



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

Interim Report

2015





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CORPORATE INFORMATION

Board of Directors

Executive Directors

Li Yunde (*Chairman*)

Geng Guohua (*Chief Executive 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 (*Committee Chairman*)

Li Xiaoyang

Zhang Jingsheng

Remuneration Committee

Lin Chu Chang (*Committee Chairman*)

Li Yunde

Zhang Jingsheng

Nomination Committee

Li Yunde (*Committee 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

As to Australian law:

Steinepreis Paganin

As to Thailand law:

Bamrung Suvicha Apisakdi Law Associates

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

CORPORATE INFORMATION

Principal Place of Business in Hong Kong

Suite 3606, 36th Floor
Tower 6, The Gateway
Harbour City
9 Canton Road
Tsim Sha Tsui
Kowloon
Hong Kong

Principal Share Registrar and Transfer Office

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street
PO Box 1350
Grand Cayman
KY1-1108
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

Agricultural Bank of China, Yishui Branch
China Construction Bank Corporation,
Yishui Branch
Bank of China Limited, Yishui Branch
Industrial and Commercial Bank of China Ltd, Yishui Branch
Rural Commercial Bank of Shandong Yishui
Linshang Bank, Yishui Branch
Shanghai Pudong Development Bank, Linyi Branch
Ping An Bank Co., Ltd., Linyi Branch
Industrial Bank Co., Ltd., Linyi Branch

Stock Code

2623

Company Website

<http://www.chinazhongsheng.com.hk>

The board (the "Board") of directors (the "Director(s)") of China Zhongsheng Resources Holdings Limited (the "Company") presents the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2015 together with the comparative figures for the corresponding period in 2014. The interim results has not been audited but has been reviewed by the audit committee of the Company (the "Audit Committee").

Unaudited Condensed Consolidated Interim Balance Sheet

As at 30 June 2015 (Amounts expressed in thousands of RMB)

		As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment	7	392,686	391,926
Intangible assets	8	120,255	131,366
Available-for-sale financial assets	9	351	416
Deferred income tax assets	10	20,510	8,914
Total non-current assets		533,802	532,622
Current assets			
Inventories	11	77,934	78,785
Trade receivables	12	187,224	201,128
Notes receivables	13	36,905	31,750
Prepayments and other receivables	14	147,820	76,243
Restricted bank deposits	15	165,000	1,550
Cash and cash equivalents	15	185,085	142,024
Total current assets		799,968	531,480
Total assets		1,333,770	1,064,102
EQUITY			
Equity attributable to owners of the Company			
Share capital and share premium	16	627,701	473,696
Reserves		60,512	65,195
Retained earnings		121,048	177,900
		809,261	716,791
Non-controlling interests		2,711	3,397
Total equity		811,972	720,188

Unaudited Condensed Consolidated Interim Balance Sheet

As at 30 June 2015 (Amounts expressed in thousands of RMB)

	Note	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings	17	89,013	50,764
Provision for close down, restoration and environmental costs	18	25,283	24,654
Deferred income tax liabilities	10	16,736	21,489
Total non-current liabilities		131,032	96,907
Current liabilities			
Borrowings	17	150,000	171,280
Trade payables	19	51,737	40,361
Notes payables	20	110,000	630
Accruals and other payables	21	76,608	32,315
Dividends payables	28	1,259	1,259
Current income tax liabilities		1,162	1,162
Total current liabilities		390,766	247,007
Total liabilities		521,798	343,914
Total equity and liabilities		1,333,770	1,064,102
Net current assets		409,202	284,473
Total assets less current liabilities		943,004	817,095

Unaudited Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2015 (Amounts expressed in thousands of RMB)

	Note	Six months ended 30 June	
		2015 (Unaudited)	2014 (Unaudited)
Revenue	22	181,677	279,235
Cost of sales	23	(189,735)	(234,689)
Gross (loss)/profit		(8,058)	44,546
Other (losses)/gains, net	24	(13,213)	1,303
Distribution costs	23	(1,786)	(3,176)
Administrative expenses	23	(60,670)	(21,863)
Operating (loss)/profit		(83,727)	20,810
Finance income	25	710	1,416
Finance costs	25	(10,067)	(11,470)
Finance costs, net		(9,357)	(10,054)
(Loss)/Profit before income tax		(93,084)	10,756
Income tax credit/(expense)	26	16,349	(4,287)
(Loss)/Profit for the period		(76,735)	6,469
(Loss)/Profit attributable to:			
Owners of the Company		(76,050)	7,117
Non-controlling interests		(685)	(648)
		(76,735)	6,469

Unaudited Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2015 (Amounts expressed in thousands of RMB)

	Note	Six months ended 30 June	
		2015 (Unaudited)	2014 (Unaudited)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		(55)	536
Total comprehensive (loss)/income for the period		(76,790)	7,005
Total comprehensive (loss)/income for the period attributable to:			
Owners of the Company		(76,088)	7,490
Non-controlling interests		(702)	(485)
		(76,790)	7,005
(Losses)/Earnings per share for (loss)/profit attributable to the owners of the Company			
			(Restated)
Basic (Expressed in RMB per share)	27	(0.019)	0.002
Diluted (Expressed in RMB per share)	27	(0.019)	0.002
Dividends	28	–	–

Unaudited Condensed Consolidated Interim Statements of Changes in Equity

For the six months ended 30 June 2015 (Amounts expressed in thousands of RMB)

	Note	Attributable to owners of the Company				Non-controlling interests	Total equity
		Share capital and share premium (Note 16)	Reserves	Retained earnings	Subtotal		
Balance at 1 January 2015 (Audited)		473,696	65,195	177,900	716,791	3,397	720,188
Comprehensive income							
Loss for the period		–	–	(76,050)	(76,050)	(685)	(76,735)
Other comprehensive income							
Currency translation differences		–	(38)	–	(38)	(17)	(55)
Transactions with owners							
Utilisations		–	(19,198)	19,198	–	–	–
Share-based payments		–	15,731	–	15,731	16	15,747
Proceeds from shares issued	16	119,232	–	–	119,232	–	119,232
Exercise of warrants	24(a)	34,773	(1,178)	–	33,595	–	33,595
Balance at 30 June 2015 (Unaudited)		627,701	60,512	121,048	809,261	2,711	811,972
Balance at 1 January 2014 (Audited)		382,863	72,639	240,410	695,912	6,291	702,203
Comprehensive income							
Profit for the period		–	–	7,117	7,117	(648)	6,469
Other comprehensive income							
Currency translation differences		–	373	–	373	163	536
Transactions with owners							
Appropriations		–	20,218	(20,218)	–	–	–
Share-based payments		–	111	–	111	49	160
Balance at 30 June 2014 (Unaudited)		382,863	93,341	227,309	703,513	5,855	709,368

The accompanying notes on pages 10 to 33 are an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Statement of Cash Flow

For the six months ended 30 June 2015 (Amounts expressed in thousands of RMB)

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Cash flows from operating activities		
Cash generated from operations	43,094	24,543
Interest paid	(9,529)	(11,172)
Interest received	710	1,416
Income tax paid	–	(17,696)
Net cash generated from/(used in) operating activities	34,275	(2,909)
Cash flows from investing activities		
Restricted bank deposits	(163,450)	(2,504)
Purchase of property, plant and equipment and intangible assets	(5,084)	(21,636)
Proceeds on disposal of property, plant and equipment	350	679
Advance construction funds from government	7,200	–
Net cash used in investing activities	(160,984)	(23,461)
Cash flows from financing activities		
Issuance of ordinary shares	152,827	–
Payment of dividends	–	(900)
Repayments of borrowings	(117,550)	(330,804)
Proceeds from borrowings	134,519	386,123
Net cash generated from financing activities	169,796	54,419
Net increase in cash and cash equivalents	43,087	28,049
Cash and cash equivalents at beginning of the period	142,024	64,089
Exchange (losses)/gains on cash and cash equivalents	(26)	471
Cash and cash equivalents at end of the period	185,085	92,609

The accompanying notes on pages 10 to 33 are an integral part of this unaudited condensed consolidated interim financial information.



Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

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 and processing, ilmenite ore mining and processing, sales of iron concentrate and titanium concentrate 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 British Virgin Islands (“BVI”) and wholly owned by Mr. Li Yunde (the “Controlling Shareholder”), to be the ultimate holding company.

This condensed consolidated interim financial information is presented in Renminbi (“RMB”), unless otherwise stated and has been approved for issue by the Board of Directors of the Company on 28 August 2015.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2015 has been prepared in accordance with Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting”. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).



Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2014, as described in those annual financial statements. Amendments to HKFRSs effective for the financial year ending 31 December 2015 do not have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

4. ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2014, with the exception of changes in estimates that are required in determining the provision for income taxes and disclosure of exception items.



Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2014.

There have been no changes in the risk management policies since year end.

5.2 Liquidity Risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

5.3 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 available-for-sale financial assets are measured at fair value and belong to level 1 investment.

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

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

6. SEGMENT INFORMATION

(a) General information

The chief operating decision-maker ("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 Mining Industry Co., Ltd. ("Shandong Ishine") and Linyi Luxing Titanium Co., Ltd. ("Luxing Titanium"), which were both incorporated in the PRC and are engaged in iron ore mining and processing, ilmenite ore mining and processing and sales of iron concentrate and titanium concentrate in the PRC; and
- ii Ishine International Resources Limited ("Ishine International"), which was incorporated in Australia and is engaged in the exploration of metal reserve in Australia.

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

The measurement of profit or loss, assets and liabilities of the operating segments are the same as those described in the summary of significant accounting policies in the annual financial statements for the year ended 31 December 2014. The amounts of segment information of Shandong Ishine and Luxing Titanium, 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.

Expenses, assets and liabilities of the holding companies (the Company, Alliance Worldwide Investment Limited ("Alliance Worldwide"), Fortune Shine Investment Limited ("Fortune Shine"), Shine Mining Investment Limited ("Shine Mining"), Ishine Mining International Limited ("Ishine Mining"), China Rongsheng Holdings Limited ("Rongsheng"), Alpha Charm Investments Limited ("Alpha Charm"), Grandson Holdings Limited ("Grandson") and Active Fortune Group Limited ("Active Fortune")) and the newly incorporated financial leasing company Tianjin Hengsheng Financial Leasing Co., Ltd. in the Group are excluded from segment information.

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

The segment information provided to the CODM for the reportable segments for the six months ended 30 June 2015 and 2014 is as follows:

	Shandong Ishine and Luxing Titanium	Ishine International	Total
Six months ended 30 June 2015 (Unaudited)			
Revenue	180,442	1,235	181,677
Tenement and exploration expenses	–	(799)	(799)
Gross (loss)/profit	(8,470)	436	(8,034)
Impairment losses	(20,254)	(40)	(20,294)
– Property, plant and equipment	(7,649)	–	(7,649)
– Intangible assets	(11,088)	–	(11,088)
– Available-for-sale financial assets	–	(40)	(40)
– Inventories	(1,517)	–	(1,517)
Finance income	706	–	706
Finance costs	(8,611)	(18)	(8,629)
Income tax credit	16,349	–	16,349
Net loss	(54,634)	(848)	(55,482)
Other information			
Depreciation of property, plant and equipment	16,370	17	16,387
Expenditures on non-current assets	24,867	–	24,867
Six months ended 30 June 2014 (Unaudited)			
Revenue	276,655	2,580	279,235
Tenement and exploration expenses	(15)	(2,184)	(2,199)
Gross profit	44,150	396	44,546
Impairment losses	(751)	–	(751)
– Inventory	(751)	–	(751)
Finance income	1,399	17	1,416
Finance costs	(11,497)	(6)	(11,503)
Income tax expense	(4,287)	–	(4,287)
Net profit/(loss)	12,407	(1,412)	10,995
Other information			
Depreciation of property, plant and equipment	17,607	69	17,676
Expenditures on non-current assets	21,528	–	21,528

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

(i) Reconciliation of reportable segment revenue and profit or loss

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
Total revenue for reportable segments	181,677	279,235
Elimination of inter-segment revenue	–	–
Group revenue	181,677	279,235

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
Net (loss)/profit for reportable segments	(55,482)	10,995
Other unallocated expenses	(21,253)	(4,526)
Net (loss)/profit	(76,735)	6,469

The segment information provided to the CODM for the reportable segment assets and liabilities as at 30 June 2015 and 31 December 2014 is as follows:

	Shandong Ishine and Luxing Titanium	Ishine International	Total
As at 30 June 2015 (Unaudited)			
Segment assets	1,201,138	1,396	1,202,534
Segment liabilities	616,633	1,115	617,748
As at 31 December 2014 (Audited)			
Segment assets	1,017,976	1,892	1,019,868
Segment liabilities	378,837	762	379,599

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

(ii) Reconciliation of reportable segment assets

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
Total assets for reportable segments	1,202,534	1,019,868
Other unallocated assets	791,238	605,290
Elimination of inter-segment accounts	(660,002)	(561,056)
Group assets	<u>1,333,770</u>	<u>1,064,102</u>

(iii) Reconciliation of reportable segment liabilities

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
Total liabilities for reportable segments	617,748	379,599
Other unallocated liabilities	104,824	66,061
Elimination of inter-segment accounts	(200,774)	(101,746)
Group liabilities	<u>521,798</u>	<u>343,914</u>

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

7. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures	Mining infrastructures	Motor vehicles, equipment and others	Construction in progress	Total
Six months ended 30 June 2015					
(Unaudited)					
Opening net book value	84,738	119,864	130,021	57,303	391,926
Additions	–	21,096	168	3,608	24,872
Written off or disposals – net	–	–	(64)	–	(64)
Depreciation charge	(4,249)	(867)	(11,281)	–	(16,397)
Impairment charge (Note 8(b))	(1,537)	(1,806)	(4,306)	–	(7,649)
Effect of foreign exchange rate changes	–	–	(2)	–	(2)
Closing amount as at 30 June 2015	78,952	138,287	114,536	60,911	392,686
Six months ended 30 June 2014					
(Unaudited)					
Opening net book value	78,730	87,793	129,245	76,684	372,452
Additions	108	6,105	4,609	10,706	21,528
Transferred from construction in progress	16,370	–	22,294	(38,664)	–
Written off or disposals – net	–	–	(274)	–	(274)
Depreciation charge	(4,246)	(1,594)	(11,864)	–	(17,704)
Effect of foreign exchange rate changes	–	–	11	–	11
Closing amount as at 30 June 2014	90,962	92,304	144,021	48,726	376,013

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

8. INTANGIBLE ASSETS

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Opening net book amount	131,366	142,218
Amortisation charge	(23)	(715)
Impairment charge (b)	(11,088)	–
Effect of foreign exchange rate changes	–	231
Closing net book amount	120,255	141,734

(a) As at 30 June 2015, the mining rights of Shandong Ishine with net book value of RMB3,573,000 (31 December 2014: nil) in Shandong Province, the PRC, were pledged as collaterals for the Group's borrowings (Note 17(b)).

