collar coordinates, survey and assay data with the original data on the drawings;
- Entered additional downhole survey data for each drillhole that had not been included in the supplied data previously.

Obvious errors in the supplied database were then corrected. The database was then checked using special processes designed to detect the following errors:

- Duplicate drillhole or trench names;
- One or more collar coordinates missing in the collar file;
- FROM or TO missing or absent in the assay file;
- FROM \geq TO in the assay file;
- Sample intervals are not contiguous in the assay file (gaps exist between the assays);
- Sample intervals overlap in the assay file;
- First sample is not equal to 0 m in the assay file;
- First depth is not equal to 0 m in the survey file;
- Several downhole survey records exist for the same depth;
- Azimuth is not between 0 and 360 degrees in the survey file;
- Dip is not between 0 and 90 degrees in the survey file;
- Azimuth or dip is missing in survey file;
- Total depth of the holes is less than the depth of the last sample; and
- Total downhole survey depth is greater than the total drillhole depth.

Numerous errors were identified and corrected in the database. Details of all errors identified are in the Appendix 2: Database Validation and Acceptance Report. The final database for the original data contained records for 22 drillholes and 6 trenches.

The number of records in the final original database for each hole ID is shown in Table 10-3.

The final database for the additional data (orebody 2) was created in MICROMINE and contained records for 4 trenches and 2 drillholes. The number of records in the final database for orebody 2 for each hole ID is shown in Table 10-4.

Table 10-3: Number of records of each type for each hole ID in original database

| Hole ID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|---------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| QZ1600 | 3990000.000 | 40391177.859 | 217.65 | 9.20 | 1 | 1 | 0 | 1 | 0 |
| QZ1603 | 3990014.105 | 40391192.140 | 217.45 | 8.20 | 1 | 1 | 0 | 0 | 0 |
| QZ1604 | 3989985.895 | 40391163.701 | 217.78 | 11.60 | 1 | 1 | 0 | 1 | 0 |
| QZ1607 | 3990028.324 | 40391206.163 | 217.43 | 9.00 | 1 | 1 | 0 | 1 | 0 |
| QZ1608 | 3989971.676 | 40391149.641 | 218.10 | 13.20 | 1 | 1 | 0 | 1 | 0 |
| QZ1611 | 3990042.498 | 40391220.294 | 217.41 | 9.50 | 1 | 1 | 0 | 1 | 0 |
| QZ1612 | 3989957.593 | 40391135.445 | 218.34 | 14.80 | 1 | 1 | 0 | 0 | 0 |
| QZ1614 | 3989950.575 | 40391128.378 | 218.43 | 8.80 | 1 | 1 | 0 | 0 | 0 |
| QZ1615 | 3990056.631 | 40391234.442 | 217.38 | 5.50 | 1 | 1 | 0 | 0 | 0 |
| QZ1616 | 3989943.516 | 40391121.322 | 218.51 | 7.20 | 1 | 0 | 0 | 0 | 0 |
| QZ1619 | 3990070.777 | 40391248.583 | 217.29 | 6.10 | 1 | 0 | 0 | 0 | 0 |
| TC0 | 3990372.020 | 40390397.000 | 246.23 | 164.00 | 1 | 75 | 4 | 3 | 0 |
| TC1 | 3990458.210 | 40390346.560 | 245.01 | 147.60 | 1 | 73 | 5 | 3 | 0 |
| TC3 | 3990569.362 | 40390332.583 | 248.81 | 50.10 | 1 | 25 | 7 | 0 | 0 |
| TC4 | 3990188.670 | 40390481.740 | 244.31 | 156.00 | 1 | 74 | 5 | 2 | 0 |
| TC8 | 3990051.800 | 40390639.430 | 241.56 | 192.50 | 1 | 92 | 8 | 2 | 0 |
| TC12 | 3989967.824 | 40390863.782 | 227.82 | 67.00 | 1 | 31 | 9 | 0 | 0 |
| ZK0 | 3990409.820 | 40390455.980 | 250.57 | 100.08 | 1 | 50 | 0 | 5 | 0 |
| ZK1 | 3990483.790 | 40390386.000 | 250.35 | 100.16 | 1 | 50 | 0 | 5 | 0 |
| ZK102 | 3990556.762 | 40390513.825 | 256.68 | 129.45 | 3 | 43 | 4 | 3 | 50 |
| ZK401 | 3990271.445 | 40390600.772 | 245.91 | 119.90 | 2 | 55 | 8 | 3 | 64 |
| ZK402 | 3990379.342 | 40390708.834 | 240.94 | 180.30 | 2 | 59 | 7 | 3 | 96 |
| ZK801 | 3990139.370 | 40390751.458 | 237.27 | 103.70 | 2 | 44 | 2 | 3 | 39 |
| ZK802 | 3990250.742 | 40390863.984 | 234.26 | 170.60 | 2 | 36 | 6 | 4 | 65 |
| ZK1201 | 3990086.551 | 40390982.336 | 230.51 | 126.90 | 2 | 42 | 4 | 3 | 50 |
| ZK1202 | 3990237.340 | 40391139.471 | 217.12 | 242.00 | 4 | 54 | 7 | 3 | 110 |
| ZK1601 | 3990092.638 | 40391274.436 | 214.45 | 211.50 | 3 | 94 | 7 | 2 | 108 |
| ZK1602 | 3990235.470 | 40391413.278 | 216.15 | 338.40 | 4 | 61 | 11 | 2 | 146 |

Table 10-4: Number of records of each type for each HoleID in orebody 2 database

| Hole ID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|---------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| GTC0 | 3989291.56 | 40391826.03 | 237.50 | 260.00 | 1 | 126 | 3 | 7 | 0 |
| GTC1 | 3989393.02 | 40391828.12 | 228.35 | 274.00 | 1 | 134 | 2 | 8 | 0 |
| GTC4 | 3989091.80 | 40391822.00 | 243.50 | 172.00 | 1 | 83 | 2 | 5 | 0 |
| GTC8 | 3988891.92 | 40391818.05 | 257.30 | 108.00 | 1 | 51 | 2 | 4 | 0 |
| GZK1 | 3989289.14 | 40391950.13 | 241.00 | 50.37 | 1 | 25 | 2 | 3 | 27 |
| GZK2 | 3989389.50 | 40391951.92 | 235.00 | 50.72 | 1 | 26 | 2 | 3 | 26 |

An accurate DTM of the topographic surface was produced in MICROMINE software by MCS after surveyed 3D coordinate data of the surface of both areas (orebody 1 and orebody 2) was provided by the client on the 10th of March 2011. This DTM was used for the resource estimation.

A combination of both databases was used for the resource estimation of the Qinjiazhuang Project.

10.5 Exploratory Data Analysis

Classical statistical analysis was conducted twice for the Qinjiazhuang Iron and Titanium Project. Orebody 1 was analysed separately from orebody 2. The first study was undertaken with the entire data set to meet the following objectives:

- To estimate the geological cut-off grade for total iron (TFe) mineralisation and titanium dioxide (TiO₂) mineralisation; and
- To determine the distribution parameters of iron and titanium dioxide grades.

The descriptive statistics for total iron (TFe) and titanium dioxide (TiO₂) for the exhaustive populations for orebody 1 and orebody 2 are shown in Figure 10-1 to Figure 10-4. The histograms of the exhaustive population for TFe and TiO₂ for both orebodies are shown in Figure 10-5 to Figure 10-8. The exhaustive grade populations for TFe and TiO₂ for orebody 1 consist of two approximately normally-distributed populations spread over a large range of values, but with most grades occurring in the higher grade population. The exhaustive populations for both TFe and TiO₂ for orebody 2 consist of one population at higher grades with a much smaller population at lower grades.

The probability plots and cumulative frequency plots for TFe and TiO₂ for both orebodies are shown in Figure 10-9 to Figure 10-16. For TFe in orebody 1, the two populations are separated at a grade of 8.7% TFe. This grade can be seen on the probability plot as the point where the line changes curvature (inflection point) representing the boundary between the mineralised and unmineralised grade populations of TFe. For TiO₂ for orebody 1, the two populations are separated at a grade of 1.9% TiO₂. This grade can be seen on the probability plot as the point where the line changes curvature (inflection point) representing the boundary between the mineralised and unmineralised grade populations of TiO₂.

For orebody 2, the same grades separating the mineralised and unmineralised populations can be seen and there is a large difference between the two populations.

The values of 8.7% TFe and 1.9% TiO₂ were therefore chosen as the geological cut-off grades for mineralisation of TFe and TiO₂ respectively, for both orebodies.



Figure 10-1: Descriptive statistics for total iron (TFe) for the exhaustive population for orebody 1



Figure 10-2: Descriptive statistics for titanium dioxide (TiO₂) for the exhaustive population for orebody 1

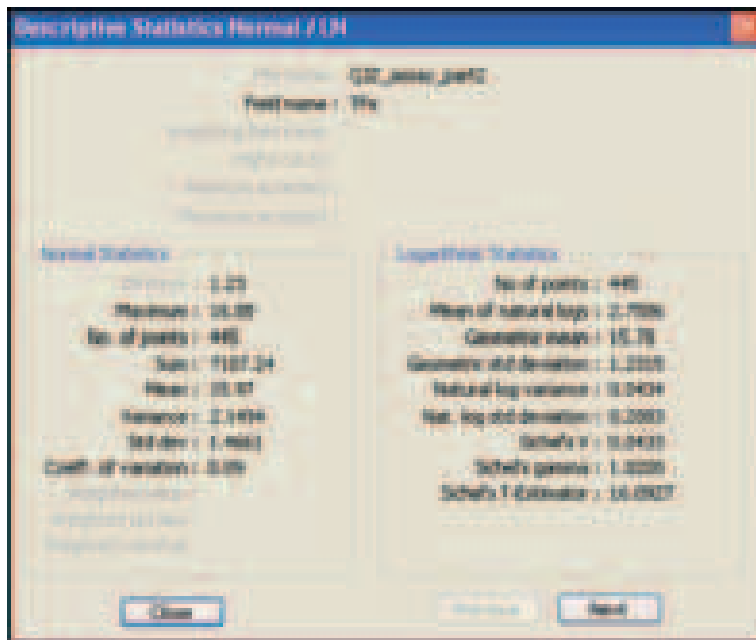


Figure 10-3: Descriptive statistics for total iron (TFe) for the exhaustive population for orebody 2

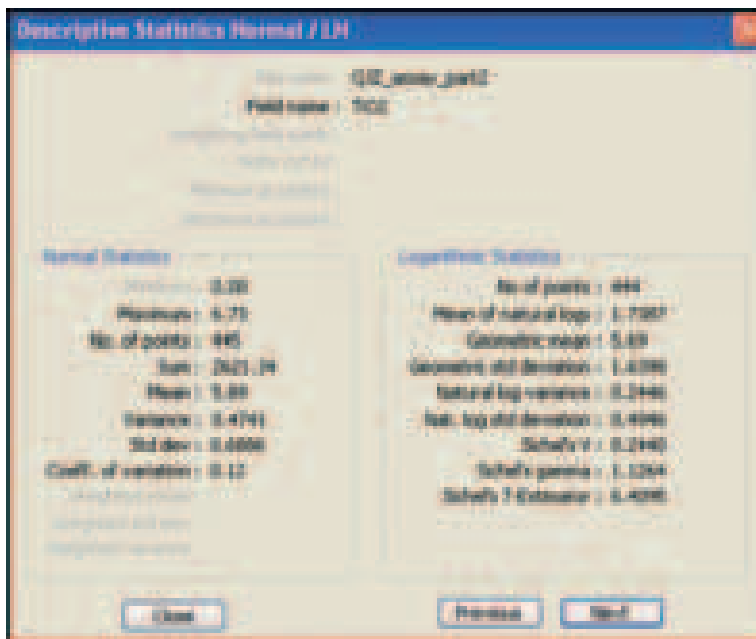


Figure 10-4: Descriptive statistics for titanium dioxide (TiO₂) for the exhaustive population for orebody 2

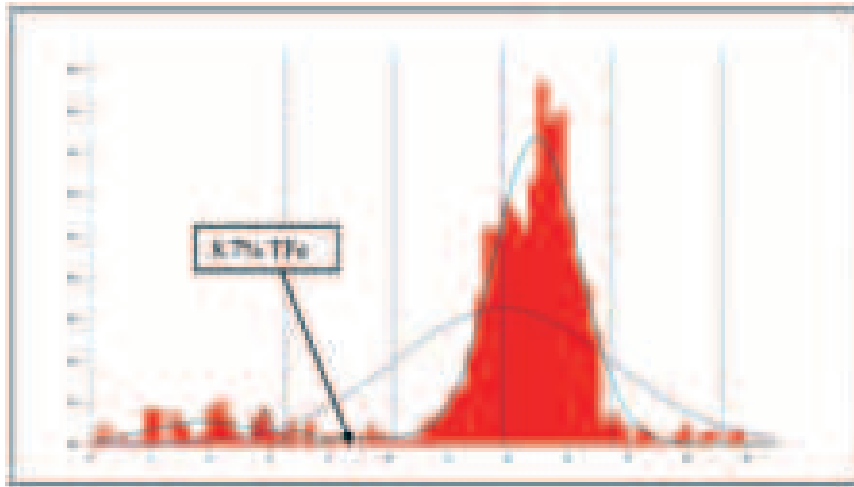


Figure 10-5: Histogram for TFe for the exhaustive population for orebody 1

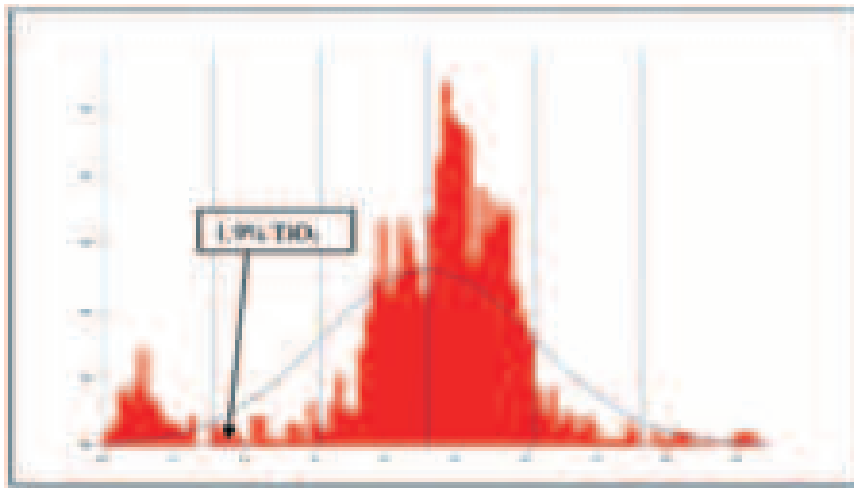


Figure 10-6: Histogram for TiO₂ for the exhaustive population for orebody 1

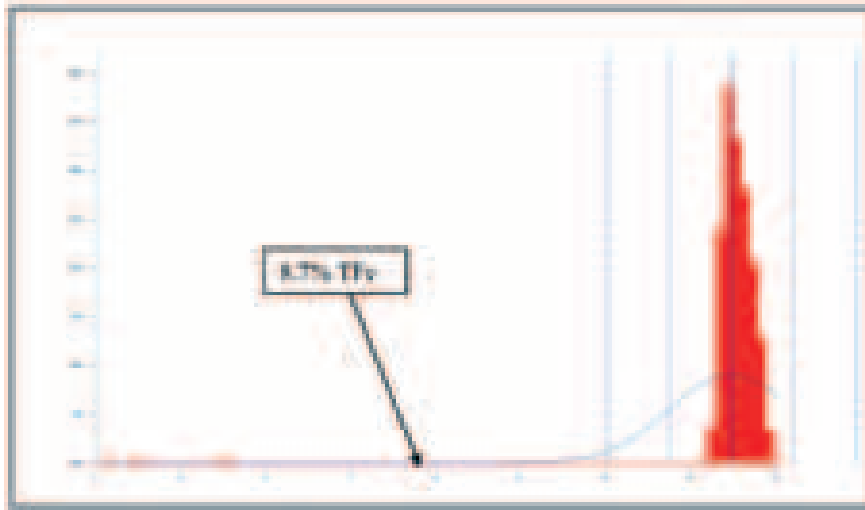


Figure 10-7: Histogram for TFe for the exhaustive population for orebody 2

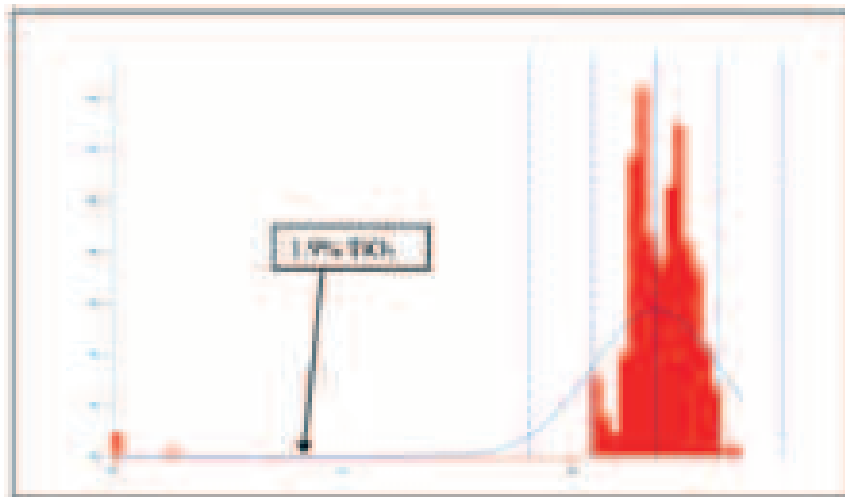


Figure 10-8: Histogram for TiO₂ for the exhaustive population for orebody 2

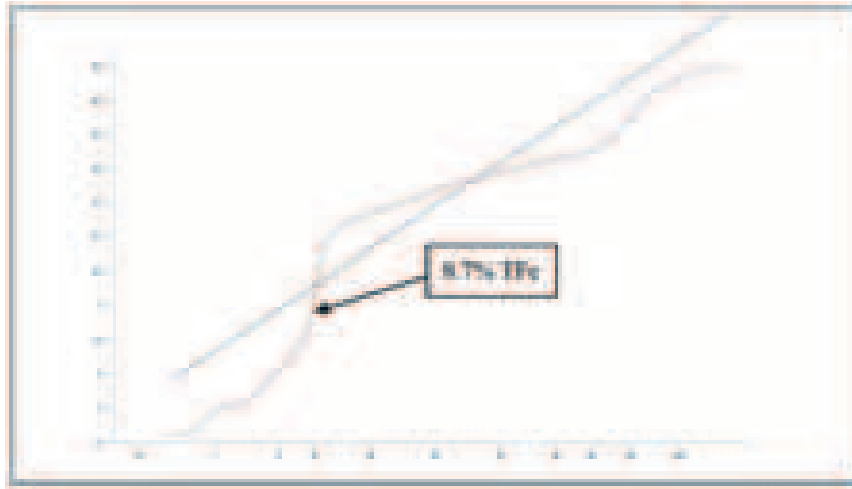


Figure 10-9: Probability plot for TFe for the exhaustive population for orebody 1.

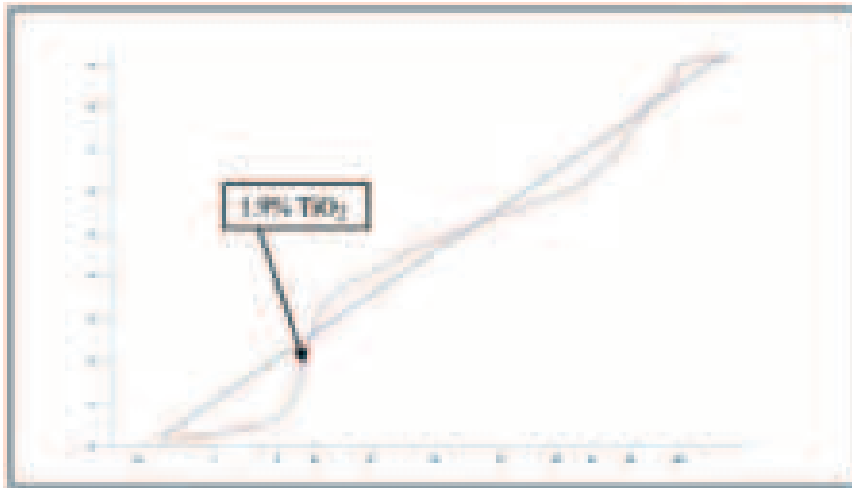


Figure 10-10: Probability plot for TiO₂ for the exhaustive population for orebody 1

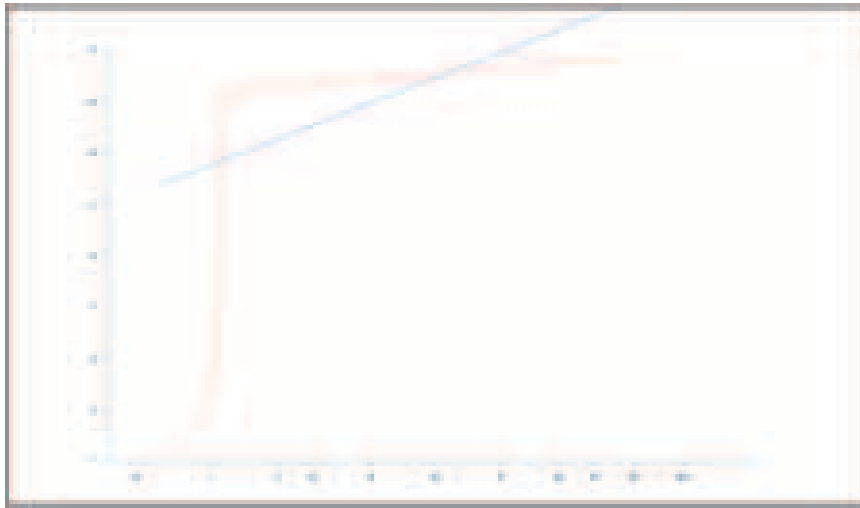


Figure 10-11: Probability plot for TFe for the exhaustive population for orebody 2

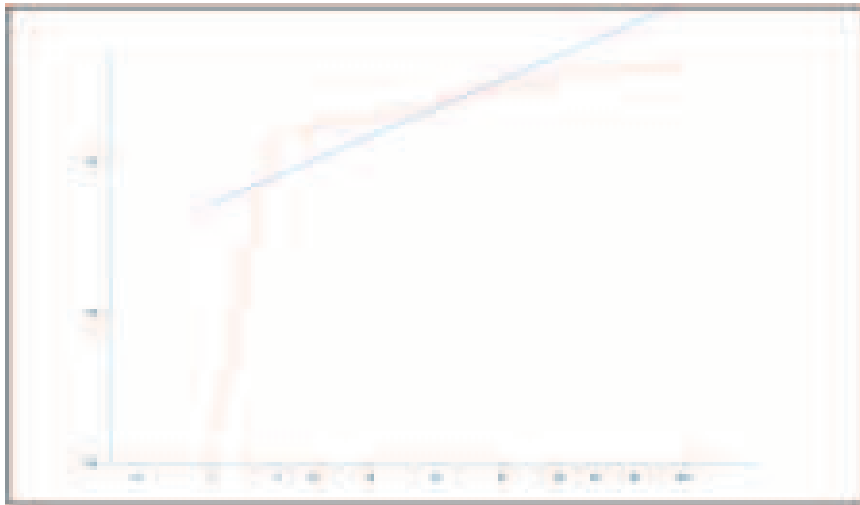


Figure 10-12: Probability plot for TiO₂ for the exhaustive population for orebody 2

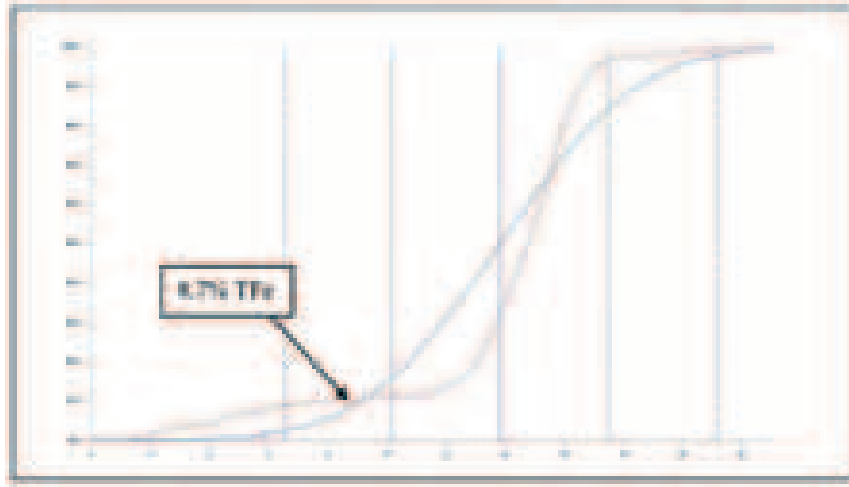


Figure 10-13: Cumulative frequency plot for TFe for the exhaustive population for orebody 1

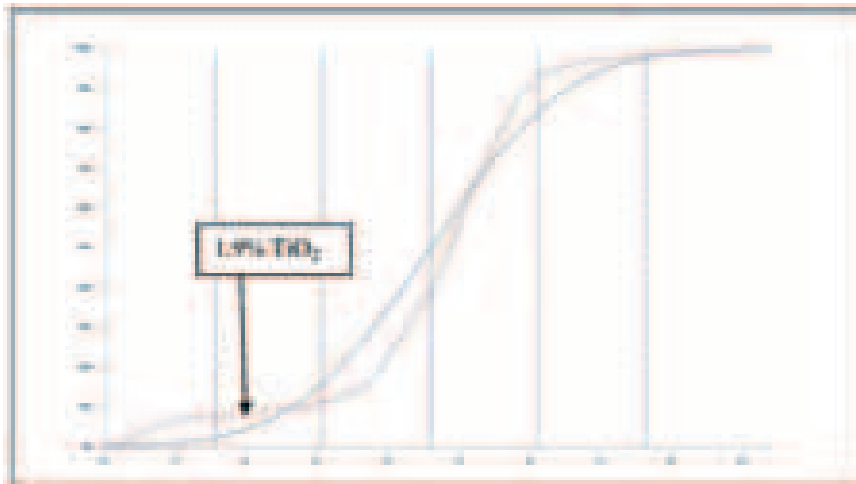


Figure 10-14: Cumulative frequency plot for TiO₂ for the exhaustive population for orebody 1

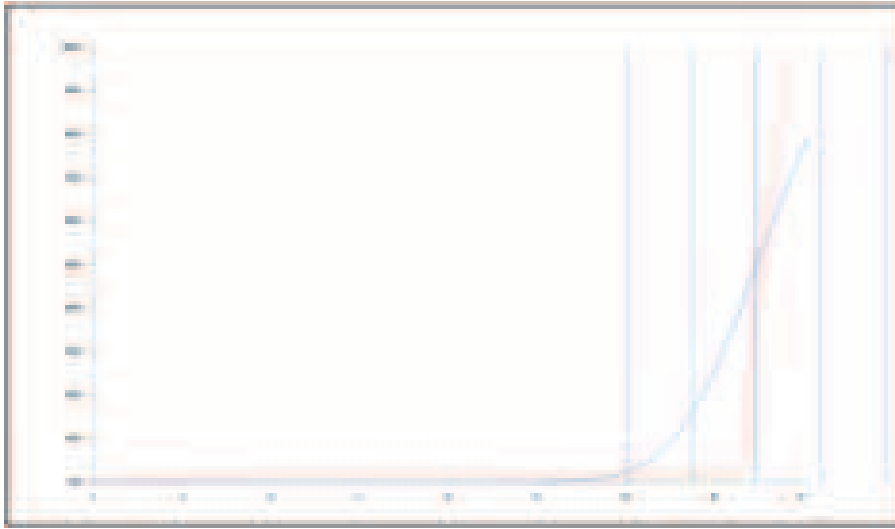


Figure 10-15: Cumulative frequency plot for TFe for the exhaustive population for orebody 2

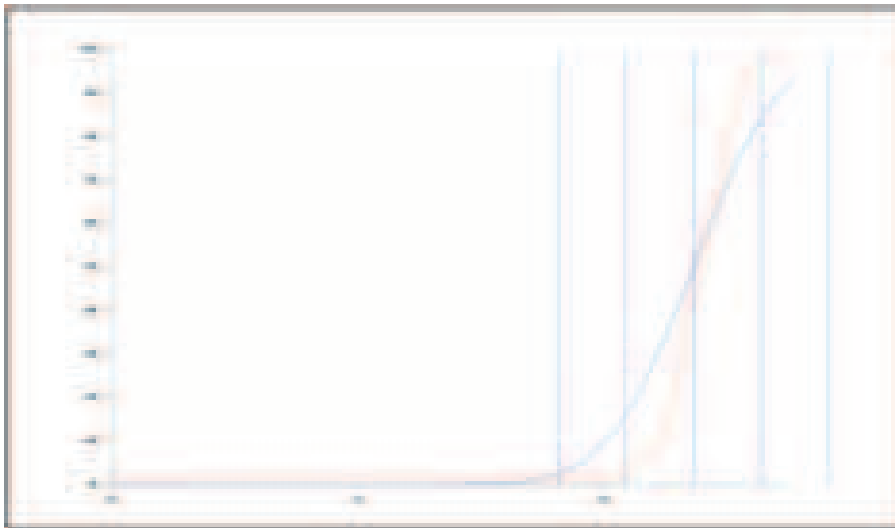


Figure 10-16: Cumulative frequency plot for TiO₂ for the exhaustive population for orebody 2

The second classical statistical analysis was performed using only the grades from samples within the interpreted mineralised envelopes to meet the following objectives:

- To estimate the mixing effect of grade populations for TFe and TiO₂;
- To determine the necessity of the separation of grade populations if more than one population exists inside the wireframes;
- To determine the balancing cut grade for TFe and TiO₂ to be used for grade interpolation.

The histograms of the TFe and TiO₂ grade populations within the mineralised wireframes for both orebodies are shown in Figure 10-17 to Figure 10-20. The probability plots of the TFe and TiO₂ grade populations within the mineralised wireframes for both orebodies are shown in Figure 10-21 to Figure 10-24, while the cumulative frequency plots for the same data are shown in Figure 10-25 to Figure 10-28. The histograms for TFe and TiO₂ for orebody 1 indicate that there is only one approximately normally-distributed population within each wireframe. To reduce the small tail of spurious values at higher grade that would locally bias an estimated grade, a balancing cut of 18.4% TFe and 7.5% TiO₂ was applied to the assays in the wireframe. The balancing cut for TFe was determined from the histogram for TFe as it is the grade that separates the smaller population of the upper tail from the main part of the distribution (Figure 10-17). The 97.7 percentile on the cumulative frequency plots was used to determine the balancing cut for TiO₂ grades (Figure 10-26). A new field for TFe cut 18.4% and TiO₂ cut 7.5% was created in the assay file and the new assays cut to the respective values were generated.

