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

Annual Report
2012

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Li Yunde *(Chairman)*
Geng Guohua *(Chief Operating Officer)*
Lang Weiguo

Independent Non-executive Directors

Li Xiaoyang
Lin Chu Chang
Zhang Jingsheng

COMPANY SECRETARY

Chan Yuen Ying, Stella

AUTHORISED REPRESENTATIVES

Geng Guohua
Chan Yuen Ying, Stella

AUDIT COMMITTEE

Lin Chu Chang *(Chairman)*
Li Xiaoyang
Zhang Jingsheng

REMUNERATION COMMITTEE

Lin Chu Chang *(Chairman)*
Li Yunde
Zhang Jingsheng

NOMINATION COMMITTEE

Li Yunde *(Chairman)*
Li Xiaoyang
Zhang Jingsheng

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS

As to Hong Kong law:
Loong & Yeung

As to PRC law:
Dacheng Law Offices

As to Cayman Islands law:
Appleby

COMPLIANCE ADVISER

Haitong International Capital Limited

REGISTERED OFFICE

Clifton House
75 Fort Street
P.O. 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

Suite 3606, 36th Floor
Tower 6, The Gateway
Harbour City
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Kowloon
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street
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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
China Construction Bank Corporation, Yishui Branch
Bank of China Limited, Yishui Branch
Industry And Commercial Bank of China Ltd, Yishui Branch
Shandong Rural Credit Cooperative Union, Yishui Sales Department
Linyi Commercial Bank, Yishui Branch
Shanghai Pudong Development Bank, Linyi Branch
Shenzhen Development Bank Co., Ltd., Jinan Branch

STOCK CODE

2623

COMPANY WEBSITE

http://www.chinazhongsheng.com.hk

I am pleased to present to our shareholders the annual results for the year ended 31 December 2012 on behalf of China Zhongsheng Resources Holdings Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter referred to as the "Group").

THE COMPANY IS ONE OF THE FIVE LARGEST ORE PRODUCERS IN SHANDONG PROVINCE

Shandong Province is one of the major steel production provinces in China. Shandong Province faced the second largest shortfall in iron ore supply among all regions in China due to the strong demand for iron concentrates from mass production by steel industry, as well as a lack of natural iron ore resources supply in the province.

The Group is not only the largest privately operated iron ore producer in Shandong Province, but also one of the five largest ore producers in Shandong Province. In terms of the volume of the treated iron ore, it commanded a market share of approximately 9% in the local market in Shandong in 2010. The Group is well poised in terms of the industry chain and geographical location as the demand for iron concentrates, the major product of the Group, is strong in Shandong Province.

BUSINESS REVIEW

2012 was an extraordinary year for the Group. First, since the establishment of the Group in 2001, the operation of the Group expanded rapidly because of the concerted efforts of our management team and staff, their endeavour in our principal operation and the expanded production and acquisitions during the past 12 years. Both production scale and sale revenue of the Group grew continuously in strength. On 27 April 2012, the Group was successfully listed on the Hong Kong Stock Exchange. The Group issued 129,760,000 new shares at a price of HK$1.23 per share and raised more than HK$159.60 million. This marked an important milestone of the Group. On the one hand, both overseas and domestic capital markets declined in 2012. Investors were extremely pessimistic about the prospects of various industries and were cautious about subscribing shares in a new issue, especially those of small and medium enterprises. The successful listing of the Group against this backdrop reflected that the market had great confidence in our results and development. On the other hand, while various industries had less room and resources for development as a result of economic deterioration, the Group was able to seize opportunities when they arose as the Group had raised significant funds for business development.

2012 was a challenging year for our operation. The sluggishness of the global economy persisted and the debt crisis lingered on. Therefore, the global demand for steel and its ancillary products slumped, resulting in decrease in their prices in the global market. As the exports from China were affected and continuously hit their record low, the exports of similar iron products inevitably decreased. Although the domestic consumption slowed down, the domestic demand for steel and other construction materials remained at a low level. These dealt two blows to the operation of the Group during the year. First, the average price of iron concentrates, the major product of the Group, declined by 20%, and the decline in the third quarter was more significant. Secondly, the Group actively lowered its production and sale volume in view of the weak demand and falling price. The total sale revenue amounted to RMB871.5 million, representing a decrease of approximately 13.7% as compared to last year.

In view of the decrease in sales, the Group strengthened its management efforts. It implemented aggressive measures and cut costs in all aspects of business so as to eliminate the effect of lowered price. These included rapid transmission of market and price information so as to meet the production and market demand. Hence, the Group was able to operate in line with the market demands and reduced the price risk. The Group also decreased the processing volume of external iron concentrates and utilised its remaining production capacity at Yangzhuang Iron Mine to lower its costs. To further lower the costs, the Group actively repaid its loans to reduce interest expenses. During the year, the loans of the Group decreased by 32.4% to approximately RMB349.9 million from approximately RMB517.6 million. Therefore, finance cost decreased by more than one-third to approximately RMB33.7 million from approximately RMB48.5 million of last year. In order to control the administrative cost, the Group has set up strict system for business-related entertainment as well as business trip with more specific standards for business-related entertainment as well as reimbursement standards and procedures for business trips. Business trips and entertainment expenses were reduced by approximately RMB2.7 million. The Company not only further innovated its technology by achieving production technique and know-how upgrade, but also streamlined its labour force with improved efficiency. The overall staff cost remained at a competitive level. The Company aggressively adjusted its strategic focus against the development focus of the PRC and market characteristics. The development focus of the Company will shift to titanium concentrates together with iron concentrates as the underlying product line of the Company strategically in the future from the single iron concentrate product line on which the Company have relied in the past.

The gross profit margin reduced to 17.5% during the year from 27.3% in last year due to a sharp slump in price despite the tightening measures actively taken by the management. In addition to two one-off asset impairments in one of our subsidiaries, Ishine International Resources Limited ("Ishine International"), the net profit of the Group decreased by 67.4% to RMB42.4 million.

PROSPECTS FOR 2013

Iron concentrates remains as the major product of the Group. However, the Group excessively relies on that single product although the Group enjoys the advantages in terms of scale and cost. Facing the unusual overall economic austerity and declining demand in 2012, even the proactive emergency measures of the Group did not work. Accordingly, the Group strengthened its efforts to diversify its products. It established the businesses of iron concentrates and titanium concentrates. Titanium concentrates must be developed into another core business. Titanium is a hard but light metal material. It can be utilised through combination with other metals such as iron and aluminium so as to largely extend its comprehensive application in aerospace, national defence, automobile and pharmaceuticals. China becomes the largest importer for titanium as the domestic demand is extremely strong but the exploitation costs are relatively high despite the abundant reserves in China.

During the year, the Group acquired Luxing Titanium in order to increase its resources reserves. At the same time, the Group invested its resources and capital into its two existing mines - Zhuge Shangyu Ilmenite Mine and Qinjiazhuang Ilmenite Mine, which were available for producing iron concentrates and titanium concentrates at the same time in 2013, to further optimise their processing techniques. In the future, we are confident on the titanium products as their demand will grow rapidly while their supply can only depend on imports due to the domestic production capacity lagging behind. The growth of our core earnings will be led by titanium instead of iron in the future as the production capacity and output of titanium concentrates of the Group will enjoy economy of scale in future years.

2012 was a tough year for the Group. However, as measures of all aspects are fully in place, signs of stability have appeared in relation to the price of steel since 2013. On the other hand, new iron concentrates production capacity is available and the production of titanium concentrates will commence within a year.

I, on behalf of the management of the Group, express sincere gratitude to all staff making efforts for the Company in the past year, and appreciate the support from our suppliers, customers and investors.

Li Yunde
Chairman

Hong Kong, 26 March 2013

BUSINESS REVIEW

The Group is principally engaged in iron and ilmenite ore exploration, iron ore mining and iron ore processing to produce iron concentrates in Shandong Province, the People's Republic of China (the "PRC" or "China"). The Group's major customers are mainly iron pellets makers and steel manufacturers located in close proximity.

The Group possesses mining rights in respect of Yangzhuang Iron Mine (楊莊鐵礦), an iron ore mine located in Qinjiazhuang Village, Yangzhuang Town, Shandong Province, the PRC ("Yangzhuang Iron Mine"), Zhuge Shangyu Ilmenite Mine (諸葛上峪鐵鈦礦), an ilmenite and magnetite mine located in Yishui County, Shandong Province, the PRC ("Zhuge Shangyu Ilmenite Mine"), and Bashan Iron Project, an iron ore project located in Yishui County, and owns the exploration rights over Yangzhuang Iron Mine, Qinjiazhuang Ilmenite Project, an ilmenite ore project located in Qinjiazhuang District, Yishui County, Shandong Province, the PRC, Zhuge Shangyu Ilmenite Mine and Gaozhuang Shangyu Ilmenite Project, an ilmenite ore project located in Shangyu District, Yishui County, Shandong Province, the PRC.

Shandong Ishine Mining Industry Co. Ltd. ("Shandong Ishine"), an indirectly wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Yang Wenxing on 19 December 2012 to acquire 95% of the equity interests of 臨沂魯興鈦業股份有限公司 (Linyi Luxing Titanium Co. Ltd.) ("Luxing Titanium") at a consideration of RMB20.9 million (the "Acquisition"). The Acquisition was completed in February 2013. Luxing Titanium is a mining company based in Shandong Province, the PRC and is principally engaged in ilmenite ore mining and processing to produce iron concentrates and titanium concentrates. For details of the Acquisition, please refer to the announcement of the Company dated 19 December 2012.

The total revenue of the Group for the year ended 31 December 2012 has decreased by approximately RMB138.7 million, or approximately 13.7% as compared to that for the year ended 31 December 2011. The significant decrease in revenue is mainly due to decrease in sales of iron concentrates produced from iron ore of Yangzhuang Iron Mine and decrease in average selling price of iron concentrates during the year ended 31 December 2012.

The total comprehensive income attributable to equity holders of the Company has decreased by approximately RMB82.4 million, representing a drop of approximately 63.2% as compared to that for the year ended 31 December 2011. This was mainly due to (1) the slowdown of China's economy and the sluggish demand from steel makers in Shandong Province, the PRC and, therefore, the average selling price of iron concentrates decreased by approximately 20.0% for the year ended 31 December 2012 compared to that for the year ended 31 December 2011; (2) the impairment loss of approximately RMB4.0 million (equivalent to approximately AUD613,000) for the Boomarra project ("Boomarra Project"), resulting from the decision of the board of the directors of Ishine International Resources Limited ("Ishine International") to stop pursuing further interest in Boomarra project; and (3) the impairment loss of approximately RMB3.0 million (equivalent to approximately AUD457,000) of the listed shares held in Athena Resources Limited due to the recognition of fair value loss as an impairment loss on the basis that it was considered as a permanent diminution in value.

The shares of the Company ("Shares") were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 April 2012 (the "Listing Date"), under which a total of 129,760,000 Shares were issued at the offer price of HK$1.23 per Share.

During the year ended 31 December 2012, the average selling price of iron concentrates with 65% iron content per tonne was RMB947.5. Since April 2012, the entire iron and steel market has demonstrated an ongoing downward moving trend as the economy in China continued to remain sluggish. The price of iron concentrates with 65% iron content also fell from one bottom to another.

Economy either domestic or aboard saw a complicated situation in 2012. Recovery motivation was lacked both in the U.S. and Japan while the European debt crisis continued. Confidence in the markets was lost and sluggish economy remained around the world. So did the domestic economy. With the downturn impact from the entire iron and steel industry, prices in the iron concentrates kept in low levels. The average unit selling price of iron concentrates in 2012 amounted to RMB947.5 per tonne, which was 20% lower as compare with RMB1,184.5 of 2011. Facing the adverse position in the markets, being led by the board of the directors (the "Directors") (the "Board") of the Company, the Company and its staff have taken the measures below in order to improve its operation and administration:

1. **Utilise the synergy of sales, production and market to maximise the conservation of resources and to avoid risks of decrease in efficiency and resources being sold at unreasonable prices as a result of deduction in market prices and purposeless expansion of production scale.**

   Market information was collected through channels of internet and customers. Briefings on market were delivered on a daily basis and market trends were paid close attention to for conducting market analysis. Sales would be made before prices fell; production was reduced to bring inventory under control when selling prices went down; sales would be made according to plans while prices went up. Necessary adjustments were made to production in response to the market with appropriate volume of inventory in order to meet demands of the market as much as possible and preserve the reserves. The sales of iron concentrates produced from ores in 2012 amounted to 310,300 tonnes, dropped by 17,800 tonnes as compare with 328,100 tonnes in 2011.

2. **Proactively mitigate trading risks**

   With the plunging price of iron concentrates, the market has taken a downturn since the third season of 2012 with trading risks going up, the Company gradually cut the scale of its trading business, including overseas mines processing and coarse iron powder trading to mitigate trading risks which were greatly affected by price fluctuations. Iron concentrates in overseas mines of 239,000 tonnes were processed for the year, 31,000 tonnes of which were produced in the second half of the year. Iron concentrates produced from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder of 269,000 tonnes were sold for the year, 47,400 tonnes of which were sold in the second half of the year. Coarse iron powder of 430,000 tonnes were traded for the year, 150,000 tonnes of which were sold in the second half of the year.

3. Repay loans and cut interest rates to reduce the financial cost

The Group has put effort in reducing risk exposure in trading according to changes in the markets. Strategies such as bank loans reduction, loans repayment to cut interest rates for finance cost reduction were adopted by the Group to decrease the number of business which required relatively large capital. As at 31 December 2012, bank loans amounted to approximately RMB349.9 million, decreased by RMB167.7 million as compared to the figure as at 31 December 2011. Meanwhile, we tried to reduce note discount and decrease the discount interest cost by RMB4.8 million. During the period from January to December in 2012, financial cost amounted to 33.7 million, dropped by RMB14.8 million as compared with RMB48.5 million of the same period in 2011.

4. Control management expenditure to reduce the administrative cost

The Group has set up strict system for business-related entertainment as well as business trip with more specific standards for business-related entertainment as well as reimbursement standards and procedures for business trips. Business trips and entertainment expenses were reduced by approximately RMB2.7 million.

5. Optimisations and integrations to reduce labour cost

Faced with the continued downturn in the market of iron concentrates during the second half of 2012, the Group acted aggressively by conducting optimisations and integrations of positions in order to enhance the labour production efficiency. Shandong Ishine, one of the subsidiaries of the Company was downsized by 32 employees in order to reduce labour cost.

6. Strive for grants from the government aggressively

The Company was granted with RMB8.0 million by the PRC government upon the listing of the shares of the Company on the Stock Exchange in 2012.

7. Titanium-iron combination – new strategic transformation from a supplier of iron ore production to a titanium-iron company.

Following adjustment of the national strategy, preparation for key technique for mining and selection of titanium concentrates has been completed by the first half of 2012. During the second half of 2012, the Company has entered into the titanium industry by capturing market opportunities and been prepared for the acquisition of Luxing Titanium, increasing resource reserves and further optimizing selection techniques. In the coming ten years, the Company will transform from a company solely concentrated in iron ores to a titanium-iron company based on iron concentrates with highlights in titanium concentrates.