(b) During the six months ended 30 June 2015, a significant decrease in market price of 57% iron concentrates, a major product of Luxing Titanium, indicated an impairment in mining rights. As at 30 June 2015, the management carried out an impairment test of Luxing Titanium Mine, which is considered as a cash-generating unit ("CGU"), including mining rights, buildings and structures, mining infrastructures, motor vehicles, equipment and others, by comparing the net book value with recoverable amount. The recoverable amount of the CGU is calculated using value in use, for which the discount rate adopted is 12.3%. As at 30 June 2015, impairment provisions for mining rights of RMB11,088,000 and for property, plant and equipment of RMB7,649,000 (Note 7) were recognised.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Beginning balance of the period	416	1,442
Impairment loss	(40)	–
Effect of foreign exchange rate changes	(25)	100
Ending balance of the period	351	1,542

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

10. DEFERRED INCOME TAX ASSETS AND LIABILITIES

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

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Beginning balance of the period	(12,575)	(27,387)
Recognised in the consolidated statements of comprehensive income	16,349	(132)
Ending balance of the period	3,774	(27,519)

11. INVENTORIES

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
	Raw materials	
– Iron ore and ilmenite ore	10,688	4,112
– Others	49,001	12,358
Finished goods	10,862	54,972
Spare parts and others	9,340	9,369
Provision for inventory	(1,957)	(2,026)
	77,934	78,785

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

12. TRADE RECEIVABLES

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
Trade receivables	187,224	201,128

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

Aging analysis of trade receivables as at 30 June 2015 and 31 December 2014 is as follows:

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
Less than 3 months	87,428	89,812
3 months to 6 months	28,687	12,470
6 months to 1 year	35,036	98,844
1 year and above	36,073	2
	187,224	201,128

As at 30 June 2015 and 31 December 2014, trade receivables of approximately RMB99,796,000 and RMB111,316,000 respectively, were past due but not impaired. These related to a number of independent customers for whom there was no recent history of default.

As at 30 June 2015, no trade receivables (31 December 2014: RMB95,634,000) were pledged as collaterals for the Group's borrowings (Note 17(c)(ii)).

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

13. NOTES RECEIVABLES

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
Notes receivables		
– Bank acceptance notes	30,905	31,750
– Trade acceptance notes	6,000	–
	<hr/> 36,905	<hr/> 31,750

The aging of bank acceptance notes and trade acceptance notes is within 6 months and within 12 months respectively.

As at 30 June 2015, no bank acceptance notes (31 December 2014: RMB2,000,000) were pledged as collaterals for the Group's borrowings (Note 17(c)(i)).

14. PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
Advance to suppliers	123,808	52,568
Land restoration deposits	6,052	5,573
Undeducted input VAT	5,705	5,978
Prepaid taxes	3,033	2,925
Advance to employees	1,599	1,204
Others	7,623	7,995
	<hr/> 147,820	<hr/> 76,243

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

15. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
Cash and cash equivalents		
– Cash on hand	344	356
– Cash at banks	184,741	141,668
	185,085	142,024
Restricted bank deposits		
– Fixed date deposits	100,000	–
– Deposits for bank acceptance notes	65,000	730
– Deposits for letter of credit	–	820
	165,000	1,550
	350,085	143,574

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

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
RMB	299,699	92,476
HKD	48,487	48,934
USD	1,008	887
AUD	891	1,277
	350,085	143,574

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

16. SHARE CAPITAL AND SHARE PREMIUM

Authorised shares:	Number of authorised shares
As at 1 January 2015 and 30 June 2015	15,000,000,000

Issued shares:

	Number of shares issued and fully paid	Share capital	Share premium	Total
At 1 January 2014 (Audited)	720,871,584	5,834	377,029	382,863
Dividends declared	–	–	–	–
At 30 June 2014 (Unaudited)	720,871,584	5,834	377,029	382,863
At 1 January 2015 (Audited)	3,907,857,920	6,314	467,382	473,696
Dividends declared	–	–	–	–
Proceeds from shares issued (a)	392,000,000	621	118,611	119,232
Exercise of warrants (Note 24)	125,750,000	199	34,574	34,773
At 30 June 2015 (Unaudited)	4,425,607,920	7,134	620,567	627,701

- (a) On 1 March 2015, the Company entered into a subscription agreement with X. Mining Resources Group Limited, a third-party company incorporated in the British Virgin Islands with limited liability (the "Subscriber"), pursuant to which the Subscriber has agreed to subscribe for and the Company has agreed to issue and allot 392,000,000 shares (the "Subscription Shares") in cash at the share subscription price of RMB0.304 (equivalent to approximately HKD0.384) per subscription share. On 16 March 2015, pursuant to the subscription agreement, X. Mining Resources Group Limited successfully subscribed for 392,000,000 subscription shares.

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

17. BORROWINGS

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
Non-current		
Bonds	89,013	50,764
Current		
Bank borrowings	150,000	171,280
	239,013	222,044
Representing:		
Unsecured bonds wholly payable after 7.5 years (a)	89,013	50,764
Secured –		
Pledged (b)	70,000	–
Pledged and Guaranteed (c)	–	91,280
Guaranteed (d)	80,000	80,000
	239,013	222,044

Movements in borrowings is analysed as follows:

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Opening amount of the period	222,044	210,000
Proceeds of new borrowings	134,519	386,123
Repayments of borrowings	(117,550)	(330,804)
Closing amount of the period	239,013	265,319

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

(a) Unsecured bonds

During the year ended 31 December 2014 and six months ended 30 June 2015, the Company issued bonds to several independent third parties with a coupon rate of 7.00%, payable in 7.5 years from the respective issue dates. The aggregate amount was HKD82,000,000 and HKD60,000,000 and net proceeds received was HKD63,960,000 (equivalent to RMB50,458,000, net of agency fee of HKD18,040,000) and HKD47,360,000 (equivalent to RMB37,349,000, net of agency fee of HKD12,640,000) respectively.

As at 31 December 2014 and 30 June 2015, the aggregate carrying amount of the bonds was HKD64,348,000 (equivalent to RMB50,764,000) and HKD112,873,000 (equivalent to RMB89,013,000) respectively, which approximated their fair values. The fair values are determined using the expected future payments discounted at an effective interest rate of 9.35%.

(b) Pledged borrowings

As at 30 June 2015, bank borrowings of RMB70,000,000 (31 December 2014: nil) were pledged by the mining rights of Shandong Ishine with net book value of RMB3,573,000 (Note 8(a)).

(c) Pledged and guaranteed borrowings

(i) As at 31 December 2014, bank borrowings of RMB1,280,000 were pledged by the Group's notes receivables with carrying amount of RMB2,000,000 (Note 13) and guaranteed by Mr. Li Yunde.

(ii) As at 31 December 2014, bank borrowings of RMB90,000,000 were pledged by the Group's trade receivables with carrying amount of RMB95,634,000 (Note 12) and guaranteed by Yishui Hesheng Minerals Processing Co., Ltd., Ms. Zhang Limei and Mr. Li Yunde.