For orebody 2, the histograms for TFe and TiO₂ (Figure 10-19 and Figure 10-20) indicate an approximately normally-distributed population with gaps due to the lower amount of data. No significant tail of high grades can be seen on the histogram for TFe or TiO₂, so a balancing cut was not required and not applied to the assay file for orebody 2.

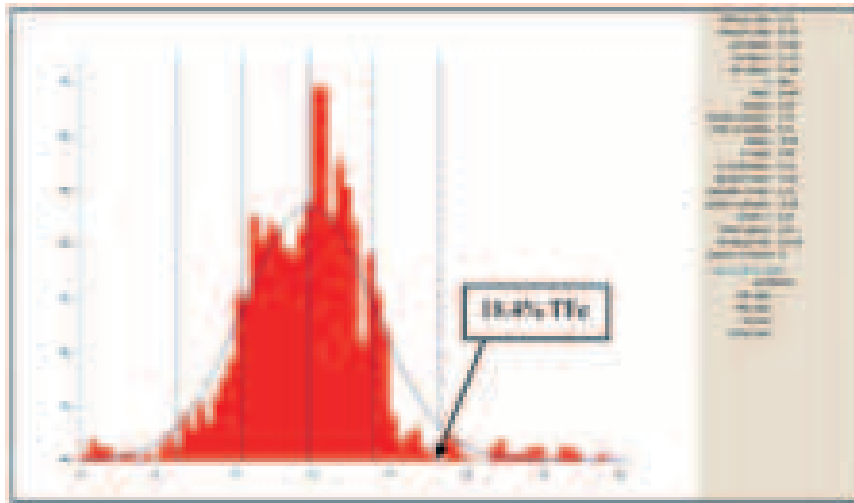


Figure 10-17: Histogram of TFe grades inside the mineralised wireframe for orebody 1

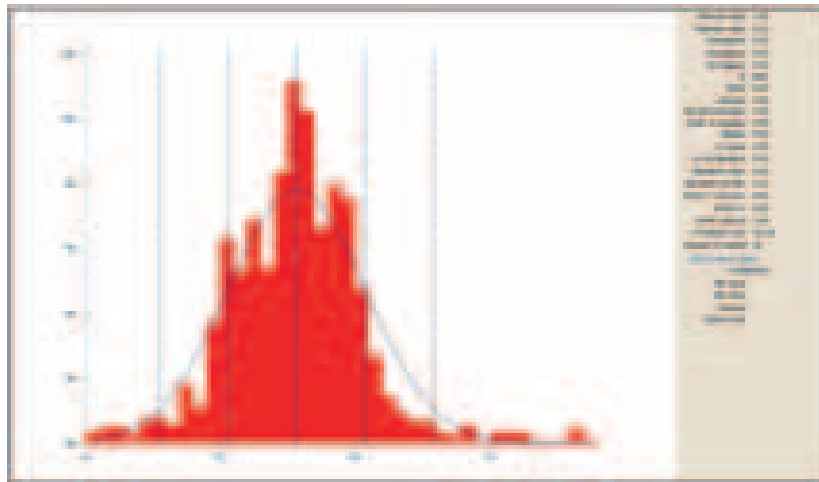


Figure 10-18: Histogram of TiO₂ grades inside the mineralised wireframe for orebody 1

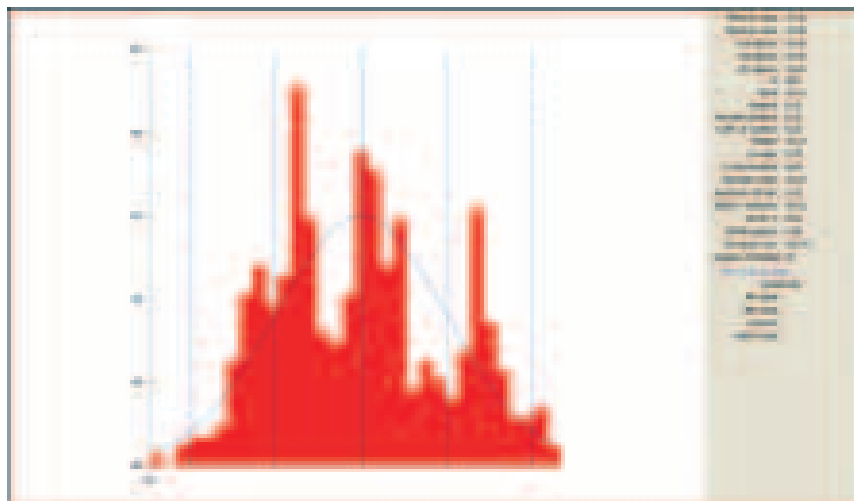


Figure 10-19: Histogram of TFe grades inside the mineralised wireframe for orebody 2

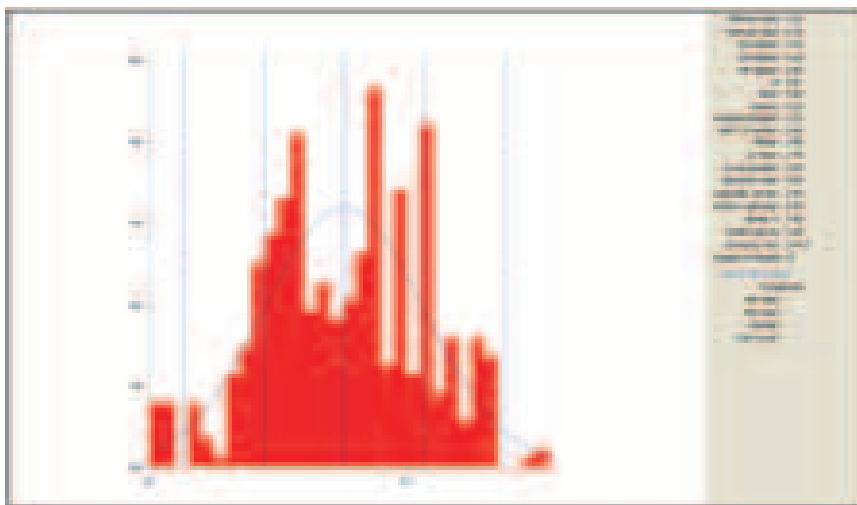


Figure 10-20: Histogram of TiO₂ grades inside the mineralised wireframe for orebody 2

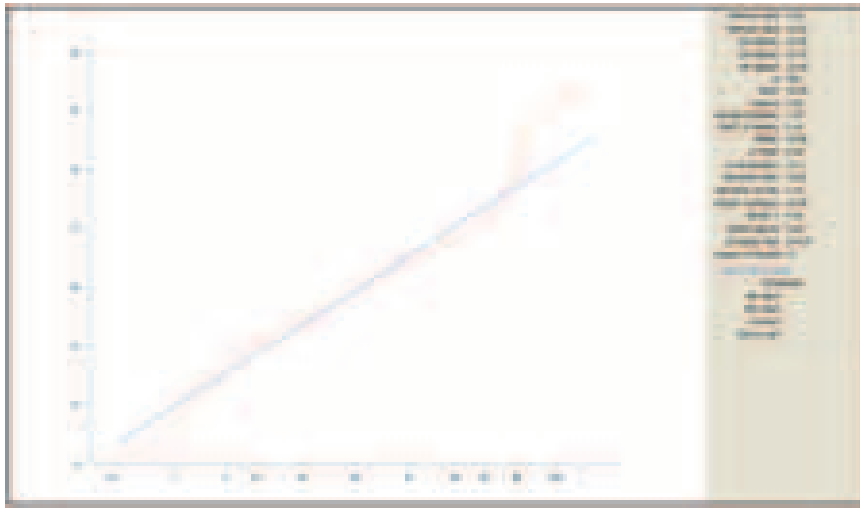


Figure 10-21: Probability plot of TFe grades inside the mineralised wireframe for orebody 1

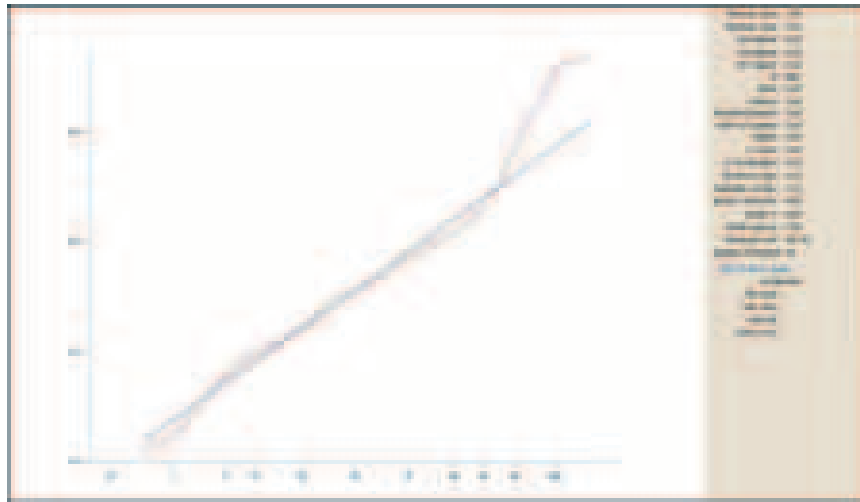


Figure 10-22: Probability plot of TiO₂ grades inside the mineralised wireframe for orebody 1

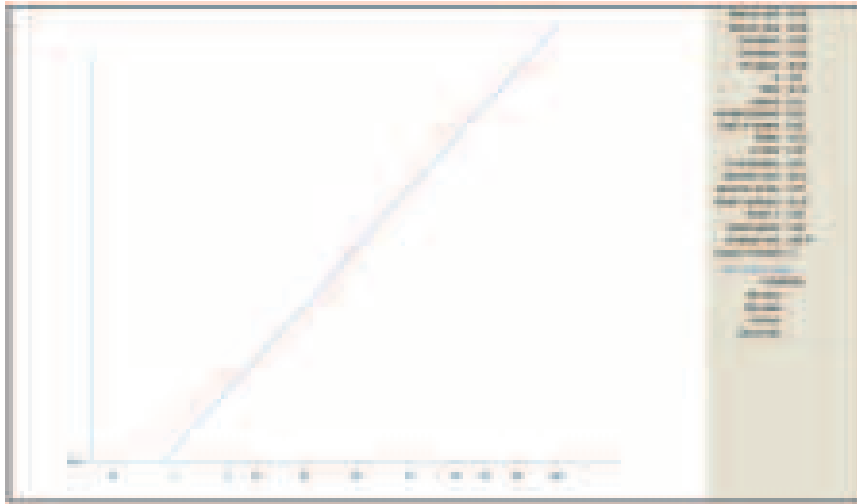


Figure 10-23: Probability plot of TFe grades inside the mineralised wireframe for orebody 2

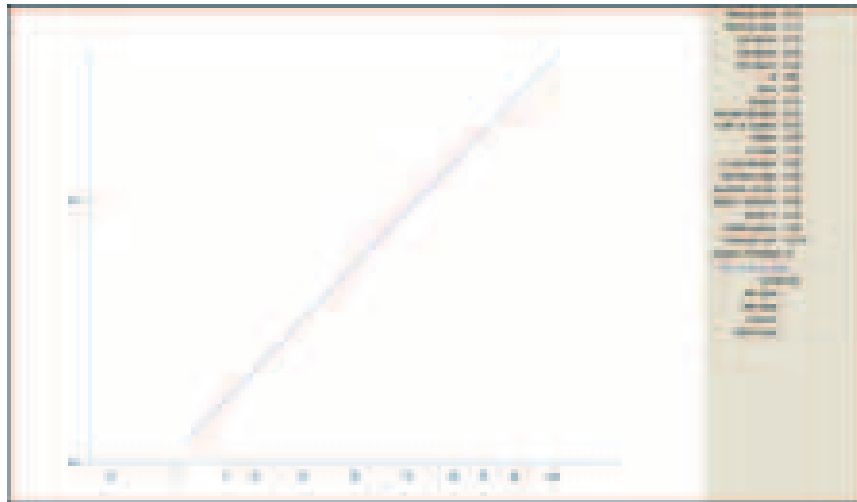


Figure 10-24: Probability plot of TiO₂ grades inside the mineralised wireframe for orebody 2

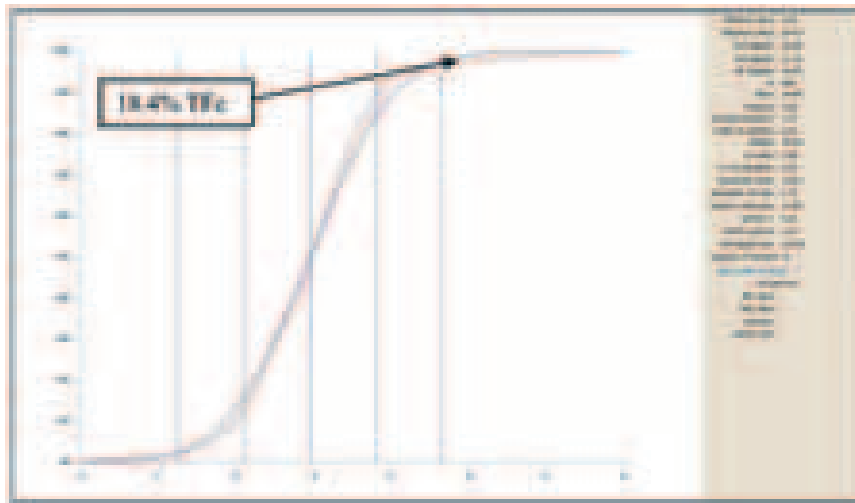


Figure 10-25: Cumulative frequency plot of TFe grades inside the mineralised wireframe for orebody 1

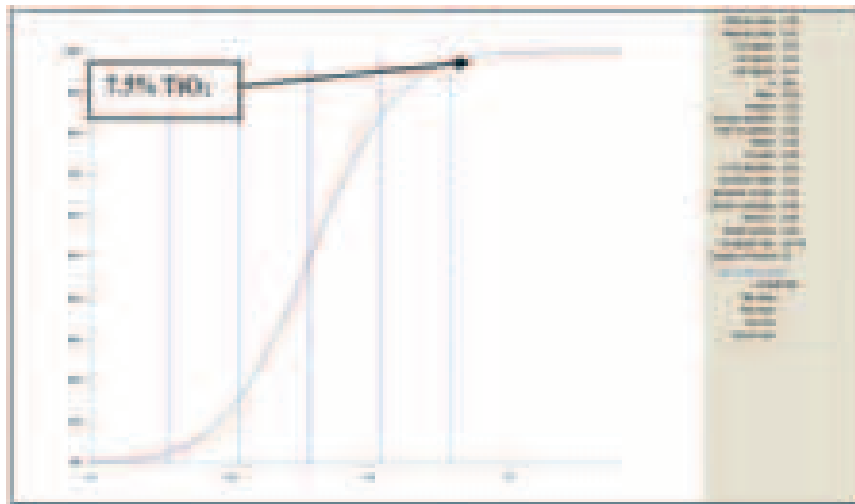


Figure 10-26: Cumulative frequency plot of TiO₂ grades inside the mineralised wireframe for orebody 1

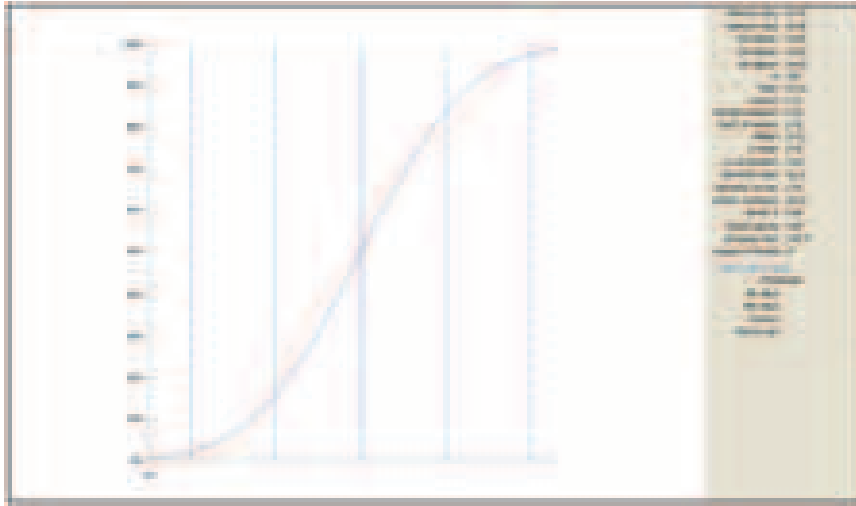


Figure 10-27: Cumulative frequency plot of TFe grades inside the mineralised wireframe for orebody 2

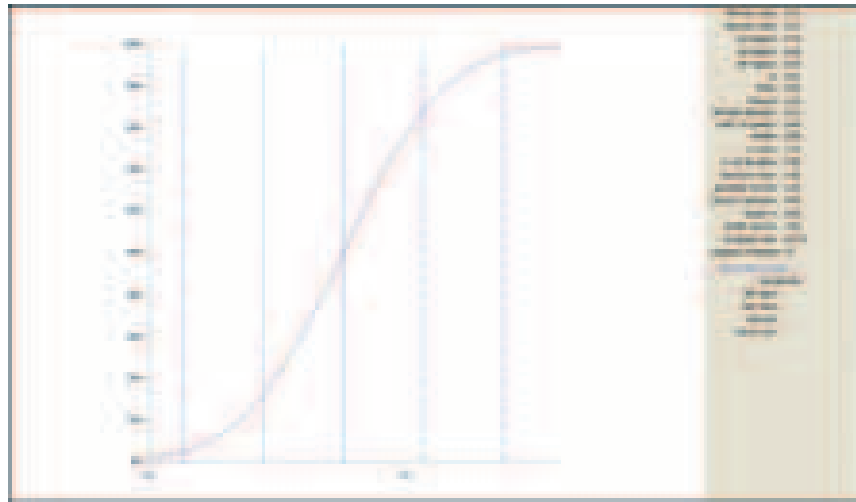


Figure 10-28: Cumulative frequency plot of TiO₂ grades inside the mineralised wireframe for orebody 2

10.6 Interpretation

All available original cross-sections and geological maps at 1:2,000 scale were imported from MapGIS and georeferenced in MICROMINE software. The geological interpretation on the cross-sections and the geological maps were used as a reference to honour the original geological interpretation where practical.

Interpretation was carried out interactively for 7 oblique cross-sections oriented south-west to north-east at 45 degrees for orebody 1 and 4 east-west cross-sections for orebody 2. Each section showing the drilling data and trench data was displayed in MICROMINE's Vizex environment. Total iron assays were composited to grades greater than 8.7% TFe to define the boundary between mineralised and unmineralised iron grades and TiO₂ assays were composited to grades greater than 1.9% TiO₂ to define the boundary between mineralised and unmineralised titanium dioxide grades for both orebodies. The raw sample grades and the composite grades were displayed on the drillhole and trenches in order to allow the snapping of interpretation strings to separate mineralised and unmineralised units. A total of 16 cross-sections including additional sections for closing off wireframes, were interpreted.

A geological cut-off grade defining the boundary between mineralisation and country rock was selected at 8.7% TFe and 1.9% TiO₂. One string file was generated to interpret TFe mineralisation at greater than or equal to 8.7% and another string file was generated to interpret TiO₂ mineralisation at greater than or equal to 1.9%.

Some internal waste was interpreted for both the TFe and TiO₂ wireframes of orebody 1. Internal waste had a minimum length of 2 m, and was interpreted separately

The following techniques were employed while interpreting the mineralisation:

- All trench data was draped onto the topographic surface.
- Each section and plan view was displayed on screen and interpretation checked.
- All interpreted strings were snapped to the sample intervals on the drillhole or trench, i.e. the interpretation was constrained in 3 dimensions.
- If a mineralised envelope (lode) terminated on a drill section, it was projected half way to the next section and terminated (this distance varied depending on the cross-section lines). The last string forming the envelope was reduced to 80% of that on the last section. The general dip and strike of the lode was maintained.

- The mineralisation was extended in a down-dip direction mostly to a distance half that between adjacent drillholes on the cross-section (around 100 m). Where only one drillhole was present on a cross-section, mineralisation was extended down-dip to a distance of 100 m. However, where continuity of mineralisation was inferred from information on adjacent cross-sections, this was taken into account and the extension was increased slightly to adjust for the mineralisation on the adjacent cross-sections.

An example interpretation section is shown in Figure 10-29.

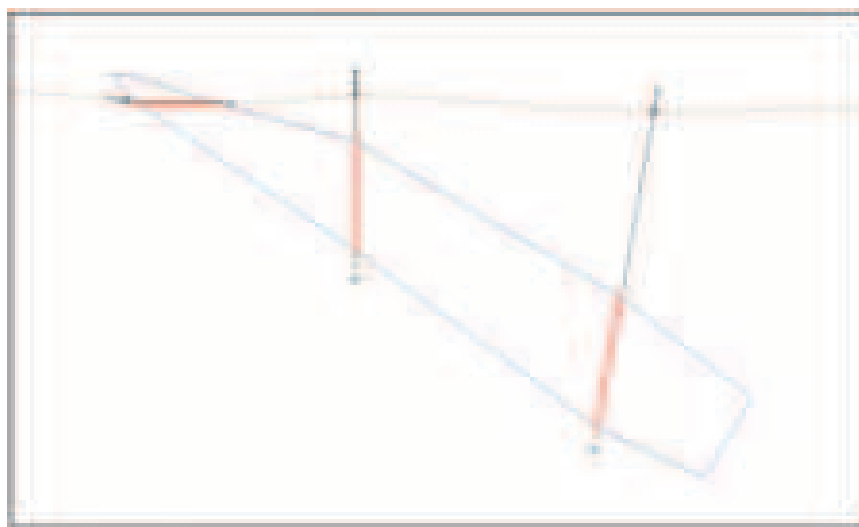


Figure 10-29: Example interpretation cross-section showing strings and composited TiO₂ assays

10.7 Wireframing

The interpreted closed strings were used to generate three-dimensional solid wireframe models for the mineralised envelopes of TFe and TiO₂ separately. This later resulted in some blocks in the model containing titanium and no iron, and some blocks containing iron and no titanium.

Orebody 1 and orebody 2 were also wireframed separately. A total of 4 wireframes were created for the deposit.

The wireframes were created separately to allow independent data flagging and interpolation. Internal waste areas for both wireframes of orebody 1 were wireframed separately then removed from the appropriate wireframe by a Boolean operation to produce the final mineralised wireframes.

A 3D view of the wireframes of TiO_2 mineralisation is shown in Figure 10-30.

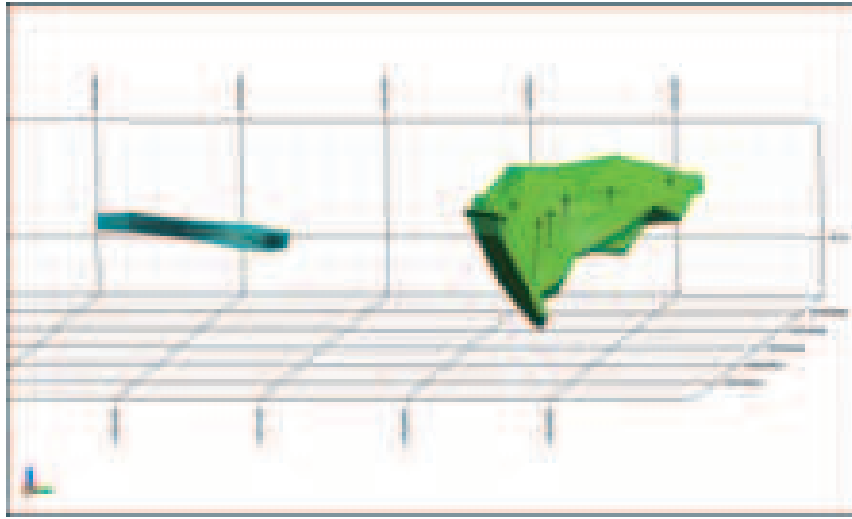


Figure 10-30: 3D view of wireframes of TiO_2 mineralisation for orebody 1 (green) and orebody 2 (blue)

10.8 Drillhole Data Selection and Compositing

Drillhole data selection is a standard procedure which ensures that the correct samples are used in the classical statistical and geostatistical analyses and grade interpolation processes. For this purpose, the solid wireframe for each mineralised envelope was subsequently used to select the drillhole samples. Samples within each individual mineralised envelope were flagged and coded according to the name of the mineralised body.

Visual validation of the flagged samples was carried out in Vizex to make sure the correct samples were selected by the wireframes.

Classical statistical analysis was then repeated for the TiO_2 and the TFe grades within the mineralised envelopes only. The analysis determined there was only one population within each mineralised wireframe for each of TFe and TiO_2 , for both orebodies.

Additional fields were inserted into the assay file for orebody 1 and balancing cut grades of 18.4% TFe and 7.5% TiO_2 were applied to the original assay data for the relevant higher grade samples inside the iron and titanium dioxide mineralised envelopes. Balancing cuts were not required for the mineralised wireframes for orebody 2.

All samples within the mineralised envelopes were composited to an equal sample interval length before geostatistical analysis and interpolation. A composite length of 2.0 metres was selected as it was the most prevalent interval length in the dataset. This can be seen in the histograms of the interval lengths of all samples for orebodies 1 and 2 (Figure 10-31 and Figure 10-32). The selected drillhole samples within each mineralized envelope were separately composited over 2.0 metre intervals, starting at the drillhole collar and progressing downhole. Trench samples within the mineralised envelopes were also composited separately then combined with the composited drillhole assays to form the final composite assay file. Compositing was stopped and restarted at all boundaries between mineralized envelopes and waste material.

Basic statistical parameters were obtained for the composite data to ensure that the statistical parameters were not distorted by the compositing process, (Figure 10-31 and Figure 10-32). There was no significant change to the minimum, maximum, mean, standard deviation and coefficient of variation of the data after the sample length compositing process.

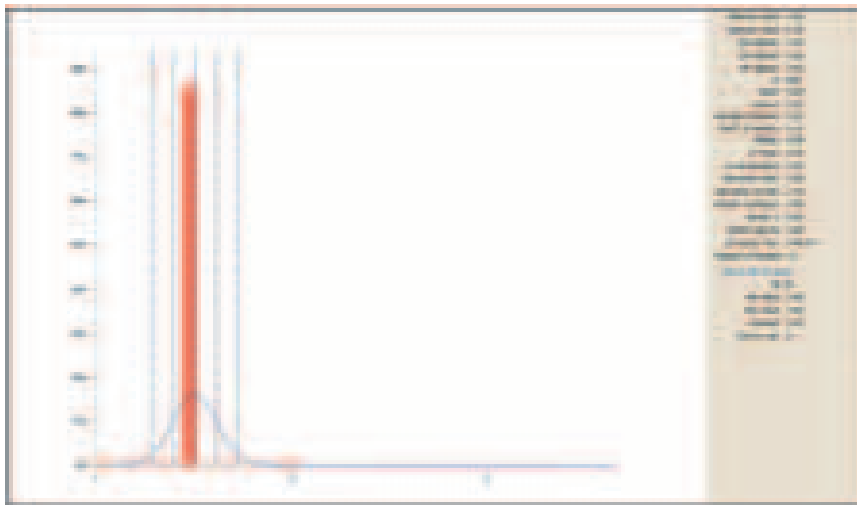


Figure 10-31: Histogram of sample interval lengths for orebody 1

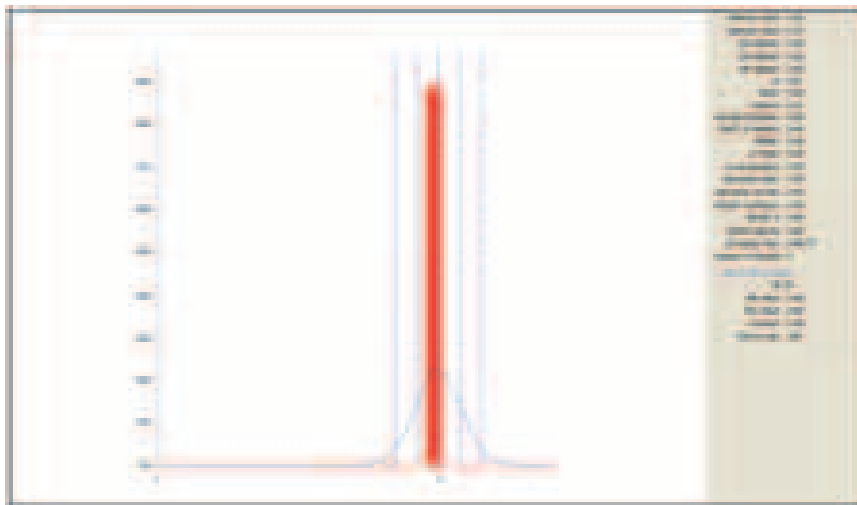


Figure 10-32: Histogram of sample interval lengths for orebody 2

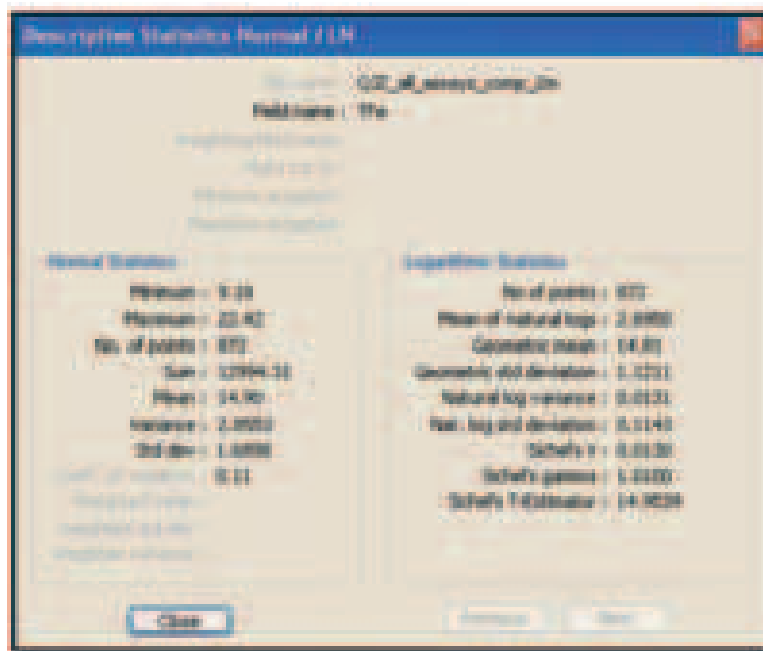


Figure 10-33: Descriptive statistics for all TFe assays composited to 2 m interval lengths for orebody 1



Figure 10-34: Descriptive statistics for all TiO₂ assays composited to 2 m interval lengths for orebody 1

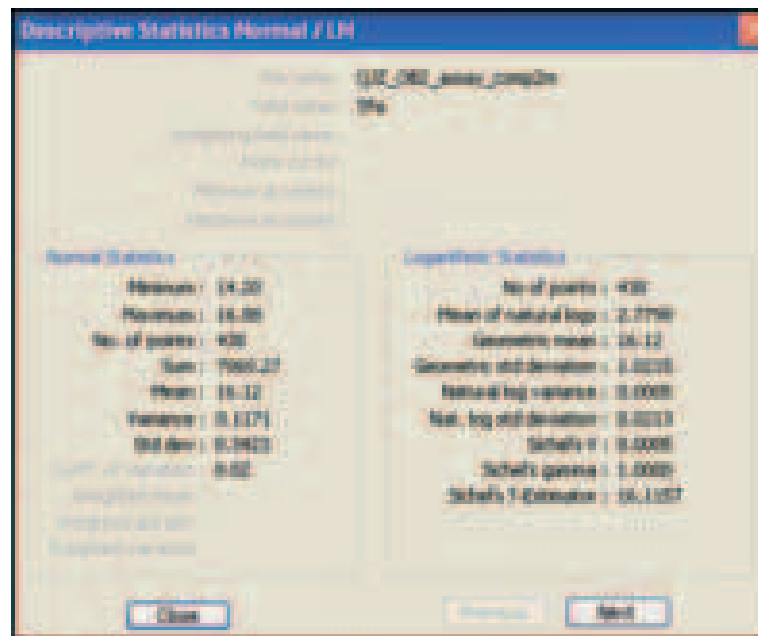


Figure 10-35: Descriptive statistics for all TFe assays composited to 2 m interval lengths for orebody 2

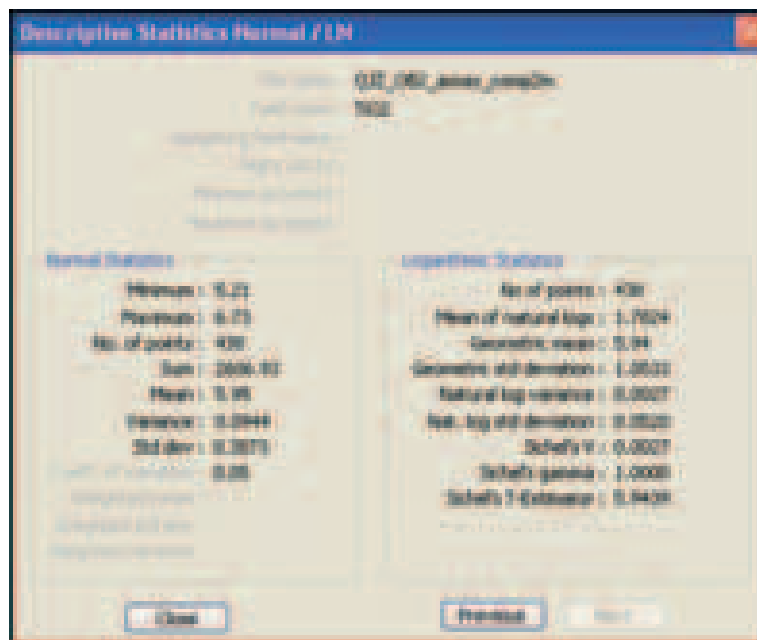


Figure 10-36: Descriptive statistics for all TiO₂ assays composited to 2 m interval lengths for orebody 2

10.9 Geostatistical Analysis

The purpose of geostatistical analysis is to generate a series of semivariograms for the Kriging algorithm to use as a means of weighting the sample grades when estimating an unknown block value in the block model. The semivariogram ranges determined from this analysis can also be used to determine the search neighbourhood dimensions. Therefore, geostatistical analysis was conducted in order to meet the following objectives:

- To estimate the presence of directional anisotropy of mineralisation for iron and titanium. This can be estimated by studying the directional semivariograms. There is a directional anisotropy if semivariograms reach the total sill at different distances in different directions;
- To obtain the semivariogram parameters (nugget effect, total sill and ranges) to be input into the interpolation process.