Resources and reserves of mines

The mines and projects owned by the Group have significant iron and titanium ore reserves and resources. According to the report of the independent technical adviser Micromine Consulting Services, as of November 2011, the total aggregate proved and probable reserve of ore in the 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 the Zhuge Shangyu Ilmenite Mine was approximately 546.29 Mt at an average grade of approximately 5.69% TiO_2 and approximately 12.81% TFe (total iron); whereas the total proved and probable reserve of ore in our Qinjiazhuang Ilmenite Project was approximately 86.63 Mt at an average grade of approximately 4.50% TiO_2 and approximately 13.56% TFe (total iron).

Based on the resources and reserves under the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy ("JORC") for the Yangzhuang Iron Mine, Zhuge Shangyu Ilmenite Mine and Qinjiazhuang Ilmenite Project as of November 2011 disclosed in the prospectus of the Company dated 17 April 2012, the Group estimated resources and reserves as of December 2012 were as follows:

JORC Mineral Resources as of December 2012:

	Yangzhuang Iron Mine	**Zhuge Shangyu Ilmenite Mine**	**Qinjiazhuang Ilmenite Project**
Ore reserves (Mt)			
– proved	8.73	200.08	45.33
– probable	32.94	346.20 *(Note)*	41.30
Total ore reserves	41.67	546.29	86.63

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

JORC Ore Reserve Estimate as of November 2011:

	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
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 total titanium dioxide (TiO_2) (%)	N/A	5.69	4.50

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

FINANCIAL REVIEW

For the year ended 31 December 2012, the Group recorded revenue of approximately RMB871.5 million as compared to approximately RMB1.0 billion for the year ended 31 December 2011, representing a decrease of approximately 13.7%. For the year ended 31 December 2012, 63.0% of the Group's total sales consisted of the sales of iron concentrates produced by the Group's processing plants, while the remaining 37.0% of sales were mainly derived from trading of coarse iron powder and iron concentrates. The Group mainly sold iron concentrates produced by the Group to iron pellets and steel producers in Shandong Province, the PRC. In addition to those customers of iron concentrates produced by the Group, the Group sold the iron concentrates, coarse iron powder and other trading goods to other customers engaged in trading and manufacturing of iron-related products in the PRC.

Prices of the Group's products

The unit price of iron concentrates produced by the Group is mainly depending on the iron content contained in the Group's iron concentrates and is affected by the market conditions, including but not limited to the global, PRC and Shandong supply of and the demand for iron ore products and the prosperity of the Shandong steel industry.

The Group's average unit selling price of iron concentrates for the year ended 31 December 2012 was approximately RMB947.5 per tonne, representing a decrease of approximately 20.0% as compared to the average unit selling price of approximately RMB1,184.5 per tonne for the year ended 31 December 2011. Such decrease was mainly as a result of the slowdown of China's economy and the decline in demand from steel makers in Shandong Province.

Revenue

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

	The year ended 31 December 2012		The year ended 31 December 2011	
	RMB'000	***%***	*RMB'000*	*%*
Revenue				
Sales of iron concentrates produced by the Group				
– from iron ore of Yangzhuang Iron Mine	**289,003**	**33.2%**	388,662	38.5%
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder	**260,029**	**29.8%**	298,348	29.5%
	549,032	**63.0%**	687,010	68.0%
Trading of				
– Iron concentrates	**11,553**	**1.3%**	9,256	0.9%
– Coarse iron powder	**310,936**	**35.7%**	262,928	26.0%
– Iron pellets	**–**	**–**	50,202	5.0%
– Others	**–**	**–**	856	0.1%
	322,489	**37.0%**	323,242	32.0%
	871,521	**100%**	1,010,252	100%

The following table sets forth a breakdown of the volume of iron concentrates sold by the Group for the periods indicated:

	The year ended 31 December 2012 *(Kt)*	The year ended 31 December 2011 *(Kt)*
Sales volume of iron concentrates		
Iron concentrates produced by the Group		
– from iron ore of Yangzhuang Iron Mine	**310.3**	328.1
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder	**269.2**	251.9
	579.5	580.0
Trading		
– Sales of iron concentrates	**13.3**	9.1
– Sales of coarse iron powder	**432.3**	303.5
– Sales of iron pellets	**–**	35.0
– Others	**–**	0.2
	445.6	347.8

The following table shows the breakdown of the Group's total production volumes of iron concentrates by types of materials used:

	The year ended 31 December 2012		The year ended 31 December 2011	
	(Kt)	**%**	*(Kt)*	%
Amount of iron concentrates produced from iron ore of Yangzhuang Iron Mine	**310.3**	**56.4%**	328.1	54.0%
Amount of iron concentrates produced from iron concentrates purchased from other suppliers used in the mixing process	**–**	**–**	45.0	7.4%
Amount of iron concentrates produced from coarse iron powder purchased from other suppliers	**239.4**	**43.6%**	234.7	38.6%
Total	**549.7**	**100%**	607.8	100%

Revenue from sales of iron concentrates produced by the Group represents approximately 63.0% of the Group's total revenue for the year ended 31 December 2012. The Group also sourced iron concentrates and coarse iron powder for on sale to its trading customers.

The Group's revenue decreased from approximately RMB1.0 billion for the year ended 31 December 2011 to approximately RMB871.5 million for the year ended 31 December 2012 by approximately 13.7%, which was mainly due to (1) decrease in sales of iron concentrates produced from iron ore of Yangzhuang Iron Mine by approximately RMB99.7 million, (2) decrease in sales of iron concentrates produced from processing coarse iron powder by approximately RMB38.3 million, and (3) decrease in turnover from trading of iron pellets and others from approximately RMB51.0 million for the year ended 31 December 2011 to nil for the year ended 31 December 2012 due to the cessation of trading on these products, partly offset by (i) increase in turnover of trading iron concentrates by approximately RMB2.3 million, and (ii) increase in turnover of trading of coarse iron powder by approximately RMB48.0 million for the year ended 31 December 2012.

The decrease in sales of iron concentrates produced from iron ore of Yangzhuang Iron Mine was mainly due to (1) a decrease of approximately 20.0% in average unit selling price of iron concentrates from approximately RMB1,184.5 per tonne for the year ended 31 December 2011 to approximately RMB947.5 per tonne for the year ended 31 December 2012, and (2) a decrease of approximately 5.4% in sales volume of iron concentrates produced from iron ore of Yangzhuang Iron Mine. Due to the decrease in average unit selling price of iron concentrates during the year ended 31 December 2012, the management strategically decided to decrease production volume and sales volume of the iron concentrates produced from iron ore of Yangzhuang Iron Mine by 17.8 Kt for the year ended 31 December 2012.

The Group produced iron concentrates from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder during the year ended 31 December 2012. Sales derived from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder dropped by approximately 12.8% from approximately RMB298.3 million for the year ended 31 December 2011 to approximately RMB260.0 million for the year ended 31 December 2012, mainly as a result of the decrease in average unit selling price of iron concentrates by approximately 20.0%. The Group increased sales volume of iron concentrates produced from coarse iron powder from 251.9 Kt for the year ended 31 December 2011 to 269.2 Kt for the year ended 31 December 2012 in order to utilise the Group's excess processing capacity in Yangzhuang Iron Mine. However, the increase in sales volume of iron concentrates from mixing iron concentrates purchased from other suppliers was offset by the decrease in average unit selling price during the year of 31 December 2012.

The total sales resulted from trading activities slightly dropped by approximately 0.2% which was mainly due to decrease of trading turnover of iron pellets and others from RMB51.0 million for the year ended 31 December 2011 to nil for the year ended 31 December 2012, partly offset by (i) increase in revenue from trading of iron concentrates by approximately RMB2.3 million from RMB9.3million for the year ended 31 December 2011 to approximately RMB11.6 million for the year ended 31 December 2012. The trading volume of iron concentrate was increased by 46.2%, yet the increase in sales volume of trading of iron concentrates was offset by the decrease in average unit selling price from approximately RMB1,017.1 for the year ended 31 December 2011 to approximately RMB868.6 for the year ended 31 December 2012, and (ii) the increase in revenue from trading from coarse iron powder was increased by approximately RMB47.9 million for the year ended 31 December 2012 as compared to that for the year ended 31 December 2011. Coarse iron powder was sourced from several trading companies in Shandong Province. The Group traded a large volume of coarse iron powder for the year ended 31 December 2012 mainly because the Group successfully identified several stable suppliers during the period. The trading volume of coarse iron powder was increased by 42.4%, however, the increase in sales volume of trading of coarse iron powder was offset by the decrease in average unit selling price during the year ended 31 December 2012.

Cost of Sales

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

	The year ended 31 December 2012		The year ended 31 December 2011	
	RMB'000	%	*RMB'000*	%
Cost of Sales				
Cost of sales of iron concentrates produced by the Group				
– from iron ore of Yangzhuang Iron Mine	181,562	25.3%	184,631	25.2%
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder	232,609	32.3%	256,937	35.0%
	414,171	57.6%	441,568	60.2%
Cost of sales of trading of				
– Iron concentrates	11,264	1.6%	9,166	1.2%
– Coarse iron powder	291,460	40.5%	230,753	31.4%
– Iron pellets	–	–	48,605	6.6%
– Others	–	–	861	0.2%
	302,724	42.1%	289,385	39.4%
Exploration costs incurred by Ishine International	1,820	0.3%	3,103	0.4%
	718,715	100%	734,056	100%

Cost of sales was mainly incurred during production of iron concentrates and from purchase of iron-related products for trading purposes. For the costs of sales incurred during production activities, it mainly consists 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.

Cost of sales slightly decreased from approximately RMB734.1 million for the year ended 31 December 2011 to approximately RMB718.7 million for the year ended 31 December 2012 by approximately 2.1%. Such decrease was consistent with the decrease in the Group's revenue during the same period and mainly contributed by (1) decrease of cost of sales of iron concentrates produced by the Group from Yangzhuang Iron Mine by approximately RMB3.1 million due to the decrease in sales volume by 17.8 Kt; (2) decrease of cost of sales from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder by approximately RMB24.3 million due to the decrease in average unit cost of sales from approximately RMB1,020.0 per tonne for the year ended 31 December 2011 to approximately RMB864.1 per tonne for the year ended 31 December 2012; (3) decrease in cost of sales of iron pellets and other trading products by approximately RMB49.5 million, partly offset by increase in cost of sales from trading of iron concentrates and coarse iron powder by approximately RMB62.8 million due to the increase in sales volume by 4.2 Kt and 128.8 Kt, respectively; and (4) decrease in exploration costs incurred by Ishine International by approximately RMB1.3 million.

Gross profit and gross profit margin

The following table sets forth a breakdown of the Group's gross profit and gross profit margins by segments for the periods indicated:

	The year ended 31 December 2012		The year ended 31 December 2011	
	RMB'000	**%**	*RMB'000*	%
Gross profit				
Production				
– Sales of iron concentrates				
– from iron ore of Yangzhuang Iron Mine	**107,441**	**70.3%**	204,031	73.9%
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder	**27,420**	**18.0%**	41,411	15.0%
	134,861	**88.3%**	245,442	88.9%
Trading				
– Sales of iron concentrates	**289**	**0.2%**	91	–
– Sales of coarse iron powder	**19,476**	**12.7%**	32,175	11.6%
– Sales of iron pellets	**–**	**–**	1,597	0.6%
– Others	**–**	**–**	(6)	–
	19,765	**12.9%**	33,857	12.2%
Exploration costs incurred by Ishine International	**(1,820)**	**(1.2)%**	(3,103)	(1.1)%
	152,806	**100%**	276,196	100%

	The year ended 31 December 2012 %	The year ended 31 December 2011 %
Gross profit margin		
Gross profit margin of iron concentrates		
– from iron ore of Yangzhuang Iron Mine	37.2%	52.5%
– from mixing iron concentrates purchase from other suppliers and/or produced from coarse iron powder	10.6%	13.9%
Gross profit margin of trading of		
– Iron concentrates	2.5%	1.0%
– Coarse iron powder	6.3%	12.2%
– Others	–	3.1%
	6.1%	10.5%
Overall gross profit margin	17.5%	27.3%

Gross profit decreased by approximately 44.7% from approximately RMB276.2 million for the year ended 31 December 2011 to approximately RMB152.8 million for the year ended 31 December 2012. Gross profit decreased mainly due to (1) decrease in gross profit of iron concentrates produced by the Group from iron ore of Yangzhuang Iron Mine by approximately 47.3%, which was mainly a result of the decline in average unit selling price of iron concentrates and drop of sales volume of iron concentrates produced from iron ore mined from Yangzhuang Iron Mine, (2) decrease in gross profit of mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder by approximately 33.8% which was mainly a result of the decline in average unit selling price of iron concentrates, and (3) the decrease in gross profit of trading of coarse iron powder by approximately 39.5% from approximately RMB32.2 million for the year ended 31 December 2011 to approximately RMB19.5 million for the year ended 31 December 2012 which was mainly a result of the decline in average unit selling price of iron concentrates.

Overall gross profit margin declined by 9.8% to 17.5% for the year ended 31 December 2012 as compared to that for the year ended 31 December 2011. This was mainly due to (1) the decrease in gross profit margin of iron concentrates produced by the Group from iron ore of Yangzhuang Iron Mine from approximately from 52.5% to approximately 37.2%, and iron concentrates produced from mixing iron concentrates purchased from other suppliers and/or iron concentrates produced from coarse iron powder purchased from other suppliers by approximately 3.3% to approximately 10.6%, which was mainly caused by decrease of approximately 20.0% in average unit selling price of iron concentrates from approximately RMB1,184.5 per tonne for the year ended 31 December 2011 to approximately RMB947.5 per tonne for the year ended 31 December 2012, resulting from the slowdown of China's economy and the sluggish demand from steel makers in Shandong Province. There is a slight increase in the average cost of sales per tonne of iron concentrates produced by the Group from iron ore of Yangzhuang Iron Mine RMB562.7 per tonne for the year ended 31 December 2011 to RMB585.1 per tonne for the year ended 31 December 2012, as a result of (i) increase in depreciation and amortisation costs by approximately 69.3%; (ii) increase in power and utilities cost by approximately 24.2%; (2) the gross profit margin of the trading of coarse iron powder declined from approximately 12.2% for the year ended 31 December 2011 to approximately 6.3% for the year ended 31 December 2012, which mainly due to the approximately 20.0% decrease in average unit selling price of iron concentrates.

Selling and distribution costs

Selling and distribution costs increased by approximately 14.6% from approximately RMB9.6 million for the year ended 31 December 2011 to approximately RMB11.0 million for the year ended 31 December 2012. This was primarily due to the increase in transportation costs incurred by the Group on the behalf of the Group's customers and were added to the contracted sales price.