(d) Guaranteed borrowings

As at 30 June 2015 and 31 December 2014, the following borrowings of the Group were guaranteed by certain third parties and the Controlling Shareholder:

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
Joint guarantee given by third parties and the Controlling Shareholder		
– Linyi Runxing Investment Co., Ltd. and Mr. Li Yunde	20,000	20,000
– Yishui Hesheng Minerals Processing Co., Ltd. and Mr. Li Yunde	30,000	30,000
Guarantee given by other third parties		
– Yishui Hesheng Minerals Processing Co., Ltd.	30,000	30,000
	80,000	80,000

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

18. PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Beginning balance of the period	24,654	16,612
Utilised during the period	(42)	(16)
Unwinding of discount (Note 25)	671	543
Ending balance of the period	25,283	17,139

19. TRADE PAYABLES

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
Trade payables	51,737	40,361

Aging analysis of trade payables as at 30 June 2015 and 31 December 2014 is as follows:

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
Less than 6 months	24,961	19,941
6 Months to 1 year	16,615	9,010
1 year and above	10,161	11,410
	51,737	40,361

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

20. NOTES PAYABLES

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
Notes payables		
– Bank acceptance notes	110,000	630

The aging of notes payables is within 6 months.

21. ACCRUALS AND OTHER PAYABLES

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
Deposits and receipts in advance	37,494	408
Advance construction funds from government	11,124	3,924
Guarantee deposits	7,915	9,885
Employee benefit payables	6,246	6,359
Interest payables	3,809	634
Other tax payables	3,680	2,024
Accrued other professional service and consulting fee	1,345	3,500
Accrued audit fee	1,224	1,900
Accrued land compensation costs	1,098	1,779
Others	2,673	1,902
	76,608	32,315

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

22. REVENUE

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Production		
– Sales of iron concentrate	64,274	230,140
– Sales of titanium concentrate	–	2,909
	64,274	233,049
Trading		
– Sales of coarse iron powder	116,168	43,606
Others	1,235	2,580
	181,677	279,235

23. EXPENSE BY NATURE

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Changes in inventories of finished goods, iron ore and ilmenite ore	36,353	(21,012)
Payment to mining contractors	9,170	20,718
Cost of raw materials	137,850	170,047
Spare parts and others	402	9,165
Employee benefits	8,822	12,575
Depreciation and amortisation	16,420	13,898
Utilities and electricity	3,673	15,855
Repairs and maintenance	773	691
Transportation expenses	2,903	4,118
Professional fees	2,212	2,147
Auditor's remuneration	1,407	1,289
Resources tax	1,212	6,648
Sales tax surcharges	180	1,690
Land compensation expenses	5,390	4,864
Travelling expenses	1,092	528
Entertainment expenses	1,067	1,246
Tenement and exploration expenses	799	2,199
Impairment losses	20,294	751
Other expenses	2,172	12,311
Total cost of sales, distribution costs and administrative expenses	252,191	259,728

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

24. OTHER (LOSSES)/GAINS, NET

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Gains on disposal of property, plant and equipment	286	405
Government grants	–	958
Losses from issuance of non-listed warrants (a)(ii)	(13,484)	–
Others	(55)	(60)
	(13,253)	1,303

(a) Non-listed warrants

- (i) On 17 July 2014, the Company issued 144,000,000 non-listed warrants (the “2014 Warrants”) to certain independent third parties at par value of HKD0.01 each. Each warrant entitles the holder to subscribe for one new share of the Company at an exercise price of HKD1.69 at any time for a period of 12 months from the date of issue.

The 2014 Warrants were recognised at fair value, determined based on the valuations performed by an independent professional valuer using the Binominal Model with the following key assumptions:

Issue date as at 17 July 2014

Exercise price	HKD1.69
Share price	HKD1.45
Volatility	47.59%
Remaining life	12 months
Risk free interest rate	0.11%

The 2014 Warrants were measured at fair value of HKD22,896,000 (equivalent to RMB18,164,000) at the initial recognition, and were credited to share-based payment reserve in accordance with HKFRS 2. The excess of the fair value of the 2014 Warrants over the consideration of HKD1,440,000 (equivalent to RMB1,142,000) received, amounting to HKD21,456,000 (equivalent to RMB17,022,000) was recognised as an expense in the consolidated statement of comprehensive income for the year ended 31 December 2014.

Warrants of 11,000,000 shares and 3,000,000 shares were exercised at the price of HKD1.69 in September and October 2014 respectively, and were credited to share capital with an amount of HKD140,000 (equivalent to RMB111,000). The excess of the exercise price over the par value, amounting to HKD23,520,000 (equivalent to RMB18,613,000) was recognised as share premium.

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

On 28 October 2014, each of the existing issued and unissued shares with par value of HKD0.01 each in the share capital of the Company was subdivided into 5 shares with par value of HKD0.002 each. As of the date of share subdivision, there were 130,000,000 outstanding warrants, which were subdivided into 650,000,000 outstanding warrants to subscribe for 650,000,000 subdivided shares with par value of HKD0.002, at a subdivided exercise price of HKD0.338.

After the share subdivision, warrants of 15,000,000 shares, 181,000,000 shares and 37,500,000 shares were exercised at the price of HKD0.338 in October, November and December 2014 respectively, and were credited to share capital with an aggregate amount of HKD467,000 (equivalent to RMB369,000). The excess of the exercise price over the par value, amounting to HKD78,456,000 (equivalent to RMB62,088,000) was recognised as share premium.

As at 31 December 2014, warrants of 416,500,000 shares were issued but not exercised.

During the six months ended 30 June 2015, warrants of 125,750,000 shares were exercised at the price of HKD0.338 and were credited to share capital with an aggregate amount of HKD252,000 (equivalent to RMB199,000). The excess of the exercise price over the par value, amounting to HKD42,252,000 (equivalent to RMB33,396,000) was recognised as share premium.

As at 30 June 2015, warrants of 290,750,000 shares were issued but not exercised.

- (ii) On 1 June 2015, the Company issued 140,000,000 non-listed warrants (the "2015 Warrants") to X. Mining Resources Group Limited at par value of RMB0.0016 each. Each warrant entitles the holder to subscribe for one new share of the Company at an exercise price of RMB0.319 at any time for a period of 12 months from the date of issue.

The 2015 Warrants were recognised at fair value, determined based on the valuations performed by an independent professional valuer using the Binominal Model with the following key assumptions:

Issue date as at 1 June 2015

Exercise price	RMB0.319
Share price	HKD0.495
Volatility	52.43%
Remaining life	12 months
Risk free interest rate	0.07%

The 2015 Warrants were measured at fair value of HKD19,880,000 (equivalent to RMB15,695,000) at the initial recognition, and were credited to share-based payment reserve in accordance with HKFRS 2. The excess of the fair value of the 2015 Warrants over the consideration of HKD2,800,000 (equivalent to RMB2,211,000) received, amounting to HKD17,080,000 (equivalent to RMB13,484,000) was recognised as an expense in the consolidated statement of comprehensive income for the six months ended 30 June 2015.

As at 30 June 2015, the 2015 Warrants were issued but not exercised.

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

25. FINANCE COSTS, NET

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Finance income		
– Interest income of bank deposits	710	1,416
Exchange gains, net	1,744	406
Finance costs		
– Interest expense on bank borrowings	(9,529)	(11,172)
– Interest charge on unwinding of discounts (Note 18)	(671)	(543)
– Interest expense on discount of bank acceptance notes	(1,492)	–
– Bank surcharges and others	(119)	(161)
	(11,811)	(11,876)
	(9,357)	(10,054)

26. INCOME TAX CREDIT/(EXPENSE)

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Current income tax	–	(4,155)
Deferred income tax	16,349	(132)
	16,349	(4,287)

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

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

Hong Kong profits tax has not been provided for the subsidiaries in Hong Kong as there is no estimated assessable profit arising in or derived from Hong Kong during the six months ended 30 June 2015 and 2014.

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

Australia corporate income tax is 30%. Australia corporate 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 six months ended 30 June 2015 and 2014.

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 subsidiaries, Shandong Ishine and Luxing Titanium, both were 25% from 1 January 2008 onwards.