All semivariograms were modelled using the composite sample files with an applied top cut grade for the TFe and TiO₂ domains for orebody 1 and constrained by the corresponding mineralised envelopes. Semivariograms were modelled for TFe and TiO₂ for orebody 1 separately. Semivariograms were not modelled for the orebody 2 as the number of samples was too small and the semivariograms would not be reliable.

For each domain, a fan of horizontal semivariograms was generated to determine the direction of maximum continuity in plan. A vertical fan of semivariograms was then generated along the azimuth of maximum continuity in order to estimate the plunging component of the main axis. From the azimuth and plunge of the first axis, the azimuth of the second axis was calculated. A vertical fan of semivariograms was then generated to determine the plunge of the second axis. From the orientation of the first and second axes, the azimuth and plunge of the third axis was determined.

Geostatistical analysis of TFe for orebody 1 was carried out first. The maximum continuity of mineralisation occurs along an azimuth of 97 degrees, there was no plunge component. The second direction of continuity occurs along an axis of 187 degrees with a plunge of minus 50 degrees. The third direction occurs along an axis of 187 degrees with a plunge of 40 degrees. The spherical experimental semivariograms and models are shown in Figure 10-37 to Figure 10-39.

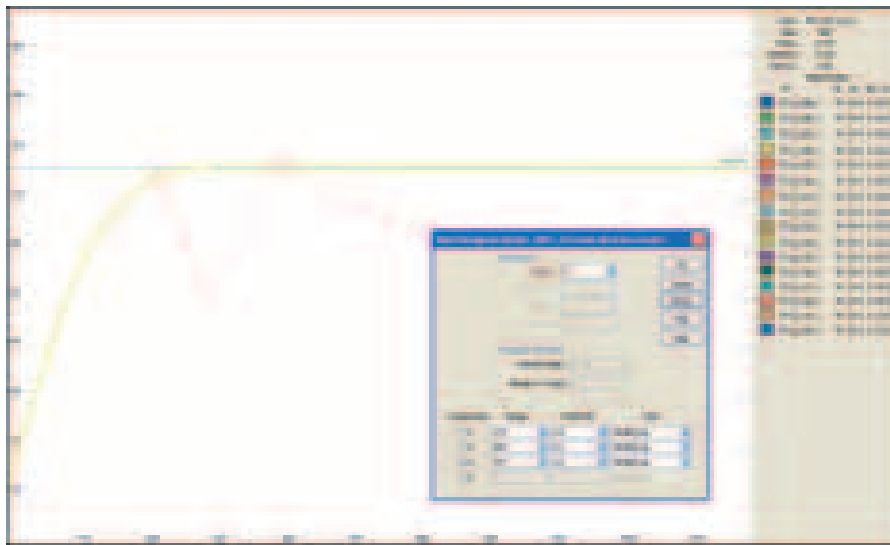


Figure 10-37: Semivariogram model for the main direction of continuity of TFe for orebody 1

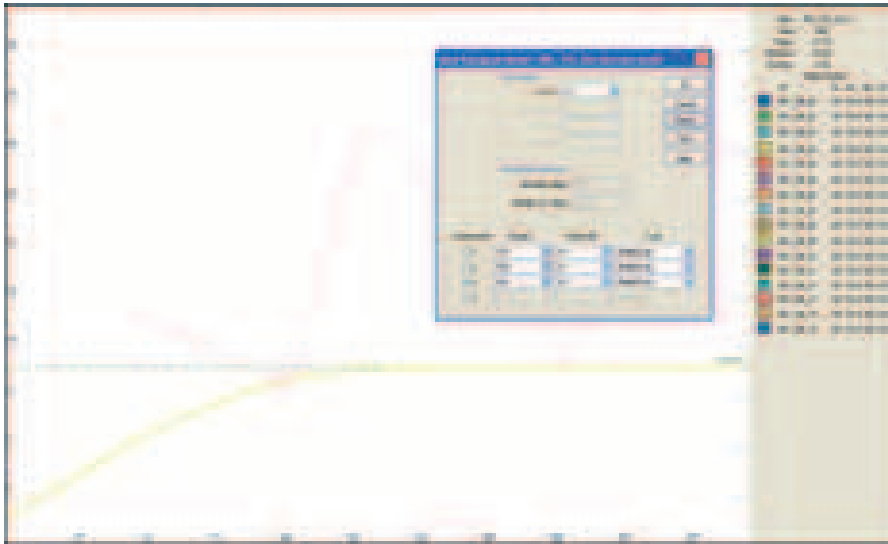


Figure 10-38: Semivariogram model for the second direction of continuity of TFe for orebody 1

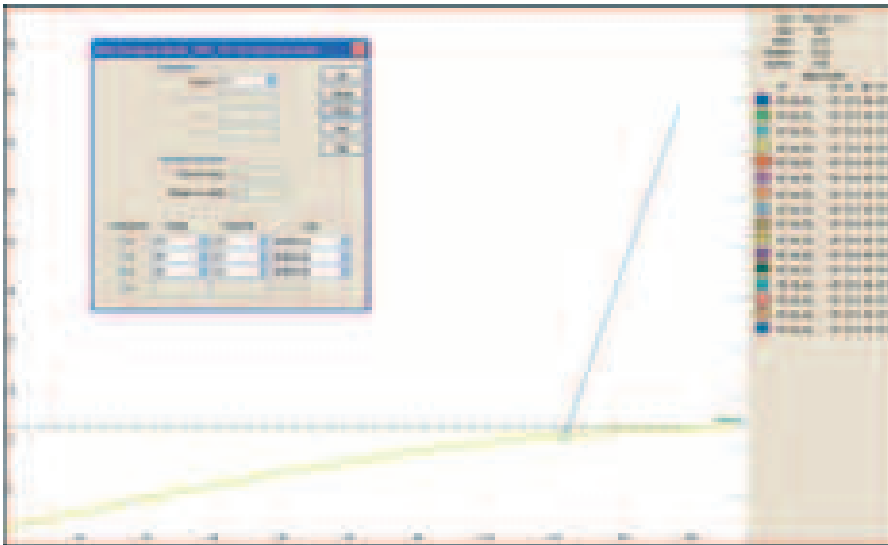


Figure 10-39: Semivariogram model for the third direction of continuity of TFe for orebody 1

Geostatistical analysis of TiO_2 for orebody 1 was carried out next. The maximum continuity of mineralisation occurs along an azimuth of 89 degrees, while there was no plunge component. The second direction of continuity occurs along an axis of 179 degrees with a plunge of minus 51 degrees. The third direction occurs along an axis of 179 degrees with a plunge of 39 degrees. The spherical experimental semivariograms and models are shown in Figure 10-40 to Figure 10-42.



Figure 10-40: Semivariogram model for the main direction of continuity of TiO_2 for orebody 1

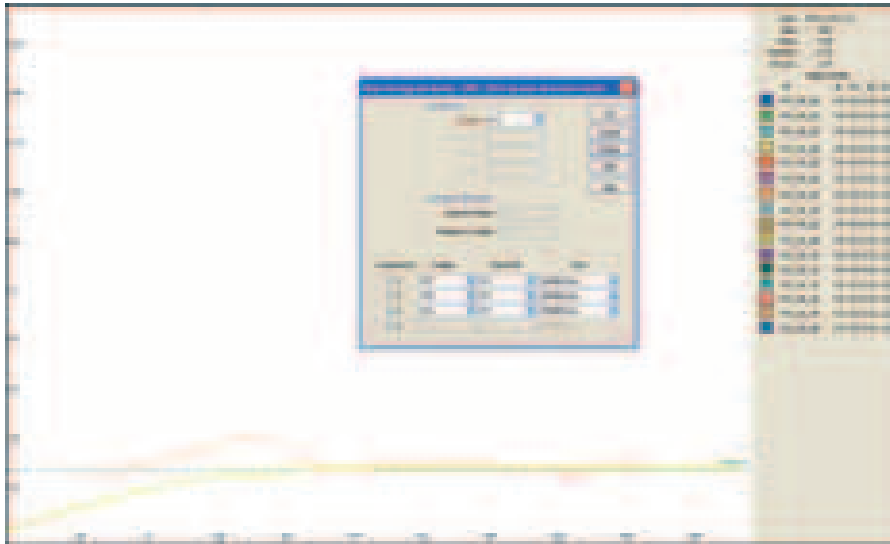


Figure 10-41: Semivariogram model for the second direction of continuity of TiO_2 for orebody 1

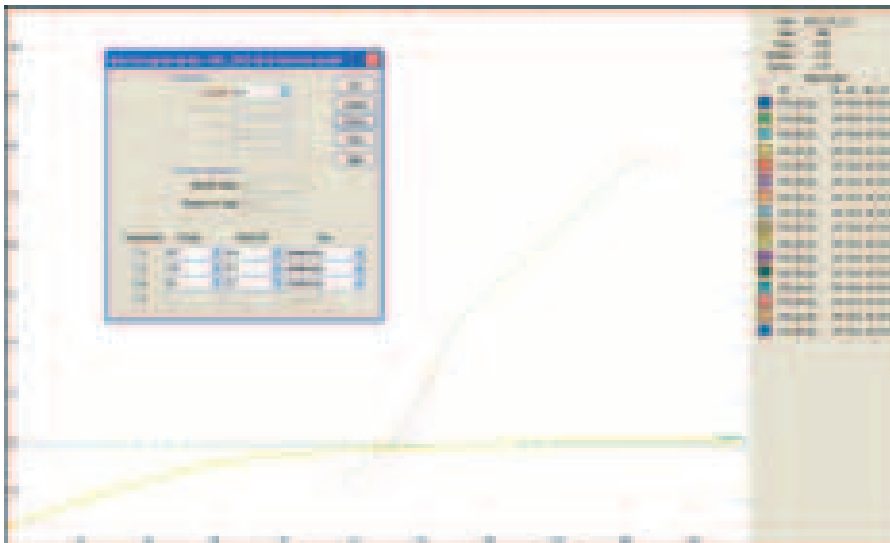


Figure 10-42: Semivariogram model for the third direction of continuity of TiO_2 for orebody 1

A summary of all semivariogram parameters is shown in Table 10-5.

Table 10-5: Summary of semivariogram parameters for orebody 1

| Domain | Element | Direction | Azimuth | Dip | Nugget Effect | Partial Sills | | | Range (m) | | | Lag (m) |
|--------|------------------|-----------|---------|-----|------------------|---------------|---------|---------|-----------|---------|---------|------------|
| | | | | | | Comp. 1 | Comp. 2 | Comp. 3 | Comp. 1 | Comp. 2 | Comp. 3 | |
| OB1 | TFe | First | 97 | 0 | 1.7 | 3.9 | 5.1 | 2 | 173 | 289 | 376 | 120 |
| OB1 | TFe | Second | 187 | -50 | 1.7 | 3.9 | 5.1 | 2 | 173 | 238 | 191 | 73 |
| OB1 | TFe | Third | 187 | 40 | 1.7 | 3.9 | 5.1 | 2 | 173 | 197 | 141 | 65 |
| OB1 | TiO ₂ | First | 89 | 0 | 0.4 | 0.4 | 0.7 | 0.7 | 147 | 373 | 651 | 100 |
| OB1 | TiO ₂ | Second | 179 | -51 | 0.4 | 0.4 | 0.7 | 0.7 | 227 | 178 | 116 | 58 |
| OB1 | TiO ₂ | Third | 179 | 39 | 0.4 | 0.4 | 0.7 | 0.7 | 227 | 139 | 86 | 33 |

10.10 Block Modelling

Empty block models were created within the closed wireframe models for the iron mineralization and the titanium dioxide mineralisation and coded accordingly. One parent block model was used to create block models for separate wireframed domains for orebody 1 and one parent block model was used to create block models for separate wireframed domains for orebody 2. Block extents and sizes are shown in Figure 10-43 and Figure 10-44. Parent cells were sub blocked to 10 metre east, 10 metres north and 5 metres in elevation. The empty cell models were then interpolated into.

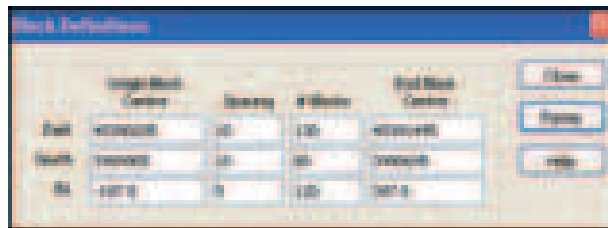


Figure 10-43: Block definitions for orebody 1

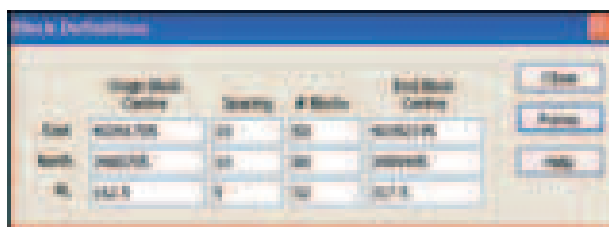


Figure 10-44: Block definitions for orebody 2

10.11 Grade Interpolation

Orebody 1 was interpolated using the ordinary kriging algorithm while orebody 2 was interpolated using the inverse distance weighting cubed algorithm.

The interpolation method was block kriging into parent cells only, with discretisation to 5 points east, 5 points north and 5 points in elevation. The grades from the estimated points were then averaged to produce the kriged block grade.

The search ellipsoids were oriented parallel to the mineralisation to include relevant samples and were sized to exclude redundant samples. One search ellipsoid was created for orebody 1 and one search ellipsoid was created for orebody 2. Three runs were required at different radius lengths and parameters to populate all cells for all block models.

A “parent block estimation” technique was used, i.e. all subcells within a parent cell were given the same estimated grade value. The Ordinary Kriging estimation was performed at different search radii until all cells were populated. Grades were interpolated separately within each of the modelled mineralised zones using only assay composites restricted by the corresponding wireframe models. The search radii were determined by means of distance between drillholes for the inverse distance weighting estimation and by the evaluation of the semivariogram parameters for the ordinary kriging estimation, which determined the kriging weights to be applied to samples at specified distances. Model cells that did not receive a grade estimate from the first interpolation run were used in the next interpolation with greater search radii. Model cells that did not receive a grade estimate from the first two interpolation runs were populated in the next interpolation with greater search radii.

Declustering was performed during the interpolation process by using eight sectors within the search neighbourhood. Each sector was restricted to a maximum of six samples, and the search neighbourhood was restricted to an overall minimum of two sample grades for the first two interpolation runs. The maximum combined number of samples allowable for the interpolation of a single cell was 48.

For orebody 1, the TFe and TiO₂ composited sample grades with the balancing cut applied were used for the grade interpolation. For orebody 2, composited sample grades were used with no balancing cut. The search ellipsoid parameters used for each search ellipsoid and run is shown in Table 10-6. The search ellipsoids for run 1 are shown in Figure 10-45 and for run 2 in Figure 10-46.

Results of the block models grade distribution are shown in Figure 10-47 to Figure 10-50.

Table 10-6: Search ellipsoid parameters

| Domain | Parameter | Run 1 | | | Run 2 | | | Run 3 | | |
|-----------|-------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | | 1st axis | 2nd axis | 3rd axis | 1st axis | 2nd axis | 3rd axis | 1st axis | 2nd axis | 3rd axis |
| Orebody 1 | Radius length (m) | 300 | 200 | 100 | 600 | 400 | 200 | 1000 | 1000 | 1000 |
| Orebody 1 | Azimuth | 130 | 220 | 140 | 130 | 220 | 140 | 130 | 220 | 140 |
| Orebody 1 | Plunge | 0 | -40 | 50 | 0 | -40 | 50 | 0 | -40 | 50 |
| Orebody 1 | No. sectors | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| Orebody 1 | Max. samples per sector | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Orebody 1 | Min. total samples | 2 | 2 | 1 | 2 | 2 | 1 | 2 | 2 | 1 |
| Orebody 2 | Radius length (m) | 300 | 200 | 100 | 600 | 400 | 200 | 1000 | 1000 | 1000 |
| Orebody 2 | Azimuth | 0 | 90 | 0 | 0 | 90 | 0 | 0 | 90 | 0 |
| Orebody 2 | Plunge | 0 | 0 | 90 | 0 | 0 | 90 | 0 | 0 | 90 |
| Orebody 2 | No. sectors | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| Orebody 2 | Max. samples per sector | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Orebody 2 | Min. total samples | 2 | 2 | 1 | 2 | 2 | 1 | 2 | 2 | 1 |

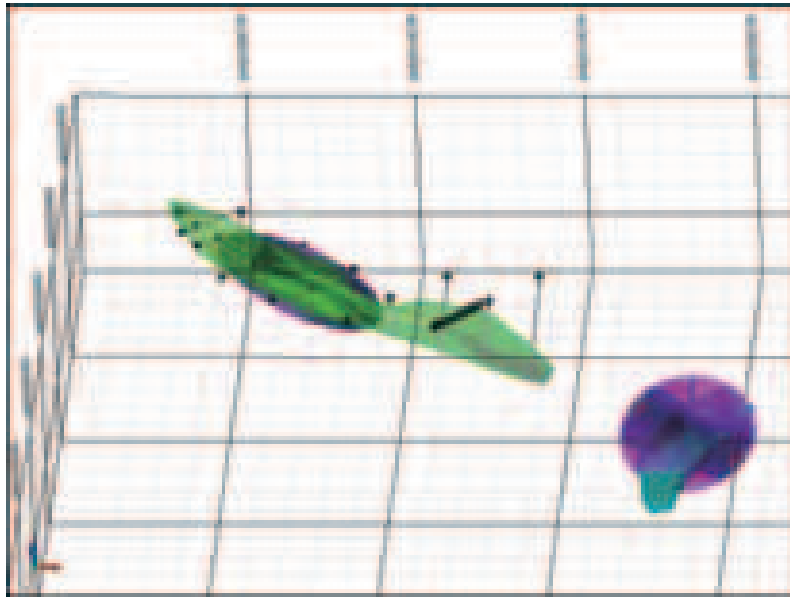


Figure 10-45: Search ellipsoids for run 1 for orebody 1 (left) and orebody 2 (right)

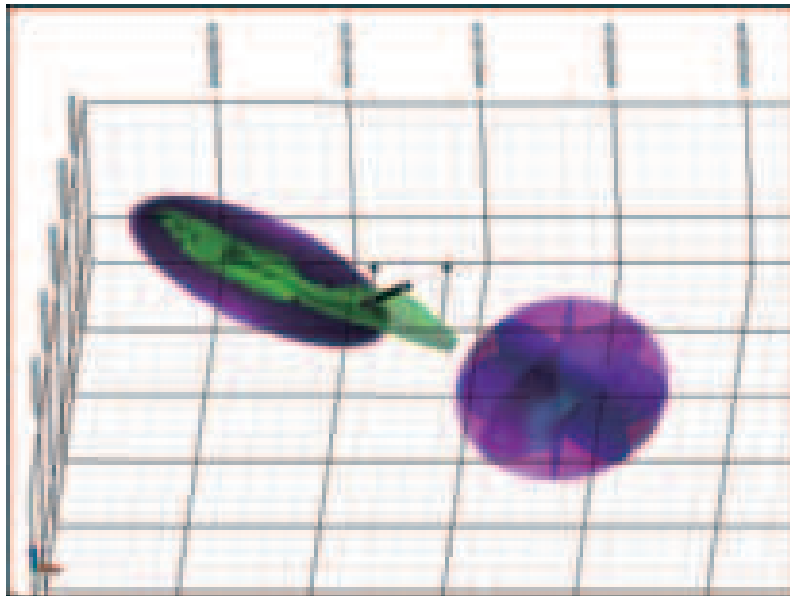


Figure 10-46: Search ellipsoids for run 2 for orebody 1 (left) and orebody 2 (right)

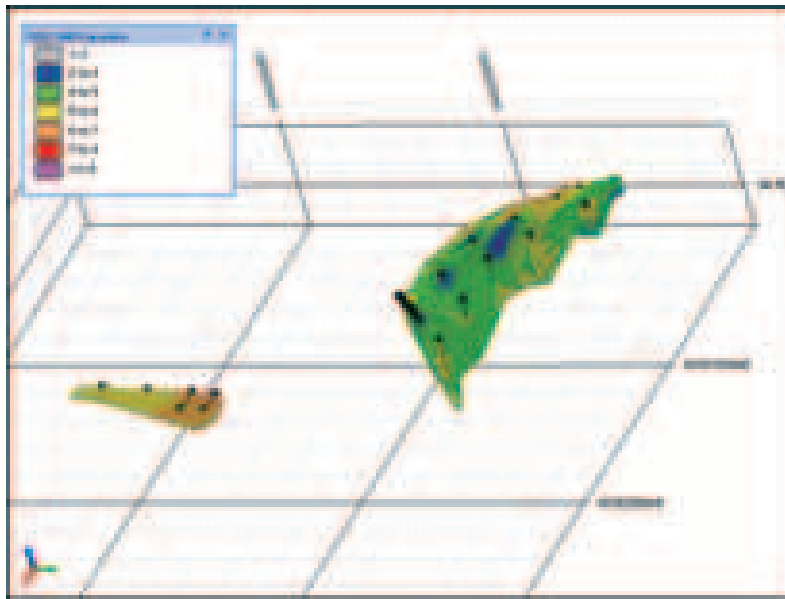


Figure 10-47: View of interpolated TiO₂ block models showing interpolated TiO₂ grades

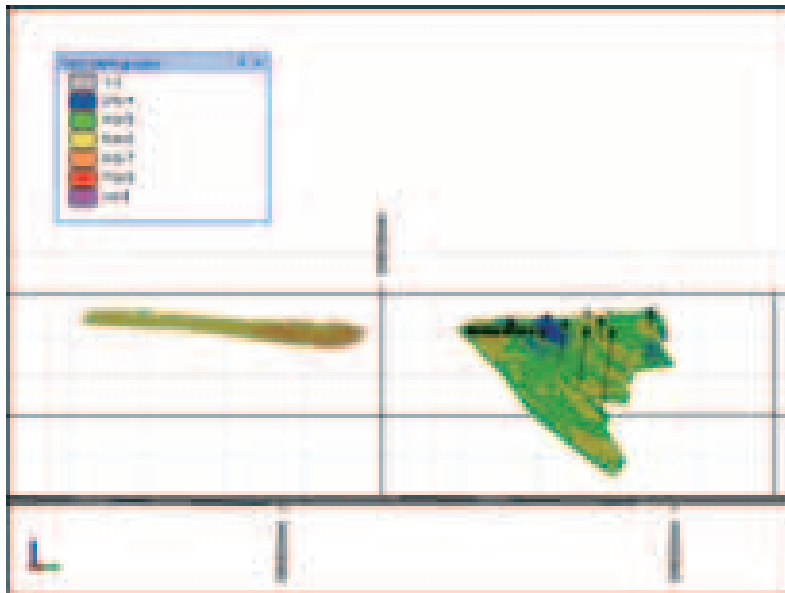


Figure 10-48: View of interpolated TiO₂ block models showing interpolated TiO₂ grades, side view

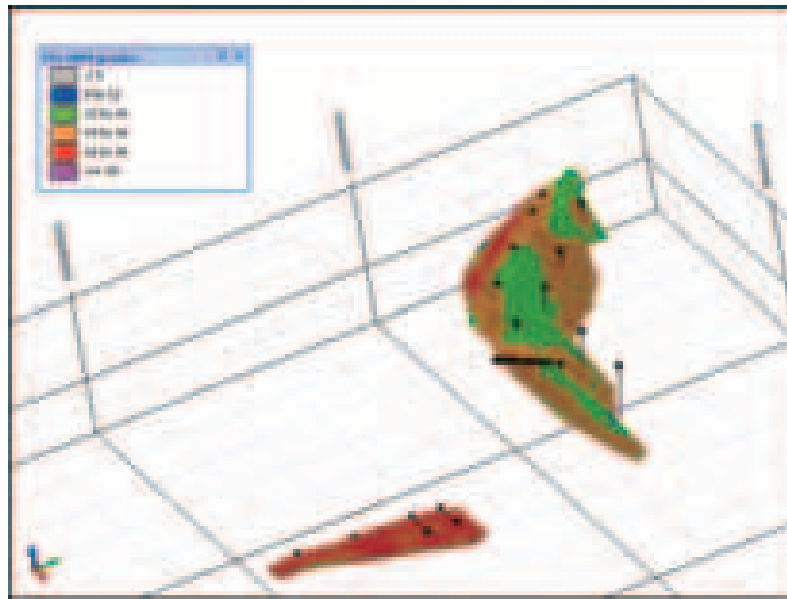


Figure 10-49: View of interpolated TFe block models showing interpolated TFe grades

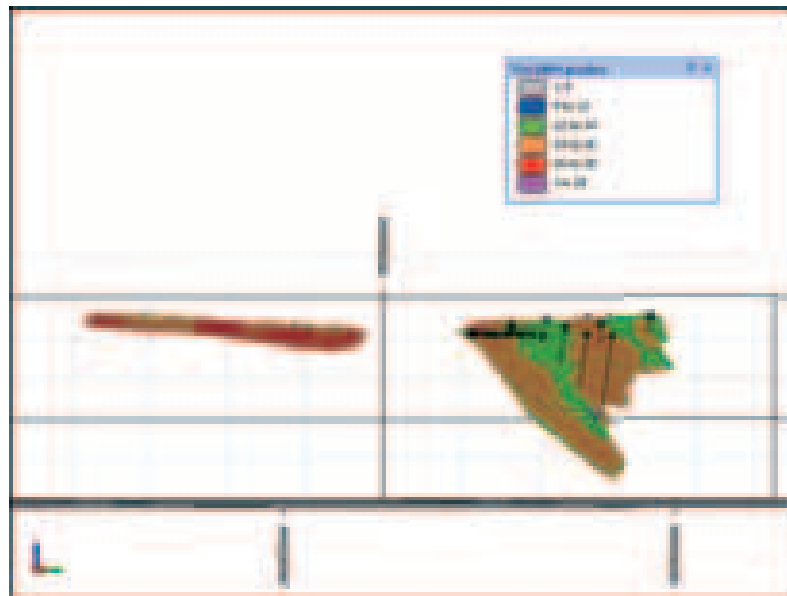


Figure 10-50: View of interpolated TFe block models showing interpolated TFe grades, side view

10.12 Risk Assessment

The confidence level of key criteria for data used in the resource estimation is shown in Table 10-7 and Table 10-8.