	The year ended 31 December 2012 *RMB'000*	The year ended 31 December 2011 *RMB'000*
Transportation costs	**10,951**	9,451
Other expenses	**22**	198
	10,973	9,649

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 the Group's administrative expenses for the periods indicated:

	The year ended 31 December 2012 *RMB'000*	The year ended 30 December 2011 *RMB'000*
Employee benefits	**8,747**	7,908
Other tax and surcharges	**1,210**	457
Depreciation and amortisation	**8,580**	5,572
Professional fees	**12,189**	11,371
Travelling expenses	**998**	2,908
Entertainment expenses	**820**	1,617
Vehicle fees	**1,700**	2,170
Office fees	**597**	366
Impairment losses	**6,988**	–
Other expenses	**7,215**	9,093
Total	**49,044**	41,462

Administrative expenses increased from approximately RMB41.5 million for the year ended 31 December 2011 to approximately RMB49.0 million for the year ended December 2012. This increase was mainly due to (1) the impairment loss of approximately RMB4.0 million (equivalent to approximately AUD613,000) for the Boomarra Project resulting from the decision of the board of Ishine International to stop pursuing further interest in Boomarra Project, (2) the impairment loss of approximately RMB3.0 million (equivalent to approximately AUD457,000) of the listed shares held in Athena Resources Limited due to the fair value loss was recognised as an impairment loss on the basis that it was considered as a permanent diminution in value, and (3) the increase in depreciation and amortisation cost from approximately RMB5.6 million for the year ended 31 December 2011 to approximately RMB8.6 million for the year ended 31 December 2012, as a result of (i) the increase in fixed assets by approximately RMB21.0 million, which increased the depreciation expenses by approximately RMB1.4 million, (ii) increase in depreciation expenses on environmental improvement and road construction in mining area by approximately RMB1.6 million. The increase was offset by decrease of (a) travelling expenses of approximately RMB1.9 million which was mainly as a result of reduced business trips by the management, and (b) decrease of entertainment fee of approximately RMB0.8 million.

Other gains, net

The Group made other gain of approximately RMB7.4 million for the year ended 31 December 2012 as compared to approximately RMB3.0 million other gains for the year ended 31 December 2011 which mainly consisted of the government grant of RMB8.0 million rewarded by the local government in recognition of the Company's successful listing on the Stock Exchange and its support of the Group's future development.

Finance costs, net

Net finance costs mainly represented interest expense on bank loans, and on discount of bank's acceptance notes of the Group, offset by interest income of bank deposits. Finance costs decreased from approximately RMB48.5 million for the year ended 31 December 2011 to approximately RMB33.7 million for the year ended 31 December 2012 by approximately 30.4%, which was mainly due to (1) the decrease in bank loans balance by approximately 32.4% from approximately RMB517.6 million as at 31 December 2011 to approximately RMB349.9 million as at 31 December 2012; and (2) decrease in interest expense on discount of bank acceptance notes by approximately RMB4.8 million.

Total comprehensive income

Total comprehensive income decreased from approximately RMB127.5 million for the year ended 31 December 2011 to approximately RMB44.1 million for the year ended 31 December 2012 by 65.4%, which was mainly due to the (1) the decrease in gross profit of approximately RMB123.4 million, (2) increase in selling and distribution expenses of approximately RMB1.3 million, (3) the impairment loss of approximately RMB4.0 million (equivalent to approximately AUD613,000) for the Boomarra Project resulting from the decision of the board of Ishine International to stop pursuing further interest in Boomarra Project, and (4) the impairment loss of approximately RMB3.0 million (equivalent to approximately AUD457,000) of the listed shares held in Athena Resources Limited due to the fair value loss was recognised as an impairment loss on the basis that it was considered as a permanent diminution in value.

Property, plant and equipment

Property, plant and equipment as at 31 December 2012 increased by approximately RMB21.0 million, or approximately 10.9% as compared to that at 31 December 2011. Such increase mainly represented (i) the costs of building an additional set of equipment to dry up tailings, (ii) the construction of relevant infrastructure facilities, and (iii) purchase of manufacturing equipment.

Inventories

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

	As at 31 December 2012 *RMB'000*	As at 31 December 2011 *RMB'000*
Raw materials		
– Iron ores	238	3,140
– Other raw materials	8,612	4,749
Finished goods	3,589	22,708
Spare parts and others	3,833	3,483
Total	16,272	34,080

The balance of inventories decreased by approximately RMB17.8 million mainly due to the decrease in finished goods of approximately RMB19.1 million, which was partially offset by the increase in other raw materials which mainly consisted of coarse iron powder of approximately RMB3.9 million.

Accounts receivables

The 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. Ageing analysis of accounts receivables as at 31 December 2012 and 2011 was as follows:

	As at 31 December 2012 *RMB'000*	As at 31 December 2011 *RMB'000*
Accounts receivables		
– Less than 3 months	162,309	195,864
– 3 months to 6 months	68,648	3,399
– 6 months to 1 year	40,759	535
– I year and above	–	–
Total	271,716	199,798

Accounts receivables increased from approximately RMB199.8 million as at 31 December 2011 to approximately RMB271.7 million as at 31 December 2012 as the customers took longer time to settle amount due to the Group as a result of the sluggish iron and steel market.

Note receivables

Note receivables are bank acceptance notes from various banks mainly provided by the Group's customers as settlement of account receivables.

	As at 31 December 2012 *RMB'000*	As at 31 December 2011 *RMB'000*
Note receivables		
– Bank acceptance notes	**261,739**	327,150

Note receivables decreased from approximately RMB327.2 million as at 31 December 2011 to approximately RMB261.7 million as at 31 December 2012 as the Group's customers chose to settle the payment by account receivables rather than the bank acceptance notes from various banks, hence less accounts receivables were settled with bank acceptance notes as at 31 December 2012 as compared to 31 December 2011.

Accounts payables

	As at 31 December 2012 *RMB'000*	As at 31 December 2011 *RMB'000*
Accounts payables	**59,936**	63,280

Accounts payables decreased from approximately RMB63.3 million as at 31 December 2011 to approximately RMB59.9 million as at 31 December 2012.

Bank borrowings

The following table sets forth the breakdown of bank borrowings as of each of the statement of financial position dates:

	As at 31 December 2012 *RMB'000*	As at 31 December 2011 *RMB'000*
Non-current		
– Bank borrowings	100,000	160,000
Current		
– Bank borrowings	189,900	317,620
– Short-term portion of non-current borrowings	60,000	40,000
	249,900	357,620
Total	349,900	517,620

Total bank borrowings as at 31 December 2012 decreased to approximately RMB349.9 million from approximately RMB517.6 million as at 31 December 2011 mainly as a result of decrease in both non-current and current bank borrowings in order to reduce the finance costs by approximately RMB14.8 million for the year ended 31 December 2012.

As at 31 December 2012, bank borrowings of approximately RMB150.0 million was pledged by the Group's account receivables with carrying amount of approximately RMB181.4 million. Bank borrowings of RMB19.9 million was pledged by the Group's notes receivables with carrying amount of approximately RMB20.0 million. Also, bank borrowings of approximately RMB160.0 million was pledged by a mining right of Shandong Ishine with book value of approximately RMB4.1 million.

Borrowing of RMB20.0 million was guaranteed by the controlling shareholder of the Company, an executive Director and chairman of the Company, Mr Li Yunde, which was borrowed after the listing of the Company.

Ishine International

Ishine International, the Company's non-wholly owned subsidiary, is principally engaged in the business of the exploration of mineral resources in Australia, and its shares are listed on the Australian Securities Exchange. Net loss incurred by Ishine International for the year ended 31 December 2012 was approximately RMB14.4 million as compared to net loss of approximately RMB6.9 million for the year ended 31 December 2011. The increase in net loss was mainly contributed by (1) the impairment loss of approximately RMB4.0 million (equivalent to approximately AUD613,000) for the Boomarra project resulting from the decision of the board of Ishine International to stop pursuing further interest in Boomarra Project; and (2) the impairment loss of approximately RMB3.0 million (equivalent to approximately AUD457,000) of the listed shares held in Athena Resources Limited due to the recognition of fair value loss as an impairment loss on the basis that it was considered as a permanent diminution in value.

CAPITAL STRUCTURE

The Company's issued share capital as at 31 December 2012 is HKD7,208,715.84 divided into 720,871,584 shares of HKD0.01 each.

The Group adopts a prudent treasury policy, and its gearing ratio (calculated as total borrowings divided by the aggregate amount of total equity and total borrowings) as at 31 December 2012 was approximately 37.1% (31 December 2011: approximately 54.2%). The current ratio (calculated as current assets divided by current liabilities) as at 31 December 2012 was approximately 2.3 times (31 December 2011: approximately 1.8 times).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the total amount of the borrowings in the Group was approximately RMB349.9 million (31 December 2011: approximately RMB517.6 million). The Group settled borrowings in the amount of approximately RMB520.6 million for the year ended 31 December 2012. The Group's cash and bank balances amounted to approximately RMB82.9 million (31 December 2011: approximately RMB202.6 million).

MATERIAL ACQUISITIONS OR DISPOSALS

Shandong Ishine entered into a sale and purchase agreement with Mr. Yang Wenxing, on 19 December 2012 to acquire 95% of the equity interests of Luxing Titanium at a consideration of RMB20.9 million (the "Acquisition"). The Acquisition was completed in February 2013. Luxing Titanium is a mining company based in Shandong Province, the PRC and is principally engaged in ilmenite ore mining and processing to produce iron concentrates and titanium concentrates. For details of the Acquisition, please refer to the announcement of the Company dated 19 December 2012.

Save as disclosed above, there was no material acquisition, disposal or investment by the Group during the year ended 31 December 2012.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

Shandong Ishine and Ishine International, which operate in the PRC and Australia respectively, are two major subsidiaries composing 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.

Although the Group may be exposed to foreign exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. There is no hedging by means of derivative instruments by the Group.

PLEDGE OF GROUP ASSETS

As at 31 December 2012, bank borrowings of approximately RMB150.0 million were pledged by the Group's account receivables with carrying amount of approximately RMB181.4 million. Bank borrowings of approximately RMB19.9 million was pledged by the Group's notes receivables with carrying amount of approximately RMB20.0 million. Also, bank borrowings of approximately RMB160.0 million was pledged by a mining right of Shandong Ishine with book value of approximately RMB4.1 million.

CAPITAL COMMITMENTS AND OPERATING LEASE COMMITMENTS

Ishine International has obligations under its exploration license to spend a minimum amount of exploration expenditures on projects. 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 total tenement commitment for Ishine International as at 31 December 2012 is approximately RMB16.1 million (equivalent to approximately AUD2,461,000).

EMPLOYEE BENEFITS AND REMUNERATION POLICIES

As at 31 December 2012, the Group had a total of 391 employees (31 December 2011: 406). The employees of the Group were remunerated based on their experiences, qualifications, the Group's performance and the market conditions. During the year ended 31 December 2012, staff costs (including Directors' remunerations) amounted to approximately RMB24.9 million (2011: approximately RMB24.3 million).

CONTINGENT LIABILITIES

As at 31 December 2012, the Group has no material contingent liabilities.

USE OF THE IPO PROCEEDS

Purpose	**Amount allocated as provided in the Prospectus** *RMB million (approximately)*	**Amount utilised up to 31 December 2012** *RMB million (approximately)*	**Amount utilised up to the date of the Announcement (Note)** *RMB million (approximately)*	**Unutilised amount as at the date of the Announcement** *RMB million (approximately)*	**Amount to be reallocated to new purposes** *RMB million (approximately)*
Purposes disclosed in the Prospectus					
Financing the expansion of mining capacity of Yangzhuang Iron Mine	62.4	34.8	36.6	25.8	–
Financing the first stage of development plan of Zhuge Shangyu Ilmenite Mine	42.7	1.5	4.1	38.6	12.6
New Purposes					
Commencement of operation of Zhuge Shangyu Ilmenite Mine	–	–	–	–	22.0
Commencement of the Qinjiazhuang Ilmenite Project	–	–	–	–	16.0
Technology improvement plan to increase annual processing capacity of Luxing Titanium Ilmenite Mine	–	–	–	–	3.8
General working capital	–	–	–	–	10.0
Total	105.1	36.3	40.7	64.4	64.4

Note: The Company made the announcement dated 7 February 2013 (the "Announcement") in relation to, among others, change in use of IPO proceeds. However, the Company also made the clarification announcement dated 3 April 2013 to clarify the amount utilised for the proposed use of the IPO proceeds as provided in the Prospectus up to the date of the Announcement, the unutilised amount as at the date of the Announcement and the amount to be allocated. For details of the clarification announcement, please refer to the announcement of the Company dated 3 April 2013.

FUTURE PLAN

Following adjustment of the national strategy, it is expected that there will be a significant increase in demand of titanium in China. The Company has entered into the titanium industry by capturing market opportunities and acquiring Luxing Titanium, increasing resource reserves and further improving the processing technology. In the next ten years, the Company will transform from a company only concentrated in iron ores to a titanium-iron company based on iron concentrates with highlights in titanium concentrates.

Yangzhuang Iron Mine

The Group carries out a technology improvement plan for Yangzhuang Iron Mine which involves replacement of certain parts and machines of the processing line by those with higher efficiency in order to lower the costs of processing of iron ores, and is expected to be completed by May 2013. Upon completion of the technology improvement plan for Yangzhuang Iron Mine, there will be certain redundant processing parts and machines and the Group intends to utilise such parts and machines at the processing line that the Group plans to construct for the Qinjiazhuang Ilmenite Mine.

Zhuge Shangyu Ilmenite Mine

The Group currently possesses a mining permit of Zhuge Shangyu Ilmenite Mine with an approved annual mining production scale of 400,000 cubic meters (or approximately 1.2 Mt). In order to commence the operation of Zhuge Shangyu Ilmenite Mine as soon as reasonably practicable, the Group has decided to rent a piece of land in the mining area covered by the current mining permit of Zhuge Shangyu Ilmenite Mine. It is expected that ilmenite ores output from mining can reach approximately 1.5 Mt per annum. Furthermore, the Group has identified some possible targets and is in negotiation to rent an iron ore processing plant and plans to install a new titanium processing line at the said plant to commence the expansion of the processing capacity of the Zhuge Shangyu Ilmenite Mine to first reach approximately 1.5 Mt per annum (subject to the obtaining of the mining permit with approved annual mining production scale of 8 Mt), which will allow the Group to produce approximately 60,000 tonnes of 57% iron concentrates and approximately 60,000 tonnes of 46% titanium concentrates per annum. The Group plans to mine and process approximately of 1 Mt of ilmenite ores, and produce approximately 40,000 tonnes of 57% iron concentrates and approximately 40,000 tonnes of 46% titanium concentrates in 2013.

Qinjiazhuang Ilmenite Project

The Group plans to apply for a mining permit for the Qinjiazhuang Ilmenite Project with an annual approved annual mining production scale of 2 Mt. The Group plans to conduct the mining preparatory work to reach a mining capacity of 1.5 Mt per annum. The Group intends to use the redundant parts and machines from the processing line of Yangzhuang Iron Mine and to further construct an ilmenite ore processing line with an annual processing capacity of 1.5 Mt and to complete the mining preparatory work and the installation of processing line by end of April 2013. The Group plans to mine and process approximately 1 Mt of ilmenite ores, and produce approximately 100,000 tonnes of 20%-30% titanium concentrates in 2013.

Luxing Titanium Ilmenite Mine

As at the date of this annual report, Luxing Titanium possesses a processing line with processing capacity of 1.2 Mt ilmenite ores per annum and has obtained a new mining licence with an approved annual mining production scale of 1.5 Mt. The Group intends to invest into a technology improvement plan to enlarge the annual processing capacity of ilmenite ores of the processing line of the Luxing Titanium Ilmenite Mine as well as to enable the processing line to process the tailings with titanium content currently possessed by Luxing Titanium. The Group intends to complete the said technology improvement plan by May 2013 and upon completion, the annual processing capacity for ilmenite ores of the processing line of Luxing Titanium Ilmenite Mine will be increased to approximately 1.5 Mt ilmenite ores, which will allow the Group to produce approximately 100,000 tonnes of 57% iron concentrates and approximately 16,000 tonnes of 46% titanium concentrates per annum and the processing capacity for tailings of the said processing line will allow the Group to produce approximately 20,000 tonnes of 46% titanium concentrates per annum. The Group expects to produce approximately 100,000 tonnes of 57% iron concentrates and approximately 30,000 tonnes of 46% titanium concentrates in 2013.