27. (LOSSES)/EARNINGS PER SHARE

The basic and diluted (losses)/earnings per share are calculated based on the (loss)/profit attributable to shareholders of the Company for each of the six months ended 30 June 2015 and 2014. The basic and diluted (losses)/earnings per share are disclosed with equal prominence.

(a) Basic

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
(Loss)/Profit attributable to owners of the Company	(76,050)	7,117
Adjusted weighted average number of ordinary shares in issue	4,048,632,578	3,604,357,920
Basic (losses)/earnings per share (Expressed in RMB per share)	(0.019)	0.002

On 28 October 2014, the existing issued and unissued shares with par value of HKD0.01 each in the share capital of the Company was subdivided into 5 shares with par value of HKD0.002 each and was approved by the shareholders at the extraordinary general meeting ("EGM") held on 27 October 2014. The Company restated the calculation of basic earnings per share as for the six months ended 30 June 2014.

(b) Diluted

As at 30 June 2014, there were no dilutive factors of the Company and the diluted earnings per share were calculated in the same way as basic earnings per share.

As at 30 June 2015, there were 430,750,000 units of unexercised warrants that would potentially have a dilutive impact in the future but were anti-dilutive for the six months ended 30 June 2015. The diluted losses per share were calculated in the same way as basic losses per share.

Notes to the Unaudited Condensed Consolidated Interim Financial Information

(Amounts expressed in thousands of RMB)

28. DIVIDENDS

The directors of the Company resolved not to declare a dividend in respect of the six months ended 30 June 2015 and 2014.

29. SIGNIFICANT RELATED PARTY TRANSACTIONS

As at 30 June 2015, bank borrowings with an amount of RMB50,000,000 (30 June 2014: RMB138,300,000) were jointly guaranteed by the Controlling Shareholder and third parties (Note 17(d)).

30. COMMITMENTS

(a) Exploration commitments

Ishine International has obligations under the exploration license to spend a minimum amount of exploration expenditures on the projects. The obligations may vary from time to time subject to the approval from the relevant government authorities in Australia. 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 a 12 months period. Expenditure may be reduced by seeking exemption from individual commitments, by relinquishing of tenure or entering into any new joint venture agreements. Expenditure may be increased when new tenements are granted or joint venture agreements are amended.

The existing tenement commitments in accordance with contracts are as follows:

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
No later than 1 year	1,920	4,512
1 to 3 years	378	4,285
	2,298	8,797

(b) Capital commitments

Capital expenditure contracted for at the end of the period but not yet incurred is as follows:

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
Property, plant and equipment	5,901	5,901



Management Discussion and Analysis

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2015 (for the six months ended 30 June 2014: nil).

BUSINESS REVIEW

The principal activities of the Group are iron ore and ilmenite ore exploration, mining and processing and sales of iron concentrates and ilmenite concentrates in Shandong Province, the PRC. Since 2013, the Group has started to engage in ilmenite ore mining and processing to produce iron concentrates and titanium concentrates in Shandong Province, the PRC. The Group's major customers are iron pellets makers and steel manufacturers located in close proximity.

During the first half year of 2015, the Company has established a financial leasing company in Tianjin, the PRC, to carry out financial leasing business in respect of purchase of leased properties in domestic and overseas markets, maintenance and disposal of leased properties and consultation and guarantee on leasing transactions.

The Group possesses mining rights in respect of Yangzhuang Iron Mine, an iron ore mine located in Qinjiazhuang Village, Yangzhuang Town, Shandong Province, the PRC ("Yangzhuang Iron Mine"), Zhuge Shangyu Ilmenite Mine, an ilmenite and magnetite mine located in Yishui County, Shandong Province, the PRC ("Zhuge Shangyu Ilmenite Mine"), Bashan Iron Project, an iron ore project located in Yishui County and Luxing Titanium Mine, an ilmenite ore mine located in Yishui County, Shandong Province, the PRC ("Luxing Titanium Mine"), 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 ("Qinjiazhuang Ilmenite Project"), Zhuge Shangyu Ilmenite Mine and Gaozhuang Shangyu Ilmenite Project, an ilmenite ore project located in Shangyu District, Yishui County, Shandong Province, the PRC ("Gaozhuang Shangyu Ilmenite Project").

During the six months ended 30 June 2015, total revenue of the Group has decreased by approximately RMB97.5 million, or approximately 34.9%, to approximately RMB181.7 million for the six months ended 30 June 2015, as compared with approximately RMB279.2 million for the six months ended 30 June 2014. The decrease in revenue was mainly due to (1) the decrease in sales of iron concentrates produced from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder by approximately RMB107.0 million; (2) the decrease in sales of iron concentrates produced from iron ore of Yangzhuang Iron Mine by approximately RMB58.2 million; and (3) the decrease in sales of titanium concentrates produced from ilmenite ore of Zhuge Shangyu Ilmenite Mine by approximately RMB2.9 million, and was partially offset by the increase in turnover of trading of coarse iron powder by approximately RMB72.6 million from approximately RMB43.6 million for the six months ended 30 June 2014 to approximately RMB116.2 million for the six months ended 30 June 2015.

Management Discussion and Analysis

The total comprehensive loss attributable to owners of the Company was approximately RMB76.1 million for the six months ended 30 June 2015, representing a decrease of approximately RMB83.6 million, or 1,114.7%, as compared with total comprehensive income attributable to owners of the Company of RMB7.5 million for the six months ended 30 June 2014. This was mainly due to (1) the gross profit decreased by approximately RMB52.6 million from gross profit of approximately RMB44.5 million for the six months ended 30 June 2014 to gross loss of approximately RMB8.1 million for the six months ended 30 June 2015. The main reasons for the decline were (i) the decrease in sales gross profit of iron concentrates produced from Yangzhuang Iron Mine by approximately RMB40.7 million from gross profit of approximately RMB38.1 million for the six months ended 30 June 2014 to gross loss of approximately RMB2.6 million for the six months ended 30 June 2015; (ii) the decrease in sales gross profit of iron concentrates produced from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder by approximately RMB4.1 million from approximately RMB4.2 million for the six months ended 30 June 2014 to approximately RMB0.1 million for the six months ended 30 June 2015; and (iii) the decrease in gross profit of trading of coarse iron powder by approximately RMB8.5 million from gross profit of approximately RMB2.5 million for the six months ended 30 June 2014 to gross loss of approximately RMB6.0 million for the six months ended 30 June 2015; (2) the loss from issuance of non-listed warrants of approximately RMB13.5 million. On 1 June 2015, 140,000,000 non listed warrants were issued at par value of RMB0.0016 each and the exercise price was RMB0.319; and (3) increase in the impairment loss of assets by approximately RMB19.5 million from approximately RMB0.8 million for the six months ended 30 June 2014 to approximately RMB20.3 million for the six months ended 30 June 2015.

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. The average selling price of iron concentrates with 65% iron content decreased to RMB488.1 per tonne for the six months ended 30 June 2015 as compared with RMB895.6 per tonne for the six months ended 30 June 2014.

Measures adopted by the management during the first half of 2015

1. *Continuous increase in research and development efforts to support industrial technological upgrade.*

The cooperation with Siberian Branch of the Russian Academy of Sciences and Institute of Processing Engineering of the Chinese Academy of Sciences in relation to research and development of processing technology for efficient extraction of titanium from ilmenite has achieved new progress.