Table 10-7: Confidence levels of key criteria orebody 1

| Items | Discussion | Orebody 1 Confidence |
|--|--|---------------------------------|
| Drilling Techniques | Standard industry methods of diamond drilling were used, with regular downhole surveys taken. | Moderate |
| Drill Sample Recovery | Mean weighted core recovery 97.6%. | High |
| Sampling Techniques and Sample Preparation | Core was split and samples prepared using industry standard methods. Documented sample handling procedures appear appropriate. | Moderate to high |
| Quality of Assay Data | Assay precision 55 samples (5.7% all assays) 0.26% TFe, 0.79% TiO ₂ . Assay bias of 30 samples (3.1% all assays) TFe no bias, TiO ₂ slight bias. | Moderate |
| Verification of Sampling and Assaying | A selection of diamond drill core was checked on site. All results checked were verified. | High |

| Items | Discussion | Orebody 1 Confidence |
|--|---|-------------------------|
| Location of Sampling Points | Surveying methods were adequate and but no collar locations could be identified as all under farm land. Plans and data independently verified. Downhole surveys utilised industry standard methods. | Moderate |
| Data Density and Distribution | Mineralisation defined on adequate drill spacing and with trenches for the type of deposit and style of mineralisation. Sparser data at margins and deeper parts of the mineralisation reflected by lower confidence. | Moderate to High |
| Audits and Reviews | Micromine is unaware of any external reviews | Moderate to High |
| Database Integrity | Verification of original drawings by MCS | Moderate to High |
| Geological Interpretation | The mineralisation constraints are considered appropriate for the type and grade of mineralisation. | High |
| Specific Gravity Determinations | SG database from drillhole samples, representative throughout deposit | High |
| Estimation and Modelling Techniques | Domaining and interpolation by Ordinary Kriging with the result cross-checked by Inverse Distance Weighting. | High |

Table 10-8: Confidence levels of key criteria orebody 2

| Items | Discussion | Orebody 2 Confidence |
|--|---|-------------------------|
| Drilling Techniques | Standard industry methods of diamond drilling were used, with regular downhole surveys taken. | Moderate |
| Drill Sample Recovery | Mean weighted core recovery 85.4% | Moderate |
| Sampling Techniques and Sample Preparation | Core was split and samples prepared using industry standard methods. Documented sample handling procedures appear appropriate. | Moderate to high |
| Quality of Assay Data | No analytical QA/QC data provided | Low to Moderate |
| Verification of Sampling and Assaying | Core was not inspected | Low to Moderate |
| Location of Sampling Points | Surveying methods were adequate but no collar locations could be identified as all under farm land. Plans and data independently verified. Downhole surveys utilised industry standard methods. | Low to Moderate |

| Items | Discussion | Orebody 2 |
|-------------------------------------|---|------------------|
| | | Confidence |
| Data Density and Distribution | Mineralisation defined on adequate drill spacing and with trenches for the type of deposit and style of mineralisation. Sparser data at margins and deeper parts of the mineralisation reflected by lower confidence. | Moderate to High |
| Audits and Reviews | Micromine is unaware of any external reviews | Moderate to High |
| Database Integrity | Verification of original drawings by MCS | Moderate to High |
| Geological Interpretation | The mineralisation constraints are considered appropriate for the type and grade of mineralisation. | High |
| Specific Gravity Determinations | SG database from drillhole samples, representative throughout deposit | High |
| Estimation and Modelling Techniques | Domaining and interpolation by Inverse Distance Weighting. | Moderate |

10.13 Resource Classification

The purpose of resource estimation is to create a three-dimensional model of mineralisation that can be utilised for mining studies and economic calculations. While the aim is to estimate as accurately as possible, there will be more confidence in some portions of the model than others.

The classification strategy was designed to reflect the level of confidence in different areas of the model based on the inherent variability of measurements, the level of support provided by the data and the expected continuity of mineralisation provided by the geological context.

From the risk assessment (Table 10-7), confidence in the data for orebody 1 is moderate to high. The QA/QC data such as mean weighted core recovery, assay precision and assay bias and the results of the site visit support this conclusion. The resource classification strategy was therefore based primarily on distance of samples and numbers of samples and holes used to estimate a block value. For Measured Resources, a minimum of two samples from two holes had to be within a radius of 150 m. For Indicated Resources, this radius was 300 m. The remainder of the resource was classified as Inferred.

For orebody 2 (Table 10-8), the risk assessment indicates confidence in the data was low to moderate, as the data came from four trenches and only two drillholes. In addition, no analytical QA/QC data was provided and core recovery was lower. As a result, no Measured Resources were estimated, and for Indicated Resources, a minimum of two samples from two holes had to be within a radius of 150 m. The remainder of the resource for orebody 2 was classified as Inferred.

After distance based classification of the blocks, the classification was edited manually to reflect the competent person's confidence in different parts of the block model.

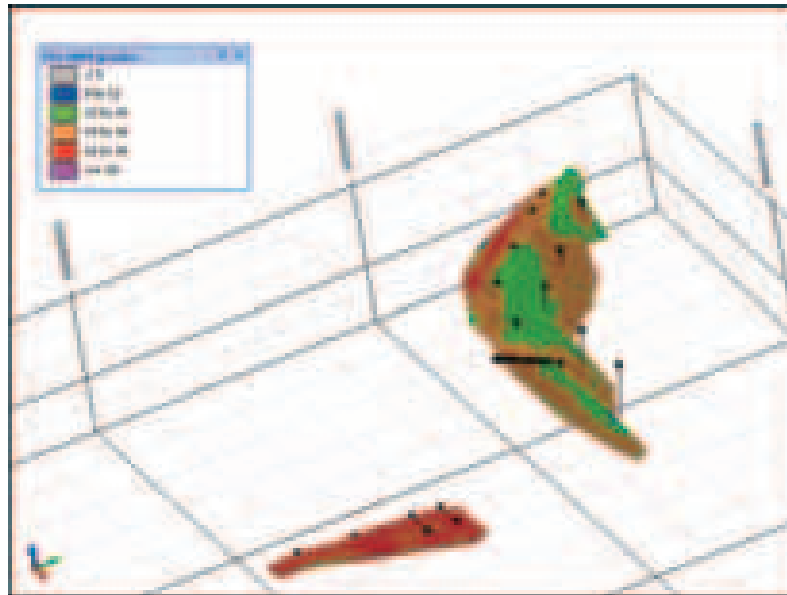


Figure 10-51: Classified block models, orebody 1 (larger) and orebody 2

10.14 Specific Gravity Values

A specific gravity database was supplied by the client that could be used for the interpolation into the block models. Fifty one specific gravity measurements spread throughout orebody 1 and thirty measurements were spread throughout orebody 2. These measurements were interpolated into the block model using the IDW cubed interpolation method, resulting in every block in the block model containing a value for specific gravity.

10.15 Model Validation

Three methods were utilised to validate the ordinary kriged block model:

1. The ordinary kriged global grade was compared to the raw sample grades;
2. The ordinary kriged global grade was compared to an inverse distance weighted global grade;
3. The ordinary kriged model was checked locally in section to determine if the original sample grades were reflected in the block model grades.

The result from the interpolated block model compared to the wireframe model for both TiO₂ and TFe is shown in Table 10-9 and Table 10-10. There is a small difference in volume and tonnage for the both TiO₂ and TFe; however this is less than 0.2% in both cases. For the grade, the raw grade compared to the interpolated block model grade is similar, with the model grade being slightly lower than the wireframe. The difference is around 1.7% for TiO₂ and 1.2% for TFe. This can be explained by the fact that the kriging process tends to smooth the grade distribution, resulting in a slightly lower grade and the raw data was clustered.

Table 10-9: Comparison of the interpolated model with the wireframe model for TiO₂

| Category | Volume (m ³) | Tonnes (t) | SG (t/m ³) | TiO ₂ % |
|-----------|-----------------------------|---------------|---------------------------|-----------------------|
| Model | 39,999,557 | 131,104,661 | 3.28 | 5.08 |
| Wireframe | 40,027,247 | 131,289,370 | 3.28 | 5.17 |

Table 10-10: Comparison of the interpolated model with the wireframe model for TFe

| Category | Volume (m^3) | Tonnes (t) | SG (t/m^3) | TFe % |
|-----------|---------------------|-------------------|-------------------|----------|
| Model | 39,515,386 | 129,535,947 | 3.28 | 14.94 |
| Wireframe | 39,589,030 | 128,268,458 | 3.24 | 15.10 |

A comparison between the result from the ordinary kriging block model and the result from the inverse distance weighted (IDW) cubed block model for orebody 1 is shown in Table 10-11 and Table 10-12. For both TiO_2 and TFe, the difference between the results for the ordinary kriging model and the IDW cubed model is that the grade from the ordinary kriging model is around 0.4% lower than that for the IDW cubed model.

As the difference between the results from the two models is not significant, our choice of the ordinary kriging interpolation method for orebody 1 has been validated.

Table 10-11: Comparison of the result from the ordinary kriging model with the IDW cubed model for TiO_2 for orebody 1

| Category | Volume (m^3) | Tonnes (t) | SG (t/m^3) | TiO_2 % |
|------------|---------------------|-------------------|-------------------|--------------|
| OK Model | 33,217,953 | 107,626,168 | 3.24 | 4.91 |
| IDW3 Model | 33,217,953 | 107,626,168 | 3.24 | 4.93 |

Table 10-12: Comparison of the result from the ordinary kriging model with the IDW cubed model for TFe for orebody 1

| Category | Volume (m^3) | Tonnes (t) | SG (t/m^3) | TFe % |
|------------|---------------------|-------------------|-------------------|----------|
| OK Model | 32,733,782 | 106,057,454 | 3.24 | 14.70 |
| IDW3 Model | 32,733,782 | 106,057,454 | 3.24 | 14.76 |

Local validation of the ordinary kriging block model with the original drillhole sample values for TiO_2 is shown in Figure 10-52 and Figure 10-53. It can be seen there is a high correlation between the original sample grades and the interpolated block model grades. Strong local validation together with the close comparison of the ordinary kriging global grade with the raw sample grades and an IDW cubed power model global grade, validates the use of the ordinary kriging interpolation method and the final result.

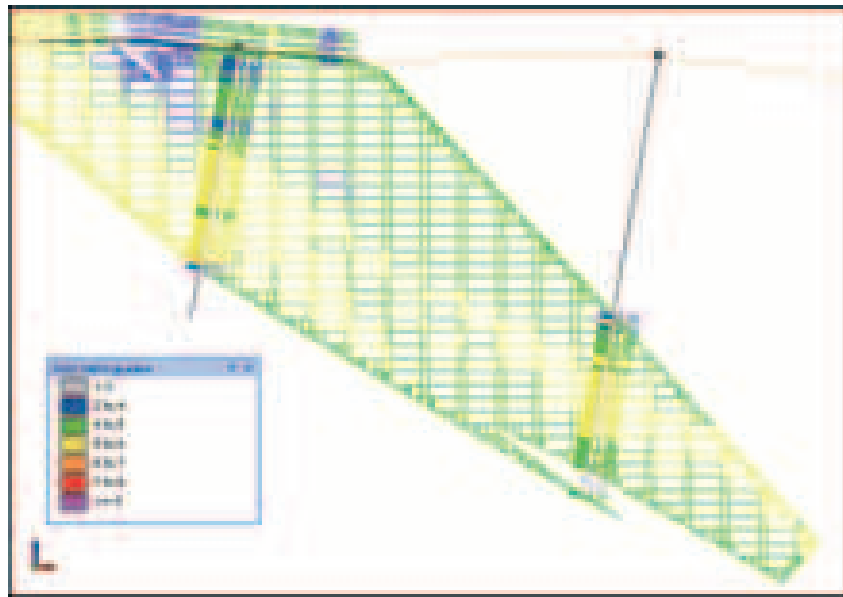


Figure 10-52: Cross-section showing local validation of block model and raw TiO₂ grades for orebody 1

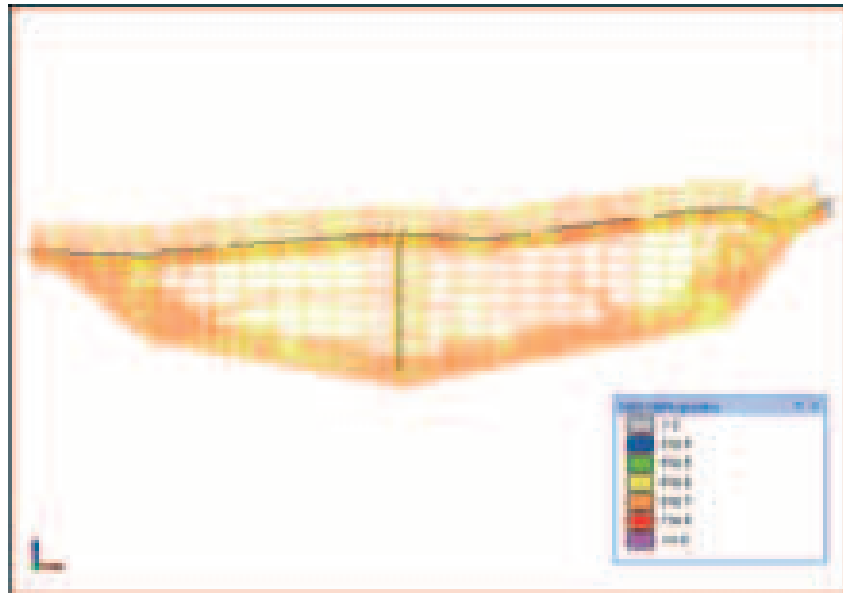


Figure 10-53: Cross-section showing local validation of block model and raw TiO₂ grades for orebody 2

11 RESOURCE STATEMENT

The total Resources for orebody 1 and orebody 2 reported above a cut-off grade of 9.2% TiO₂ equivalent is shown in Table 11-1.

Table 11-1: Total Resources for Qinjiazhuang Project

| Resource Category | Tonnes (t) | SG (t/m ³) | TiO ₂ equivalent (%) | TiO ₂ (%) | TFe (%) |
|---|--------------------------|---------------------------|---------------------------------------|-------------------------|------------|
| Measured | 46,210,000 | 3.23 | 72.61 | 4.9 | 14.72 |
| Indicated | <u>42,101,000</u> | 3.19 | 73.14 | 4.88 | 14.84 |
| Total Measured and Indicated | 88,311,000 | 3.21 | 72.86 | 4.89 | 14.78 |
| Inferred | <u>11,254,000</u> | 3.29 | 74.31 | 5.06 | 15.05 |
| Total Resources | <u><u>99,565,000</u></u> | 3.22 | 73.02 | 4.91 | 14.81 |

Numbers have been rounded to reflect that the resource estimate is an approximation.

Note that the reported resource is based on the titanium equivalent cut-off and reports iron for blocks that contain titanium and in some instances do not contain titanium; and also is based on the titanium equivalent cut-off and reports titanium for blocks that contain iron and in some instances do not contain iron. This is due to two independent wireframes being used to delineate the iron and the titanium mineralisation separately.

A cut-off grade for reporting potentially economically extractable resources was determined using the parameters from the MCS mining study. A TiO₂ equivalent grade was generated using annual forecast yield for TiO₂ and TFe and prices of the TiO₂ and TFe concentrate from the mining study. A ratio of 1:4.6 was determined for the value of TiO₂ to TFe. A TiO₂ equivalent grade was then determined for every block in the model. The processing recovery of TiO₂ equivalent was determined to be 26.9% and the sale price of the combined concentrate used was CN¥2,656. MCS calculated an economic cut-off grade of 9.2% TiO₂ equivalent using the following formula: Economic cut-off grade = CN¥64.86 / (26.9% * CN¥2,656).

The resource reported above a cut-off grade of 9.2% TiO₂ equivalent for orebody 1 is shown in Table 11-2 and for orebody 2 in Table 11-3. The total resource at various TiO₂ equivalent cut-off grades for orebody 1 is shown in Table 11-4 while the total resource at various TiO₂ equivalent cut-off grades for orebody 2 is shown in Table 11-5. The Measured, Indicated and Inferred Resources at various cut-off grades for both orebodies separately are shown in Table 11-6, Table 11-7, Table 11-8, Table 11-9 and Table 11-10 respectively. There are no Measured Resources for orebody 2.

Table 11-2: Resource statement for orebody 1 of the Qinjiazhuang Project

| Resource Category | Tonnes (t) | SG (t/m ³) | TiO ₂ equivalent (%) | TiO ₂ (%) | TFe (%) |
|---|--------------------------|---------------------------|---------------------------------------|-------------------------|------------|
| Measured | 46,210,000 | 3.23 | 72.61 | 4.90 | 14.72 |
| Indicated | <u>35,821,000</u> | 3.14 | 71.99 | 4.69 | 14.63 |
| Total Measured and Indicated | 82,031,000 | 3.19 | 72.34 | 4.81 | 14.68 |
| Inferred | <u>6,403,000</u> | 3.15 | 70.45 | 4.54 | 14.33 |
| Total Resources | <u><u>88,434,000</u></u> | 3.19 | 72.20 | 4.79 | 14.65 |

Numbers have been rounded to reflect that the resource estimate is an approximation.

Table 11-3: Resource statement for orebody 2 of the Qinjiazhuang Project

| Resource Category | Tonnes (t) | SG (t/m ³) | TiO ₂ equivalent (%) | TiO ₂ (%) | TFe (%) |
|------------------------|--------------------------|---------------------------|---------------------------------------|-------------------------|------------|
| Indicated | 6,280,000 | 3.46 | 79.70 | 5.98 | 16.03 |
| Inferred | <u>4,851,000</u> | 3.47 | 79.40 | 5.74 | 16.01 |
| Total Resources | <u><u>11,131,000</u></u> | 3.46 | 79.57 | 5.88 | 16.02 |

Numbers have been rounded to reflect that the resource estimate is an approximation.

Table 11-4: Total resources for orebody 1 at various cut-off grades

| TiO ₂ equivalent COG (%) | Density (t/m ³) | Volume (m ³) | Tonnage (t) | TiO ₂ equivalent grade (%) | TiO ₂ grade (%) | TFe grade (%) |
|---|--------------------------------|-----------------------------|----------------|--|-------------------------------|------------------|
| 0.0 | 3.18 | 28,366,000 | 90,343,000 | 70.77 | 4.79 | 14.34 |
| 5.0 | 3.18 | 27,892,000 | 88,835,000 | 71.90 | 4.79 | 14.59 |
| 10.0 | 3.18 | 27,767,000 | 88,434,000 | 72.20 | 4.79 | 14.65 |
| 20.0 | 3.18 | 27,767,000 | 88,434,000 | 72.20 | 4.79 | 14.65 |
| 30.0 | 3.18 | 27,767,000 | 88,434,000 | 72.20 | 4.79 | 14.65 |
| 40.0 | 3.18 | 27,767,000 | 88,434,000 | 72.20 | 4.79 | 14.65 |
| 50.0 | 3.18 | 27,767,000 | 88,434,000 | 72.20 | 4.79 | 14.65 |
| 60.0 | 3.18 | 27,735,000 | 88,332,000 | 72.21 | 4.79 | 14.66 |
| 70.0 | 3.19 | 19,620,000 | 62,625,000 | 74.13 | 5.05 | 15.02 |
| 80.0 | 3.39 | 12,978,000 | 4,393,000 | 81.60 | 5.95 | 16.45 |

Numbers have been rounded to reflect that the resource estimate is an approximation.

Table 11-5: Total resources for orebody 2 at various cut-off grades

| TiO ₂ equivalent COG (%) | Density (t/m ³) | Volume (m ³) | Tonnage (t) | TiO ₂ equivalent grade (%) | TiO ₂ grade (%) | TFe grade (%) |
|---|--------------------------------|-----------------------------|----------------|--|-------------------------------|------------------|
| 0.0 | 3.46 | 3,216,000 | 11,131,000 | 79.57 | 5.88 | 16.02 |
| 5.0 | 3.46 | 3,216,000 | 11,131,000 | 79.57 | 5.88 | 16.02 |
| 10.0 | 3.46 | 3,216,000 | 11,131,000 | 79.57 | 5.88 | 16.02 |
| 20.0 | 3.46 | 3,216,000 | 11,131,000 | 79.57 | 5.88 | 16.02 |
| 30.0 | 3.46 | 3,216,000 | 11,131,000 | 79.57 | 5.88 | 16.02 |
| 40.0 | 3.46 | 3,216,000 | 11,131,000 | 79.57 | 5.88 | 16.02 |
| 50.0 | 3.46 | 3,216,000 | 11,131,000 | 79.57 | 5.88 | 16.02 |
| 60.0 | 3.46 | 3,216,000 | 11,131,000 | 79.57 | 5.88 | 16.02 |
| 70.0 | 3.46 | 3,213,000 | 11,123,000 | 79.58 | 5.88 | 16.02 |
| 80.0 | 3.46 | 1,412,000 | 4,886,000 | 80.30 | 5.99 | 16.16 |

Numbers have been rounded to reflect that the resource estimate is an approximation.

Table 11-6: Measured resources for orebody 1 at various cut-off grades

| TiO ₂ equivalent COG (%) | Density (t/m ³) | Volume (m ³) | Tonnage (t) | TiO ₂ equivalent grade (%) | TiO ₂ grade (%) | TFe grade (%) |
|---|--------------------------------|-----------------------------|----------------|--|-------------------------------|------------------|
| 0.0 | 3.23 | 14,743,000 | 47,552,000 | 70.67 | 4.90 | 14.30 |
| 5.0 | 3.23 | 14,412,000 | 46,498,000 | 72.19 | 4.91 | 14.63 |
| 10.0 | 3.23 | 14,321,000 | 46,210,000 | 72.61 | 4.90 | 14.72 |
| 20.0 | 3.23 | 14,321,000 | 46,210,000 | 72.61 | 4.90 | 14.72 |
| 30.0 | 3.23 | 14,321,000 | 46,210,000 | 72.61 | 4.90 | 14.72 |
| 40.0 | 3.23 | 14,321,000 | 46,210,000 | 72.61 | 4.90 | 14.72 |
| 50.0 | 3.23 | 14,321,000 | 46,210,000 | 72.61 | 4.90 | 14.72 |
| 60.0 | 3.23 | 14,320,000 | 46,209,000 | 72.61 | 4.90 | 14.72 |
| 70.0 | 3.23 | 10,256,000 | 33,159,000 | 74.77 | 5.14 | 15.14 |
| 80.0 | 3.42 | 774,000 | 2,645,000 | 81.12 | 5.96 | 16.34 |

Numbers have been rounded to reflect that the resource estimate is an approximation.

Table 11-7: Indicated Resources for orebody 1 at various cut-off grades

| TiO ₂ equivalent COG (%) | Density (t/m ³) | Volume (m ³) | Tonnage (t) | TiO ₂ equivalent grade (%) | TiO ₂ grade (%) | TFe grade (%) |
|---|--------------------------------|-----------------------------|----------------|--|-------------------------------|------------------|
| 0.0 | 3.14 | 11,559,000 | 36,280,000 | 71.15 | 4.69 | 14.45 |
| 5.0 | 3.14 | 11,443,000 | 35,908,000 | 71.83 | 4.69 | 14.60 |
| 10.0 | 3.14 | 11,416,000 | 35,821,000 | 71.99 | 4.69 | 14.63 |
| 20.0 | 3.14 | 11,416,000 | 35,821,000 | 71.99 | 4.69 | 14.63 |
| 30.0 | 3.14 | 11,416,000 | 35,821,000 | 71.99 | 4.69 | 14.63 |
| 40.0 | 3.14 | 11,416,000 | 35,821,000 | 71.99 | 4.69 | 14.63 |
| 50.0 | 3.14 | 11,416,000 | 35,821,000 | 71.99 | 4.69 | 14.63 |
| 60.0 | 3.14 | 11,405,000 | 35,786,000 | 72.00 | 4.69 | 14.63 |
| 70.0 | 3.15 | 8,182,000 | 25,736,000 | 73.52 | 4.94 | 14.91 |
| 80.0 | 3.34 | 524,000 | 1,748,000 | 82.29 | 5.92 | 16.60 |

Numbers have been rounded to reflect that the resource estimate is an approximation.

Table 11-8: Indicated Resources for orebody 2 at various cut-off grades

| TiO ₂ equivalent COG (%) | Density (t/m ³) | Volume (m ³) | Tonnage (t) | TiO ₂ equivalent grade (%) | TiO ₂ grade (%) | TFe grade (%) |
|---|--------------------------------|-----------------------------|----------------|--|-------------------------------|------------------|
| 0.0 | 3.46 | 1,817,000 | 6,280,000 | 79.70 | 5.98 | 16.03 |
| 5.0 | 3.46 | 1,817,000 | 6,280,000 | 79.70 | 5.98 | 16.03 |
| 10.0 | 3.46 | 1,817,000 | 6,280,000 | 79.70 | 5.98 | 16.03 |
| 20.0 | 3.46 | 1,817,000 | 6,280,000 | 79.70 | 5.98 | 16.03 |
| 30.0 | 3.46 | 1,817,000 | 6,280,000 | 79.70 | 5.98 | 16.03 |
| 40.0 | 3.46 | 1,817,000 | 6,280,000 | 79.70 | 5.98 | 16.03 |
| 50.0 | 3.46 | 1,817,000 | 6,280,000 | 79.70 | 5.98 | 16.03 |
| 60.0 | 3.46 | 1,817,000 | 6,280,000 | 79.70 | 5.98 | 16.03 |
| 70.0 | 3.46 | 1,816,000 | 6,277,000 | 79.71 | 5.98 | 16.03 |
| 80.0 | 3.45 | 1,046,000 | 3,608,000 | 80.33 | 6.03 | 16.15 |

Numbers have been rounded to reflect that the resource estimate is an approximation.

Table 11-9: Inferred Resources for orebody 1 at various cut-off grades

| TiO ₂ equivalent COG (%) | Density (t/m ³) | Volume (m ³) | Tonnage (t) | TiO ₂ equivalent grade (%) | TiO ₂ grade (%) | TFe grade (%) |
|---|--------------------------------|-----------------------------|----------------|--|-------------------------------|------------------|
| 0.0 | 3.16 | 2,063,000 | 6,511,000 | 69.39 | 4.55 | 14.10 |
| 5.0 | 3.15 | 2,038,000 | 6,429,000 | 70.20 | 4.55 | 14.27 |
| 10.0 | 3.15 | 2,030,000 | 6,403,000 | 70.45 | 4.54 | 14.33 |
| 20.0 | 3.15 | 2,030,000 | 6,403,000 | 70.45 | 4.54 | 14.33 |
| 30.0 | 3.15 | 2,030,000 | 6,403,000 | 70.45 | 4.54 | 14.33 |
| 40.0 | 3.15 | 2,030,000 | 6,403,000 | 70.45 | 4.54 | 14.33 |
| 50.0 | 3.15 | 2,030,000 | 6,403,000 | 70.45 | 4.54 | 14.33 |
| 60.0 | 3.15 | 2,009,000 | 6,337,000 | 70.58 | 4.59 | 14.35 |
| 70.0 | 3.15 | 1,183,000 | 3,730,000 | 72.84 | 4.95 | 14.76 |

Numbers have been rounded to reflect that the resource estimate is an approximation.

Table 11-10: Inferred Resources for orebody 2 at various cut-off grades

| TiO ₂ equivalent COG (%) | Density (t/m ³) | Volume (m ³) | Tonnage (t) | TiO ₂ equivalent grade (%) | TiO ₂ grade (%) | TFe grade (%) |
|---|--------------------------------|-----------------------------|----------------|--|-------------------------------|------------------|
| 0.0 | 3.47 | 1,399,000 | 4,851,000 | 79.40 | 5.74 | 16.01 |
| 5.0 | 3.47 | 1,399,000 | 4,851,000 | 79.40 | 5.74 | 16.01 |
| 10.0 | 3.47 | 1,399,000 | 4,851,000 | 79.40 | 5.74 | 16.01 |
| 20.0 | 3.47 | 1,399,000 | 4,851,000 | 79.40 | 5.74 | 16.01 |
| 30.0 | 3.47 | 1,399,000 | 4,851,000 | 79.40 | 5.74 | 16.01 |
| 40.0 | 3.47 | 1,399,000 | 4,851,000 | 79.40 | 5.74 | 16.01 |
| 50.0 | 3.47 | 1,399,000 | 4,851,000 | 79.40 | 5.74 | 16.01 |
| 60.0 | 3.47 | 1,399,000 | 4,851,000 | 79.40 | 5.74 | 16.01 |
| 70.0 | 3.47 | 1,398,000 | 4,847,000 | 79.41 | 5.74 | 16.01 |
| 80.0 | 3.49 | 366,000 | 1,278,000 | 80.23 | 5.86 | 16.17 |

Numbers have been rounded to reflect that the resource estimate is an approximation.

12 COMPARISON WITH HISTORIC RESOURCE

The historic resource estimate for orebody 1 was 77,653,000 tonnes at a grade of 5.03% TiO₂ and 14.94% TFe. Orebody 2 was not estimated for the historic resource. In comparison, the MCS resource (the current resource) for orebody 1 is 13.9% larger in tonnage, with a slightly lower TiO₂ grade (4.8% lower) and slightly lower TFe grade (1.9% lower). The larger tonnage can be explained by the slightly larger mineralised envelope defined by MCS compared to the historic resource. MCS used a geological cut-off grade of 1.9% TiO₂ and 8.7% TFe; this was the 16.2% TiO₂ equivalent. The historic resource used a cut-off of greater than 17% TFe + TiO₂. The interpretation methods were also different, and the methods used by MCS resulted in a slightly larger current resource. The decrease in grade can be explained by the ordinary kriging interpolation method which tends to smooth the grade distribution and result in slightly lower estimated grades versus polygonal estimation which over estimates grade and under estimates tonnage.

13 METALLURGY AND MINERAL PROCESSING

13.1 Metallurgy

No information has been provided for metallurgy for the project except that the current Yang Zhuang processing plant will be modified and utilised for the ore, as the client believes the ore is similar in characteristics.

13.2 Mineral Processing

The processing plant would consist of a three-section closed circuit crushing unit and a four-stage ore separation plant.

Processing recoveries stated in the Feasibility Study for Qinjiazhuang (Shandong Lianchuang Architectural Design Co. Ltd, 2011) sent to MCS on 15th September 2011 stated recoveries as 45.00% for iron and 45.00% for titanium. MCS considers processing recoveries of 45.00% for iron and 45.00% for titanium as ‘unlikely’ and believes a recovery rate of 23.22% for iron and 12.70% for titanium is more realistic.

On the basis of the processing circuit design, the characteristics of the ore, and comparisons with similar operations, MCS expects the proposed processing plant to process approximately 2 million t/pa with an annual concentrate output of approximately 150,000 tonnes of 44% titanium concentrate and 420,000 tonnes of 61% iron concentrate. If the recoveries stated in the Feasibility Study for Qinjiazhuang (Shandong Lianchuang Architectural Design Co. Ltd, 2011) were achieved, the processing plant would be expected to produce approximately 220,600 tonnes of iron concentrate and 102,900 tonnes of titanium concentrate.