FINAL DIVIDEND

The Board resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting ("2013 AGM") of the Company to be held on Tuesday, 14 May 2013 a final dividend of HKD0.004 (2011: Nil) per share for the year ended 31 December 2012 to be paid on Friday, 14 June 2013 to those shareholders whose names appear on the register of members of the Company on Friday, 24 May 2013.

The Company is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance.

In the opinion of the Directors, save for the following deviation, the Company was in compliance with the CG Code throughout the period from 27 April 2012 (the "Listing Date") to 31 December 2012.

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.

Since the Listing Date and up to 31 December 2012, the Company has not appointed any chief executive. Mr. Li Yunde, an executive Director and the Chairman of the Company and Mr. Geng Guohua, an executive Director and the Chief Operating Officer of the Company, are also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the 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. The Board believes that this structure is conducive to strong and consistent leadership which enables the Group to operate efficiently.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Company confirmed that all Directors had complied with the required standard set out in the Model Code throughout the period from the Listing Date to 31 December 2012.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company, and is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointment or re-appointment, approval of major capital transactions and other significant operational and financial matters. The management was delegated the authority and responsibility by the Board for the daily management of the Group. In addition, the Board has also delegated various responsibilities to the Board committees. Further details of these committees are set out in this report.

The Board currently consists of six Directors including three executive Directors and three independent non-executive Directors:

Executive Directors

Mr. Li Yunde *(Chairman)*
Mr. Geng Guohua *(Chief Operating Officer)*
Mr. Lang Weiguo

Independent non-executive Directors

Mr. Li Xiaoyang
Mr. Lin Chu Chang
Mr. Zhang Jingsheng

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board. The composition of the Board reflects the balanced skills and experience for effective leadership. The biographical information of the Directors is set out on pages 43 to 47 under the section headed "Biographical Details of Directors and Senior Management".

Board Meetings

Regular Board meetings are held four times a year at approximately quarterly interval and additional meetings will be held as and when required. The four regular Board meetings for a year are planned in advance. During the regular meetings of the Board for the year, the Board reviewed the operation and financial performance of the Group, and also reviewed and approved the interim results of the Company.

During the year ended 31 December 2012, the Board held 9 meetings. All Directors were given an opportunity to include any matters in the agenda for regular Board meetings, and were also given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

Name of Director	Number of attendance
Mr. Li Yunde	8/9
Mr. Geng Guohua	9/9
Mr. Lang Weiguo	7/9
Mr. Li Xiaoyang	7/9
Mr. Lin Chu Chang	7/9
Mr. Zhang Jingsheng	7/9

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials, and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

General Meetings

During the year ended 31 December 2012, no general meeting of the Company was held.

The Board is responsible for maintaining an on-going dialogue with shareholders and in particular, uses annual general meetings or other general meetings to communicate with them and encourage their participation. The Board notes that the Chairman of the Board and the chairmen or, in their absence, other members of the audit committee ("Audit Committee"), nomination committee ("Nomination Committee") and remuneration committee ("Remuneration Committee") of the Company should attend the annual general meeting to answer questions and collect views of shareholders.

Directors' Training

According to the code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant.

All Directors have participated in continuous professional development by way of receiving in-house briefing, taking part in training relating to the Listing Rules and corporate governance matters or attending seminars relating to their role as a director of listed issuer. Each of the Directors has provided a record of training they received for the year ended 31 December 2012 to the Company.

CHAIRMAN AND CHIEF EXECUTIVE

The Company has not appointed any chief executive. Mr. Li Yunde, an executive Director and the Chairman of the Company and Mr. Geng Guohua, an executive Director and the Chief Operating Officer of the Company, are also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the 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. The Board believes that this structure is conducive to strong and consistent leadership which enables the Group to operate efficiently.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The three independent non-executive Directors are persons of high calibre, with academic and professional qualifications in the fields of economics, science or mining industry. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers each of them to be independent under Rule 3.13 of the Listing Rules.

All independent non-executive Directors have been appointed for a term of two years commencing from the Listing Date and are subject to retirement by rotation in accordance with the Articles of Association of the Company (the "Articles").

NOMINATION COMMITTEE

In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the ore industry and/or other professional area.

The Company established the Nomination Committee on 9 April 2012 with written terms of reference, which was aligned with the CG Code. The terms of reference of the Nomination Committee is currently made available on the Stock Exchange's website and the Company's website.

The Nomination Committee consists of one executive Director, namely Mr. Li Yunde (as chairman), and two independent non-executive Directors, namely Mr. Li Xiaoyang and Mr. Zhang Jingsheng.

The functions of the Nomination Committee are to review and monitor the structure, size and composition of the Board and make recommendations on any proposed changes to the Board to complement the Group's strategy; to identifying qualified individuals to become members of the Board; to assess the independence of independent non-executive Directors; and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive officer.

During the year ended 31 December 2012, no meeting of the Nomination Committee was held.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 9 April 2012 with written terms of reference, which was aligned with the CG Code. The terms of reference of the Nomination Committee is currently made available on the Stock Exchange's website and the Company's website.

The Remuneration Committee consists of one executive Director, namely Mr. Li Yunde, and two independent non-executive Directors, namely Mr. Lin Chu Chang (as chairman) and Mr. Zhang Jingsheng.

The functions of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure on the remuneration packages for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. The model of making recommendations to the Board on remuneration packages of individual executive Directors and the members of senior management is adopted.

During the year ended 31 December 2012, the Remuneration Committee held a meeting to note its accountability to the Board and the scope of its responsibilities, and to propose the establishment of a set of internal remuneration policy of the Company.

Name of Director	Number of attendance
Mr. Lin Chu Chang *(chairman)*	1/1
Mr. Li Yunde	1/1
Mr. Zhang Jingsheng	1/1

The Company has adopted a share option scheme on 9 April 2012. 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 the Group and to promote the success of the business of the Group. Details of the share option scheme are set out in the Report of the Directors.

The emolument payable to the Directors will depend on their respective contractual terms under employment contracts, if any, and will be fixed by the Board with recommendation of the Remuneration Committee, the performance of the Group and the prevailing marketing conditions. Details of the Directors' remuneration for the period from the Listing Date to 31 December 2012 are set out in note 32 to the consolidated financial statements.

AUDIT COMMITTEE

The Company established the Audit Committee on 9 April 2012 with written terms of reference, which was aligned with the CG Code. The terms of reference of the Audit Committee is currently made available on the Stock Exchange's website and the Company's website.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Lin Chu Chang (as chairman), Mr. Li Xiaoyang and Mr. Zhang Jingsheng.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of such auditor; reviewing the interim and annual reports and accounts of the Group; and overseeing the Company's financial reporting system (including the adequacy of resources, qualifications and experience of staff in charge of the Company's financial reporting function and their training arrangement and budget) and the internal control procedures.

The Audit Committee meets the external auditor regularly to discuss any area of concern during the audit. The Audit Committee reviews the interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual report.

During the year ended 31 December 2012, the Audit Committee held 2 meetings.

Name of Director	Number of attendance
Mr. Lin Chu Chang *(chairman)*	2/2
Mr. Li Xiaoyang	2/2
Mr. Zhang Jingsheng	2/2

During the year ended 31 December 2012, the Audit Committee reviewed, among others, the accountant's report disclosed in the Prospectus; and the interim results of the Group, which were in the opinion of the Audit Committee that the preparation of such accountant's report and results complied with the applicable accounting standards and the Listing Rules.

The Audit Committee noted the existing internal control system of the Group and also noted that review of the same shall be carried out annually.

CORPORATE GOVERNANCE FUNCTIONS

The Company's corporate governance functions are carried out by the Board pursuant to the written terms of reference adopted by the Board in compliance with the CG Code.

The corporate governance functions currently performed by the Board are to develop and review the Company's policies and practices on corporate governance to comply with the CG Code and other legal or regulatory requirements; to oversee the Company's orientation program for new Director; to review and monitor the training and continuous professional development of Directors and senior management; to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and to review the Company's disclosure in the Corporate Governance Report.

During the period from the Listing Date to 31 December 2012, the Board has reviewed the Company's policies and practices on corporate governance, the training and continuous professional development of the Directors and senior management as well as the Company's compliance with the CG Code.

AUDITOR'S REMUNERATION

For the year ended 31 December 2012, the remuneration paid/payable to the Company's auditor, PricewaterhouseCoopers, is as follows:

	Fee paid/payable
	RMB'000
Services rendered	
Audit services	3,332
Non-audit services	–
	3,332

COMPANY SECRETARY

The Company engaged an external professional company secretarial services provider, Uni-1 Corporate Services Limited ("Uni-1"), to provide compliance and full range of company secretarial services to the Group in order to assist the Group to cope with the changing regulatory environment.

Ms. Chan Yuen Ying, Stella ("Ms. Chan"), the representative of Uni-1, was appointed as the named Company Secretary of the Company.

Ms. Chan Wing Ki Michele, the Financial Controller of the Company, is the primary corporate contact person at the Company for the Company Secretary.

According to the requirements of Rule 3.29 of the Listing Rules, Ms. Chan had taken no less than 15 hours of relevant professional training for the year ended 31 December 2012.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Shareholders to convene an extraordinary general meeting

Pursuant to Article 64 of the Articles of Association of the Company, extraordinary general meetings shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner.

Putting enquiries by shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong.

Procedures for putting forward proposals by shareholders at shareholders' meetings

Shareholders of the Company are requested to follow Article 64 of the Articles of Association of the Company for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Shareholders to convene an extraordinary general meeting".

Pursuant to Article 113 of the Articles of Association of the Company, no person (other than a retiring Director) shall be eligible for election to the office of Director at any general meeting unless a 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 of the Company or at the Hong Kong branch share registrar and transfer office of the Company no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

The procedures for shareholders of the Company to propose a person for election as a Director is posted on the website of the Company. Shareholders or the Company may refer to the above procedures for putting forward any other proposals at general meetings.

Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions to be set out in the notice of 2013 AGM will be voted by poll.

INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders.

Information of the Company is disseminated to the shareholders in the following manner:

- Delivery of annual and interim results and reports to all shareholders;

- Publication of announcements on the annual and interim results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and

- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

Significant Changes in Constitutional Documents

On 9 April 2012, the Company has adopted an amended and restated memorandum and articles of association which had been uploaded to the website of the Company and the Stock Exchange. Save as disclosed above, there had been no significant changes in the constitutional documents of the Company during the year ended 31 December 2012.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company and of the results and cash flows of the Group for that year. In preparing the consolidated financial statements for the year ended 31 December 2012, the Board has selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

The statement by the auditor of the Company about its responsibilities for the financial statements is set out in the independent auditor's report contained in this annual report.

INTERNAL CONTROL

Management had implemented a system of internal control to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are complied with, reliable financial information are provided for management and publication purpose and investment and business risks affecting the Group are identified and managed.

During the year ended 31 December 2012, the Board has conducted a review of the system of internal control to ensure the effectiveness and adequacy of the system. The Board shall conduct such review at least once annually.

SENIOR MANAGEMENT'S REMUNERATION

Senior management's remuneration payment of the Group in the year ended 31 December 2012 falls within the following bands:

	Number of Individuals
HKD500,000 or below	3
HKD500,001 to HKD1,000,000	1
HKD1,000,001 to HKD1,500,000	–

The Directors of the Company are pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 8 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 50 to 108.

FINAL DIVIDEND

The Board resolved to recommend to the shareholders of the Company at the 2013 AGM to be held on Tuesday, 14 May 2013 a final dividend of HKD0.004 (2011: Nil) per share for the year ended 31 December 2012 to be paid on Friday, 14 June 2013 to those shareholders whose names appear on the register of members of the Company on Friday, 24 May 2013.

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders to attend and vote at the 2013 AGM, the register of members of the Company will be closed from Monday, 13 May 2013 to Tuesday, 14 May 2013, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2013 AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 10 May 2013.

For determining the entitlement of the shareholders to the proposed final dividend, the register of members of the Company will be closed on Friday, 24 May 2013, no transfer of shares will be registered on that date. In order to qualify for the proposed final dividend, all transfers of shares accompanies by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited for registration not later than 4:30 p.m. on Thursday, 23 May 2013.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2012 are set out in note 17 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company (the "Shareholders").

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities from the Listing Date to 31 December 2012.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company's reserves available for distribution to the Shareholders amounted to approximately RMB99,334,000 (2011: RMB111,915,000).

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors

Mr. Li Yunde *(Chairman)*	(Appointed as Director on 8 February 2011 and re-designated as executive Director on 9 April 2012)
Mr. Geng Guohua *(Chief Operating Officer)*	(Appointed on 9 April 2012)
Mr. Lang Weiguo	(Appointed on 9 April 2012)

Independent non-executive Directors

Mr. Li Xiaoyang	(Appointed on 9 April 2012)
Mr. Lin Chu Chang	(Appointed on 9 April 2012)
Mr. Zhang Jingsheng	(Appointed on 9 April 2012)

In accordance with Article 112 of the Articles, all Directors shall retire at the 2013 AGM and, being eligible, offer themselves for re-election.

INDEPENDENCE CONFIRMATION

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors are independent.

SHARE OPTION SCHEME

To attract and retain the best available personnel, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (the "Scheme") on 9 April 2012 ("Adoption Date") whereby the Board was authorised, at its absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the shares of the Company to, inter alia, any employees (full-time or part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group. The Scheme became unconditional on 27 April 2012.

The principal terms of the Scheme are summarised as follows:

(1) The limit on the total number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other scheme(s) of any member of the Group must not exceed 10% of the nominal amount of all the issued share capital of the Company as at the Listing Date, i.e. 27 April 2012 (which is 72,087,158 shares) unless Shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares in issue from time to time.

(2) The total number of shares issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted to any Participant in any 12-month period shall not exceed 1% of the issued shares as of the proposed grant date.

(3) The subscription price for the shares under the options to be granted under the Scheme will be a price determined by the Board at the time of grant of the options, and shall be at least the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant of the options, which must be a business day; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares on the date of grant of the option.

(4) An option may be exercised in accordance with the terms of the 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.

(5) HK$1.00 is payable by the participant who accepts the grant of an option in accordance with the terms of the Scheme on acceptance of the grant of an option.

(6) The Scheme shall be valid and effective for a period of ten years commencing 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 the shareholders of the Company in general meeting.

The Company has not granted any option since adoption of the Scheme. Other details of the Scheme are set out in the Prospectus.

SHARE OPTION OF ISHINE INTERNATIONAL RESOURCES LIMITED ("ISHINE INTERNATIONAL")

As at 31 December 2012, Ishine International, an indirect non-wholly-owned subsidiary of the Company, has a total of 6,075,000 options to acquire shares on issue. If these options are exercised by their holders, Ishine International will be obliged to issue up to 6,075,000 new shares.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors entered into a service agreement with the Company on 9 April 2012 for an initial fixed term of three years commencing from the Listing Date unless terminated by not less than three months' notice in writing served by either party on the other or in accordance with the provisions set out in the respective service agreement. Each of the executive Directors may receive a discretionary bonus, the amount of which will be determined by the Board with reference to the recommendations of the Remuneration Committee.