During the first half year of this year, Shandong Ishine Mining Industry Co., Ltd. cooperated with Siberian Branch of the Russian Academy of Sciences in researching of a new processing technology for efficient extraction of titanium from ilmenite. The cooperation helps to solve the technical bottleneck of the Group by efficient use of lean titanium content ilmenite resources, thereby significantly reducing the cost and energy consumption in titanium production and enhancing the comprehensive recovery rate of ilmenite ore. So far, the research and development projects jointly carried out by Siberian Branch of the Russian Academy of Sciences and Chinese Academy of Sciences have progressed well.



Management Discussion and Analysis

2. Close response to the industrial incentive policies of the central government and full utilisation of the Group's domestic resource advantages to develop the financial leasing business into a new growth drive of the Group.

During the first half year of 2015, the Group established a financial leasing company in Tianjin to carry out financial leasing business, including purchasing leased assets in domestic and overseas markets, maintenance and disposal of leased assets, and consultation and guarantee on lease transactions. So far, the business has been conducted in an orderly manner.

3. Active utilisation of re-financing platform to raise fund.

Taking full advantage of the re-financing platform, the Group placed its new shares in due time and raised approximately RMB153.0 million during the first half year of 2015. The Group has been continuously broadening its shareholder base and increasing the liquidity of its shares to provide financial support for the Group's development.

4. Actively seeking for official support such as advance construction funds from government.

The Group actively seeks support from government based on the relevant national policy. During the first half of year 2015, the Group received advance construction funds from the government amounting to approximately RMB7.2 million.

5. Enhancing internal strengths, harmonizing ideas and improving team-building, training and management.

Due to the stagnant market conditions, it is high time for the Group to enhancing internal strengths and improving training of staff. The Group plans to eliminate non-profitable mines and entities in due time. Based on the conditions of the market and the operating conditions of the Group, the Group may reduce the number of employees by conducting performance evaluation to improve operating efficiency. For the transformation and survival of the Group, the management encourages staff to abandon unrealistic complaints and the habit of "waiting, dependence and delay" and is dedicated to build a winning team through self-improvement and self-empowerment.

6. Strengthening the management of prepayments.

During the first half year of 2015, the Group started to implement a supplier credit rating system. The Group established a rigorous approval and recognition process for prepayments with strict examination on the terms of purchase contracts, timely issuance and acceptance of invoices and recognition after entering into a transaction. In order to avoid late settlement of prepayments, the Group further strengthens the management's supervision responsibility to follow up prepayments.

Management Discussion and Analysis

7. Continuous pursuit of technological innovation and development of recycling economy.

The Group persists in technology innovation to enhance production efficiency and develop recycling economy. The Group has built a picturesque and attractive lake in the mining and production area, which has become a famous view spot well-known for its flourishing and extensive green surroundings of 200,000 sea buckthorns and 6,000 apricot trees and has become the home for flocks of swans and hundreds of thousands of carps and grass carps. The delicate fragrance of red sweet osmanthus and shades of leaves of a rich variety of trees around the lake have also attracted visitors.

Such achievement can only be made through innovation in technology to improve manufacturing efficiency and reduce energy consumption, therefore accomplishing sustainable recycled economy.

Taking reduction of water consumption as an example, Shandong Ishine's application of technology of draining residual ores has achieved "zero emission" of industrial waste water, making us the first domestic mining company to abandon tailing dam and achieve the recycle of industrial waste water. The implementation of water recycle projects have effectively reduced water consumption. With such achievement, Shandong Ishine was granted a patent certificate for draining tailing system by the State Intellectual Property Office in 2012 and was recognized as the "Highlighted and Demonstrative Project of Draining Tailing in Shandong Province" by the Land and Resources Department of Shandong Province.

8. Mergers and acquisitions.

During the first half year, the Group continued to make great efforts in planning and implementation of a comprehensive industrial chain, including mining and processing of ilmenite ore and production of titanium concentrates, high titanium slag, titanium tetrachloride and sponge titanium. Apart from the above-mentioned internal research and development of production technology, the cooperation with Chinese Academy of Sciences and the technology transfer cooperation with the Siberian Branch of the Russian Academy of Sciences under the leadership of the Ministry of Science and Technology of China, the Group also conducted a number of due diligence and selection projects in regard to potential mergers and acquisitions of enterprises in the whole titanium business to seize every possible chance of mergers and acquisitions and business opportunities.

9. Research on clean energy.

During the first half year, as a listed resources holdings company, the Group conducted an in-depth research on new clean energy advocated by national policies, such as wind power and solar power. The Group also cooperated with state-owned enterprises and competent new energy companies on the research towards the feasibility of new energy. Based on the particular geographic location of its mines and availability of resources such as wind and solar energy, the Group plans to enter the clean energy industry at a proper time. Meanwhile, a research towards whether the Group can develop into a national competitor with great potential in the business is being conducted. If there are feasible plans and well-defined targets, the Group will seize every possible chance to become more competent to maximize returns for investors.



Management Discussion and Analysis

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 at November 2011 as disclosed in the prospectus of the Company dated 17 April 2012, the total aggregate proved and probable reserve of ore in the Yangzhuang Iron Mine was approximately 43.93Mt 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 546.29Mt at an average grade of approximately 5.69% TiO₂ and approximately 12.81% TFe (total iron); whereas the total proved and probable reserve of ore in the Group's Qinjiazhuang Ilmenite Project was approximately 86.63Mt at an average grade of approximately 4.50% TiO₂ and approximately 13.56% TFe (total iron).

Micromine Consulting Services ("Micromine") has updated the resources and reserves under the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy ("JORC") by adopting the following assumptions:

Yangzhuang Iron Mine

1. Resource reporting cutoff grade: 15% Tfe.
2. An mFe grade cut-off of 8.0% was applied to each mining block based on the breakeven analysis.
3. The Ore Reserve depletion for the Yangzhuang project was 4.6Mt @ 24.6% TFe and 10.6% mFe compared to reported production of 4.5Mt @ 24.1% TFe and 10.5% mFe for the period from November 2011 to December 2013 inclusive.
4. Stope design parameters are 50 metres in length by approximately 16 metres wide (matching the thickness of the orebody) with a 6 metre wide pillar between stopes as well as a crown pillar of 6 metres.
5. It is assumed that there are no significant geotechnical difficulties.
6. Inferred Resources were excluded from the mine design used to determine the reserves.
7. Parameters for Short Hole Shrinkage mining method:

Length of Block: 48m

Minimum width of Block: 8m

Pillar between Blocks: 6m

Crown Pillar: 5m

Distance between levels: 60m

Management Discussion and Analysis

Reason for the changes in the resources and reserves estimates:

During the period from November 2011 to December 2013, reserves were reduced by 4.6 Mt due to mining activities.

Zhuge Shangyu Ilmenite Mine

1. Resource reporting cutoff grade: 9.2% TiO_2 equivalent.
2. Underground resources and reserves remain unchanged from the previous (2012) Micromine estimate.
3. Mineral resources are inclusive of the ore reserve.
4. The reserve includes diluting material with an assumed diluent grade of 0%, total dilution used was 9%.
5. The Micromine reserve is stated based on titanium with an iron credit.
6. The Open Pit Ore Reserve block model depletion for the Zhuge Shangyu resource was 0.27Mt grading 5.69% TiO_2 and 12.78% TFe compared to reported production of 0.26Mt grading 6.75% TiO_2 and 13.44% TFe for the period from September 2013 to December 2013 inclusive.
7. The underground mining height is 50m to 60m.

Reason for the changes in the resources and reserves estimates:

During the period from November 2011 to August 2013, there is no difference in resources and reserves. During the period from September 2013 to December 2013, reserves were reduced by 0.27 Mt due to mining activities.