MCS acknowledges that some discrepancies exist between processing recovery rates provided in different revisions of feasibility reports provided by the client, and that there are no results of metallurgical test work performed to support the revised numbers. The recovery rates used in this estimation are based on the experience of the Competent Person and are considered comparable to recovery rates for other mines with similar ore types and grades. MCS recommends that pilot-scale mineral processing testwork be carried out to determine the true recovery rates for the particular ores, processing equipment and design parameters of this project. Based on the results of processing testwork recovery rates may need to be revised either upwards or downwards.

The process flow is summarised in section 13.2.1.

13.2.1 Iron ore processing procedure

The following details are according to the preliminary design report of the Shandong Lianchuang Architectural Design Co. Ltd (2011).

Iron ore will be processed using wet magnetic separation, two-stage crushing, dry separation, two-stage closed-circuit grinding, coarse ore separation, and magnetic concentration. The ore separation flow chart is shown in Figure 13-1. A summary of the procedure is as follows:

- Crushing: maximum rock size is 500 mm; crushed ore maximum grain size is 20 mm.
- Dry magnetic separation: separates ore from gangue.
- Ball milling: ore is ground to 200 mesh.
- Ore slurry separation: coarse ore slurry is sent to fine grinding, fine ore slurry is sent to level 2 high intensity magnetic separation.
- Magnetic separation: magnetic iron ore is separated from non-magnetic ore.
- Fine sieving: ore under 200 mesh is stored in an ore powder reservoir, ore over 200 mesh returns to ball grinding.
- Iron concentrate tailings are sent for weak magnetic separation, re-separation then multi-separation stages.
- The final iron concentrate should have a grade of 56-63% TFe with a tailings grade of 7.98% TFe and a recycling rate of 22.0%.

13.2.2 Titanium ore processing procedure

Titanium ore (ilmenite) is processed using the following procedures (Figure 13-1):

- Intense magnetic separation: separates ilmenite from gangue.
- Gravity separation: shaker is used to separate ilmenite from remaining gangue.
- Flotation to recover final titanium (ilmenite) concentrate.

- The final titanium (ilmenite) concentrate should have a grade of 43.50% TiO₂ with a tailings grade of 3.58% TiO₂, and a recycling rate of 48.70%.

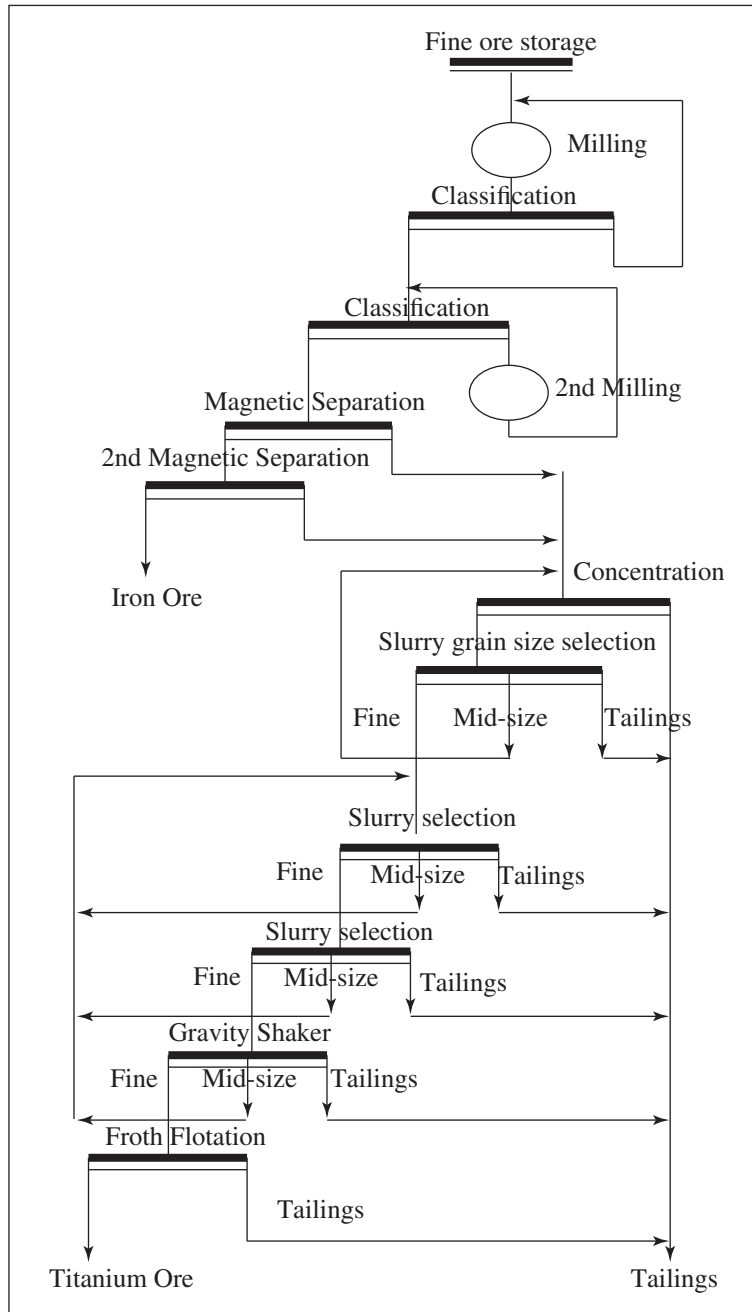


Figure 13-1: Ore Separation Flow Chart

MCS has not been provided with any further details on the processing of the Qinjiazhuang ore and metallurgical assessment was not included in the scope of work for this review.

14 MINING STUDY

14.1 Scope of Work

The scope of work for the mining study was to convert the Resources to Reserves. This involved the following:

- calculating cut-off grades;
- optimisation using Whittle 4D software;
- checking the optimisation results with the open pit design produced by the Shandong Lianchuang Architectural Design Co. Ltd (2011);
- assessing the proposed mining method and applying modifying factors as applicable;
- producing a life of mine schedule;
- assessing the cost and revenue estimates for the project;

MCS had previously completed a resource and reserve estimate of the project in June 2011. The client commissioned MCS to complete an update of the reserve estimate for the project due to changes in modifying factor information outlined in the Feasibility Study report for Qinjiazhuang Mine (Shandong Lianchuang Architectural Design Company Ltd, 2011). The changes in modifying factor information were as follows:

- A reduction in capital expenditure from CN¥275.78 million previously to CN¥238.58 million.
- An increase in titanium concentrate selling price from CN¥890.00 per tonne previously to CN¥1,770.00 per tonne.
- An increase in mining expenditure from CN¥37.09 per tonne previously to CN¥44.60 per tonne.
- An increase in processing expenditure from CN¥13.34 per tonne previously to CN¥38.80 per tonne.

All possible modifying factors are to be considered for the conversion of resources to reserves.

14.2 Open Pit

The following information is sourced from Shandong Lianchuang Architectural Design Co. Ltd., (2011) report.

The deposit is most suitable for open pit mining according to the size, depth and shape of the orebodies. Production capacity is calculated to be two million tonnes per year. The geology of the deposit is also suitable for open pit mining. Rock below the surface and the weathered horizon is exceptionally hard. Ground water is not abundant and the hydrogeology is not complex. The planned bench height will be 12 metres. The bottom of the pit is planned to be at minus 14 metres RL, with a hanging wall slope angle of less than or equal to 51° and a slope angle of less than or equal to 47°. The bench angle in Quaternary sediments and weathered bedrock will be 65°; the angle in fresh bedrock will be 50°. The maximum excavation height will be 10.71 metres.

Shovelling equipment will consist of hydraulic excavators with four and two cubic metre capacities.

Ore will be transported by trucks along the haulroads. The haulroad system within the open pit will be in the form of switchbacks and spiral style, depending on the size of the pit. The haulroad width will be eleven metres including two lanes with a 6% to 8% incline. The road will be composed of clay-bound gravel. The main haulage road will be at +214 metres which is the elevation of the closed-loop road.

A residential area exists on the southeast margin of the orebody. Some of these houses are within the blasting boundary and will need to be relocated.

15 RESERVE ESTIMATION

15.1 Introduction

The JORC code and definitions have been used for the conversion of Resources to Reserves.

The Resource has been classified as Measured, Indicated and Inferred. By definition Reserves may not include Inferred Resources. Like Resources, Reserves, by definition, have two components; a quantity component (value) and a classification component (risk).

The quantity component of Resources is termed Gross Tons In Situ, (GTIS) and is the starting point in the derivation of Reserves. The process used to convert GTIS to Reserves is as follows;

- Step 1 GTIS is converted to Mineable Tons In Situ (MTIS)
- Step 2 MTIS is converted to Reserves.

The classification component of Reserves is based on the classification of the Resource.

Step 1: The conversion of the GTIS, into MTIS.

Initially, GTIS is split into Resources that will be mined utilising Surface mining techniques and Resources that will be mined utilising Underground mining techniques. The reason being that different sets of infrastructure and equipment are used for Surface and Underground mining which translates into different capital and working costs and mining rates.

Secondly, all Inferred Resources are excluded.

Step 2: The conversion of MTIS into Reserves.

During this step appropriate factors are applied to the MTIS to obtain the Reserve.

These factors include grade cut-offs (where appropriate), economic cut-offs (such as block volumes) and losses due to the mining method envisaged.

A modelling estimation error is also applied.

The Reserve classification is based on the Resource classification. Once the Inferred Resources have been excluded the Reserve is classified.

15.2 Qinjiazhuang Resource to Reserve Calculation

These Reserves were based on the Resource model dated 22/3/2011, and the Reserves were therefore deemed to have the same date. However, the modifying factors parameters were changed and the Reserves were recalculated with these new parameters in October 2011. It should be noted that the Reserves quoted here are a “snapshot” at a specific point in time. Should any of the inputs change, such as the Resource model, the Reserves should be recalculated.

For the Qinjiazhuang Project there are two commodities; Iron and Titanium. The Resources and Reserves are given separately for these two commodities as they are not entirely contiguous. Also at Qinjiazhuang there are Surface mining resources and underground mining resources and hence there are two tables that show Resources and Reserves. The underground Reserves pertain to Orebody 1 only; there are no underground Resources in Orebody 2.

The information given in the Feasibility study was used to split the Resources into surface and underground resources.

15.2.1 Surface Resources and Reserves

For Qinjiazhuang there are Measured, Indicated and Inferred Resources. In the process of converting the Resources to Reserves, all the Inferred Resources have been excluded from MTIS. Table 15-1 shows the total Resource (GTIS) and the MTIS for the Surface portion of the Resource.

The MTIS for Orebody 1 is 73.828 Mt. For Ore body 2 the MTIS is 5.652 Mt. A tonnage of approximately 6 Mt for an Open pit operation is small and therefore Orebody 2 should be mined in conjunction with Orebody 1.

The factors applied to MTIS include the following.

- A mining loss of 7%. The planned extent of the orebody is such that 5% to 10% is appropriate as the mining loss will only occur at the ore/gangue boundary around the edges. But in the case of Qinjiazhuang most of the Open pit Resource is Measured and therefore a factor of 7% is used.
- A modelling estimation error of 3%. This is an industry norm. For Measured Resources a factor of 3% is used and for Indicated a factor of 5% is used. In the case of Qinjiazhuang the majority of the ore is Measured.

15.2.2 Underground Resources and Reserves

For the section of the ore body below the proposed open pit at Qinjiazhuang, there are no Measured Resources; only Indicated and Inferred. In the process of converting the Resources to Reserves, all the Inferred Resources have been excluded from MTIS. From Figure 15-1 it can be seen how small the underground portion of the Resources are and hence **no underground Reserves can be reported**. The total MTIS is 0.023 Mt for Titanium ore and 0.023 Mt for Iron ore.

Given that:

- (a) If the Inferred Resources were to be added to the MTIS, the Resource is still not large enough to establish a reasonable mine (2.378 Mt Titanium ore and 2.325 Mt Iron ore respectively); and
- (b) The majority of the underground Resources (>50%) are classified as Inferred; no underground Reserve has been calculated at this stage.

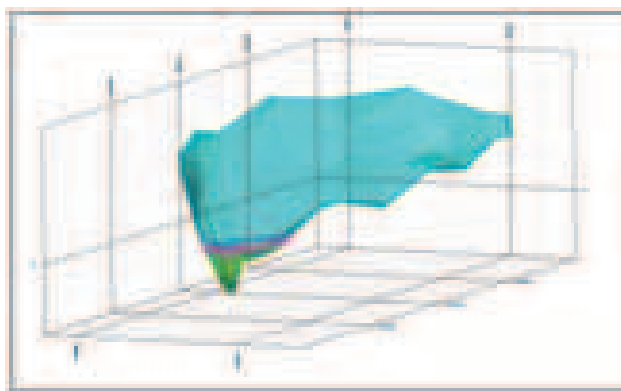


Figure 15-1: The Mining methods for Orebody 1- blue is open pit and green is underground. The purple is the crown pillar

Table 15-1: Statement of JORC compliant open pit mining reserves for the Qinjiazhuang Project

| Orebody Name | Class | GRADE | GRADE | MTIS | GRADE | GRADE | Mining Recovery | Dilution | Proved Reserves | Probable Reserves | GRADE | GRADE | |
|--------------------|-----------|----------------------|-------|----------|----------------------|-------|-----------------|----------|-----------------|----------------------|----------------------|-------|-------|
| | | GTIS | Ti | | Fe | Ti | | | | | Fe | Ti | Fe |
| | | (Tonnes) | (%) | (Tonnes) | (%) | (%) | (%) | (%) | (Mt) | (Mt) | (%) | (%) | |
| OBM1 | Measured | 46.210 | 4.93 | 14.72 | 41.589 | 4.93 | 14.72 | 90.0 | 9.0 | 45.332 | – | 4.52 | 13.50 |
| OBM1 | Indicated | <u>35.821</u> | 4.69 | 14.63 | <u>32.239</u> | 4.69 | 14.63 | 90.0 | 9.0 | – | <u>35.140</u> | 4.30 | 13.42 |
| Total | | <u>82.031</u> | | | <u>73.828</u> | | | | | <u>45.332</u> | <u>35.140</u> | | |
| OBM2 | Measured | – | – | – | – | – | – | 90.0 | 9.0 | – | – | – | – |
| OBM2 | Indicated | <u>6.280</u> | 5.98 | 16.03 | <u>5.652</u> | 5.98 | 16.03 | 90.0 | 9.0 | – | <u>6.161</u> | 5.49 | 14.70 |
| Total | | <u>6.280</u> | | | <u>5.652</u> | | | | | – | <u>6.161</u> | | |
| Grand Total | | <u><u>88.311</u></u> | | | <u><u>79.480</u></u> | | | | | <u><u>45.332</u></u> | <u><u>41.302</u></u> | | |

16 RESERVE STATEMENT

The JORC Code provides guidelines which set out minimum standards, recommendations and guidelines for the Public Reporting of exploration results, mineral resources and ore reserves. Within the code is a “Checklist of Assessment and Reporting Criteria” (Table 1 – JORC Code). This checklist is a useful method for reviewing JORC compliance. A summary of the key points are shown in Table 16-1.

Table 16-1: JORC Code Compliance Checklist for Qinjiazhuang

| Section | Comment |
|--|---|
| 1. Is the Reserve derived from JORC compliant Resource Statement? Who are the competent persons? | This JORC Reserve is derived from JORC compliant Mineral Resources Statement signed by Mr. David Allmark of MCS. |
| 2. What is the current project status? | The mine is in planning. A life of mine plan has been prepared. |
| 3. What cut off parameters and physical limits have been applied in estimating the Reserves? | A cut-off grade based on economic factors has been calculated and applied. Factors have been used for mining recovery and dilution based on the orebody shapes and the selected mining method. |
| 4. What mining and geotechnical assumptions have been made? | Geotechnical assumptions have been considered in the design of the open pit mine. Ore quality is as per the geological model combined with recovery, dilution, and moisture adjustments. |
| 5. Is there a metallurgical process used and what is suitability to the type of operation? | The project proposal is to use the nearby Yang Zhuang process plant owned by the Company which is currently processing iron ore. Ore will be crushed, milled, and separated into two concentrate streams. |
| 6. How have the project capital, operating costs and royalties been derived? | The Capital and Operating costs are based on estimates using quotes as well as costs from similar mining projects. Royalties are based on government requirements. |

| Section | Comment |
|---|--|
| 7. What is the market demand and supply of this commodity and what are the price and volume forecasts of the Reserves based upon? | The Ore from this mine is separated to produce a titanium concentrate and an iron concentrate to meet customer requirements. Both products have good markets in China. |
| 8. Any other factors that may potentially affect the viability of the project and the status of titles and approvals required for the project? | All mining projects operate in an environment of geological uncertainty. MCS is not aware of any other potential factors that could affect the operation viability. Approvals for the proposed mining operation and process plant expansion have been applied for. |
| 9. What is the basis for the classification of the ore reserves and proportion of ore reserves which have been derived from Measured Mineral Resources? | Classification of Ore Reserves has been derived by considering the Measured and Indicated Resources and the level of mine planning. Inferred Resources have been excluded from the estimate. |
| 10. Results of audits or reviews of Reserves Statements | As per findings in this review, plus internal reconciliation and peer review. |
| 11. Relative accuracy and confidence of the Reserves Estimate | The Reserve estimate is supported by greater than 50% of Measured resources. More metallurgical testing is required, however there is a fair level of confidence in the estimate. |

Following on from the calculations in Table 15-1 and the checklist in Table 16-1, Table 16-2 shows the diluted and recoverable underground reserves for the Qinjiazhuang Project. Only Measured Resources have been considered for conversion to Proved Reserves and only Indicated Resources have been considered for Probable Reserves.

The Open-pitiable Reserves for the Qinjiazhuang orebody 1 are 80.472346 Mt of ore at a grade of 4.43% TiO₂ and 13.47% TFe. For orebody 2 the reserves are 6.161 Mt of titanium ore at a grade of 5.49% TiO₂ and 14.70% TFe.

The MCS reserve statement (current reserve, October 2011) for the Qinjiazhuang Project is shown in Table 16-2.

Table 16-2: Total reserve for the Qinjiazhuang Project

| Reserve Classification | Ore (Tonnes) | TiO₂ Grade (%) | TFe Grade (%) | Contained TiO₂ (Tonnes) | Contained TFe (Tonnes) |
|-------------------------------|--------------------------|----------------------------------|----------------------|---|-------------------------------|
| Proved | 45,330,000 | 4.52 | 13.50 | 2,049,000 | 6,120,000 |
| Probable | <u>41,300,000</u> | 4.48 | 13.61 | <u>1,850,000</u> | <u>5,621,000</u> |
| Total reserve | <u><u>86,630,000</u></u> | 4.50 | 13.56 | <u><u>3,898,000</u></u> | <u><u>11,747,000</u></u> |

Note: Contained TFe and TiO₂ does not imply that all the TFe and TiO₂ can be recovered. Processing recovery has not been accounted for in the calculation.

Note: Resources may not ultimately be extracted at a profit.

The ore resources are inclusive of the ore reserve.

The reserve includes diluting material with an assumed diluent grade of 0%, total dilution used was 9%. Dilution is always incurred in the mining process and occurs due to the unavoidable inclusion of waste material into the mined ore.

The MCS reserve is stated based on titanium with an iron credit.

The expected project life of the open pit is 43.3 years.

17 COSTS

17.1 Operating Costs

All mine operating costs have been supplied by the Client. MCS has not been able to independently verify these costs, however they appear appropriate considering the mining method used and are comparable to other mines located in China that have similar mining methods and orebody characteristics. MCS has assessed the cost estimates provided in the Preliminary Design report and made some modifications including the addition of an environmental allowance (refer Chapter 22) and a contingency of 5%. These modifications bring the estimated operating costs (excluding capital expenditure) up to RMB64.86 per tonne of ore processed.

Table 17-1 below summarises the operating costs presented in the Feasibility Study report.

Table 17-1: Qinjiazhuang Mine – Average Operating Costs

| No. | Item | Unit cost (RMB/t Ore) | Annual total cost (10,000 RMB) |
|------------------------------|--------------------------|--------------------------|---|
| Mining Cost | | | |
| I | Material | 13.67 | 2,734.48 |
| II | Fuel and power | 5.69 | 1,137.29 |
| III | Wage and welfare expense | 1.83 | 496.8 |
| Total Mining cost | | <u>21.19</u> | <u>4,238.85</u> |
| Process Cost | | | |
| I | Material | 19.69 | 3,937.49 |
| II | Fuel and power | 16.22 | 3,243.7 |
| III | Wage and welfare expense | 0.88 | 176.0 |
| Total Processing cost | | <u>36.79</u> | <u>7,357.19</u> |
| Other Costs | | | |
| Overheads and Admin | | 3.64 | 727.71 |
| Environmental Allowance | | 0.15 | 30.0 |
| Total Other Cost | | <u>3.79</u> | <u>757.71</u> |
| Contingency (5%) | | <u>3.09</u> | <u>624.17</u> |
| Total Operating Cost | | <u><u>64.86</u></u> | <u><u>13,107.64</u></u> |

17.2 Capital Costs

The Qinjiazhuang mine will be developed to commence mining when the Yang Zhuang orebodies are exhausted. Although the proposed mining rate is 2 Mtpa which less than the 3.5 Mtpa capacity of the plant, a second separation circuit will be added to the Yang Zhuang concentrator plant so as to be able to produce the Titanium concentrate as well as the iron concentrate it already produces. Capital expenditure for the Qinjiazhuang projects will include the addition of the second separation circuit to the Yang Zhuang process plant as well as the purchase of equipment for and the pre-strip of the open pit operation.

The proposed capital expenditure for Qinjiazhuang is CNY255.36 million which consists of CNY229.23 million for construction capital and CNY21.13 million for working capital. The most recent Preliminary Design reports state that the basis of estimation of capital expenditure was by use of quotes for Major Equipment items and estimations using approved tables, work rates, and escalation factors for installation and construction. MCS was not provided with any further details relating to the proposed capital expenditure.

18 PRICE ESTIMATION AND FORECAST

18.1 Titanium Concentrate Price

The following information on titanium concentrate price forecasts was sourced from the Feasibility Study report prepared by Shandong Lianchuang Architectural Design Co. Ltd (2011).

“Although titanium products are widely applied in cutting-edge industries, titanium concentrate, which is the main product of titanium (occupying 90% of TiO_2 output), is also used in general industrial fields like coating factory. Usually, the price of titanium changes with economic situation and fluctuate periodically. In 2006, the average price of domestic titanium concentrate ($TiO_2 > 45\%$) was RMB664/tonne. The price rose to RMB1,100/ton during the upsurge period of economic development at home and abroad in 2007. However, it dropped to RMB900/tonne affected by international financial crisis in 2008 and dropped to RMB705/tonne in 2009. With the remission of the international financial crisis in 2010, the price of titanium concentrate presented the status of slow growth. The quotation of titanium concentrate ($TiO_2 > 45\%$) reached RMB780 to RMB800/tonne at the end of June, 2010, while the port price of titanium concentrate ($TiO_2 > 50\%$) imported from abroad is between RMB920 to RMB1,100/ton. The price of titanium concentrate of 43% to 45% arrived RMB2,050/tonne in 3rd Quarter of 2011. It is predicted that the titanium concentrate price of 43% to 45% will be between RMB1,500 and RMB2,300/tonne in coming years and medium and long term pricing will be between RMB1,800 and RMB2,500/tonne”.

A marketing study was not part of the scope of this report, however MCS is aware that prices for titanium concentrate in China increased markedly this year due to a ban on exports of titanium concentrates by Vietnam. There is a risk of this ban being lifted hence the market price could return to pre-ban prices. Assuming this does not happen, MCS still considers that the price analysis provided by the client seems a little optimistic when compared to other forecasts used by companies within China.

The titanium product from the Qinjiazhuang Project is expected to average at a grade of 44% titanium. Whilst MCS tends to agree with the analysis that future demand for titanium in China will remain strong assuming the Vietnam export ban remains in place, for the purposes of this report, MCS has elected to use a more conservative price of RMB1,600/tonne for the 44% titanium product from Qinjiazhuang.

18.2 Iron Concentrate Price

The following information on iron concentrate price forecasts was sourced from the Feasibility Study report prepared by Shandong Lianchuang Architectural Design Co. Ltd (2011).

“In 2010, the price of iron concentrate powders (58% grade) in domestic was between RMB1,400 to RMB1,500/tonne, and the average price in December was RMB1,380/tonne.

Analysing the fluctuation of iron ores prices and market factors at home and abroad, forecast the selling prices of iron concentrate (58% grade) will remain approximately at RMB1,480 /tonne. The four trillion investment item and the top ten industry plan are under execution at present. The demand for steel and iron will increase continuously and stably for a long time. The iron ore price will remain synchronous and stable growth.”

As mentioned previously, a marketing study was not part of the scope of this report, however MCS considers that the financial analysis provided by the client seems a little optimistic when compared to forecasts used by companies outside of China.

The product from the Qinjiazhuang Project is expected to be 61% iron concentrate which would ordinarily attract a premium to the price quoted for 58% Fe concentrate. Whilst MCS tends to agree with the analysis that future demand for iron ore in China will remain strong, given that recent prices have been in the range of RMB1,200 to RMB1,300/tonne for 58% iron concentrate, MCS has elected to use the price of RMB1,390/tonne for the purposes of this review.

19 ENVIRONMENTAL PROTECTION

19.1 Design Basis

The following sources of information were used to guide the environmental protection initiatives:

- Regulations on the Administration of Construction Project Environmental Protection Promulgated by Decree No. 253 of the State Council;
- GuoHuan Zi (87) No. 002 Document Design Regulations of Construction Project Environmental Protection;
- Design Regulations of Environmental Protection for Metallurgical Industry YB9066-95;
- Regulations on Environmental Protection Facilities Division Scope for Metallurgical Industry YB9067-95;

- Integrated Emission Standard of Air Pollutants GB16297-1996;
- Emission Standard of Air Pollutants for Coal-burning Oil-burning Gas-fired Boiler GB13271-2001;
- Integrated Wastewater Discharge Standard GB8978-1996;
- Standard of Noise at Boundary of Industrial Enterprises GB12348-90.

19.2 Major Pollutants and Control Measures

19.2.1 Mining operations

Each process in the mining cycle will produce certain amount of dust and noise. For example, the waste-rock yard will produce a certain amount of dust during stockpiling and the noise produced by air compressor will affect the ambient environment. Mine yard will produce little domestic sewage and it will produce no pollution to ambient environment. In order to prevent such pollution to the ambient environment, preventive measures are designed to be adopted to minimise pollution during the production process.

19.2.1.1 Dust Minimisation in Rock Drilling

Appropriate equipment will be selected during rock drilling to minimise dust pollution. KQG-150 down-the-hole drill rig will be used and equipment with dry dust separator units will be selected during the purchase of equipment. Dust-removal exceeds 95% when a FC-20 dry dust collector is employed. The dust concentration of the dust that is discharged to the air after having been treated by dust remover is 53 mg/m^3 , which meets the national permissible (150 mg/m^3) emission standard.

19.2.1.2 Dust Minimisation on Haul Roads

Due to the heavy traffic on the haul roads and in loading areas, especially in the dry season, dust suppression will need to be employed. The national standard for dust emission is 10 mg/m^3 . It is recommended that a water sprinkler is used on the mining roads to suppress dust. Additionally, saline water should be used on the road during winter to minimise dust and prevent the road surface from freezing. Plants and trees should be planted beside the mining roads for dust retention and noise abatement. After taking these measures, the dust on the mining road can be largely controlled.

19.2.1.3 Dust from Blasting Operations

Dust emanating from blasting exceeds 100 mg/m³ and the dust can only be naturally scattered and diluted. This will more or less affect the ambient environment, however the mine is far away from cities and villages so it will not cause a significant environmental problem.

19.2.1.4 Noise Minimisation

The noise emanating from mining operations will pollute the ambient environment to some degree. Noise levels of the key types of mining equipment are shown in Table 19-1.

**Table 19-1: Noise levels for key types of equipment
in the mining process**

| Equipment Type | Sound level dB(A) | Spectral characteristic | Remarks |
|------------------------|----------------------|----------------------------|---------------------------------|
| Down-the-hole drill | 107 | High frequency | Noise of the working place |
| Excavator | 88-98 | | |
| Movable air compressor | 85 | | Ingersoll Rand VHP-750E Type |
| 10-20t vehicles | 75-95 | | |

The following noise control measures will be employed to minimise environmental disturbance:

- Ensure the use of down-the-hole drill rigs, using silencing equipment on the excavator as much as possible and ensuring all equipment is properly maintained so that it operates properly and with the least amount of noise.. The selected air compressor emits noise at 85dB(A), which is lower than national standard of 90 dB(A).
- Adopt personal protective equipment to minimise the damage to personnel.
- The bursting on site is undertaken during the day and its frequency is low, so it has a little impact on the surrounding environment.

The measures taken above, coupled with the fact that there are no villages within 400 metres of the mine will ensure the effect of noise is minimised.

19.2.1.5 Greening

The greening works will both be targeted in certain areas and completed throughout the tenement. Planting will be done in the administrative welfare area around the mining & dressing yard. Additionally, planting will be completed after each section of the waste rock area is no longer used. Greening of the site will also take place at the tailings pond after completion and on the road sides and surrounding areas of the buildings. The total area to be rehabilitated with planting is 3.3 ha and the greening rate is 15%.

19.3 Environmental Impact Analysis

The quality of the groundwater in the surrounding villages is average to good. The ore to be mined is stable in most aspects; there is no geothermal anomaly, harmful gas is not present and the ore is chemically stable. The area is hilly, so there is a small possibility of geologic hazards, such as slumps, landslides and debris flow. No radioactive elements occur in the ore or the surrounding rocks. The only pollutants discharged into the environment during mine production are dust and *water*.

Wet scrubbers with 99% collection efficiency are equipped on the coarse crushing station, intermediate and fine crushing plant, screening plant and fine ore bin. Exhaust gases contain dust and minor CO and NOX, which will be discharged from the pit via ventilation facilities. The discharged waste gas has an insignificant impact on atmospheric quality after it has been diluted by the air in the environment.

The amount of domestic sewage is small so it could be used for greening and agricultural irrigation after being treated by a septic tank. It has no impact on water environmental quality.

Barren rocks and tailings in mining are all general solid wastes. When dumping tailings in the tailings ponds, the design can be created such that water is diverted to the dry slope sections, thereby avoiding emission of tailings. In other parts of the dam, water spraying can ensure moisture is maintained where the tailings evaporate. Thus, accumulated waste residues have little impact on ambient air quality and eco-system, and won't exert adverse influence on atmospheric environmental *quality*.

The barren rocks and tailings are properly disposed of and have minimal impact on the environment. The solid waste from boiler ash can be comprehensively used in road works, coal ash brick making and so on. This is a profitable way of using the waste by-product and ensures it has no impact on environment.