Each of the independent non-executive Directors entered into a service agreement with the Company on 9 April 2012 for an initial fixed term of two years commencing from the Listing Date unless terminated by not less than three months' prior notice in writing served by either party on the other.

None of the Directors proposed for re-election at the 2013 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as those disclosed in the section headed "Connected Transactions", none of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2012, nor any contract of significance has been entered into during the year ended 31 December 2012 between the Company or any of its subsidiaries and the controlling shareholders of the Company or any of its subsidiaries.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2012.

COMPETING INTERESTS

None of the Directors or any of their respective associates had any interest in a business which competes or likely to compete, either directly or indirectly, with the business of the Group.

The Board has established a review committee (the "Committee") comprising all the independent non-executive Directors which was delegated with the authority to review on an annual basis of the non-competition undertaking given by Mr. Li Yunde and Hongfa Holdings Limited (collectively, the "Covenantors") in the deeds of non-competition (the "Deeds of Non-competition") entered into by, among others, the Covenantors dated 9 April 2012. An extract of the material terms of the Deeds of Non-competition had been set out in the Prospectus. The Covenantors confirmed that (a) they have provided all information necessary for the enforcement of the Deeds of Non-competition as requested by the Committee from time to time; and (b) from the effective date of the Deeds of Non-competition, i.e. 9 April 2012 and up to 31 December 2012, they had complied with the Deeds of Non-competition. The Committee also confirmed that they were not aware of any non-compliance with the Deeds of Non-competition by the Covenantors during the same period.

RETIREMENT SCHEMES

The Group participates in a state-managed retirement scheme operated by the PRC government which covers the Group's eligible employees in the PRC and a Mandatory Provident Fund Scheme for the employee in Hong Kong. Particulars of these retirement plans are set out in note 2.17 to the consolidated financial statements in this annual report.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2012, the interest or short positions of the directors or chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO) or pursuant to the Model Code, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, are set out below:

Interests or short positions in shares, underlying shares and debentures of the Company

Name of Director	Capacity/ Nature of Interest	Long Position/ Short Position	Number of Ordinary Shares held	Approximate percentage of interest
Mr. Li Yunde	Interest of controlled corporation	Long position	407,128,532 *(Note 1)*	56.48%
Mr. Lang Weiguo	Interest of controlled corporation	Long position	133,000,000 *(Note 2)*	18.45%

Interests or short positions in shares, underlying shares and debentures of associated corporations

Name of Director	Name of associated corporation	Capacity/ Nature of Interest	Number of Ordinary Shares held	Approximate percentage of interest
Mr. Li Yunde	Hongfa Holdings Limited	Beneficial owner	1 *(Note 1)*	100%
Mr. Li Yunde	Ishine International Resources Limited	Beneficial owner	10,000,000	11%

Notes:

(1) Mr. Li Yunde ("Mr. Li") beneficially holds the entire issued share capital of Hongfa Holdings Limited, a company incorporated in the British Virgin Islands ("BVI") with limited liability, which in turn, beneficially holds 407,128,532 shares of the Company. For the purposes of the SFO, Mr. Li is deemed or taken to be interested in all the shares of the Company held by Hongfa Holdings Limited.

(2) Mr. Lang Weiguo ("Mr. Lang") beneficially holds the entire issued share capital of Novi Holdings Limited and All Five Capital Ltd, both companies are incorporated in the BVI with limited liability, which in turn, beneficially hold 106,400,000 shares of the Company and 26,600,000 shares of the Company, respectively. For the purpose of SFO, Mr. Lang is deemed or taken to be interested in all the shares of the Company held by Novi Holdings Limited and All Five Capital Ltd.

Save as disclosed above, as at 31 December 2012, none of the Directors, chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of the SFO as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS INTERESTS IN SHARES

As at 31 December 2012, so far as is known to any Director, the following persons (not being a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

Name of Shareholder	Nature of Interest	Long Position/ Short Position	Number of Ordinary Shares held	Approximate percentage of interest
Hongfa Holdings Limited	Beneficial owner	Long position	407,128,532	56.48%
Ms. Zhang Limei	Family Interest	Long position	407,128,532 *(Note 1)*	56.48%
Novi Holdings Limited	Beneficial owner	Long position	106,400,000	14.76%
Jiuding Callisto Limited	Beneficial owner	Long position	59,111,052 *(Note 2)*	8.20%

Notes:

(1) Ms. Zhang Limei ("Ms. Zhang") is the spouse of Mr. Li. For the purpose of SFO, Ms. Zhang is deemed or taken to be interested in all the shares of the Company in which Mr. Li is interested.

(2) Jiuding China Growth Fund, L.P. beneficially holds the entire issued share capital of Jiuding Callisto Limited ("Jiuding Callisto") which in turn, beneficially holds 59,111,052 shares of the Company. For the purpose of SFO, Jiuding China Growth Fund, L.P. is deemed or taken to be interested in all the shares of the Company 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 the shares of the Company in which Jiuding China Growth Fund, L.P. is interested.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2012.

CONNECTED TRANSACTIONS

Trademark License Agreement

On 14 February 2012, Shandong Ishine Mining Industry Co. Ltd. (山東興盛礦業有限責任公司) ("Shandong Ishine"), an indirectly wholly-owned subsidiary of the Company, and Mr. Li Yunde ("Mr. Li"), one of the controlling shareholders, the Chairman and an executive Director of the Company, entered into a trademark license agreement (the "Trademark License Agreement") pursuant to which 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 trademark rights of 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. The transaction under the Trademark License Agreement constitutes an exempted continuing connected transaction of the Company under Rule 14A.33(3) of the Listing Rules and is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

Provision of Financial Assistance

On 25 June 2012, Shanghai Pudong Development Bank, Linyi branch granted a loan in the principal amount of RMB40 million to Shandong Ishine, pursuant to which Mr. Li acted as guarantor to secure the said loan. The provision of guarantee by Mr. Li constitutes financial assistance to the Company which was for the benefit of the Group on normal commercial terms where no security over the assets of the Group is granted in respect of the financial assistance, which is exempt from reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules. The loan was partly repaid in an amount of RMB20.0 million on 7 August 2012, and the remaining balance will be repaid on 30 June 2013.

Key Management Compensation

The material related party transactions in relation to the key management compensation remuneration as disclosed in Note 36(d) to the consolidated financial statements in this annual report are connected transactions exempt from reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.31(6) of the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2012, approximately 81.9% of the Group's turnover and approximately 78.9% of the Group's purchases were attributable to the Group's five largest customers and five largest suppliers, respectively. Approximately 39.2% of the Group's turnover and approximately 37.5% of the Group's purchases were attributable to the Group's largest customer and the Group's largest supplier, respectively. To the best knowledge of the Directors, none of the Directors or chief executive of the Company or any shareholder owning more than 5% of the Company's share capital or their respective associates, had any interest in the Group's five largest customers or five largest suppliers.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the period from the Listing Date to the date of this report.

AUDIT COMMITTEE

The Company established the Audit Committee on 9 April 2012 with written terms of reference in compliance with the CG Code, which currently comprises three independent non-executive Directors, namely Mr. Lin Chu Chang (as chairman), Mr. Li Xiaoyang and Mr. Zhang Jingsheng. The main objective of the Audit Committee is to be responsible for the relationship with the Company's auditor, review of the Company's financial information and monitoring of the Company's financial reporting system and internal control procedures. The Audit Committee has reviewed this annual report and the audited annual financial statements for the year ended 31 December 2012 before such documents were tabled for the Board's review and approval, and is of the opinion that such documents complied with the applicable accounting standards, the Listing Rules and other applicable legal requirements and that adequate disclosures have been made.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 26 to 34 of this annual report.

AUDITOR

PricewaterhouseCoopers has acted as auditor of the Company for the year ended 31 December 2012. The Company has not changed its external auditor since the Listing Date and up to the date of this annual report. A resolution will be submitted to the 2013 AGM to re-appoint PricewaterhouseCoopers as auditor of the Company.

On behalf of the Board
China Zhongsheng Resources Holdings Limited

Li Yunde
Chairman

Hong Kong, 26 March 2013

EXECUTIVE DIRECTORS

Mr. Li Yunde ("Mr. Li")

Mr. Li, aged 46, was appointed as a Director of the Company on 8 February 2011 and redesignated as an executive Director of the Company on 9 April 2012. Mr. Li is also the Chairman of the Company and the Board, and a director of all of the subsidiaries of the Group, except Fortuneshine Investment Ltd. and Shine Mining Investment Limited. He is also the chairman of the nomination committee of the Company ("Nomination Committee") and a member of the remuneration committee of the Company ("Remuneration Committee"). He is primarily responsible for the 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. 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 Commerce of Linyi City, Yishui County, Shandong Province (沂水縣工商業聯合會). Mr. Li was awarded 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 and the"Model Worker of Shandong Province (山東省勞動模範)"in April 2008 by the People's Government of Shandong Province. Since November 2012, Mr. Li has been the Vice-President of China Mining Association (中國礦業聯合會) Australian Branch, and taken the Representative of the National People's Congress of Shandong Province in January 2013. He has been the Standing Director of China Federation of Industry & Commerce (全國工商業聯合會) Metallurgy Branch.

As at the date of this report, Mr. Li is deemed to be interested in 407,128,532 shares of the Company held by Hongfa Holdings Limited, the controlling shareholder of the Company, representing approximately 56.48% of the existing issued shares of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong).

Mr. Geng Guohua ("Mr. Geng")

Mr. Geng, aged 43, was appointed as an executive Director and the Chief Operating Officer of the Company on 9 April 2012. He has been the chief operating officer of Shandong Ishine Mining Industry Co. Ltd. (山東興盛礦業有限責任公司) ("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 the 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 person of Shandong Fuyuan Leather Group Ltd. (山東富源皮革集團有限公司) and was 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), a company listed on The Stock Exchange of Hong Kong Limited (stock code: 1886)) from 2003 to 2007 and was 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 ("Mr. Lang")

Mr. Lang, aged 54, was appointed as an executive Director of the Company on 9 April 2012. He joined the 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 the Group's business development and investment. Mr. Lang is also a director of Fortuneshine Investment Ltd. and Shine Mining Investment Limited, both of which are the subsidiaries of the Group. 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.

As at the date of this report, Mr. Lang is deemed to be interested in (i) 106,400,000 shares of the Company held by Novi Holdings Limited, and (ii) 26,600,000 shares of the Company held by All Five Capital Ltd, both together representing approximately 18.45% of the existing issued shares of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong).

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Li Xiaoyang ("Mr. Li XY")

Mr. Li XY, aged 57, was appointed as an independent non-executive Director of the Company on 9 April 2012. He is a member of each of the audit committee of the Company ("Audit Committee") and the Nomination Committee. Mr. Li XY 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 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 ("Mr. Lin")

Mr. Lin, aged 43, was appointed as an independent non-executive Director of the Company on 9 April 2012. He is the chairman of each of the Audit Committee and the Remuneration Committee. 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 nonexecutive director of Shenzhen Expressway Company Limited, a company listed on the Stock Exchange (stock code: 00548) since March 2012.

Mr. Zhang Jingsheng ("Mr. Zhang")

Mr. Zhang, aged 67, was appointed as an independent non-executive Director of the Company on 9 April 2012. He is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee. 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 was 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 — 脱泥 — 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)".

SENIOR MANAGEMENT

Mr. Liu Quan Xuan, aged 70, is the Chief Ore Dressing Technician of the 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 the 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.

Mr. Huang Zhaobo, aged 49, is the Deputy Business Head of the 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, aged 59, is the Deputy Production Head of the 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 had served 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, aged 32, was appointed as the Financial Controller of the Company on 9 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.

COMPANY SECRETARY

Ms. Chan Yuen Ying, Stella, aged 41, was appointed as the company secretary of the 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 Chartered 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.

pwc 羅兵咸永道

To the shareholders of China Zhongsheng Resources Holdings Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Zhongsheng Resources Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 50 to 108, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2013

Balance Sheets

(Amounts expressed in thousands of RMB)

		As at 31 December			
		Group		Company	
	Note	2012	2011	2012	2011
ASSETS					
Non-current assets					
Property, plant and equipment	6	213,490	192,523	47	–
Intangible assets	7	27,585	29,219	–	–
Interest in subsidiaries	8	–	–	459,828	394,019
Available-for-sale financial assets	9	2,441	4,256	–	–
Other financial assets	10	–	561	–	–
Deferred income tax assets	11	1,973	2,790	–	–
		245,489	229,349	459,875	394,019
Current assets					
Inventories	12	16,272	34,080	–	–
Accounts receivables	13	271,716	199,798	–	–
Notes receivables	14	261,739	327,150	–	–
Prepayments and other receivables	15	182,705	102,391	1,555	3,510
Cash and cash equivalents	16	82,920	202,586	32,946	69
Restricted bank deposits	16	798	–	–	–
		816,150	866,005	34,501	3,579
Total assets		1,061,639	1,095,354	494,376	397,598
EQUITY					
Equity attributable to equity holders of the Company					
Share capital and share premium	17	385,160	274,769	385,160	274,769
Reserves	18	18,662	(6,956)	119,549	118,704
Retained earnings/(Accumulated losses)		184,186	161,590	(20,215)	(6,789)
		588,008	429,403	484,494	386,684
Non-controlling interests		4,568	8,490	–	–
Total equity		592,576	437,893	484,494	386,684

Balance Sheets

(Amounts expressed in thousands of RMB)

		As at 31 December			
		Group		Company	
	Note	2012	2011	2012	2011
LIABILITIES					
Non-current liabilities					
Borrowings	22	100,000	160,000	–	–
Provision for close down, restoration and environmental costs	23	6,551	9,978	–	–
Deferred income tax liabilities	11	3,635	3,189	–	–
		110,186	173,167	–	–
Current liabilities					
Borrowings	22	249,900	357,620	–	–
Accounts payables	19	59,936	63,280	–	–
Notes payables	20	1,180	–	–	–
Accruals and other payables	21	42,803	36,113	9,882	10,914
Current income tax liabilities		5,058	27,281	–	–
		358,877	484,294	9,882	10,914
Total liabilities		469,063	657,461	9,882	10,914
Total equity and liabilities		1,061,639	1,095,354	494,376	397,598
Net current assets/(liabilities)		457,273	381,711	24,619	(7,335)
Total assets less current liabilities		702,762	611,060	484,494	386,684

The notes on pages 55 to 108 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 26 March 2013, and were signed on its behalf.