Management Discussion and Analysis

Qinjiashuang Ilmenite Project

No reported exploration or mining activities have been undertaken at the Qinjiashuang Ilmenite Project between 1 November 2011 and 31 December 2013. Micromine has concluded that there has been no material change to the mineral resources and reserves for the Qinjiashuang Ilmenite Project which remain the same as those published in the previous Micromine report dated 17 April 2012. No exploration and mining activities have been carried out at the Qinjiashuang Ilmenite Project between 1 January 2014 and 30 June 2015.

Based on (1) the resources and reserves under the JORC for the Yangzhuang Iron Mine, Zhuge Shangyu Ilmenite Mine and Qinjiashuang Ilmenite Project as at November 2011 as disclosed in the prospectus of the Company dated 17 April 2012, and (2) the estimated amount of ores mined by the Group from November 2011 to December 2013, the Group's estimated resources and reserves as at 30 June 2015 were as follows:

JORC Ore Reserve Estimate as of 30 June 2015 (Note: JORC ore reserves as of 31 December 2013 less exploration during the period from 1 January 2014 to 30 June 2015):

	Yangzhuang Iron Mine	Zhuge Shangyu Ilmenite Mine	Qinjiashuang Ilmenite Project
Ore reserves (Mt)			
– proved	6.07	199.60	45.33
– probable	31.20	346.20 ^(Note)	41.30
Total ore reserves	37.27	545.80	86.63
Grade of total iron (Tfe) (%)			
– proved	24.15	12.78	13.50
– probable	24.65	12.83	13.61
Average grade of total iron (Tfe) (%)	24.55	12.82	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

Management Discussion and Analysis

JORC Ore Reserve Estimate as of 31 December 2014 (Note: JORC ore reserves as of 31 December 2013 less exploration during the period from 1 January 2014 to 31 December 2014):

	Yangzhuang Iron Mine	Zhuge Shangyu Ilmenite Mine	Qinjiashuang Ilmenite Project
Ore reserves (Mt)			
– proved	6.30	199.60	45.33
– probable	31.20	346.20 ^(Note)	41.30
Total ore reserves	37.50	545.80	86.63

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

Yangzhuang Iron Mine Resource Estimate as of 31 December 2014 (Note: JORC mineral resources as of 31 December 2013 less exploration during the period from 1 January 2014 to 31 December 2014):

Resource Category	Resources (Mt)	SG (t/m ²)	TFe (%)	mFe (%)
Measured	11.7	3.25	26.0	10.6
Indicated	50.1	3.25	26.8	10.4
Total Measured and Indicated	61.8	3.25	26.6	10.4
Inferred	17.6	3.22	24.6	8.7
Total resource	79.4	3.24	26.2	10.0

Note: Numbers have been rounded to reflect that the resources are an estimate.

Note: Resources may not ultimately be extracted at a profit.

Management Discussion and Analysis

Zhuge Shangyu Ilmenite Mine Resource Estimate as of 31 December 2014 (Note: JORC mineral resources as of 31 December 2013 less exploration during the period from 1 January 2014 to 31 December 2014):

Resource Category	Resource (Mt)	SG (t/m ³)	TiO ₂ (%)	TFe (%)
Measured	372.8	3.19	6.23	14.04
Indicated	261.0	3.13	6.14	14.18
Total Measured and Indicated	632.8	3.17	6.19	14.10
Inferred	4.0	3.13	5.92	15.03
Total Resources	636.8	3.16	6.19	14.10

Qinjiashuang Ilmenite Project Resource Estimate as of 31 December 2014 (Note: JORC mineral resources as of 31 December 2013, there was no exploration activity during the period from 1 January 2014 to 31 December 2014):

Resource Category	Resource (Mt)	SG (t/m ³)	TiO ₂ (%)	TFe (%)
Measured	46.2	3.23	4.90	14.72
Indicated	42.1	3.19	4.88	14.84
Total Measured and Indicated	88.3	3.21	4.89	14.78
Inferred	11.3	3.29	5.06	15.05
Total Resources	99.6	3.22	4.91	14.81

Luxing Titanium

Luxing Titanium is located in Yishui County, Shandong Province, the PRC. Luxing Titanium holds a mining licence in respect of Luxing Titanium Mine issued by the Land and Resources Department of Shandong Province (山東省國土資源廳). Luxing Titanium Mine has a mining license which covers a mining area of 0.829 km². According to a resources and reserves verification report in respect of the mine, it was estimated that 0.557 km² of the mining area had approximately 46.4Mt of resources and reserves of Type 333 or above of ilmenite ores as at 31 December 2009 under PRC classification standard with an average grading of iron and titanium content of approximately 14.6% and 6.6% respectively. As at 31 December 2013, we engaged 8th Institute of Geology and Mineral Exploration of Shandong Province to complete an updated verification report and it was estimated that 0.829 km² of the mining area had approximately 57.2Mt of resources and reserves of Type 333 or above of ilmenite ores with an average grading of iron and titanium content of approximately 14.5% and 6.6% respectively.

Management Discussion and Analysis

Reasons for the changes in the resources and reserves estimates:

1. The mining area is increased from 0.557km² to 0.829km² and the mining depth is changed from +254.7 meters +150 meters to +255 meters +68 meters, which leads to an increase in the reserve by 12.8Mt.
2. The resource estimation of 4-wire sectional S4-2a area is increased from 3,723.46m² to 10,396.22m², which leads to an increase in the reserves by 2.17Mt.
3. From 2010 to 2013, reserves were reduced by 4.13Mt due to mining activities.

The mining licence permits a production scale of 1.5Mt per annum by way of open-pit mining. The term of this licence is 9 years commencing from December 2012 to December 2021.

Resources and Reserves Estimate as of 30 June 2015 (Note: Resources and Reserves Estimate from an updated verification report which was completed by the 8th Institute of Geology and Mineral Exploration of Shandong Province as of 31 December 2013 less exploration during the period from 1 January 2014 to 30 June 2015):

Resources and Reserves category	Luxing Titanium
Resources and reserves of Type 333 or above of ilmenite ores (Mt) (under PRC classification standard)	56.9
Average grade of total iron (TFe) (%)	14.5
Average grade of total titanium dioxide (TiO ₂) (%)	6.6

Resources and Reserves Estimate as of 31 December 2014 (Note: Resources and Reserves Estimate from an updated verification report which was completed by the 8th Institute of Geology and Mineral Exploration of Shandong Province as of 31 December 2013 less exploration during the period from 1 January 2014 to 31 December 2014):

Resources and Reserves category	Luxing Titanium
Resources and reserves of Type 333 or above of ilmenite ores (Mt) (under PRC classification standard)	56.9
Average grade of total iron (TFe) (%)	14.5
Average grade of total titanium dioxide (TiO ₂) (%)	6.6



Management Discussion and Analysis

Gaozhuang Shangyu Ilmenite project

Gaozhuang Shangyu Ilmenite Project is located in Yishui County and Yinan County of Shandong Province, the PRC. The Company has engaged an independent third-party surveying agency to conduct preliminary exploration work in Gaozhuang Shangyu Ilmenite Project and the work was completed in 2012. The exploration rights covered an area of approximately 1.53km², with the exploration term expiring in March 2017. According to Titanium Mine Detailed Survey Report in respect of the mine, it was estimated that the exploration area had approximately 46.0Mt of resources of Type 332 and 333 of ilmenite ores in September 2012 under PRC classification standard with an average grading of iron and titanium content of approximately 12.4% and 6.8% respectively. During the period from October 2012 to June 2015, there was no change in resources and reserves. The Group did not have any plans to carry out mining work or any other expansion plans.