19.4 Environmental Management and Monitoring

19.4.1 Environmental Management Organization

Environmental protection and occupational health and safety (OHS) works of the Qinjiazhuang Project makes use of the level 1 institution and level 2 management. In detail, the Security Environmental Protection Section will consist of six people and it is set up to strengthen the environmental management of the Company. Part-time environmental and OHS personnel are employed in the production area, dressing plant and each working section to assist in emissions meet the standards and to ensure safety and health of the workforce.

The main responsibilities of Security Environmental Protection Section in environmental protection management are:

- (1) Implement codes and standards about environmental protection, be responsible for environmental protection for the whole mine, work out environmental protection work plan of the whole mine, and perfect rules and regulations of the environmental protection organization;
- (2) Monitor operating conditions of environmental protection processing facilities and ensure effectiveness of pollution control facilities of the mine;
- (3) Supervise environmental incident reporting and undertake incident investigations;
- (4) Comply with environmental reporting standards specified at Provincial, Municipal and National levels;
- (5) Undertake environmental monitoring of the mine site.

19.4.2 Environmental Monitoring

Yishui County or Yishui City Environmental Monitor Station is authorised to undertake annual environmental monitoring. The monitoring audits the pollutant emissions of the mine to ensure it meets the standards and requirements, and to determine the effect of these emissions on the local environment. The following items would be including in the annual monitoring process:

- Tailings exterior draining monitoring
- Monitoring items: pH, SS etc.
- Coordinate with Yishui County or Yishui City Environmental Monitor Station to take one or two times survey on key pollution sources every year.

20 WATER & SOIL CONSERVATION AND RECLAMATION

The predominant aim of the water and soil conservation plan is to effectively prevent and control the potential water loss and soil erosion of the project area during construction period. Additionally, any change to the ecological environment of the project area will be rehabilitated.

Preventative measures to be implemented include checking the dam in waste-rock yard, planting trees, sowing grass seeds and laying turf.

Numerous rehabilitation initiatives will be implemented upon the completion of mining to restore the environment to its original state. In particular, cement mortar will be injected on slopes and ground surfaces for slope protection and slopes will be covered with soil and plant vegetation. Grass seeds will be sowed at the waste-rock yard and tailings pond to restore the ecosystem.

20.1 Working System and Fixed Number of Workers

20.1.1 Working System

There will be two systems of working systems at the operation; one continuous system and one intermittent work system. Under the continuous working system, the work will continue for 330 days in the year, only stopping for necessary equipment maintenance. The work day will consist of three eight hour working shifts.

The Intermittent working system is applied to function the management departments and other production posts. The legal working week is 40 h/week and work will be undertaken for 251 working days each year.

20.1.2 Personnel Quota

When the production rate reaches 2,000,000 tpa of ore production, the total capacity of the project is 231 people, including 72 in the mining plant and 78 for the beneficiation plant. The personnel required for the mine to operate is listed in Table 20-1. This data has been from personnel figures at similar mines and it assists in the planning of the production process and the selection of equipment. Average attendance rates of mining and mineral processing workshops are 94% and 96% respectively.

Table 20-1: Estimated results of fixed number of project personnel

| No. | Department | No. people in register | Production workers | Management and service personnel | Maximum group size |
|-----|----------------------------|---------------------------|-----------------------|--|-----------------------|
| 1 | Mining workshop | 72 | 65 | 7 | 25 |
| 2 | Ore beneficiation workshop | 78 | 70 | 8 | 26 |
| 3 | Automotive fleet | 61 | 60 | 1 | 20 |
| 4 | Ore Department | 20 | | 20 | 20 |
| | Total | 231 | 195 | 36 | 91 |

21 RISK ASSESSMENT

As an industry, the Mining Industry and the projects within it, are relatively high risk when compared to projects in industrial and commercial spheres. Each project is based on an estimate of the mineral deposit and each deposit has unique quality characteristics and response to mining and processing operations which, despite many advances in technology can still not be wholly predicted.

A risk analysis has been undertaken of the financial implications of using AS 4360 as the basis in line with the requirements of the Valmin Code (2005).

The MCS risk analysis (Table 21-1 and Table 21-2) of the Qinjiazhuang project has not indicated that there are any risks with catastrophic consequences in the data presented for review. It is MCS' view that the Qinjiazhuang project has a project risk profile that is typical of mining projects at similar levels of resource estimation, mine planning and project development. Information from the risk assessment was used for the resource and reserve categorisation.

MCS notes that in most instances the risk identified in Table 21-2 could be mitigated by undertaking more detailed technical studies and providing additional information.

Table 21-1: Risk Assessment Matrix

| | | Consequence | | | | |
|-----------------------|---|--|-----------------------|-----------------------|------------------------|-----------------|
| | | 1% of Project Value | 2.5% of Project Value | > 5% of Project Value | > 15% of Project Value | Project Failure |
| | | Insignificant | Minor | Moderate | Major | Catastrophic |
| | | 1 | 2 | 3 | 4 | 5 |
| Likelihood | Numerical: | | | | | |
| | Historical: | | | | | |
| | >1 in 10 | Is expected to occur in most circumstances | | | | |
| | 1 in 10 - 100 | Will probably occur | | | | |
| | 1 in 100 - 1,000 | Might occur at some time in the future | | | | |
| 1 in 1,000 - 10,000 | Could occur but doubtful | | | | | |
| 1 in 10,000 - 100,000 | May occur but only in exceptional circumstances | | | | | |
| | | Almost Certain | Likely | Possible | Unlikely | Rare |
| | | 5 | 4 | 3 | 2 | 1 |
| | | 6 | 5 | 4 | 3 | 2 |
| | | 7 | 6 | 5 | 4 | 3 |
| | | 8 | 7 | 6 | 5 | 4 |
| | | 9 | 8 | 7 | 6 | 5 |
| | | 10 | 9 | 8 | 7 | 6 |

Table 21-2: Project Risk Summary

| Items | Discussion | Risk |
|--|--|------|
| Geological/Resource Risk | | |
| Drilling Techniques | Standard industry methods of diamond drilling were used, with regular downhole surveys taken. | 4 |
| Drill Sample Recovery | Mean weighted core recovery 96% | 2 |
| Sampling Techniques and Sample Preparation | Core was split and samples prepared using industry standard methods. Documented sample handling procedures appear appropriate. | 3 |
| Quality of Assay Data | Assay precision 412 samples (7.7% all assays) 3.10% TFe, 5.29% TiO ₂ . Assay bias of 206 samples (3.9% all assays) no sig bias. | 3 |
| Verification of Sampling and Assaying | A selection of diamond drill core was checked on site. All results checked were verified. | 3 |

| Items | Discussion | Risk |
|-------------------------------------|---|------|
| Location of Sampling Points | Surveying methods were adequate and but no collar locations could be identified as all under farm land. Plans and data independently verified. Downhole surveys utilised industry standard methods. | 5 |
| Data Density and Distribution | Mineralisation defined on adequate drill spacing and with trenches for the type of deposit and style of mineralisation. Sparser data at margins and deeper parts of the mineralisation reflected by lower confidence. | 4 |
| Audits and Reviews | Micromine is unaware of any external reviews | 3 |
| Database Integrity | Verification of original drawings by MCS | 3 |
| Geological Interpretation | The mineralisation constraints are considered appropriate for the type and grade of mineralisation. | 3 |
| Specific Gravity Determinations | SG database from drillhole samples, representative throughout deposit | 4 |
| Estimation and Modelling Techniques | Domaining and interpolation by Ordinary Kriging with the result cross-checked by Inverse Distance Weighting. | 2 |
| Mining/Reserve Risk | | 2 |
| Mining Method | The proposed mining method is standard open pit mining using owner operated equipment. No significant problems are expected | 3 |

| Items | Discussion | Risk |
|-----------------------------|--|------|
| Pit Optimisation and Design | No optimisation has been carried out for the project at this stage and the final designs have been prepared manually. MCS checked the design against an optimised shell created using the parameters in this report and found the designs reasonably approximated the optimised shell. | 4 |
| Mine Scheduling | MCS developed a simple life of mine schedule based on sequential development of the proposed pit. No optimisation of the schedule and/or selection of pushbacks to improve NPV has been carried out as yet. MCS believes there may be scope to improve the value of the project by undertaking this work | 2 |
| Reserves Estimation | The reserves have been calculated using a block model as well as, product prices, costs and assumptions that are all susceptible to change. | 7 |
| Processing | Producing Titanium and Iron concentrates from the Zhuge Shangyu ore is possible using conventional methods widely used in China. Although more testing is required, the proposed recoveries are within the ranges achieved at other mining operations in the region. Provided the ore characteristics are relatively homogenous, the risk of failing to achieve planned recoveries is minor to moderate. | 5 |
| Sales | No testwork has been carried out on penalty elements to date. Whilst it is expected that most penalty elements will be liberated and removed during concentrating as with other projects in the area, this should be confirmed by further testing. | 4 |

This information was used for the resource and reserve categorisation.

22 CONCLUSIONS AND RECOMMENDATIONS

22.1 Resource Estimation

The resources for the Qinjiazhuang Iron and Titanium Project stated by category and reported above an economic cut-off grade of 9.2% TiO₂ equivalent is shown in Table 22-1.

Table 22-1: Total resource for Qinjiazhuang Project

| Resource Category | Tonnes (t) | SG (t/m ³) | TiO ₂ equivalent (%) | TiO ₂ (%) | TFe (%) |
|---|--------------------------|---------------------------|---------------------------------------|-------------------------|------------|
| Measured | 46,210,000 | 3.23 | 72.61 | 4.9 | 14.72 |
| Indicated | <u>42,101,000</u> | 3.19 | 73.14 | 4.88 | 14.84 |
| Total Measured and Indicated | 88,311,000 | 3.21 | 72.86 | 4.89 | 14.78 |
| Inferred | <u>11,254,000</u> | 3.29 | 74.31 | 5.06 | 15.05 |
| Total Resources | <u><u>99,565,000</u></u> | 3.22 | 73.02 | 4.91 | 14.81 |

Note: Numbers have been rounded to reflect that the resources are an approximation.

The resources reported for the Qinjiazhuang Iron and Titanium Project are stated by category.

A cut-off grade for reporting potentially economically extractable resources was determined using the parameters from the MCS mining study. A TiO₂ equivalent grade was generated using annual forecast yield for TiO₂ and TFe and prices of the TiO₂ and TFe concentrate from the mining study. A ratio of 1:4.6 was determined for the value of TiO₂ to TFe. A TiO₂ equivalent grade was then determined for every block in the model. The processing recovery of TiO₂ equivalent was determined to be 26.9% and the sale price of the combined concentrate used was CN¥2,656. MCS calculated an economic cut-off grade of 9.2% TiO₂ equivalent using the following formula: Economic cut-off grade = CN¥64.86 / (26.9% * CN¥2,656).

Additional resource potential exists at both ends and at depth of orebody 1, where infill drilling can upgrade the resource from Indicated and Inferred to Measured category. For orebody 2 potential exists in the southern part where there are no drillholes and the orebody has not been tested at depth. For the northern part of orebody 2 additional drilling with improved core recovery and provision of QA/QC data could upgrade the Indicated Resource to Measured category.

22.2 Mining Study

The scope of work for the mining study was to convert the resources to reserves.

The deposit is most suitable for open pit mining according to the size, depth and shape of the orebodies.

The Resource has been classified as Measured, Indicated and Inferred. By definition Reserves may not include Inferred Resources. Like Resources, Reserves, by definition, have two components; a quantity component (value) and a classification component (risk).

The quantity component of Resources is termed Gross Tons In Situ, (GTIS) and is the starting point in the derivation of Reserves. The process used to convert GTIS to Reserves is as follows;

- Step 1 GTIS is converted to Mineable Tons In Situ (MTIS)
- Step 2 MTIS is converted to Reserves.

The classification component of Reserves is based on the classification of the Resource.

The factors applied to MTIS include the following.

- A mining loss of 7%. The planned extent of the orebody is such that 5% to 10% is appropriate as the mining loss will only occur at the ore/gangue boundary around the edges. But in the case of Qinjiazhuang most of the Open pit Resource is Measured and therefore a factor of 7% is used.
- A modelling estimation error of 3%. This is an industry norm. For Measured Resources a factor of 3% is used and for Indicated a factor of 5% is used. In the case of Qinjiazhuang the majority of the ore is Measured.

The MCS reserve statement (**current reserve, October 2011**) for the Qinjiazhuang Project is shown in Table 19-2.

Table 22-2: Total Reserve for the Qinjiazhuang Project

| Reserve Classification | Ore (Tonnes) | TiO ₂ Grade (%) | TFe Grade (%) | Contained TiO ₂ (Tonnes) | Contained TFe (Tonnes) |
|------------------------|-------------------|----------------------------|---------------|-------------------------------------|------------------------|
| Proved | 45,330,000 | 4.52 | 13.50 | 2,049,000 | 6,120,000 |
| Probable | 41,300,000 | 4.48 | 13.61 | 1,850,000 | 5,621,000 |
| Total reserve | 86,630,000 | 4.50 | 13.56 | 3,898,000 | 11,747,000 |

Note: Contained TFe and TiO₂ does not imply that all the TFe and TiO₂ can be recovered. Processing recovery has not been accounted for in the calculation.

MCS recommends that pilot-scale mineral processing testwork be carried out to determine the true recovery rates for the particular ores, processing equipment and design parameters of this project. Based on the results of processing testwork recovery rates may need to be revised either upwards or downwards.

23 COMPETENT PERSON STATEMENT

This report was prepared and signed herein by Competent Persons who, having relevant experience to the style of mineralisation and the type of the deposit under consideration, are thereby considered Competent Persons according to the definition explained in the JORC Code.

Neither MCS nor any of the authors of this Report has any material, present or contingent interest in the outcome of this Report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of MCS. MCS's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. Payment of that professional fee is not contingent upon the outcome of the Report.

None of MCS or any authors of this report have any direct or indirect economic or beneficial interest (present or contingent) in any contained in this Report or any assets which had been acquired, or disposed of by, or leased to any member of the Company or any of its subsidiaries within the two years immediately preceding the issue of this Report.

None of MCS or any authors of this report has any shareholding, directly or indirectly in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group or is an associated company of the Company. None of the authors of this Report is an officer, employee or proposed officer of the Company or any group, holding or associated company of the Group.

The issuer has not provided any indemnities to the Competent Person.

By signing this report, we hereby confirm that the reporting terminology, mineral resource and reserve classification, and estimation results in this report are compliant with the policy and procedures (required for the control of the quality of reporting of mineral resource and reserve estimates) as specified by the JORC Code.

17 April 2012

Signed by

David Allmark
MCS Senior Geological Consultant
Micromine Pty Ltd



Tony Cameron
Mining Engineer
Micromine Pty Ltd



David Allmark, Senior Resource Estimation Consultant; BSc (Geology), MAIG, MAusIMM, graduated in 1993 from Curtin University of Technology in Perth, Western Australia with a Bachelor of Science (Applied Geology) and Postgraduate Diploma in Applied Geology. David later completed an Advanced Diploma of Business Systems majoring in Java programming from Spherion Institute. David has twelve years' experience in the mining and exploration industry involved predominantly in iron ore, base metals and gold exploration and mining. David has worked on the Higginsville and Chalice Gold Projects and the Bulong Nickel Project for Resolute Ltd, the Koolyanobbing and Windarling iron ore projects for Portman Ltd and the West Pilbara iron ore project for Aquila Resources. David has recent experience as Senior Project Geologist for Dragon Mountain Gold's Lixian Project in Gansu Province, China, and has conducted JORC resource estimate related work on gold and base metals projects in Mongolia for Micromine Pty Ltd.

Tony Cameron, Associate Mining Consultant; B Eng (Mining), Grad Dip Bus, M Comm Law, FAusIMM, graduated in 1987 from the University of Queensland and also has a Graduate Diploma in Business from Curtin University (WA), and a Masters in Commercial Law from Melbourne University. Tony has more than 20 years' experience in the mining industry involved predominantly in iron ore, base metals, gold, copper, and mineral sands mining. He held senior management positions with mining companies in Western Australia including St Barbara Mines, Sons of Gwalia, Tiwest, and McMahon between 1995 and 2001. Tony has worked as an independent mining consultant since 2001 and is expert in the use of mine optimisation, design, and scheduling software, having evaluated numerous international minerals projects to JORC and NI-43101 standards.

24 ACKNOWLEDGEMENTS

MCS would like to acknowledge the staff of JLL, particularly Mr. Jack Li and Ms. Annie Zhang, all the staff of Shandong Xingsheng Mining Company Limited and the Shandong No.8 Exploration Institute of Geology and Mineral Resources who assisted on site and in the preparation of this independent technical report. Report sections for Location and Transport, Geology and Project History were provided by the JLL team led by Mr. Simon Chan and assisted by Ms. Annie Zhang of JLL.

25 REFERENCES

1. Shandong Lianchuang Architectural Design Co. Ltd., (2011), *Feasibility Study for Qinjiazhuang Mine Iron & Titanium Orebody 1 and Yangzhuang Gongdanshan Iron & Titanium Mine Orebody 2. (Revised)*
2. Shandong No. 8 Exploration Institute of Geology and Mineral Resources (2010), *Qin Jia Zhuang Ilmenite Deposit Detailed Geological Survey Report Orebody 1.*

26 DISCLAIMER

Micromine Consulting Services has compiled this document for Shandong Xingsheng Mining Company Co. Ltd., based on the assumptions therein identified and upon reports, drawings, designs, data and other information provided by Shandong Xingsheng Mining Company Co. Ltd., and others. Micromine Consulting Services was unable to check the veracity of the supplied data. Micromine Consulting Services has relied upon information that has been prepared by **non-qualified** persons during the preparation of this report. Micromine Consulting Services are not in a position to, and do not, verify the accuracy of, or adopt as their own, the information and data supplied by others. Parts of the document have been prepared by others or extracted from documents prepared by others, as identified in the document; the documents have not been audited by Micromine Consulting Services.

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27 APPENDIX 1: TENEMENT LICENCE CERTIFICATE

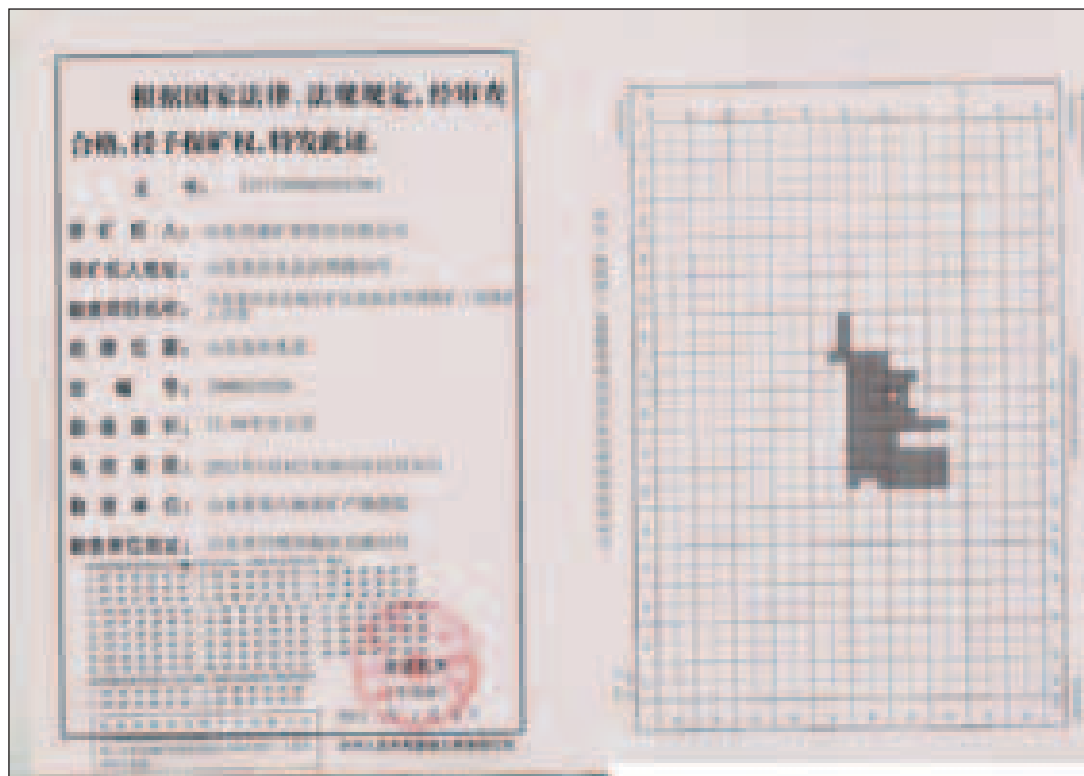


Figure 27-1: Current exploration licence

28 APPENDIX 2: DATABASE VALIDATION AND ACCEPTANCE REPORT



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仲量聯行企業評估及諮詢有限公司

Qin Jia Zhuang Iron and Titanium Project
Database Validation and Acceptance Report
For
Shandong Xingsheng Mining Company Limited

10 March 2011

DATA FOR ACCEPTANCE

28.1 Database Contents

Data was provided by Shandong Xingsheng Mining Company Limited on 11th and 20th January 2011 and was compiled by JLL.

The provided data consisted of one Excel spreadsheet, containing collar, survey, assay, core recovery, specific gravity data and lithological descriptions and other information in 8 worksheets.

The Excel spreadsheet provided was titled as follows:

1. Xinsheng drilling data – Yangzhuang part 2 – 70 million ton.xls

The contents of each worksheet in the Xinsheng drilling data – Yangzhuang part 2 – 70 million ton.xls spreadsheet is shown in Table 10-1.

**Table 28-1: Contents of spreadsheet Xinsheng drilling data
– Yangzhuang part 2 – 70 million ton.xls as supplied**

| Worksheet | No. of Holes and Trenches | No. of Records |
|------------------|--------------------------------------|---------------------------|
| Survey | 28 | 28 |
| Collar | 28 | 28 |
| Assay | 26 | 967 |
| Geology | 15 | 94 |
| Recovery | 9 | 728 |
| SG | 20 | 51 |
| Lookup Codes | NA | NA |
| Notes | NA | NA |

28.2 Database Preparation and Validation

The spreadsheet was prepared so it could be imported into MICROMINE. To import the spreadsheet, the following was carried out:

1. Hole IDs were sorted A-Z for all excel worksheets.
2. Unmerge cells in Assay worksheet and copy value to all cells previously merged.
3. Concatenate and change sample numbers in both assay and SG files so sample numbers are unique. Change all double dashes ‘—’ to single dash ‘-’ in sample and hole ID.

4. Delete top header rows of Chinese characters.
5. Unmerge cells in recovery worksheet, cut and paste and calculate values for depths in new cells.

The resulting MICROMINE files were named as follows:

- collar.DAT
- survey.DAT
- assay.DAT
- recovery.DAT
- SG.DAT
- geology.DAT

In addition, minor changes were made to the files after import into MICROMINE to enable production of a drillhole database in MICROMINE:

1. A minus sign '-' was prefixed to all dip values in the all_surveys.DAT file.
2. All blank spaces in required fields in all files were replaced with 'ND' (NO DATA).
3. Changed field name in all_surveys.DAT file from 'DEPTH (m)' to 'SDepth'.
4. Changed field names in SG.DAT file from 'Depth (from)' and 'Depth (to)' to 'From' and 'To'.
5. Changed all intervals in SG.DAT file from '8.00' to '0.08'.

The original drawings from the exploration report were then supplied by the client on 20th January 2011 and MCS performed the following:

- Displayed geology plans and cross-sections in MapGIS then imported into MICROMINE. The plans and sections were then geo-referenced in MICROMINE and the collar positions and traces were checked
- Checked collar coordinates, survey and assay data with the original data on the drawings

- Entered additional downhole survey data for each drillhole that had not been included in the supplied data previously

Several errors were discovered and corrected as detailed below:

File collars.DAT:

- For drillhole ZK402, changed depth value from '129.45 m' to '180.30 m'.
- For ZK1202, changed collar coordinates from 3990243.890 N, 40391408.785 E, RL 217.648 m to 3990237.340 E, 40391139.471 N, RL 217.123 m.

File surveys.DAT:

- All dips for trenches were changed to '0.00' from '90.00' or '95.00'.

The altered versions of the MICROMINE files were resaved under a different filename as below:

- collars.DAT saved as QJZ_collars.DAT
- surveys.DAT saved as QJZ_surveys.DAT
- assays.DAT saved as QJZ_assays.DAT

The final database contained records for 11 drillholes, 11 shallow pits (QZ-) and 6 trenches.

The number of records in the final database for each hole ID is shown in Table 10-3.

Table 28-2: Number of records of each type for each hole ID

| Hole ID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|---------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| QZ1600 | 3990000.000 | 40391177.859 | 217.65 | 9.20 | 1 | 1 | 0 | 1 | 0 |
| QZ1603 | 3990014.105 | 40391192.140 | 217.45 | 8.20 | 1 | 1 | 0 | 0 | 0 |
| QZ1604 | 3989985.895 | 40391163.701 | 217.78 | 11.60 | 1 | 1 | 0 | 1 | 0 |
| QZ1607 | 3990028.324 | 40391206.163 | 217.43 | 9.00 | 1 | 1 | 0 | 1 | 0 |
| QZ1608 | 3989971.676 | 40391149.641 | 218.10 | 13.20 | 1 | 1 | 0 | 1 | 0 |
| QZ1611 | 3990042.498 | 40391220.294 | 217.41 | 9.50 | 1 | 1 | 0 | 1 | 0 |
| QZ1612 | 3989957.593 | 40391135.445 | 218.34 | 14.80 | 1 | 1 | 0 | 0 | 0 |

| Hole ID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|---------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| QZ1614 | 3989950.575 | 40391128.378 | 218.43 | 8.80 | 1 | 1 | 0 | 0 | 0 |
| QZ1615 | 3990056.631 | 40391234.442 | 217.38 | 5.50 | 1 | 1 | 0 | 0 | 0 |
| QZ1616 | 3989943.516 | 40391121.322 | 218.51 | 7.20 | 1 | 0 | 0 | 0 | 0 |
| QZ1619 | 3990070.777 | 40391248.583 | 217.29 | 6.10 | 1 | 0 | 0 | 0 | 0 |
| TC0 | 3990372.020 | 40390397.000 | 246.23 | 164.00 | 1 | 75 | 4 | 3 | 0 |
| TC1 | 3990458.210 | 40390346.560 | 245.01 | 147.60 | 1 | 73 | 5 | 3 | 0 |
| TC3 | 3990569.362 | 40390332.583 | 248.81 | 50.10 | 1 | 25 | 7 | 0 | 0 |
| TC4 | 3990188.670 | 40390481.740 | 244.31 | 156.00 | 1 | 74 | 5 | 2 | 0 |
| TC8 | 3990051.800 | 40390639.430 | 241.56 | 192.50 | 1 | 92 | 8 | 2 | 0 |
| TC12 | 3989967.824 | 40390863.782 | 227.82 | 67.00 | 1 | 31 | 9 | 0 | 0 |
| ZK0 | 3990409.820 | 40390455.980 | 250.57 | 100.08 | 1 | 50 | 0 | 5 | 0 |
| ZK1 | 3990483.790 | 40390386.000 | 250.35 | 100.16 | 1 | 50 | 0 | 5 | 0 |
| ZK102 | 3990556.762 | 40390513.825 | 256.68 | 129.45 | 3 | 43 | 4 | 3 | 50 |
| ZK401 | 3990271.445 | 40390600.772 | 245.91 | 119.90 | 2 | 55 | 8 | 3 | 64 |
| ZK402 | 3990379.342 | 40390708.834 | 240.94 | 180.30 | 2 | 59 | 7 | 3 | 96 |
| ZK801 | 3990139.370 | 40390751.458 | 237.27 | 103.70 | 2 | 44 | 2 | 3 | 39 |
| ZK802 | 3990250.742 | 40390863.984 | 234.26 | 170.60 | 2 | 36 | 6 | 4 | 65 |
| ZK1201 | 3990086.551 | 40390982.336 | 230.51 | 126.90 | 2 | 42 | 4 | 3 | 50 |
| ZK1202 | 3990237.340 | 40391139.471 | 217.12 | 242.00 | 4 | 54 | 7 | 3 | 110 |
| ZK1601 | 3990092.638 | 40391274.436 | 214.45 | 211.50 | 3 | 94 | 7 | 2 | 108 |
| ZK1602 | 3990235.470 | 40391413.278 | 216.15 | 338.40 | 4 | 61 | 11 | 2 | 146 |

An accurate DTM of the topographic surface was produced in MICROMINE software by MCS after digitising contour lines with a 2 m interval from the original 1:2000 scale geological map supplied in MapGIS format. This DTM will be used for the resource estimation.

28.3 Additional Data

The client provided MCS with additional data for a second orebody of the Qin Jia Zhuang deposit on 24th February 2011. The provided data consisted of one excel spreadsheet containing collar, survey, geology, assay, recovery, SG and other information including composite sample results in 8 worksheets. The spreadsheet was titled as follows:

1. Xingsheng additional drilling data – Qinjiazhuang.xls

The contents of each worksheet are shown below in Table 10-2.

**Table 28-3: Contents of spreadsheet Xingsheng additional drilling data
– Qinjiazhuang.xls as supplied**

| Worksheet | No. of Holes and Trenches | No. of Records |
|--------------------------|--------------------------------------|---------------------------|
| Collar | 6 | 6 |
| Survey | 6 | 6 |
| Geology | 6 | 13 |
| Composite Sample Res. | NA | 8 |
| Assay | 6 | 445 |
| Recovery | 2 | 53 |
| SG | 6 | 30 |
| Lookup codes | NA | NA |

The spreadsheet was prepared so it could be imported into MICROMINE. To import the spreadsheet, the following was carried out:

1. Delete top header rows of Chinese characters.
2. Unmerge cells in Composite sample results and Recovery worksheets and copy value to all cells previously merged.
3. Concatenate and change sample numbers in both assay and SG files so sample numbers are unique.

The resulting MICROMINE files were named as follows:

- QJZ_collar_part2.DAT
- QJZ_survey_part2.DAT
- QJZ_assay_part2.DAT
- QJZ_recovery_part2.DAT
- QJZ_SG_part2.DAT
- QJZ_geology_part2.DAT
- QJZ_comp_samp_part2.DAT

In addition, minor changes were made to the files after import into MICROMINE to enable production of a drillhole database in MICROMINE:

1. A minus sign '-' was prefixed to all dip values in the QJZ_survey_part2.DAT file.
2. Changed field name in QJZ_survey_part2.DAT file from 'DEPTH (m)' to 'SDepth'.
3. Changed field names in QJZ_comp_samples_part2.DAT file from 'Sample No.', 'Samples Combined', 'Combined Length' and 'Lab No.' to 'SampleID', 'Samples_comp', 'Comp_length' and 'LabID' respectively.
4. Changed field name in QJZ_recovery_part2.DAT from 'Footage Per Round Trip' to 'Interval'.
5. Changed field names in QJZ_SG_part2.DAT from 'Sample No.', 'Depth (from)' and 'Depth (to)' to 'SampleID', 'From' and 'To' respectively.
6. Changed all intervals in QJZ_SG_part2.DAT file from '8.00' to '0.08'.