Executive Director *Executive Director*

Consolidated Statement of Comprehensive Income

(Amounts expressed in thousands of RMB)

	Note	Year ended 31 December 2012	2011
Revenue	*24*	**871,521**	1,010,252
Cost of sales	*25*	**(718,715)**	(734,056)
Gross profit		**152,806**	276,196
Selling and distribution costs	*25*	**(10,973)**	(9,649)
Administrative expenses	*25*	**(49,044)**	(41,462)
Other gains, net	*27*	**7,448**	3,016
Profit from operations		**100,237**	228,101
Finance income	*28*	**1,463**	2,425
Finance costs	*28*	**(35,190)**	(50,888)
Finance costs, net		**(33,727)**	(48,463)
Share of loss of an associate		**–**	(1,606)
Profit before income tax		**66,510**	178,032
Income tax expense	*29*	**(24,113)**	(48,042)
Profit for the year		**42,397**	129,990
Total profit for the year attributable to:			
Equity holders of the Company		**46,904**	132,150
Non-controlling interests		**(4,507)**	(2,160)
		42,397	129,990
Other comprehensive income			
Change in value on available-for-sale financial assets		**1,064**	(1,064)
Currency translation differences		**591**	(1,409)
Total comprehensive income for the year		**44,052**	127,517
Total comprehensive income attributable to:			
Equity holders of the Company		**48,046**	130,416
Non-controlling interests		**(3,994)**	(2,899)
		44,052	127,517
Earnings per share for profit attributable to the equity holders (Expressed in RMB per share)			
Basic and diluted	*30*	**0.07**	0.22
Dividends	*31*	**2,304**	80,000

Consolidated Statement of Changes in Equity

(Amounts expressed in thousands of RMB)

	Note	Attributable to equity holders of the Company					
		Share capital and share premium *(Note 17)*	Reserves *(Note 18)*	Retained earnings	Subtotal	Non-controlling interests	Total equity
As at 31 December 2011		**274,769**	**(6,956)**	**161,590**	**429,403**	**8,490**	**437,893**
Issuance of new shares	*17*	**110,391**	**–**	**–**	**110,391**	**–**	**110,391**
Comprehensive income							
Profit for the year		**–**	**–**	**46,904**	**46,904**	**(4,507)**	**42,397**
Other comprehensive income							
Currency translation differences		**–**	**413**	**–**	**413**	**178**	**591**
Change in value on available-for-sale financial assets	9	**–**	**729**	**–**	**729**	**335**	**1,064**
Transaction with owners							
Appropriations		**–**	**24,308**	**(24,308)**	**–**	**–**	**–**
Share-based payments		**–**	**168**	**–**	**168**	**72**	**240**
As at 31 December 2012		**385,160**	**18,662**	**184,186**	**588,008**	**4,568**	**592,576**
As at 31 December 2010		274,769	(103,105)	139,271	310,935	11,310	322,245
Comprehensive income							
Profit for the year		–	–	132,150	132,150	(2,160)	129,990
Other comprehensive income							
Currency translation differences		–	(1,005)	–	(1,005)	(404)	(1,409)
Change in value on available-for-sale financial assets	9	–	(729)	–	(729)	(335)	(1,064)
Transaction with owners							
Appropriations		–	29,831	(29,831)	–	–	–
Dividends		–	–	(80,000)	(80,000)	–	(80,000)
Share-based payments		–	172	–	172	79	251
Deemed distribution to equity holders		–	(3,243)	–	(3,243)	–	(3,243)
Contribution by equity holders		–	71,123	–	71,123	–	71,123
As at 31 December 2011		274,769	(6,956)	161,590	429,403	8,490	437,893

Consolidated Statement of Cash Flows

(Amounts expressed in thousands of RMB)

	Note	Year ended 31 December 2012	2011
Cash flows from operating activities			
Cash generated from/(used in) operations	*34(a)*	**50,644**	(87,230)
Interest paid		**(29,545)**	(36,046)
Interest received		**1,463**	2,425
Income tax paid		**(39,772)**	(29,969)
Net cash used in operating activities		**(17,210)**	(150,820)
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		**(37,000)**	(64,577)
Proceeds from disposal of property, plant and equipment		**–**	38
Loans repayments from related parties and the Controlling Shareholder		**–**	230,537
Net cash (used in)/generated from investing activities		**(37,000)**	165,998
Cash flows from financing activities			
Deemed distribution to equity holders		**–**	(3,243)
Contribution by equity holders		**–**	71,123
Payment of the amounts due to a related party		**–**	(19,012)
Issuance of new ordinary shares		**129,137**	–
Proceeds from borrowings		**352,900**	484,720
Repayments of borrowings		**(520,620)**	(375,100)
Payment for initial public offering expenses		**(27,182)**	(10,304)
Net cash (used in)/generated from financing activities		**(65,765)**	148,184
Net (decrease)/increase in cash and cash equivalents		**(119,975)**	163,362
Cash and cash equivalents at beginning of the year		**202,586**	39,903
Exchange gains/(losses) on cash and cash equivalents		**309**	(679)
Cash and cash equivalents at end of the year		**82,920**	202,586

1. GENERAL INFORMATION

China Zhongsheng Resources Holdings Limited (the "Company") was incorporated in the 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 concentrates in the People's Republic of China (the "PRC") and exploration of metal reserves in Australia. The Company listed its shares on the Main Board of The Stock Exchange of Hong Kong Limited on 27 April 2012.

The directors considered Hongfa Holdings Limited ("Hongfa Holdings"), a company incorporated in the British Virgin Islands ("BVI") and wholly owned by Mr. Li Yunde (the "Controlling Shareholder"), to be the ultimate holding company.

These consolidated financial statements have been approved for issue by the Board of Directors on 26 March 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Presentation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.2 Changes in accounting policy and disclosures

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for those set out below:

- ***HKAS 1 – 'Financial statement presentation'***

  Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

- ***HKFRS 9 – 'Financial Instruments'***

  HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKFRS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Group will also consider the impact of the remaining phases of HKFRS 9 when completed by the Board.

- ***HKFRS 10 – 'Consolidated financial statements'***

  HKFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.2 Changes in accounting policy and disclosures (Continued)

- ***HKFRS 12 'Disclosure of interests in other entities'***

  HKFRS 12, 'Disclosures of interests in other entities', 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. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- ***HKFRS 13 'Fair value measurements'***

  HKFRS 13, 'Fair value measurement', 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.

- ***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.

The Group is in the process of making an assessment of the impact of these standards, amendments and interpretations on the consolidated 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.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.3 Consolidation

(a) *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. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise from circumstances where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.3 Consolidation (Continued)

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity holders 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.

(c) 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 and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. 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.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are 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.

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.4 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.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements 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 consolidated financial statements are presented in Renminbi ("RMB") which is the Company's functional currency and the Group's presentation currency.

(b) 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 equity 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 gains/(losses),net'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.5 Foreign currency translation (Continued)

(c) 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:

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

(ii) 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

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

2.6 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 2.9).

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

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.7 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.

2.8 Intangible assets

(a) 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.

(b) 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.

(c) 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;

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.8 Intangible assets (Continued)

(c) Exploration and evaluation assets (Continued)

(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 defined 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.

2.9 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.

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.10 Financial assets

2.10.1 Classification

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.

(a) *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 the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period, 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 sheet.

(b) *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.

(c) *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.

2.10.2 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.

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.10 Financial assets (Continued)

2.10.2 Recognition and measurement (Continued)

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.

2.11 Impairment of financial assets

(a) 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.

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.11 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

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.

(b) 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.

2.12 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.

2.13 Cash and cash equivalents

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

2.14 Accounts payables and other payables

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

2.15 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 end of the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.16 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 recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. 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 for deferred income tax liability 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.

2.17 Employee benefits

(a) 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.

(b) 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.

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.18 Provisions

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.

2.19 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:

- including any market performance conditions (for example, an entity's share price);

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

- including the impact of any non-vesting conditions (for example, 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 Group 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.

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.20 Provision for close down, restoration and environmental costs

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

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

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

2.21 Leases

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.

2.22 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.

(a) Sales of goods

Revenue associated with the sale of iron ore and iron concentrates 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.

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.22 Revenue recognition (Continued)

(b) Interest income

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

2.23 Dividend distribution

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

2.24 Government grants

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.

3. FINANCIAL RISK MANAGEMENT

3.1 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 Mining Industry Co. ("Shandong Ishine") and Ishine International Resources Limited ("Ishine International"), which operate 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.

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) *Market risk* *(Continued)*

(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 2012 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	
	2012	2011
Net profit increase/(decrease)		
– Higher 1%	**(1,098)**	(2,902)
– Lower 1%	**1,098**	2,902

(b) Credit risk

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

Bank deposits and restricted bank deposits are mainly placed in state-owned banks in the PRC and overseas banks that have investment grade ratings. Notes receivables represent bank acceptance notes. The issuing banks of these bank acceptance notes are either state-owned banks with investment grade ratings or local banks with good reputation. Management believes these financial institutions are of high credit quality and there is no significant credit risk on such bank deposits and bank acceptance notes. Sales to the Group's top five largest customers accounted for 82% and 78%, respectively, of the total revenue for the years ended 31 December 2012 and 2011. All of these major customers are with good credit history. The Group's historical experience in collection of trade and other receivables falls within the recorded allowance and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the consolidated financial statements.

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(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 date 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**
As at 31 December 2012				
Borrowings	**274,728**	**106,340**	**–**	**–**
Accounts payables	**59,936**	**–**	**–**	**–**
Other payables	**25,909**	**–**	**–**	**–**
Total	**360,573**	**106,340**	**–**	**–**

	Less than 1 year	1-2 years	2-5 years	Above 5 years
As at 31 December 2011				
Borrowings	383,502	71,704	108,595	–
Accounts payables	63,280	–	–	–
Other payables	16,078	–	–	–
Total	462,860	71,704	108,595	–

(d) Concentration risk

Revenue of the Group is principally derived from Shandong Ishine which has 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 2012, more than 82% of the Group's revenue was derived from sales made to top five customers (2011: 78%). 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.

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Fair value estimation

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

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

3.3 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 years ended 31 December 2012 and 2011, the Group's strategy is to maintain the gearing ratio below 60%. The gearing ratio at 31 December 2012 and 2011 were as follows:

	As at 31 December	
	2012	2011
Total debt – total borrowings	**349,900**	517,620
Total equity	**592,576**	437,893
Total capital	**942,476**	955,513
Gearing ratio	**37%**	54%

The decrease in gearing ratio during 2012 is mainly due to repayment of borrowings.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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 and notes receivable.

A considerable amount of judgement 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.

(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 judgements 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

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

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

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

(d) Useful lives of property, plant and equipment

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(e) Impairment of non-current assets

Non-current assets, including property, plant and equipment, intangible assets, are carried at cost or cost less accumulated depreciation, amortisation and impairment. 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.

5. 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 base on these reports.

Senior Executive Management assesses 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 concentrates in the PRC.

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

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

5. SEGMENT INFORMATION (CONTINUED)

(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 reports used by the CODM.

The segment information provided to the CODM for the reportable segments for the years ended 31 December 2012 and 2011 is as follows:

	Shandong Ishine	Ishine International	Total
Year ended 31 December 2012			
Revenue	**871,521**	**–**	**871,521**
Tenement and exploration expenses	**(1,020)**	**(1,671)**	**(2,691)**
Gross profit/(loss)	**154,477**	**(1,671)**	**152,806**
Finance income	**1,372**	**91**	**1,463**
Finance costs	**(36,275)**	**–**	**(36,275)**
Impairment losses	**–**	**(6,988)**	**(6,988)**
Income tax expense	**(24,113)**	**–**	**(24,113)**
Net profit/(loss)	**69,987**	**(14,388)**	**55,599**
Other information			
Depreciation of property, plant and equipment	**31,758**	**149**	**31,907**
Expenditures for non-current assets	**55,247**	**27**	**55,274**
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

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

5. SEGMENT INFORMATION (CONTINUED)

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

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

	2012	2011
Total revenue for reportable segments	871,521	1,010,252
Elimination of inter-segment revenue	–	–
Group revenue	871,521	1,010,252

	2012	2011
Net profit for reportable segments	55,599	136,406
Other unallocated expenses	(13,202)	(6,416)
Net profit	42,397	129,990

The segment information provided to the CODM for the reportable segments as at 31 December 2011 and 2012 is as follows:

	Shandong Ishine	Ishine International	Total
As at 31 December 2012			
Segment assets	1,015,609	17,676	1,033,285
Segment liabilities	(531,090)	(267)	(531,357)
As at 31 December 2011			
Segment assets	1,065,148	30,551	1,095,699
Segment liabilities	(650,616)	(649)	(651,265)

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

5. SEGMENT INFORMATION (CONTINUED)

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

(ii) Reconciliations of reportable segments assets

	2012	2011
Total assets for reportable segments	1,033,285	1,095,699
Other unallocated assets	494,917	398,137
Elimination of inter-segment accounts	(466,563)	(398,482)
Group assets	1,061,639	1,095,354

(iii) Reconciliations of reportable segments liabilities

	2012	2011
Total liabilities for reportable segments	531,357	651,265
Other unallocated liabilities	10,587	10,995
Elimination of inter-segment accounts	(72,881)	(4,799)
Group liabilities	469,063	657,461

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures	Mining infrastructures	Motor vehicles, equipment and others	Construction in progress	Total
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
Year ended 31 December 2012					
Opening net book value	**75,944**	**44,907**	**68,345**	**3,327**	**192,523**
Additions	**9,389**	**10,061**	**18,379**	**15,038**	**52,867**
Transferred from construction in progress	**2,434**	**–**	**3,722**	**(6,156)**	**–**
Depreciation charge	**(10,365)**	**(8,651)**	**(12,897)**	**–**	**(31,913)**
Effect of foreign exchange rate changes	**–**	**–**	**13**	**–**	**13**
Closing net book value	**77,402**	**46,317**	**77,562**	**12,209**	**213,490**
At 31 December 2012					
Cost	**98,110**	**56,816**	**119,387**	**12,209**	**286,522**
Accumulated depreciation	**(20,708)**	**(10,499)**	**(41,825)**	**–**	**(73,032)**
Net book value	**77,402**	**46,317**	**77,562**	**12,209**	**213,490**

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 2012	2011
Cost of sales	**23,399**	13,692
Administrative expenses	**8,485**	5,572
Capitalised in inventories	**29**	127
	31,913	19,391

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

7. INTANGIBLE ASSETS

	Exploration rights (a)	Exploration and evaluation assets (b)	Mining rights (c)	Total
Year ended 31 December 2011				
Opening net book amount	13,003	14,971	–	27,974
Additions	–	1,669	–	1,669
Transfer to mining rights	–	(4,327)	4,327	–
Amortisation charge	–	–	(30)	(30)
Effect of foreign exchange rate changes	(394)	–	–	(394)
Closing net book amount	12,609	12,313	4,297	29,219
At 31 December 2011				
Cost	12,609	12,313	4,327	29,249
Accumulated amortisation	–	–	(30)	(30)
Net book amount	12,609	12,313	4,297	29,219
Year ended 31 December 2012				
Opening net book amount	**12,609**	**12,313**	**4,297**	**29,219**
Additions	**–**	**2,460**	**–**	**2,460**
Amortisation charge	**–**	**–**	**(242)**	**(242)**
Effect of foreign exchange rate changes	**154**	**–**	**–**	**154**
Impairment	**(4,006)**	**–**	**–**	**(4,006)**
Closing net book amount	**8,757**	**14,773**	**4,055**	**27,585**
At 31 December 2012				
Cost	**8,757**	**14,773**	**4,327**	**27,857**
Accumulated amortisation	**–**	**–**	**(272)**	**(272)**
Net book amount	**8,757**	**14,773**	**4,055**	**27,585**

Amortisation charge of the Group was included in 'administrative expenses' in the consolidated statements of comprehensive income.

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

7. INTANGIBLE ASSETS (CONTINUED)

(a) 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 a consideration of RMB4,750,000.

(ii) certain exploration tenements in Australia acquired by the Group in 2009 amounting to AUD1,226,100 (equivalent to RMB8,013,000), which was settled by:

- Cash of AUD50,000 (equivalent to RMB326,000);

- 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 RMB2,614,000), and

- 5,000,000 options to acquire the shares of Ishine International at AUD0.20 each on or before 31 December 2015 to the vendor (Note 33(a)). The total fair value of the options granted as at the date of acquisition was AUD776,100 (equivalent to RMB5,073,000).

(iii) During the year, the board of directors of Ishine International decided not to pursue further interest in one of the exploration tenements, and the capitalised acquisition cost of AUD613,053 (equivalent to RMB4,006,000) was recognised as an impairment loss.

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

(c) During the year ended 31 December 2011, one of the mining 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 2012 and 2011, all the Group's mining rights were pledged as collaterals for the Group's borrowings (Note 22).

8. INTEREST IN SUBSIDIARIES

The Company

	As at 31 December	
	2012	2011
Unlisted investment, at cost (a)	**217,126**	217,126
Amount due from subsidiaries (b)	**242,702**	176,893
Total interest in subsidiaries	**459,828**	394,019

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

8. INTEREST IN SUBSIDIARIES (CONTINUED)

The Company (Continued)

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

(b) Amount due from subsidiaries represents shareholder's loans to Alliance Worldwide Investment Limited ("Alliance Worldwide") and Ishine Mining International Limited ("Ishine Mining"), which are the intermediate holding companies. Such loans are unsecured, non interest bearing and not repayable until Alliance Worldwide and Ishine Mining are financially capable to do so.

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		BVI/ 29 November 2010	Investment holding	Limited liability company	USD50,000	100%
Indirectly held:						
Ishine Mining		Hong Kong/ 22 December 2010	Investment holding	Limited liability company	HKD10,000	100%
Fortuneshine Investment Limited		Cayman Islands/ 21 September 2010	Investment holding	Limited liability company	USD50,000	100%
Shine Mining Investment Limited		Hong Kong/ 1 November 2010	Investment holding	Limited liability company	HKD10,000	100%
Shandong Ishine		The PRC/ 4 December 2001	Iron ore mining processing and sales of iron concentrates	Limited liability company	USD16,850,903	100%
Ishine International	(a)	Australia/ 18 September 2009	Exploration of metal reserves	Limited liability company	AUD7,621,235	69.51%

(a) On 28 December 2012, 3,551,291 shares were allotted and issued by Ishine International to Shandong Ishine at consideration of AUD781,284 (equivalent to RMB5,023,000). The equity interest was increased from 68.27% to 69.51%.

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9. AVAILABLE FOR SALE FINANCIAL ASSETS

	As at 31 December	
	2012	2011
Beginning balance	**4,256**	–
Transfer from investment in an associate (a)	**–**	5,750
Effect of foreign exchange rate changes	**103**	(430)
Gain/(Loss) from revaluation (b)	**1,064**	(1,064)
Impairment loss (b)	**(2,982)**	–
Ending balance	**2,441**	4,256

(a) Ishine International holds 7.8% of the ordinary share capital of Athena Resources Limited ("Athena"), which is a former associate. As at 1 July 2011, Athena ceased to be the Company's associate as the Group no longer demonstrates significant influence due to the dilution of Ishine International's equity interests in Athena and resignation of the Group's representative from the board of Athena as director.

(b) The fair value of such financial assets mentioned in note (a) has been determined by reference to published quotation in an active market. During 2012, AUD456,500 (equivalent to RMB2,982,000) was recognised as an impairment loss on the basis that it was considered as a permanent diminution in value. The change of value in available for sale financial assets of RMB1,064,000 recognised in reserve in 2011 was reversed accordingly.

10. OTHER FINANCIAL ASSETS

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

	As at 31 December	
	2012	2011
Athena Options	**–**	561

The Group's other financial assets represent 4,150,000 options of Athena's share acquired by the Group upon the acquisition of Athena as an associate. These options were excisable at AUD0.08 per share, which were lately expired and unexercised on 30 April 2012.

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

11. DEFERRED INCOME TAX ASSETS AND LIABILITIES

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

	As at 31 December	
	2012	2011
Deferred tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	335	2,495
– Deferred income tax assets to be recovered within 12 months	1,638	295
	1,973	2,790

	As at 31 December	
	2012	2011
Deferred tax liabilities:		
– Deferred income tax liabilities to be recovered after more than 12 months	3,635	2,963
– Deferred income tax liabilities to be recovered within 12 months	–	226
	3,635	3,189

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

	Year ended 31 December	
	2012	2011
Beginning balance of the year	(399)	1,623
Recognised in the consolidated statements of comprehensive income *(Note 29)*	(1,263)	(2,022)
Ending balance of the year	(1,662)	(399)

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

11. DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

The movement in deferred income tax assets and liabilities during 2012, 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	Others	Total
At 31 December 2011	2,495	295	2,790
Recognised in the consolidated statements of comprehensive income	(857)	40	(817)
At 31 December 2012	**1,638**	**335**	**1,973**

(b) Deferred income tax liabilities

	Depreciation of mining infrastructure	Others	Total
At 31 December 2011	2,962	227	3,189
Recognised in the consolidated statements of comprehensive income	673	(227)	446
At 31 December 2012	**3,635**	**–**	**3,635**

(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 2012, Shandong Ishine, the subsidiary of the Group incorporated in the PRC, with total retained earnings amounting to RMB55,599,000 will be subject to this withholding tax. The Group did not recognise the related deferred tax liabilities of approximately RMB2,780,000 as at 31 December 2012, as the Directors of the Company had foreseen that retained earnings up to 31 December 2012 of Shandong Ishine will not be distributed in the future.

(ii) As at 31 December 2012 and 2011, the Group did not recognise deferred income tax assets of RMB9,112,000 and RMB7,156,000 in respect of accumulated losses arising from Ishine International amounting to RMB30,373,000 and RMB23,848,000 respectively, which can be carried forward indefinitely to offset against future taxable income.

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

12. INVENTORIES

	As at 31 December	
	2012	2011
Raw materials		
– Iron ore	238	3,140
– Others	8,612	4,749
Finished goods	3,589	22,708
Spare parts and others	3,833	3,483
	16,272	34,080

For the years ended 31 December 2012 and 2011, the cost of inventories recognised as cost of sales amounting to approximately RMB612,361,000 and RMB639,556,000, respectively.

13. ACCOUNTS RECEIVABLES

	As at 31 December	
	2012	2011
Accounts receivables	271,716	199,798

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

As at 31 December 2012 and 2011, the carrying amounts of accounts receivables approximated their fair values.

Ageing analysis of accounts receivables as at 31 December 2012 and 2011 is as follows:

	As at 31 December	
	2012	2011
Accounts receivables		
– Less than 3 months	162,309	195,864
– 3 months to 6 months	68,648	3,399
– 6 months to 1 year	40,759	535
	271,716	199,798

All the Group's accounts receivables were denominated in RMB as at 31 December 2012 and 2011. There was no provision for accounts receivables as at 31 December 2012 and 2011. The maximum exposure to credit risk at the balance sheet date was the carrying value of the accounts receivables.

As at 31 December 2012 and 2011, accounts receivables with carrying amount of, RMB181,423,000 and RMB145,445,000, respectively, were pledged as collaterals for the Group's borrowings (Note 22).

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

13. ACCOUNTS RECEIVABLES (CONTINUED)

As at 31 December 2012 and 2011, accounts receivables of approximately RMB109,407,000 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.

14. NOTES RECEIVABLES

	As at 31 December	
	2012	2011
Notes receivables		
– bank acceptance notes	**261,739**	327,150

The ageing of notes receivables is within 6 months. As at 31 December 2012 and 2011, the carrying amounts of notes receivables approximated their fair values.

As at 31 December 2012 and 2011, bank acceptance notes with carrying amount of RMB20,000,000 and RMB69,000,000 were pledged as collateral against the Group's bank borrowings (Note 22).

15. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			
	The Group		The Company	
	2012	2011	**2012**	2011
Advance to suppliers (a)	**175,405**	91,269	**–**	–
Land restoration deposit (Note 23)	**4,425**	4,425	**–**	–
Advance to employees	**188**	113	**–**	–
Deferred initial public offering fees (b)	**–**	3,510	**–**	–
Others	**2,687**	3,074	**1,555**	3,510
	182,705	102,391	**1,555**	3,510

(a) As of 31 December 2012 and 2011, advance to suppliers mainly comprised prepayments made to suppliers for purchasing of iron concentrates and coarse iron powder.

(b) Deferred initial public offering ("IPO") fees represent legal and other professional fees relating to the initial public offering of the Company's shares.

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

16. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

The Group

	As at 31 December	
	2012	2011
Cash and cash equivalents		
– Cash on hand	**352**	331
– Cash at banks	**82,568**	202,255
	82,920	202,586
Restricted bank deposits		
– Deposits for property lease guarantee	**798**	–
	83,718	202,586

The Group

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

	As at 31 December	
Original Currencies	**2012**	2011
RMB	**39,110**	184,694
AUD	**10,524**	11,837
USD	**903**	6,048
HKD	**33,181**	7
	83,718	202,586

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

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

16. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS (CONTINUED)

The Company

	As at 31 December 2012	2011
Cash and cash equivalents		
– Cash on hand	6	6
– Cash at banks	32,940	63
	32,946	69

Cash and cash equivalents were denominated in the following currencies:

Original Currencies	As at 31 December 2012	2011
USD	42	63
HKD	32,904	6
	32,946	69

17. SHARE CAPITAL AND SHARE PREMIUM

The Group and the Company

Authorised shares:	Number of authorised shares
As at 8 February 2011 (date of incorporation) and as at 31 December 2011	38,000,000
Addition (a)	2,962,000,000
As at 31 December 2012	3,000,000,000

(a) On 9 April 2012, the Company's shareholders resolved to increase the authorised share capital of the Company from HKD380,000 to HKD30,000,000 by the creation of additional 2,962,000,000 shares with par value of HKD0.01 each share, each ranking pari passu with shares then in issue in all respects.

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

17. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

The Group and the Company (Continued)

Issued shares:	Number of shares issued and fully paid	Share capital	Share premium	Total
Issue of one share upon incorporation on 8 February 2011	1	–	–	–
Issue of shares to Hongfa Holdings (a)	750,000	6	104,987	104,993
Issue of shares to All Five Capital Limited and Novi Holdings Limited (b)	250,000	2	98,422	98,424
Issue of shares to Jiuding Callisto Limited (c)	111,111	1	71,351	71,352
At 31 December 2011	1,111,112	9	274,760	274,769
Shares issued pursuant to the capitalisation issue (d)	590,000,472	4,774	(4,774)	–
Shares issued for initial public offering (e)	129,760,000	1,051	109,340	110,391
At 31 Decembers 2012	**720,871,584**	**5,834**	**379,326**	**385,160**

(a) On 18 February and 15 November 2011, 749,999 and one shares were allotted and issued to Hongfa Holdings at total considerations equivalent to RMB104,993,000.

(b) On 2 September 2011, 250,000 shares at consideration of RMB98,424,000 were allotted and issued, all credit as fully paid, to All Five Capital Limited and Novi Holdings Limited, which were incorporated in BVI.

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

(d) 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 Company's prospectus dated 17 April 2012, the Company capitalised an amount of HKD5,900,005 (equivalent to RMB4,774,000) 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.

(e) On 27 April 2012, the Company issued 129,760,000 ordinary shares at HKD1.23 per share as the result of initial public offering.

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

18. RESERVES

The Group

	Merger reserve (a)	Capital reserve	Statutory reserve funds (c)	Safety fund (d)	Future development fund (e)	Share-based payments reserve	Available-for-sale financial assets reserve	Currency translation differences	Total
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	–	(3,243)	–	–	–	–	–	–	(3,243)
Contribution by equity holders	–	71,123	–	–	–	–	–	–	71,123
At 31 December 2011	(162,269)	50,941	38,171	50,643	11,882	3,701	(729)	704	(6,956)
Change in value on available-for-sale financial assets	–	–	–	–	–	–	729	–	729
Appropriations	–	–	5,479	12,115	6,714	–	–	–	24,308
Share-based payments	–	–	–	–	–	168	–	413	581
At 31 December 2012	**(162,269)**	**50,941**	**43,650**	**62,758**	**18,596**	**3,869**	**–**	**1,117**	**18,662**

The Company

	Note	Contributed surplus 2012	2011
At 31 December 2011		**118,704**	–
Contributed surplus	(b)	**845**	118,704
At 31 December 2012		**119,549**	118,704

(a) Merger reserve

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

(b) 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.

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

18. RESERVES (CONTINUED)

(c) 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 2012 and 2011, Shandong Ishine appropriated RMB5,479,000 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.

(d) 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.

(e) 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 expenditures from future development fund to retained earnings.

19. ACCOUNTS PAYABLES

	As at 31 December	
	2012	2011
Accounts payables	**59,936**	63,280

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

	As at 31 December	
	2012	2011
Less than 6 months	**57,103**	63,015
6 months to 1 year	**2,473**	194
1 year and above	**360**	71
	59,936	63,280

As at 31 December 2012 and 2011, the carrying amounts of accounts payables approximated their fair values. Accounts payables were denominated in RMB.

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

20. NOTES PAYABLES

	As at 31 December	
	2012	2011
Notes payables		
– Bank acceptance notes	1,180	–

The ageing of notes payables is within 6 months.

As at 31 December 2012, the carrying amounts of notes payables approximated their fair values.

21. ACCRUALS AND OTHER PAYABLES

The Group

	As at 31 December	
	2012	2011
Amount due to the Controlling Shareholder (Note 36)	–	6,115
Employee benefit payables	4,280	3,734
Deposits and receipts in advance	13,920	5,483
Accrued land compensation cost	2,986	2,406
Other tax payable	12,614	16,301
Others	9,003	2,074
	42,803	36,113

The Company

	As at 31 December	
	2012	2011
Amount due to the Controlling Shareholder (Note 36)	–	6,115
Amount due to Shandong Ishine	3,218	4,799
Employee benefit payables	176	–
Others	6,488	–
	9,882	10,914

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

22. BORROWINGS

	As at 31 December 2012	2011
Non-current		
Bank borrowings	**100,000**	160,000
Current		
Bank borrowings	**189,900**	317,620
Short-term portion of non-current borrowings	**60,000**	40,000
	249,900	357,620
Total borrowings	**349,900**	517,620
Representing:		
Secured –		
Pledged (a)	**329,900**	362,620
Guaranteed (b)	**20,000**	155,000
	349,900	517,620

(a) As at 31 December 2012 and 2011, bank borrowings of RMB160,000,000 and RMB200,000,000 were pledged by a mining right of Shandong Ishine with book value of RMB4,055,000 and RMB4,327,000, respectively.

As at 31 December 2012 and 2011, bank borrowings of RMB150,000,000 and RMB107,000,000 were pledged by the Group's accounts receivables (Note 13) with carrying amount of RMB181,423,000 and RMB145,445,000, respectively.

As at 31 December 2012 and 2011, bank borrowings of RMB19,900,000 and RMB55,620,000 were pledged by the Group's notes receivables (Note 14) with carrying amount of RMB20,000,000 and RMB69,000,000, respectively.