The original drawings from the exploration report that were supplied previously were then checked and MCS performed the following:

- Displayed geology plans and cross-sections in MapGIS then imported into MICROMINE. The plans and sections were then geo-referenced in MICROMINE and the collar positions and traces were checked
- Checked collar coordinates, survey and assay data with the original data on the drawings
- Entered additional downhole survey data for each drillhole that had not been included in the supplied data previously.

Several errors were discovered and corrected as detailed below:

File QJZ_assay_part2.DAT:

- Samples GTC0-H51 to GTC0-H54 had incorrect 'From' and 'To' values resulting in overlapping intervals. It appears '10' was incorrectly not entered at the start of every number. This was corrected and the changes made are shown below in Table 28-4.
- All data in the file for GTC0 from 0.00 m to 36.20 m is not the same as that on the original drawing. This has resulted in overlapping intervals for samples GTC0-H18 and GTC0-H19.

The intervals for HoleID GTC0 were changed to those on the original drawing for samples GTC0-H1 to GTC0-H18. The data that was entered from the original drawing is shown in Table 28-5.

Table 28-4: Corrections made to file QJZ_assay_part2.DAT

| HoleID | Previous 'From' | Changed 'From' | Previous 'To' | Changed 'To' |
|--------|--------------------|-------------------|------------------|-----------------|
| GTC0 | 0.70 | 100.70 | 2.70 | 102.70 |
| GTC0 | 2.70 | 102.70 | 4.70 | 104.70 |
| GTC0 | 4.70 | 104.70 | 6.70 | 106.70 |
| GTC0 | 6.70 | 106.70 | 7.70 | 107.70 |

**Table 28-5: Data entered from original drawing to replace supplied data
for GTC0 assays**

| HoleID | From | To | Interval | SampleNo | TFe | TiO ₂ | TFe+TiO ₂ |
|--------|-------|-------|----------|----------|-------|------------------|----------------------|
| GTC0 | 0.40 | 2.20 | 1.80 | GTC0-H1 | 16.60 | 6.10 | 22.70 |
| GTC0 | 2.20 | 4.20 | 2.00 | GTC0-H2 | 15.87 | 6.08 | 21.95 |
| GTC0 | 4.20 | 6.20 | 2.00 | GTC0-H3 | 15.66 | 6.21 | 21.87 |
| GTC0 | 6.20 | 8.20 | 2.00 | GTC0-H4 | 16.67 | 6.13 | 22.70 |
| GTC0 | 8.20 | 10.20 | 2.00 | GTC0-H5 | 15.73 | 5.92 | 21.65 |
| GTC0 | 10.20 | 12.20 | 2.00 | GTC0-H6 | 15.63 | 5.65 | 21.28 |
| GTC0 | 12.20 | 14.20 | 2.00 | GTC0-H7 | 16.26 | 6.17 | 22.43 |
| GTC0 | 14.20 | 16.20 | 2.00 | GTC0-H8 | 15.66 | 6.28 | 21.94 |
| GTC0 | 16.20 | 18.20 | 2.00 | GTC0-H9 | 15.91 | 5.81 | 21.72 |
| GTC0 | 18.20 | 20.20 | 2.00 | GTC0-H10 | 16.29 | 6.50 | 22.79 |
| GTC0 | 20.20 | 22.20 | 2.00 | GTC0-H11 | 16.35 | 5.73 | 22.08 |
| GTC0 | 22.20 | 24.20 | 2.00 | GTC0-H12 | 16.55 | 5.68 | 22.23 |
| GTC0 | 24.20 | 26.20 | 2.00 | GTC0-H13 | 16.37 | 5.79 | 22.16 |
| GTC0 | 26.20 | 28.20 | 2.00 | GTC0-H14 | 16.43 | 5.98 | 22.41 |
| GTC0 | 28.20 | 30.20 | 2.00 | GTC0-H15 | 15.94 | 6.06 | 22.00 |
| GTC0 | 30.20 | 32.20 | 2.00 | GTC0-H16 | 16.16 | 6.03 | 22.19 |
| GTC0 | 32.20 | 34.20 | 2.00 | GTC0-H17 | 15.89 | 6.17 | 22.06 |
| GTC0 | 34.20 | 36.20 | 2.00 | GTC0-H18 | 15.79 | 5.63 | 21.42 |

The final database for the additional data was created in MICROMINE and contained records for 4 trenches and 2 drillholes. The number of records in the final database for each hole ID is shown in Table 10-4.

Table 28-6: Number of records of each type for each hole ID in part 2 database

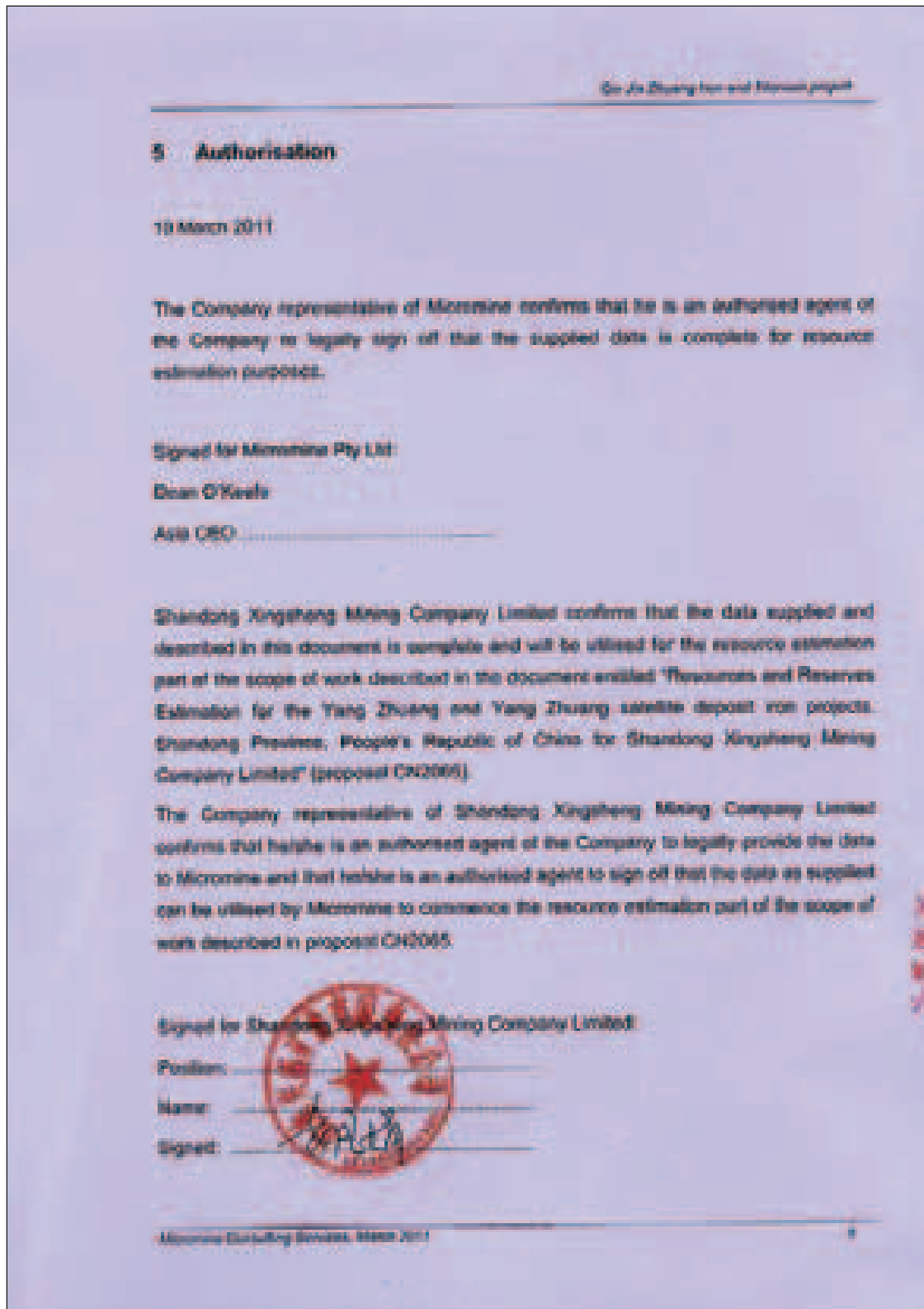
| Hole ID | Northing (mN) | Easting (mE) | RL (m) | Depth (m) | Survey Records | Assay Records | Geology Records | SG Records | Recovery Records |
|---------|------------------|-----------------|-----------|--------------|-------------------|------------------|--------------------|---------------|---------------------|
| GTC0 | 3989291.56 | 40391826.03 | 237.50 | 260.00 | 1 | 126 | 3 | 7 | 0 |
| GTC1 | 3989393.02 | 40391828.12 | 228.35 | 274.00 | 1 | 134 | 2 | 8 | 0 |
| GTC4 | 3989091.80 | 40391822.00 | 243.50 | 172.00 | 1 | 83 | 2 | 5 | 0 |
| GTC8 | 3988891.92 | 40391818.05 | 257.30 | 108.00 | 1 | 51 | 2 | 4 | 0 |
| GZK1 | 3989289.14 | 40391950.13 | 241.00 | 50.37 | 1 | 25 | 2 | 3 | 27 |
| GZK2 | 3989389.50 | 40391951.92 | 235.00 | 50.72 | 1 | 26 | 2 | 3 | 26 |

- An accurate DTM of the topographic surface was produced in MICROMINE software by MCS after surveyed 3D coordinate data of the surface of both areas was provided by the client on 10th March 2011. This DTM will be used for the resource estimation.

A combination of both databases will be used for the resource estimation of the Qin Jia Zhuang project.

28.4 Missing Data

- A total of 2 drillholes in the database have no assay data. MCS queried this with the client and were informed that assays were not performed on the samples from these drillholes.
- All data available that is required for resource estimation has been supplied to MCS by the client.



29 APPENDIX 3: GLOSSARY OF TECHNICAL TERMS & ABBREVIATIONS

| | |
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| 3D | Three-dimensional. |
| % | Percent. |
| Anisotropy | Quality of a variably to having different physical properties when measured in different directions. |
| ASL | Above sea level. |
| Assay | A measured quantity of material within a sample. |
| Azimuth | Azimuth angle on which an exploration hole was drilled (deviation to North). |
| Balancing cut | Value to which erratic high grades should be reduced to prevent bias in estimation. Also known as a top cut. |
| Coefficient of variation (CV) | In statistics, a normalised measure of the variation present in a sample population. |
| Collar | Geographical co-ordinates of a drillhole or shaft starting point. |
| Compositing | In sampling and resource estimation, process designed to carry all samples to certain equal length. |
| Correlation coefficient | A statistical measure of the degree of similarity between two parameters. |
| Cumulative frequency graph | Graphical representation of data ranked in ascending or descending order, which are shown in a non-decreasing function between 0% and 100%. The percent frequency and cumulative percent frequency forms are interchangeable, since one can be obtained from the other. |
| Cut-off grade | The threshold above which material is selectively mined or queried. |

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|----------------------------|---|
| Declustering | In geostatistics, the procedure allowing for restricted grouping of samples within octant sectors. |
| DTM | Digital Terrain Model. |
| Geostatistics | Science studying and describing the spatial continuity of any kind of natural phenomena: Zn grades in this study. |
| Histogram | A graphical presentation of the distribution of data by frequency of occurrence. |
| IDW | Inverse Distance Weighting. |
| Inverse Distance Weighting | Geostatistical method to calculate mineral resource. Since this method makes the weight for each sample inversely proportional to its distance from the point being estimated it gives more weight to the closest samples and less to those that are farthest away. Method works very efficiently with regularly gridded data. Extreme versions of inverse distance weighting are the global declustering methods like the polygonal method and the local sample mean method. |
| JORC Code | Australasian Code for Reporting of Mineral Resources and Ore Reserves. |
| L/s | Litres per second. |
| m | Metre. |
| M | Million or mega (10^6). |
| Mean | Average. |
| Median | Value of the middle sample in a data set arranged in rank order. |
| mFe | Iron in magnetite. |
| MICROMINE. | Mining and exploration software. |

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|-------------------------------|--|
| Micromine | Micromine Pty Ltd. |
| Micromine Consulting Services | Consulting division of Micromine Pty Ltd. |
| Mt | Million tonnes. |
| Nugget effect | Measure of the variability in re-analysing a sample due to sampling errors or short scale variability. Though the value of a variogram at 0 distance should be 0, several factors, such as sampling errors and short scale variability, may cause sample values to be separated by extremely small distances. The vertical jump at the origin of a variogram graph from 0 to a certain value at extremely small separation distance is called the nugget effect. |
| Omni | In all directions. |
| OK | Ordinary Kriging interpolation method. |
| Operating cost | The threshold cost below which mining a block would be un-economic. |
| Percentile | One hundredths of the total data. 50th percentile corresponds to the median. |
| Population | In geostatistics population encompasses grades which show the same or close geostatistical characteristics. Ideally, one population is characterised by linear distribution. |
| Probability plot | Plot showing cumulative frequencies over different intervals on a log scale probability plot. |
| Range | Distance at which a variogram reaches its plateau. |
| Recovery ratio | Proportion of mineral or metal recovered from the ore. |
| Resource | Geological mineral resource (mineable and unmineable). |

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|------------------------------|--|
| RL | Reduced Level i.e. elevation relative to a local datum. |
| SEHK | Stock Exchange of Hong Kong. |
| SG | Specific gravity (unit tonnes per cubic metre). |
| Short-hole shrinkage stoping | Underground mining method in which blasted ore is left in the stope for support purposes until it is to be mined. Blasting resulting from the drilling and loading of short holes. |
| Sill | Distance at which variogram reaches its sill. Physically, there is no correlation between paired samples at that distance. |
| Spatial continuity | The description or function how continuous is the data values over a certain distance in three dimensions. |
| Standard deviation | A statistical measure of the dispersion of sample data around the mean value. |
| Stope | Open space left behind after the removal of ore from an under-ground mine. |
| t | Tonne. |
| TFe | Total iron. |
| TiO ₂ | Titanium dioxide. |
| t/m ³ | Tonne per cubic metre. |
| TO | End of an intersection. |
| Top cut | See balancing cut. |
| Variance | In statistics, a measure of dispersion about the mean value of a data set. |
| Wireframe | Three-dimensional surface defined by triangles. |
| Wireframe solid | Closed wireframe. |

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 February 2011 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "Memorandum") and the Amended and Restated Articles of Association (the "Articles").

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 9 April 2012. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Share certificates*

Every person whose name is entered as a member in the register of members shall be entitled to receive a certificate for his shares. No shares shall be issued to bearer.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As

regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words “restricted voting” or “limited voting” or “non-voting” or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

(b) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iii) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors and their associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective associates, or if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(v) *Disclosure of interest in contracts with the Company or with any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

- (aa) the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or
- (ee) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(vi) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission,

participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the

number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. The number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;
- (bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) if he is prohibited from being a director by law;

- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;
- (gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or
- (hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(viii) Borrowing powers

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The provisions summarised above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

(ix) Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers.

(x) *Proceedings of the Board*

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) **Alterations to the constitutional documents**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

(d) **Variation of rights of existing shares or classes of shares**

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) **Alteration of capital**

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or

conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

Reduction of share capital – subject to the Cayman Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

(f) Special resolution – majority required

In accordance with the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An “ordinary resolution”, by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 14 clear days' notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(g) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles). A poll may be demanded by:

- (i) the chairman of the meeting; or
- (ii) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person

authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(h) Annual general meetings

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(i) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarised financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as

defined in the Articles), consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than 21 days before the general meeting to those shareholders that have consented and elected to receive the summarised financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(j) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may be served or delivered by the Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of Directors in place of those retiring;
- (dd) the appointment of auditors;
- (ee) the fixing of the remuneration of the Directors and of the auditors;
- (ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and
- (gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.

(k) Transfer of shares

Subject to the Cayman Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules (as defined in the Articles), be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

(l) Power of the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

(m) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(n) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(o) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(p) Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money

uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(q) Inspection of corporate records

Members of the Company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

(r) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(s) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(t) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law divide among the members

in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(u) Untraceable members

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

- (i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;
- (ii) upon the expiry of the 12 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and
- (iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(v) Subscription rights reserve

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 8 February 2011 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

In accordance with the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Cayman Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Cayman Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

It is further provided by the Cayman Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorised by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Under Section 37A(1) the Cayman Companies Law, shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorised in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) of the Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of sections 34 and 37A(7) of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see sub-paragraph 2(n) of this Appendix for further details). Section 37A(7)(c) of the Cayman Companies Law provides that for so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

- (i) an act which is ultra vires the company or illegal;
- (ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and
- (iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions in the Cayman Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

Section 59 of the Cayman Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Cayman Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
 - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking for the Company is for a period of twenty years from 12 April 2011.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

The Cayman Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of the company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. The Cayman Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(o) Winding up

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the company so resolves by special resolution that it be wound up voluntarily, or, where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(p) Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Cayman Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(q) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the

Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(r) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation of our Company**

Our Company is incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 8 February 2011. Our Company has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 12 October 2011 and our principal place of business in Hong Kong is at Suites 2001-2005, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong. Loong & Yeung of Suites 2001-2005, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company is incorporated in the Cayman Islands, we are subject to the relevant laws of the Cayman Islands and our constitution which comprises the Memorandum of Association and the Articles. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles is set out in Appendix V to this prospectus.

2. Changes in share capital of our Company

- (a) As at the date of incorporation of our Company, our authorised share capital was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. One Share was allotted and issued fully paid to Reid Services Limited, the subscriber to the memorandum and articles of association of our Company, on 8 February 2011 which was subsequently transferred to Hongfa Holdings on the same date at a consideration of HK\$0.01.
- (b) On 18 February 2011, 749,999 Shares were allotted and issued fully paid to Hongfa Holdings at a total consideration of HK\$7,500.
- (c) On 2 September 2011, as consideration for the acquisition by us of the entire issued share capital of Fortuneshine Investment held by Mr. Lang, 200,000 Shares and 50,000 Shares were allotted and issued, all credited as fully paid, to Novi Holdings and All Five Capital, respectively.
- (d) On 25 October 2011, 111,111 Shares were allotted and issued fully paid to Jiuding Callisto at a total consideration of US\$11,250,000.
- (e) On 15 November 2011, one Share was allotted and issued fully paid to Hongfa Holdings at a consideration of US\$16,603,200.
- (f) On 9 April 2012, our Shareholders resolved to increase the authorised share capital of our Company from HK\$380,000 to HK\$30,000,000 by the creation of an addition of 2,962,000,000 Shares, each ranking *pari passu* with our Shares then in issue in all respects.

Immediately following completion of the Capitalisation Issue and the Share Offer, and assuming that the Over-allotment Option is not exercised and there is no exercise of the options that may be granted under the Share Option Scheme, the authorised share capital of our Company will be HK\$30,000,000 divided into 3,000,000,000 Shares, of which 720,871,584 Shares will be issued fully paid or credited as fully paid, and 2,279,128,416 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed “Written resolutions of our Shareholders passed on 9 April 2012” in this Appendix and pursuant to the Over-allotment Option and the Share Option Scheme, we do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in our Company’s share capital since its incorporation.

3. Written resolutions of our Shareholders passed on 9 April 2012

By written resolutions of our Shareholders passed on 9 April 2012:

- (a) our Company approved and adopted the Memorandum of Association and the Articles;
- (b) the authorised share capital of our Company was increased from HK\$380,000 to HK\$30,000,000 by the creation of an addition of 2,962,000,000 Shares of HK\$0.01 each, each ranking *pari passu* with our Shares then in issue in all respects;
- (c) conditional on the Listing Committee granting listing of, and permission to deal in, our Shares in issue and Shares to be issued as mentioned in this prospectus including any Shares which may be issued pursuant to the Share Offer, the Capitalisation Issue, the exercise of the Over-allotment Option and the options granted under the Share Option Scheme, on the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the date falling 30 days after the date of this prospectus:
 - (i) the Share Offer was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer, each to rank *pari passu* with the then Shares in issue in all respects;
 - (ii) the Over-allotment Option was approved and our Directors were authorised to allot and issue our Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option, each to rank *pari passu* with the then Shares in issue in all respects;

- (iii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with our Shares pursuant to the exercise of subscription rights attaching to any options granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme; and
 - (iv) the Capitalisation Issue was approved and conditional further on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalize an amount of HK\$5,900,004.72 standing to the credit of the share premium account of our Company and to appropriate such amount as capital to pay up in full at par 590,000,472 Shares for allotment and issue to the person(s) whose name(s) appear on the register of members of our Company at the close of business on 9 April 2012 in proportion (as nearly as possible without involving fractions) to its/their then existing shareholding(s) in our Company, each ranking *pari passu* in all respects with the then existing issued Shares, and our Directors were authorised to give effect to such capitalisation and distributions;
- (d) a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than by way of rights or an issue of Shares pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or any other share scheme of our Company or any Shares allotted in lieu of the whole or part of a dividend on our Shares in accordance with the Articles or pursuant to a specific authority granted by our Shareholders or pursuant to the Share Offer or the Capitalisation Issue, Shares with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Shares which may be issued under the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company; or
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
 - (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders at general meeting;
- (e) a general unconditional mandate was given to our Directors authorizing them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such

number of Shares as will represent up to 10% of the aggregate of the nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Shares which may be issued under the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of our Company; or
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
 - (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders at general meeting; and
- (f) the general unconditional mandate mentioned in sub-paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Shares which may be issued under the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme.

4. Corporate Reorganisation

The companies comprising our Group underwent the Reorganisation to rationalize our Group's structure in preparation for the Listing, pursuant to which our Company became the holding company of our Group.

The Reorganisation which was effected in preparation for the Listing, whereby our Company became the holding company of our Group, included the following major steps:

- (a) On 29 November 2010, Alliance Worldwide was incorporated in the BVI with limited liability with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, all of which were allotted and issued fully paid to Mr. Li on the same date;
- (b) On 22 December 2010, Ishine Mining was incorporated Hong Kong with limited liability with an authorised capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, all of which were allotted and issued fully paid to Alliance Worldwide on the same date;

- (c) On 8 February 2011, our Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability and one Share was allotted and issued fully paid to Reid Services Limited, the subscriber to the memorandum and articles of association of our Company, on 8 February 2011 which was subsequently transferred to Hongfa Holdings on the same date at a consideration of HK\$0.01;
- (d) On 18 February 2011, 749,999 Shares were allotted and issued fully paid to Hongfa Holdings at a total consideration of HK\$7,500;
- (e) On 18 February 2011, pursuant to the instrument of transfer referred to in item e of the paragraph headed “Summary of material contracts” in this Appendix, Mr. Li transferred the 50,000 shares he held in Alliance Worldwide, which represented the entire issued share capital of Alliance Worldwide, to our Company at a consideration of US\$1.00;
- (f) On 20 February 2011, pursuant to the equity transfer agreement referred to in item f of the paragraph headed “Summary of material contracts” in this Appendix, Mr. Li transferred 75% of the equity interest in Shandong Ishine held by him to Ishine Mining at a consideration of US\$27,853,200;
- (g) On 26 February 2011, pursuant to the equity transfer agreement referred to in item g of the paragraph headed “Summary of material contracts” in this Appendix, Shandong Ishine transferred its 20% of the equity interest in Shengrong Small Loans to Linyi Runxing at the consideration of RMB20,000,000;
- (h) On 2 May 2011, pursuant to the agreement for sale and purchase of shares referred to in item o of the paragraph headed “Summary of material contracts” in this Appendix, Shandong Ishine transferred 14,700 shares in Thailand Chang Sheng, which represented the entire equity interest it held in Thailand Chang Sheng, to Hesheng Minerals at a consideration of RMB9,955,865;
- (i) On 2 May 2011, pursuant to the share sale agreement referred to in item q of the paragraph headed “Summary of material contracts” in this Appendix, Shandong Ishine transferred the one share it held in Ausrich, which represented the entire issued share capital of Ausrich, to Hesheng Minerals at a consideration of US\$6,350,000;
- (j) On 2 September 2011, pursuant to the sale and purchase agreement referred to in item t of the paragraph headed “Summary of material contracts” in this Appendix, Mr. Lang transferred the 50,000 shares he held in Fortuneshine Investment, which represented the entire issued share capital of Fortuneshine Investment, to Alliance Worldwide and as consideration, 200,000 Shares and 50,000 Shares were allotted and issued, all credited as fully paid, to Novi Holdings and All Five Capital, respectively;

- (k) On 19 October 2011, pursuant to the subscription agreement referred to in item v of the paragraph headed “Summary of material contracts” in this Appendix, 111,111 Shares were allotted and issued fully paid to Jiuding Callisto at a total consideration of US\$11,250,000; and
- (l) On 15 November 2011, one Share was allotted and issued fully paid to Hongfa Holdings at a consideration US\$16,603,200.

Immediately after completion of the share transfer referred to in item (j) above, our Company then became the holding company of our Group.

5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountant’s Report, the text of which is set out in Appendix I to this prospectus. In addition to the alterations described in the paragraph headed “Corporate Reorganisation” above, the following changes in the share capital (or registered capital, as the case may be) of the subsidiaries of our Company took place within the two years immediately preceding the date of this prospectus:

Ishine International

On 5 November 2010, 100,000 shares in Ishine International were issued at AUD0.20 each pursuant to the exercise of options granted to a consultant as consideration for providing consultancy services.

On 9 December 2010, 500,000 shares in Ishine International were issued at nil paid as consideration under the service agreement between Ishine International and Dr Caigen Wang, the former managing director of Ishine International.

Fortuneshine Investment

Fortuneshine Investment was a limited liability company incorporated under the laws of the Cayman Islands on 21 September 2010 with an authorised capital of US\$50,000 divided into 50,000 shares of par value of US\$1.00 each.

On 21 September 2010, one share in Fortuneshine Investment was allotted and issued fully paid at par to the subscriber to the memorandum and articles of association of Fortuneshine Investment which was subsequently transferred to Mr. Lang on the same date at a consideration of US\$1.00.

On 21 September 2010, 49,999 shares in Fortuneshine Investment were allotted and issued fully paid to Mr. Lang at a consideration of US\$49,999.

SMI

SMI was a limited liability company incorporated under the laws of Hong Kong on 1 November 2010 with an authorised capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each.

On 1 November 2010, 10,000 shares in SMI were allotted and issued fully paid to Fortunesine Investment at a consideration of HK\$10,000.

6. Repurchase of our Shares by our Company

This section includes information required by the Stock Exchange to be included in the prospectus concerning the repurchase of our Shares by our Company.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions.

(i) Shareholders' approval

The Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a specific transaction.

Note: Pursuant to the written resolutions of our Shareholders passed on 9 April 2012, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors authorizing our Directors to exercise all powers of our Company to purchase on the Stock Exchange, or any other stock exchange on which our Shares may be listed and recognised by the SFC and the Stock Exchange for this purpose, Shares representing up to 10% of the total nominal amount of our Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Shares which may be issued under the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme, and the Repurchase Mandate shall remain in effect until whichever is the earliest of the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by law or the Articles to be held, or when the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. A listed company may not repurchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

Any repurchases by our Company may be made out of profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time our Shares are repurchased or, if authorised by the Articles and subject to the Companies Law, out of capital.

(iii) Connected parties

The Listing Rules prohibit our Company from knowingly repurchasing our Shares on the Stock Exchange from a "connected person", which includes a Director, chief executive or substantial Shareholder or any of our subsidiaries or an associate of any of them and a connected person shall not knowingly sell Shares to our Company.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 720,871,584 Shares in issue after completion of the Capitalisation Issue and Share Offer assuming no exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme, could accordingly result in up to 72,087,158 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

(d) Funding of repurchase

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(e) *General*

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules), has any present intention if the Repurchase Mandate is exercised to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers and Share Repurchases (the "Takeovers Code"). Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of our Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as disclosed above, our Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person (as defined in the Listing Rules) of our Company has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS


1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a cooperation agreement in Chinese dated 25 May 2010 and entered into among Shandong Ishine, Mr. Li and Yang Wenxing (楊文興), pursuant to which Yang Wenxing (楊文興) entrusted Shandong Ishine and Mr. Li to hold his 54.54% and 18.18% of the equity interest in Luxing Titanium, respectively;

- (b) an equity transfer agreement in Chinese dated 25 May 2010 and entered into among Shandong Ishine, Mr. Li and Yang Wenxing (楊文興), pursuant to which Yang Wenxing (楊文興) transferred his 54.54% and 18.18% of the equity interest in Luxing Titanium to Shandong Ishine and Mr. Li at the considerations of RMB12,000,000 and RMB4,000,000, respectively;
- (c) an equity transfer agreement in Chinese dated 1 December 2010 and entered into among Mr. Li, Mr. G.H. Li and SMI, pursuant to which (i) Mr. Li transferred his 20% of the equity interest in Shandong Ishine to SMI at a consideration of US\$8,877,742.37; and (ii) Mr. G.H. Li transferred his 5% of the equity interest in Shandong Ishine to SMI at a consideration of US\$2,219,435.59;
- (d) an equity transfer agreement in Chinese dated 29 January 2011 and entered into among Luxing Titanium, Shandong Ishine, Mr. Li and Yang Wenxing (楊文興), pursuant to which Shandong Ishine and Mr. Li transferred their respective 54.54% and 18.18% of the equity interest in Luxing Titanium to Yang Wenxing (楊文興) at the considerations of RMB12,000,000 and RMB4,000,000, respectively;
- (e) an instrument of transfer dated 18 February 2011 and entered into between Mr. Li and our Company, pursuant to which Mr. Li transferred the 50,000 shares he held in Alliance Worldwide, which represented the entire issued share capital of Alliance Worldwide, to our Company at a consideration of US\$1.00;
- (f) an equity transfer agreement in Chinese dated 20 February 2011 and entered into between Mr. Li and Ishine Mining, pursuant to which Mr. Li transferred 75% of the equity interest in Shandong Ishine held by him to Ishine Mining at a consideration of US\$27,853,200;
- (g) an equity transfer agreement in Chinese dated 26 February 2011 and entered into between Shandong Ishine, Mr. Li and Linyi Runxing, pursuant to which, among other matters, Shandong Ishine transferred its 20% of the equity interest in Shengrong Small Loans to Linyi Runxing at the consideration of RMB20,000,000;
- (h) an agreement for the sale and purchase of shares dated 29 March 2011 and entered into between Shandong Ishine and Sinogreen Resource Pty. Limited, pursuant to which Shandong Ishine transferred 14,700 shares in Thailand Chang Sheng held by it to Sinogreen Resource Pty. Limited at a consideration of RMB9,955,865;
- (i) a waiver and indemnification undertaking dated 29 March 2011 and entered into between Shandong Ishine and Sinogreen Resource Pty. Limited, pursuant to which Sinogreen Resource Pty. Limited agreed, among other matters, to assume all liabilities arising from the shares in Thailand Chang Sheng beginning from the date of the agreement as mentioned in item h above;

- (j) a share sale agreement dated 29 March 2011 and entered into between Shandong Ishine and Sinogreen Resource Pty. Limited, pursuant to which Shandong Ishine transferred its 100% of the equity interest in Ausrich to Sinogreen Resource Pty. Limited at a consideration of US\$6,350,000;
- (k) a letter of undertaking dated 29 March 2011 and entered into between Shandong Ishine and Sinogreen Resource Pty. Limited, pursuant to which Sinogreen Resource Pty. Limited agreed, among other matters, to take over all risks and liabilities of Ausrich on and from 29 March 2011;
- (l) a discharge of entrustment agreement in Chinese dated 18 April 2011 and entered into among Shandong Ishine, Mr. Li and Yang Wenxing (楊文興) regarding the discharge and termination of holding equity interest in Luxing Titanium by Shandong Ishine and Mr. Li for Yang Wenxing (楊文興);
- (m) a mutual rescission agreement dated 1 May 2011 and entered into between Shandong Ishine and Sinogreen Resource Pty. Limited, pursuant to which both parties agreed to rescind the agreement and the undertaking as mentioned in items h and i above and any share transfer instrument in accordance therewith;
- (n) a deed of termination and mutual release dated 1 May 2011 and entered into between Shandong Ishine and Sinogreen Resource Pty. Limited, pursuant to which both parties agreed to terminate the agreement and the undertaking as mentioned in items j and k above;
- (o) an agreement for the sale and purchase of shares dated 2 May 2011 and entered into between Shandong Ishine and Hesheng Minerals, pursuant to which Shandong Ishine transferred 14,700 shares in Thailand Chang Sheng held by it to Hesheng Minerals at a consideration of RMB9,955,865;
- (p) a waiver and indemnification undertaking dated 2 May 2011 and entered into between Shandong Ishine and Hesheng Minerals, pursuant to which Hesheng Minerals agreed, among other matters, to assume all liabilities relating to the shares in Thailand Chang Sheng and waived all claims it might have had against Shandong Ishine;
- (q) a share sale agreement dated 2 May 2011 and entered into between Shandong Ishine and Hesheng Minerals, pursuant to which Shandong Ishine transferred its 100% of the equity interest in Ausrich to Hesheng Minerals at a consideration of US\$6,350,000;
- (r) a letter of undertaking dated 2 May 2011 and entered into between Shandong Ishine and Hesheng Minerals, pursuant to which Hesheng Minerals agreed, among other matters, to take over all risks and liabilities of Ausrich on and from 2 May 2011;

- (s) an addendum dated 9 July 2011 and entered into between Shandong Ishine and Hesheng Minerals confirming that all references to “Shandong Xingsheng Mining Company Limited” in the agreement and the undertaking as mentioned in items o and p above would be deemed references to “Shandong Ishine Mining Industry Co., Ltd.”;
- (t) a sale and purchase agreement dated 2 September 2011 and entered into between Mr. Lang and Alliance Worldwide, pursuant to which Mr. Lang transferred the 50,000 shares he held in Fortuneshine Investment, which represented the entire issued share capital of Fortuneshine Investment to Alliance Worldwide and as consideration, 200,000 Shares and 50,000 Shares were allotted and issued, all credited as fully paid, to Novi Holdings and All Five Capital, respectively;
- (u) an instrument of transfer dated 2 September 2011 and entered into between Mr. Lang and Alliance Worldwide, pursuant to which Mr. Lang transferred the 50,000 shares he held in Fortuneshine Investment, which represented the entire issued share capital of Fortuneshine Investment to Alliance Worldwide and as consideration, 200,000 Shares and 50,000 Shares were allotted and issued, all credited as fully paid, to Novi Holdings and All Five Capital, respectively;
- (v) a subscription agreement dated 19 October 2011 and entered into among our Company, Hongfa Holdings, Mr. Li and Jiuding Callisto, pursuant to which Jiuding Callisto subscribed for 111,111 Shares at a total consideration of US\$11,250,000;
- (w) a deed poll of acknowledgement dated 15 November 2011 and executed by Shandong Ishine, pursuant to which Shandong Ishine, among other matters, acknowledged that it had assigned the debt of US\$6,349,999 due by Ausrich to Hesheng Minerals under the share sale agreement mentioned in item q above;
- (x) a supplemental deed to the subscription agreement mentioned in item v above dated 18 January 2012 and entered into among our Company, Hongfa Holdings, Mr. Li and Jiuding Callisto for clarification of certain terms used in the subscription agreement mentioned in item v above;
- (y) a trademark license agreement in Chinese dated 14 February 2012 and entered into between Mr. Li (as licensor) and Shandong Ishine (as licensee), pursuant to which Mr. Li agreed, among other matters, to grant a license to Shandong Ishine to use the registered trademark  on an exclusive, sole and royalty-free basis for a term of 10 years commencing from the date of signing of the license agreement at nil consideration;
- (z) a reorganisation deed dated 9 April 2012 and entered into among Mr. Li, Hongfa Holdings, Mr. Lang, All Five Capital, Novi Holdings and our Company, pursuant to which Mr. Li, Hongfa Holdings, Mr. Lang, All Five Capital and Novi Holdings gave various warranties and representations to our Company in respect of, among other matters, the Reorganisation;


- (aa) a deed of non-competition dated 9 April 2012 in Chinese executed by Mr. Li in favor of our Company, details of which are set out in the paragraph headed “Non-competition undertaking” under the section headed “Relationship with the Controlling Shareholders” in this prospectus;
- (bb) a deed of non-competition dated 9 April 2012 in Chinese executed by Hongfa Holdings in favor of our Company, details of which are set out in the paragraph headed “Non-competition undertaking” under the section headed “Relationship with the Controlling Shareholders” in this prospectus;
- (cc) a deed of indemnity dated 9 April 2012 executed by Mr. Li and Hongfa Holdings in favour of our Group containing the indemnities referred to in the paragraph headed “Tax and other indemnities” in this Appendix; and
- (dd) the Public Offer Underwriting Agreement.

2. Intellectual property rights

Trademark

As at the Latest Practicable Date, our Group had been licensed for the right to use the following trademark:

| Trademark | Class | Registration Date | Expiry Date | Place of Registration | Registrant |
|---|-------|-------------------|---------------|-----------------------|------------|
|  | 6 | 21 March 2009 | 20 March 2019 | PRC | Mr. Li |

Note: On 14 February 2012, Mr. Li (as licensor) and Shandong Ishine (as licensee) entered into a trademark license agreement (the “Agreement”), pursuant to which Mr. Li agreed, among other matters, to grant a license to Shandong Ishine to use the registered trademark  on an exclusive, sole and royalty-free basis for a term of 10 years commencing from the date of signing of the Agreement at nil consideration. The Agreement has been filed with the relevant PRC intellectual property authority on 23 February 2012.

As at the Latest Practicable Date, our Group had applied for registration of the following trademarks, the registration of which has not yet been granted:

| Trademark | Class | Application Number | Application Date | Place of Application | Applicant |
|---|-------|--------------------|------------------|----------------------|---------------|
|  | 6, 37 | 302022911 | 2 September 2011 | Hong Kong | Ishine Mining |
|  | 6, 37 | 302022876 | 2 September 2011 | Hong Kong | Ishine Mining |
|  | 6, 37 | 302022902 | 2 September 2011 | Hong Kong | Ishine Mining |
|  | 6, 37 | 302022894 | 2 September 2011 | Hong Kong | Ishine Mining |

As at the Latest Practicable Date, our Group has registered the following domain names:

| Domain name | Date of Registration |
|---|----------------------|
| http://chinazhongsheng.com.hk | 27 March 2012 |

3. Information about the PRC subsidiary of our Group

| | |
|--------------------------------------|--|
| Name | Shandong Ishine |
| Corporate nature | Limited liability company (Taiwan, Hong Kong and Macau joint-venture) |
| Total investment | US\$29,500,000 |
| Total registered capital | US\$16,850,903 (fully paid-up) |
| Attributable interest of our Company | 100% |
| Term | 30 April 2003 to 18 January 2041 |
| Scope of business | Exploration, mining and separation of iron ore; merchandizing, sales, import and export of various iron minerals and iron concentrates |
| Legal representative | Mr. Li |

**C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS,
DIRECTORS AND EXPERTS**

1. Disclosure of interests

- (a) Immediately following the completion of the Capitalisation Issue and the Share Offer but taking no account of our Shares to be issued pursuant to options which may be granted under the Share Option Scheme or pursuant to the exercise of the Over-allotment Option and without taking into account the arrangement under the Stock Borrowing Agreement, the interests and short positions of our Directors or chief executive of our Company in our Shares, underlying Shares and debentures of our Company or any of our associated corporations (within the meaning of Part XV of the SFO) which, once our Shares are listed on the Stock Exchange, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to our Company and the Stock Exchange, in each case once our Shares are listed on the Stock Exchange, will be as follows:

(i) Long position in our Shares

| Name of Director | Capacity/Nature | No. of Shares held | Approximate percentage of interest |
|----------------------------|------------------------------------|-------------------------------|---|
| Mr. Li (<i>Note 1</i>) | Interest of controlled corporation | 399,000,532 | 55.35 |
| Mr. Lang (<i>Note 2</i>) | Interest of controlled corporation | 133,000,000 | 18.45 |

(ii) Long position in the ordinary shares of associated corporation

| Name of Director | Name of associated corporation | Capacity/ Nature | No. of ordinary shares held | Approximate percentage of interest |
|--------------------------|---|-----------------------------|--|---|
| Mr. Li (<i>Note 1</i>) | Hongfa Holdings | Beneficial owner | 1 | 100% |
| Mr. Li | Ishine International | Beneficial owner | 10,000,000 | 11.45% |

Notes:

- (1) *Mr. Li beneficially holds the entire issued share capital of Hongfa Holdings, which in turn, beneficially holds 399,000,532 Shares. For the purposes of the SFO, Mr. Li is deemed or taken to be interested in all our Shares held by Hongfa Holdings. Mr. Li is also the Chairman of our Company and our Board, and the sole director of Hongfa Holdings.*
- (2) *Mr. Lang beneficially holds the entire issued share capital of Novi Holdings and All Five Capital which in turn, beneficially hold 106,400,000 Shares and 26,600,000 Shares, respectively. For the purpose of SFO, Mr. Lang is deemed or taken to be interested in all our Shares held by Novi Holdings and All Five Capital. Mr. Lang is also the sole director of Novi Holdings and All Five Capital.*

- (b) So far as is known to our Directors and save as disclosed in this prospectus and taking no account of any Shares which may be taken up under the Share Offer, and Shares to be issued pursuant to options which may be granted under the Share Option Scheme or pursuant to the exercise of the Over-allotment Option and without taking into account the arrangement under the Stock Borrowing Agreement, the following persons (not being a Director or chief executive of our Company) will, immediately following the completion of the Share Offer and the Capitalisation Issue, have interests or short positions in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

(i) Long positions in our Shares

| Name | Nature of Interest | No. of Shares held | Approximate percentage of shareholding |
|---------------------------------------|---------------------------|---------------------------|---|
| Hongfa Holdings | Beneficial owner | 399,000,532 | 55.35 |
| Ms. Zhang (<i>Note 1</i>) | Family interest | 399,000,532 | 55.35 |
| Novi Holdings | Beneficial owner | 106,400,000 | 14.76 |
| Jiuding Callisto (<i>Note 2</i>) | Beneficial owner | 59,111,052 | 8.20 |

Notes:

- (1) *Ms. Zhang is the spouse of Mr. Li. For the purpose of SFO, Ms. Zhang is deemed or taken to be interested in all our Shares in which Mr. Li is interested.*
- (2) *Jiuding China Growth Fund, L. P. beneficially holds the entire issued share capital of Jiuding Callisto which in turn, beneficially holds 59,111,052 Shares. For the purpose of SFO, Jiuding China Growth Fund, L. P. is deemed or taken to be interested in all our Shares held by Jiuding Callisto. Jiuding China GP Limited is the general partner of Jiuding China Growth Fund, L. P. For the purpose of SFO, Jiuding China GP Limited is deemed or taken to be interested in all our Shares in which Jiuding China Growth Fund, L. P. is interested.*

2. Particulars of service agreements

Each of our executive Directors has entered into a service agreement with our Company for an initial term of three years commencing on the Listing Date, subject to the termination provisions therein. Each of our executive Directors or our Company may terminate the appointment by giving the other party not less than three months' prior notice in writing.

Each of our independent non-executive Directors has entered into a service agreement with our Company as an independent non-executive Director for a term of two years commencing on the Listing Date. Each of our independent non-executive Directors or our Company may terminate the appointment by giving the other party not less than three months' prior notice in writing.

Save as disclosed in this prospectus, no Director has entered into any service agreement with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

3. Directors' remuneration

- (a) The aggregate amount of remuneration paid to our Directors by our Group in respect of the three years ended 31 December 2009, 2010 and 2011 were approximately RMB483,000, RMB546,000 and RMB613,000, respectively.
- (b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors for the year ending 31 December 2012 will be approximately HK\$11.7 million.
- (c) Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

| | |
|--|-------------|
| Executive Directors | <i>HK\$</i> |
| Li Yunde (李運德) | 800,000 |
| Geng Guohu (耿國華) | 600,000 |
| Lang Weiguo | 600,000 |
| Independent non-executive Directors | <i>HK\$</i> |
| Zhang Jingsheng (張涇生) | 150,000 |
| Li Xiaoyang (李曉陽) | 150,000 |
| Lin Chu Chang (林鉅昌) | 300,000 |

4. Fees or commission received

Save as disclosed in the paragraph headed “Commission and expenses” in the section headed “Underwriting” of this prospectus, none of our Directors or the experts named in the paragraph headed “Consents of experts” in this Appendix had received any agency fee or commissions from our Group within the two years preceding the date of this prospectus.

5. Related party transactions

Details of the related party transactions are set out under Note 38 to the Accountant’s Report set out in Appendix I to this prospectus.

6. Disclaimers

Save as disclosed in this prospectus:

- (a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between our Directors and any member of our Group;
- (b) none of our Directors or the experts named in the paragraph headed “Consents of experts” in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors or the experts named in the paragraph headed “Consents of experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) taking no account of Shares which may be pursuant to options which may be granted under our Share Option Scheme or pursuant to the exercise of the Over-allotment Option and without taking into account the arrangements under the Stock Borrowing Agreement, none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Share Offer, have any interest in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (e) none of our Directors or chief executive of our Company has any interest or short position in our Shares, underlying Shares or debentures of our Company or any of our associated corporations (within the meaning of the SFO) which, once our Shares are listed on the Stock Exchange, will have to be notified to our Company and the

Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which he will be taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listing Companies in the Listing Rules, to be notified to our Company and the Stock Exchange; and

- (f) so far as is known to our Directors, none of our Directors, their respective associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

D. SHARE OPTION OF ISHINE INTERNATIONAL

Ishine International has a total of 6,275,000 options to acquire shares on issue. If these options are exercised by their holders, Ishine International will be obliged to issue up to 6,275,000 new shares. The holders of these options and the relevant details of the options are as follows:

(a) Share options issued for acquisition of exploration rights

On 3 December 2009, Ishine International granted 5,000,000 share options to Kabiri Resources Pty Ltd of 3 Faulkner Circle Mosman Park, WA 6012 in exchange for the acquisition of tenements 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 and was recorded as part of consideration for acquisition of the exploration rights.

(b) Share option issued to consultancy service providers

On 29 March 2010, Ishine International issued 1,175,000 options to ANSHEP Pty Ltd of 3 Alvan Street, Mount Lawley WA 6050, and Real Grumpy Pty Ltd of 3 Faulkner Circle, Mosman Park, WA 6012 as consideration for provision of consultancy services by Mr. Peter David Sheppard and Peter Preston Andrews, respectively. The options are exercisable at AUD0.20 each and will expire on 29 March 2013. The options will not be vested until the market price of Ishine International on ASX reaches AUD0.30 per share or above for 35 consecutive days.

(c) Share options issued to Mr Martin Dormer and Ms Penelope Anne Dormer

On 25 August 2010, Ishine International issued 200,000 options to Mr Martin Dormer, the chief exploration geologist of Ishine International and Ms Penelope Anne Dormer, of 191 Abbett Street Scarborough WA6019 as joint holders. Such options are exercisable at AUD0.30 each and will expire on 31 December 2012. These options have no vesting conditions.

Our Company has confirmed that there are no other existing rights or agreement, undertaking or obligation to grant any right to acquire securities, in Ishine International.

E. SHARE OPTION SCHEME**(a) Definitions**

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

| | |
|-----------------|--|
| “Adoption Date” | 9 April 2012, the date on which the Share Option Scheme is conditionally adopted by our Shareholders by way of written resolution |
| “Board” | the board of Directors or a duly authorised committee of the board of Directors |
| “Group” | our Company and any entity in which our Company, directly or indirectly, holds any equity interest |
| “Scheme Period” | the period commencing on the Adoption Date and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof |

(b) Summary of terms

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on 9 April 2012:

(i) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.

(ii) Who may join and basis of eligibility

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe at a price calculated in accordance with paragraph (iii) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

(iii) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average of the closing prices of our Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option, provided always that for the purpose of calculating the subscription price, where our Company has been listed on the Stock Exchange for less than 5 business days, the new issue price shall be used as the closing price for any business day fall within the period before listing.

(iv) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK\$1.

(v) Maximum number of Shares

- (aa) subject to sub-paragraph (bb) and (cc) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all our Shares in issue as at the Listing Date. Therefore, it is expected that our Company may grant options in respect of up to 72,087,158 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 72,087,158 Shares from time to time) to the participants under the Share Option Scheme.
- (bb) The 10% limit as mentioned above may be refreshed at any time by obtaining approval of our Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of our Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to our Shareholders containing the information as required under the Listing Rules in this regard.

- (cc) our Company may seek separate approval of our Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose, such other information required under the Listing Rules.
- (dd) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% of our Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company, if this will result in such 30% limit being exceeded.

(vi) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of our Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his associates abstaining from voting. In such event, our Company must send a circular to our Shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of our Shareholders and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(vii) Grant of options to certain connected persons

- (aa) Any grant of an option to a Director, chief executive or substantial shareholder of our Company (or any of their respective associates) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).

- (bb) Where any grant of options to a substantial Shareholder or an independent non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:
- (i) representing in aggregate over 0.1% of our Shares in issue; and
 - (ii) having an aggregate value, based on the closing price of our Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options is required to be approved by Shareholders at a general meeting of our Company, with voting to be taken by way of poll. Our Company shall send a circular to our Shareholders containing all information as required under the Listing Rules in this regard. All connected persons of our Company shall abstain from voting (except where any connected person intends to vote against the proposed grant). Any change in the terms of an option granted to a substantial shareholder or an independent non-executive Director or any of their respective associates is also required to be approved by Shareholders in the aforesaid manner.

(viii) Restrictions on the times of grant of options

- (aa) An offer for the grant of options may not be made after a price sensitive event of our Group has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:
- (i) the date of the Board meeting (such date to first be notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
 - (ii) the deadline for our Company to publish an announcement of the results for any year, or half-year under the Listing Rules, or quarterly or other interim period (whether or not required under the Listing Rules).
- (bb) Further to the restrictions in paragraph (aa) above, no option may be granted on any day on which financial results of our Company are published and:
- (i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and

- (ii) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(ix) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(x) Performance targets

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(xi) Ranking of Shares

Our Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that our Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

(xii) Rights are personal to grantee

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

(xiii) Rights on cessation of employment by death

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (xiv) below arises within a period of 3 years prior to the death, in the case the grantee is an employee at the date of grant), the legal personal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in (xvii), (xviii) and (xix) occurs prior to his death or within such period of 12 months following his death, then his personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

(xiv) Rights on cessation of employment by dismissal

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, his option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with our Group.

(xv) Rights on cessation of employment for other reasons

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group for any reason other than his death or the termination of his employment on one or more of the grounds specified in (xiv) above, the option (to the extent not already exercised) shall lapse on the expiry of 3 months after the date of cessation of such employment (which date will be the last actual working day with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not).

(xvi) Effects of alterations to share capital

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, open offer, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which any member of our Group is a party), such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices, as the auditors of or independent financial adviser to our Company shall certify or confirm in writing (as the case may be and no such certification is required in case of adjustment made on the Capitalisation Issue) to the Board to be in their opinion fair and reasonable in compliance with the relevant provisions of the Listing Rules, or any guideline or supplemental guideline issued by the Stock Exchange from time to time (including the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes), provided that (i) any alteration shall give a grantee the same proportion of the issued share capital of our Company as that to which he was previously entitled; (ii) any adjustment shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as practicable the same (but shall not be greater than) as it was before; and (iii) no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.

(xvii) Rights on a general offer

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all our Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 1 month after the date on which the offer becomes or is declared unconditional.

(xviii) Rights on winding-up

In the event a notice is given by our Company to the members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than 2 business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(xix) Rights on compromise or arrangement

In the event of a compromise or arrangement between our Company and our Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies pursuant to the Companies Law, our Company shall give notice thereof to all the grantees (or, as the case may be, their legal personal representatives) on the same day as it gives notice of the meeting to our Shareholders or the creditors to consider such a compromise or arrangement and the options (to the extent not already exercised) shall become exercisable in whole or in part on such date not later than 2 business days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement (“Suspension Date”), by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the business day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the Suspension Date, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all

options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavor to procure that our Shares issued as a result of the exercise of options hereunder shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or willful default on the part of our Company or any of its officers.

(xx) *Lapse of options*

An option shall lapse automatically on the earliest of:

- (aa) the expiry of the period referred to in paragraph (ix) above;
- (bb) the date on which the Board exercises our Company's right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (xii);
- (cc) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (xiii), (xv), (xvii), (xviii) or (xix) above;
- (dd) subject to paragraph (xviii) above, the date of the commencement of the winding-up of our Company;
- (ee) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his integrity or honesty;
- (ff) where the grantee is only a substantial shareholder of any member of our Group, the date on which the grantee ceases to be a substantial shareholder of such member of our Group; or
- (gg) subject to the compromise or arrangement as referred to in paragraph (xix) become effective, the date on which such compromise or arrangement becomes effective.

(xxi) *Cancellation of options granted but not yet exercised*

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

(xxii) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by our Shareholders in general meeting.

(xxiii) Alteration to the Share Option Scheme

- (aa) The Share Option Scheme may be altered in any respect by resolution of the Board except that alterations of the provisions of the Share Option Scheme which alters to the advantage of the grantees of the options relating to matters governed by Rule 17.03 of the Listing Rules shall not be made except with the prior approval of our Shareholders in general meeting.
- (bb) Any amendment to any terms of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of the Board in respect of alteration of the Share Option Scheme must be approved by Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (cc) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

(xxiv) Termination to the Share Option Scheme

Our Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

(xxv) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on the Listing Committee granting the listing of, and permission to deal in our Shares may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(c) Present status of the Share Option Scheme

Application has been made to the Listing Committee for listing of and permission to deal in 72,087,158 Shares which fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

F. OTHER INFORMATION**1. Tax and other indemnities**

Mr. Li and Hongfa Holdings (the “Indemnifiers”) have, pursuant to the deed of indemnity referred to in item (cc) of the paragraph headed “Summary of material contracts” of this Appendix (the “Deed”), given joint and several indemnities to our Company for itself and as trustee for our subsidiaries, among other things,

- (a) any liability for Hong Kong estate duty which might be payable by any member of our Group under or by virtue of the provisions of Section 35 and Section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any similar laws and regulations of any relevant jurisdiction arising on the death of any person at any time by reason of any transfer of any property to any member of our Group on or before the date on which the Share Offer becomes unconditional;
- (b) any taxation which might be payable by any member of our Group (i) in respect of any income, profits or gains earned, accrued, or received or deemed to have been earned, accrued or received on or before the date on which Share Offer becomes unconditional; or (ii) in respect of or in consequence of any act, omission or event occurring or deemed to occur on or before the date on which the Share Offer becomes unconditional; and (c) any claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or incurred by any member of our Group as a result of or in connection with any legal proceedings instituted by or against any member of our Group in relation to events occurred on or before the date on which the Share Offer becomes unconditional.

The Indemnifiers will, however, not be liable under the Deed for taxation to the extent that, among others:

- (i) specific provision or reserve has been made for such taxation liability in the audited accounts of our Group as at 31 December 2011; or
- (ii) the tax liability arises or is incurred as a result of a retrospective change in law, rules and regulations, or the interpretation or practice thereof by the Inland Revenue Department of Hong Kong or the taxation authority of the PRC or any other relevant authority (whether in Hong Kong or the PRC or any part of the world) or a retrospective increase in tax rates coming into force after the date on which the Share Offer becomes unconditional; or
- (iii) the taxation liability arises in the ordinary course of business of our Group after 31 December 2011 up to and including the date on which the Share Offer becomes unconditional; or

- (iv) any provision or reserve made for taxation in the audited accounts of our Group as at 31 December 2011 which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve to reduce the Indemnifiers' liability in respect of the taxation shall not be available in respect of any such liability arising thereafter.

The Indemnifiers will also indemnify our Company and each member of our Group against any losses, damages and liabilities suffered and all costs and expenses incurred by our Group as a result of or otherwise arising from, whether directly or indirectly, or in connection with (i) the implementation of the Reorganisation; (ii) disposal or acquisition of the equity interest in or any distribution (including but not limited to dividend) or change of corporate nature of Shandong Ishine since its establishment and up to the date on which the Share Offer becomes unconditional (including but not limited to, any tax payment borne by or to be borne by any of the former or existing holders of equity interest in Shandong Ishine); (iii) the penalty or the order for demolition imposed by any competent authority on any member of our Group regarding the properties or buildings owned, used or occupied by us on or before the date on which the Share Offer becomes unconditional which have defective titles or are regarded as temporary structures and hence proper title registration cannot be effected; and (iv) the failure of our Group to make the employee social insurance and housing provident fund contributions in accordance with the relevant rules and regulations of the PRC during the period from the date of establishment of Shandong Ishine to the date on which the Share Offer becomes unconditional except that provision, reserve or allowance has been made for such liabilities in the audited consolidated accounts of the Company for the Track Record Period.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands or the PRC is likely to fall on our Group.

2. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group.

3. Sponsor

The Sponsor has, on behalf of our Company, made an application to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned herein and our Shares falling to be issued pursuant to the exercise of any options granted under the Share Option Scheme and the exercise of the Over-allotment Option.

The Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under Rule 3A.07 of the Listing Rules.

4. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately HK\$47,000 and are payable by our Company.

5. Promoter

There is no promoter of our Company.

6. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

| Name | Qualifications |
|---|--|
| Haitong Capital | A licensed corporation under SFO to carry on type 6 (advising on corporate finance) regulated activity |
| PricewaterhouseCoopers | Certified Public Accountants |
| Jones Lang LaSalle Corporate Appraisal and Advisory Limited | Property valuer/Technical consultant |
| Micromine | Technical consultant |
| Dacheng Law Offices | Registered law firm in the PRC |
| Appleby | Cayman Islands attorneys-at-law |
| Steinepreis Paganin | Registered law firm in Australia |
| Bamrung Suvicha Apisakdi Law Associates | Registered law firm in Thailand |
| CRU | Industry consultant |

7. Consents of experts

Each of Haitong Capital, PricewaterhouseCoopers, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, Micromine, Dacheng Law Offices, Appleby, Steinepreis Paganin, Bamrung Suvicha Apisakdi Law Associates and CRU has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its reports and/or letter and/or opinion and/or valuation certificate and/or summary thereof (as the case may be) and/or reference to its name included herein in the form and context in which it is respectively included.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

9. Taxation of holders of Shares**(a) Hong Kong**

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

(b) Cayman Islands

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisors

Intending holders of our Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares. It is emphasized that none of our Company, our Directors or their parties involved in the Share Offer accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

10. No material adverse change

Our Directors confirm that there has not been any material adverse change in the financial trading position or prospects of our Group since 31 December 2011 (being the date to which the latest audited consolidated financial statements of our Group were made up).

11. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
- (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration than cash; and
 - (ii) no discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries and no commission has been paid or is payable in connection the issue or sale of any capital of our Company or any of our subsidiaries; and

- (iii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (b) Save as disclosed in this prospectus, neither our Company nor any of our subsidiaries has issued or agreed to issue any founders shares, management shares, deferred shares or any debentures.
- (c) Save in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed “Consents of experts” in this Appendix:
 - (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries.
- (d) The branch register of members of our Company will be maintained in Hong Kong by Hong Kong Branch Share Registrar. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company’s share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to ensure our Shares to be admitted into CCASS for clearing and settlement.
- (e) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.
- (f) Except for Ishine International, no company within our Group is presently listed on any stock exchange or traded on any trading system.
- (g) We have no outstanding convertible debt securities.
- (h) Our Directors have been advised that, under Cayman Islands law, the use of a Chinese name pre-approved by the Registrar of Companies in the Cayman Islands by our Company in conjunction with our English name does not contravene Cayman Islands law.
- (i) The English text of this prospectus shall prevail over the Chinese text.

12. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were: (a) copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms; (b) the written consents referred to in the paragraph headed “Consents of experts” in Appendix VI to this prospectus; and (c) copies of each of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Loong & Yeung of Suites 2001-2005, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (1) the Memorandum of Association and the Articles;
- (2) the Accountant’s Report prepared by PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- (3) the audited consolidated financial statements of our Company for each of the three years ended 31 December 2011;
- (4) the report from PricewaterhouseCoopers on the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (5) the letter, summary of valuations and valuation certificates relating to the property interests of our Group prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the texts of which are set out in Appendix III to this prospectus;
- (6) the technical reports from Micromine, the text of which is set out in Appendix IV to this prospectus;
- (7) the letter prepared by Appleby, summarizing certain aspects of Cayman Companies Law referred to in Appendix V to this prospectus;
- (8) the material contracts referred to in the paragraph headed “Summary of material contracts” of Appendix VI to this prospectus;
- (9) the written consents referred to in the paragraph headed “Consents of experts” of Appendix VI to this prospectus;
- (10) the legal opinions prepared by our PRC Legal Advisers in respect of certain aspects of our Group and our property interests;

- (11) the legal opinions prepared by Steinepreis Paganin in respect of Ishine International and Ausrich;
- (12) the legal opinion prepared by Bamrung Suvicha Apisakdi Law Associates in respect of Thailand Chang Sheng;
- (13) the CRU Report;
- (14) the service agreements entered into between our Company and each of our Directors;
- (15) the Cayman Companies Law; and
- (16) the rules of the Share Option Scheme.



中國中盛資源控股有限公司
China Zhongsheng Resources Holdings Limited