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

22. BORROWINGS (CONTINUED)

(b) As at 31 December 2012 and 2011, the following borrowings of the Group were guaranteed by certain third parties and the Controlling Shareholder:

	As at 31 December 2012	2011
Joint guarantee given by third parties and the Controlling Shareholder		
– Hesheng Minerals Processing Co., Ltd ("Hesheng Minerals")	–	55,000
– Hesheng Minerals, Linyi Hexing Material Trading Co., Ltd. and the Controlling Shareholder	–	40,000
– Linyi Hexing Material Trading Co., Ltd.	–	30,000
Guarantee given by the Controlling Shareholder (Note 36)	20,000	–
Guarantee given by other third parties		
– Yishui Xinxing Building Materials Co., Ltd.	–	30,000
	20,000	155,000

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

The weighted average effective interest rates per annum as at 31 December 2012 and 2011 were as follows:

	As at 31 December 2012	2011
RMB	6.24%	7.00%

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

	As at 31 December 2012	2011
Within 6 months	129,900	207,000
6 months to 1 year	120,000	310,620
1 year and above	100,000	–
	349,900	517,620

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

22. BORROWINGS (CONTINUED)

The maturity of non-current borrowings as at 31 December 2012 and 2011 was as follows:

	As at 31 December	
	2012	2011
1-2 years	**100,000**	60,000
2-5 years	**–**	100,000
	100,000	160,000

As at 31 December 2012 and 2011, the carrying amounts of current borrowings and non-current borrowings approximated their fair values.

23. PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS

	As at 31 December	
	2012	2011
At beginning of year	**9,978**	13,008
Interest charge on unwinding of discounts (Note 28)	**729**	850
Payments	**(4,156)**	(3,880)
At end of year	**6,551**	9,978

A provision is recognised for the present value of costs to be incurred for the restoration of the damaged land in the mine site due to mining activities and the removal of the processing plants. These costs have been determined by management based on their past experience and best estimate of future expenditure by discounting the expected expenditures to their net present value. However, in so far as the effect of the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to revision in the future. The amounts provided in relation to close down, restoration and environmental clean-up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are remeasured accordingly.

Pursuant to the Letter of Commitment issued by Shandong Ishine to relevant authorities in 2009, Shandong Ishine has committed to pay land restoration deposit of not less than RMB43,049,000 before the expiration of its mining license. The initial payment should not be less than 50% of the existing balance. The last payment being due 1 year before the mining right expire date. The deposit is not refundable if Shandong Ishine does not fulfill its obligation to restore the land destroyed due to mining activities. As of 31 December 2012 and 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.

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

24. REVENUE

	Year ended 31 December	
	2012	2011
Production		
– Sales of iron concentrates	**549,032**	687,010
Trading		
– Sales of coarse iron powder	**310,936**	262,928
– Others	**11,553**	60,314
	322,489	323,242
Total	**871,521**	1,010,252

25. EXPENSE BY NATURE

	Year ended 31 December	
	2012	2011
Changes in inventories of finished goods and iron ore (Note 12)	**22,021**	(13,281)
Payment to mining contractors	**56,855**	71,983
Cost of raw materials for production	**207,320**	269,612
Cost of raw materials for trading	**300,778**	287,218
Spare parts and others	**25,387**	24,024
Employee benefits (Note 26)	**24,868**	24,262
Depreciation (Note 6)	**31,913**	19,391
Amortisation (Note 7)	**242**	30
Utilities and electricity	**29,780**	24,139
Transportation expenses	**13,101**	17,825
Professional fees	**8,435**	7,504
Auditor's remuneration	**3,332**	3,136
Resources tax	**16,323**	12,443
Impairment losses	**6,988**	–
Other expenses	**31,389**	36,881
Total cost of sales, selling and distribution costs and administrative expenses	**778,732**	785,167

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

26. EMPLOYEE BENEFITS (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December 2012	2011
Wages, salaries and allowances	**18,586**	20,470
Pensions and others welfare expenses	**6,282**	3,792
	24,868	24,262

27. OTHER GAINS, NET

	Year ended 31 December 2012	2011
Gain on fair value revaluation upon transfer from associate to available-for-sale financial assets	**–**	3,103
Loss on disposal of property, plant and equipment	**–**	(1,459)
Government grants	**8,010**	–
Others	**(562)**	1,372
	7,448	3,016

28. FINANCE COSTS, NET

	Year ended 31 December 2012	2011
Finance income		
– Interest income of bank deposits (wholly paid within five years)	**1,463**	2,425
Exchange gains/(loss), net	**831**	(1,531)
Finance costs		
– Interest expense on bank borrowings	**(29,545)**	(38,446)
– Interest charge on unwinding of discounts (Note 23)	**(729)**	(850)
– Interest expense on discount of bank acceptance notes	**(5,296)**	(10,061)
– Others	**(451)**	–
	(36,021)	(49,357)
Finance costs, net	**(33,727)**	(48,463)

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

29. INCOME TAX EXPENSE

	Year ended 31 December 2012	2011
Current income tax	**22,850**	46,020
Deferred income tax (Note 11)	**1,263**	2,022
	24,113	48,042

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

The subsidiary incorporated in the British Virgin Islands under the International Business Companies Acts of the British Virgin Islands is exempted from payment of the 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 years ended 31 December 2012 and 2011.

Australia corporation income tax 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 years ended 31 December 2012 and 2011.

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 2012	2011
Profit before income tax	**66,510**	178,032
Tax calculated at statutory tax rate	**19,116**	45,973
Income not subject to tax	**(1,906)**	(218)
Expenses not deductible for taxation purposes	**4,947**	66
Tax losses for which no deferred income tax asset was recognised	**1,956**	2,221
Income tax expense	**24,113**	48,042

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

30. EARNINGS PER SHARE

The basic earnings per share is calculated based on the profit attributable to shareholders of the Company for each of the years ended 31 December 2012 and 2011, and on the assumption that 1,111,112 shares issued after the completion of a reorganisation for IPO purpose were deemed to have been issued since 1 January 2011. The capitalisation issue (Note 17) was deemed to have been issued since 1 January 2011.

	Year ended 31 December	
	2012	2011
Profit attributable to shareholders of the Company	**46,904**	132,150
Adjusted weighted average number of shares in issue	**679,277,283**	591,111,584
Basic and diluted earnings per share (Expressed in RMB per share)	**0.07**	0.22

Diluted earnings per share is equal to basic earnings per share as there was no dilutive potential share outstanding for the years ended 31 December 2012 and 2011.

31. DIVIDENDS

A dividend in respect of the year ended 31 December 2012 of HKD0.004 per ordinary share, amounting to a total dividend of HKD2,880,000 (equivalent to RMB2,304,000) is recommended by the directors on 26 March 2013, which is to be paid out of the share premium account of the Company. Such dividend is subject to the approval by the shareholders at the next Annual General Meeting. These financial statements do not reflect this dividend payable.

In 2011, except for the dividends declared by Shandong Ishine to its equity holders on 7 January 2011 of RMB80,000,000, no other dividend has been paid or declared by the Company or the companies comprising the Group.

32. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Directors' emoluments for the years ended 31 December 2012 and 2011 are set out as follows:

	Year ended 31 December	
	2012	2011
Basic salaries and allowances	**1,880**	613
Other benefits including pension	**42**	14
Total	**1,922**	627

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

32. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) Directors' emoluments (Continued)

Directors' emoluments are set out below:

	Fees	Salaries and allowances	Discretionary bonus	Pension – defined contribution plans	Other benefits	Total
Year ended 31 December 2011						
Executive Directors						
Li Yunde (李運德)	–	302	–	7	–	309
Geng Guohua (耿國華)	–	251	–	7	–	258
Independent Non-executive Directors						
Zhang Jingsheng (張涇生)	–	60	–	–	–	60
Year ended 31 December 2012						
Executive Directors						
Li Yunde (李運德)	–	742	–	17	–	759
Geng Guohua (耿國華)	–	454	–	17	–	471
Lang Weiguo (郎偉國) (a)	–	330	–	8	–	338
Independent Non-executive Directors						
Lin Chuchang (林鉅昌) (b)	–	165	–	–	–	165
Zhang Jingsheng (張涇生)	–	107	–	–	–	107
Li Xiaoyang (李曉陽) (b)	–	82	–	–	–	82

(a) On 9 April 2012, Mr. Lang Weiguo was appointed as a director of the Company. The amount of emoluments received by Mr. Lang Weiguo is RMB338,000 (2011: nil) for the year ended 31 December 2012.

(b) On 9 April 2012, the Company appointed 2 independent non-executive directors, Mr. Lin Chuchang and Mr. Li Xiaoyang. The amounts of emoluments received by Mr. Lin Chuchang and Mr. Li Xiaoyang are RMB165,000 and RMB82,000 (2011: nil, nil), respectively for the year ended 31 December 2012.

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

32. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(b) Five highest paid individuals

For years ended 31 December 2012 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	
	2012	2011
Basic salaries and allowances	**3,285**	2,879
Discretionary bonuses	**97**	137
Other benefits including pension	**159**	118
Total	**3,541**	3,134

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

	Number of individuals Year ended 31 December	
	2012	2011
Emolument bands (in HK dollar)		
HKD500,000 and below	**2**	3
HKD500,001 – HKD1,000,000	**2**	1
HKD1,000,001 – HKD1,500,000	**1**	1

During the years ended 31 December 2012 and 2011, 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.

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

33. SHARE BASED PAYMENTS

Ishine International, a subsidiary of the Group, has signed share-based payment 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

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

	Note (i)	Note (ii)	Note (iii)
No. of options issued	5,000,000	1,075,000	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

(i) Share options issued for acquisition of exploration rights

As disclosed in Note 7(a)(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 RMB5,073,000) and was recorded as part of consideration for acquisition of the exploration rights.

(ii) Share options 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. On 2 November 2010, 100,000 options with exercise price of AUD0.20 expiring 29 March 2013 were exercised.

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

33. SHARE BASED PAYMENTS (CONTINUED)

(a) Share options (Continued)

(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 were expired and unexercised on 31 December 2012.

The total fair value of above options granted was AUD909,560 (equivalent to RMB5,617,000) which has been fully recorded by the Group by 31 December 2012 as follows:

(1) As disclosed in Note 7, options amounted to AUD776,100 (equivalent to RMB5,073,000) is recorded as exploration rights; and

(2) Share option expenses of RMB849,000 was recorded in administrative expenses in the consolidated statements of comprehensive income during the beneficial period.

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 2012	2011
31 December 2012	0.3000	–	200
29 March 2013	0.2000	1,075	1,075
31 December 2015	0.2000	5,000	5,000
		6,075	6,275

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Year ended 31 December	
	2012	2011
Profit before income tax	66,510	178,032
Adjustments for:		
Impairment loss	6,988	–
Depreciation (Note 25)	31,913	19,391
Loss on disposals of property, plant and equipment (Note 27)	–	1,459
Amortisation (Note 25)	242	30
Interest income (Note 28)	(1,463)	(2,425)
Interest expense (Note 28)	29,545	38,446
Interest charge on unwinding of discounts (Note 28)	729	850
Share of loss of an associate	–	1,606
Gain on fair value revaluation upon transfer from association to available-for-sale financial assets (Note 27)	–	(3,103)
Change in share-based payments reserve	240	251
Initial public offering expenses	8,435	6,794
Changes in working capital:		
Inventories	16,857	(18,198)
Prepayments and other receivables	(80,522)	(44,080)
Accounts receivables	(71,918)	(97,653)
Notes receivables	45,552	(220,230)
Accounts payables	(5,381)	27,425
Notes payables	1,180	(13,490)
Accruals and other payables	6,690	6,945
Provision for close down, restoration and environmental costs (Note 23)	(4,156)	(3,880)
Restricted bank deposits (Note 16)	(798)	34,600
Cash used in operations	50,644	(87,230)

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) Major non-cash transactions:

(i) 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 32, Shandong Ishine declared dividends of RMB80,000,000 in 2011 to its equity holders. Such dividends payable was settled in the following manner:

(1) RMB71,000,000 of the dividends payable was due to the Controlling Shareholder, amongst which RMB64,000,000 was net off with the loan due from the Controlling Shareholder as mentioned in (i) above; whist 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.

35. 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	
	2012	2011
No later than 1 year	**6,440**	9,547
1 to 3 years	**5,360**	8,520
3 to 5 years	**4,286**	6,701
	16,086	24,768

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

36. 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 years ended 31 December 2012 and 2011, 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

(b) Significant transactions with related parties

During 2012, the Group has the following significant transactions with related parties:

(i) Movement of amount due from/(to) the Controlling Shareholder (Note 21):

	As at 31 December 2012	2011
At the beginning of the year	**(6,115)**	350,550
Net repayment in cash	**6,115**	(224,490)
Addition (net of repayment) in form of bank acceptance notes	–	37,940
Repayment by offsetting dividends payable	–	(164,000)
Others	–	(6,115)
At the end of the year	–	(6,115)

(ii) As at 31 December 2012, bank borrowings with an amount of RMB20,000,000 was guaranteed by the Controlling Shareholder. As at 31 December 2011, bank borrowings with an amount of RMB40,000,000 was jointly guaranteed by the Controlling Shareholder and a third party (Note 22).

For the year ended 31 December 2012 (Amounts expressed in thousands of RMB unless otherwise stated)

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balances with related parties

	As at 31 December	
	2012	2011
Accrual and other payables		
– the Controlling Shareholder (Note 21)	–	6,115
	–	6,115

(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	
	2012	2011
Wages, salaries and allowances	**2,466**	1,935
Contributions to pension plans	**53**	41
	2,519	1,976

37. SUBSEQUENT EVENTS

In 2013, the Company acquired 95% equity interests of a third party company which is engaged in iron ore and titanium ore mining business at a consideration of RMB20,900,000. As at the reporting date, the fair value assessment of the acquired company is still under progress.

Financial Highlights

A summary of the operational results, assets and liabilities, cash flows and other financial ratios information is as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December			
	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**871,521**	1,010,252	485,452	196,447
Cost of sales	**(718,715)**	(734,056)	(281,063)	(124,722)
Gross profit	**152,806**	276,196	204,389	71,725
Selling and distribution expenses	**(10,973)**	(9,649)	(4,602)	(4,487)
Administrative expenses	**(49,044)**	(41,462)	(31,732)	(19,381)
Finance costs, net	**(33,727)**	(48,463)	(22,577)	(8,324)
Share of loss of an associate	**–**	(1,606)	(851)	–
Profit before tax	**66,510**	178,032	142,125	39,408
Income tax expense	**(24,113)**	(48,042)	(39,563)	(10,679)
Profit and total comprehensive income attributable to:				
Equity holders of the Company	**94,950**	262,566	109,468	28,679
Non-controlling interests	**(8,501)**	(5,059)	(3,676)	(684)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	For the year ended 31 December			
	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Current Assets	**816,150**	866,005	804,805	651,442
Non-current Assets	**245,489**	229,349	157,441	107,662
Current Liabilities	**358,877**	484,294	425,011	233,162
Non-current liabilities	**110,186**	173,167	214,990	162,210
Equity attributable to:				
Equity holders of the Company	**588,008**	429,403	310,935	349,933
Non-controlling interests	**4,568**	8,490	11,310	13,799

Financial Highlights

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended 31 December			
	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Net cash used in operating activities	**(17,210)**	(150,820)	(152,910)	(21,193)
Net cash generated from/(used in) investing activities	**(37,000)**	165,998	22,167	(224,145)
Net cash generated from/(used in) financing activities	**(65,765)**	148,184	50,251	281,548

SELECTED FINANCIAL RATIOS

	For the year ended 31 December			
	2012	2011	2010	2009
Gross profit margin	**17.5%**	27.3%	42.1%	36.5%
Net profit margin	**4.9%**	12.9%	21.1%	14.6%
Gearing ratio	**37.1%**	54.2%	55.9%	44.4%