Exploration Licences in Australia

As at 30 June 2015, Ishine International owns seven granted exploration licences located in Western Australia and two granted exploration licences located in South Australia, Australia.

Mt. Watson has been under the process of drilling during 2013. The Mt. Watson Project (the "Project") is a joint venture between Ishine International (70%) and Kabiri Resources Pty., Ltd. ("Kabiri Resources") (30%). The Project is situated approximately 120km north of Mt. Isa in north-west Queensland and comprises two tenements (EPM15933 and EPM15986) covering an area of 103.6km². Seven diamond drillholes (totalling 921.80m) were drilled on tenement EPM15986 and were previously identified as versatile time domain electromagnetic survey (VTEM) anomalies at around 5km to the south-west of the Mt. Watson copper mine. The detailed drillhole coordinates, drilling orientation and drillhole locations are disclosed in the announcement dated 21 March 2014 on Australian Securities Exchange ("ASX"). For details of the Project, please refer to the announcement of Ishine International dated 21 March 2014 published on the website of the ASX.

There was no other exploration activity in Australia during the six months ended 30 June 2015.

Management Discussion and Analysis

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

Western Australian Tenements

Tenement	Registered holder/ applicant	Grant date	Expiry Date	Area size and locality	Current status	Status of renewal of tenement (if expiring within 1 year)	Target minerals
E80/4478	Ishine International	10-Oct-11	09-Oct-16	39 Blocks Halls Creek Shire, 126km ²	Active	NA	Nickel, Copper, Cobalt
E80/4450	Ishine International	06-Oct-11	05-Oct-16	41 Blocks Halls Creek Shire, 132km ²	Active	NA	Nickel, Copper, Cobalt
E77/1786	Ishine International	22-Mar-11	21-Mar-16	70 Blocks Merredin, Narembeen and Yilgarn Shires, 225km ²	Active	NA	Iron
E37/1073	Ishine International	21-Jul-11	20-Jul-16	33 Blocks Laverton and Leonora Shires, 106km ²	Active	NA	Nickel, Gold
E39/1582	Ishine International	27-Apr-12	26-Apr-17	6 Blocks Laverton, 18km ²	Active	NA	Nickel, Gold
E37/1074	Ishine International	14-Sep-11	13-Sep-16	4 Blocks Leonora Shire, 13km ²	Active	NA	Nickel, Gold
E80/4619	Ishine International	25-Sep-12	24-Sep-17	16 Blocks Moola Bulla and Kimberley, 52km ²	Active	NA	Nickel, Copper, Gold

Management Discussion and Analysis

South Australia

Tenement	Registered holder/ applicant	Grant date	Expiry Date	Area size and locality	Current status and plan	Status of renewal of tenement (if expiring within 1 year)	Commodity
EL4830 (ELA-234/10)	Ishine International	20-Jan-12	19-Jan-16	340 km ² Mulga Well Area	Active	NA	Gold, Cobalt, Uranium
EL4831 (ELA-239/10)	Ishine International	20-Jan-12	19-Jan-16	992 km ² Mulgaria Area	Active	NA	Uranium

FINANCIAL REVIEW

For the six months ended 30 June 2015, the Group recorded revenue of approximately RMB181.7 million as compared with approximately RMB279.2 million for the six months ended 30 June 2014, representing a decrease of approximately 34.9%. For the six months ended 30 June 2015, 35.4% of the Group's total sales consisted of the sales of iron concentrates and titanium concentrates while the remaining 64.6% of sales were derived from trading of coarse iron powder and other income from Ishine International. The Group mainly sold iron concentrates and titanium concentrates produced by the Group to iron pellets and steel producers in Shandong Province, the PRC. In addition to the above customers of iron and titanium concentrates, the Group sold coarse iron powder to other customers engaged in trading and manufacturing of iron-related products in the PRC.

Prices of the Group's products

Iron Concentrates

The unit prices of approximately 57% and 65% iron concentrates produced by the Group mainly depend on the iron content contained in the Group's iron concentrates and are affected by the market conditions, including but not limited to the global, China and Shandong supply of and demand for iron ore products and the prosperity of Shandong steel industry.

The Group's average unit selling prices of 57% and 65% iron concentrates for the six months ended 30 June 2015 were approximately RMB428.6 and RMB488.1 per tonne respectively, representing a decrease of approximately 34.0% and 45.5% as compared with the average unit selling prices of approximately RMB649.3 and RMB895.6 per tonne for the six months ended 30 June 2014 respectively. Such decrease was mainly due to the continuous slowdown of China's economy during the first half year of 2015.

Titanium Concentrates

Since 2013, the Group has been engaging in ilmenite ore exploration, mining and processing. The unit price of titanium concentrates produced by the Group mainly depends on the titanium content contained in the Group's titanium concentrates and is affected by the market conditions, including but not limited to the global, China and Shandong supply of and demand for ilmenite ore products and the prosperity of Shandong steel industry.

During the six months ended 30 June 2015, the Group did not produce and sell any titanium concentrates.

Management Discussion and Analysis

Revenue

Revenue was generated from the sales of the Group's products to external customers net of value added tax as well as from the Group's 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, market conditions and the prices of the Group's products. The following table sets forth a breakdown of the Group's revenue for the periods indicated:

	Six months ended 30 June 2015		Six months ended 30 June 2014	
	RMB'000	%	RMB'000	%
Revenue				
Sales of iron concentrates produced by the Group				
– from iron ore of Yangzhuang Iron Mine (65% iron concentrates)	44,953	24.8%	103,118	36.9%
– from ilmenite ore of Luxing Titanium Mine (57% iron concentrates)	2,952	1.6%	3,636	1.3%
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder (65% iron concentrates)	16,369	9.0%	123,386	44.2%
	64,274	35.4%	230,140	82.4%
Sales of titanium concentrates produced by the Group				
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine (46% titanium concentrates)	–	–	2,909	1.1%
Sales of trading activities				
– from coarse iron powder	116,168	63.9%	43,606	15.6%
Other income from Ishine International	1,235	0.7%	2,580	0.9%
	181,677	100.0%	279,235	100.0%

Management Discussion and Analysis

The following table sets forth a breakdown of the volume of iron concentrates, titanium concentrates and trading products sold by the Group for the periods indicated:

	Six months ended 30 June 2015 (Kt)	Six months ended 30 June 2014 (Kt)
Sales volume of iron concentrates produced by the Group		
– from iron ore of Yangzhuang Iron Mine (65% iron concentrates)	92.1	115.3
– from ilmenite ore of Luxing Titanium Mine (57% iron concentrates)	6.9	5.6
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder (65% iron concentrates)	33.3	137.6
	132.3	258.5
Sales volume of titanium concentrates produced by the Group		
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine (46% titanium concentrates)	–	3.7
Sales volume of trading activities		
– from coarse iron powder	269.8	61.5
	402.1	323.7

Management Discussion and Analysis

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

	Six months ended 30 June 2015		Six months ended 30 June 2014	
	(Kt)	%	(Kt)	%
Iron concentrates produced by the Group				
Amount of iron concentrates produced from iron ore of Yangzhuang Iron Mine (65% iron concentrates)	8.3	20.0%	104.8	37.8%
Amount of iron concentrates produced from ilmenite ore of Zhuge Shangyu Ilmenite Mine (57% iron concentrates)	–	–	3.8	1.4%
Amount of iron concentrates produced from ilmenite ore of Luxing Titanium Mine (57% iron concentrates)	–	–	16.6	5.9%
Amount of mixing iron concentrates purchased from other suppliers and/or iron concentrates produced from coarse iron powder (65% iron concentrates)	33.3	80.0%	152.4	54.9%
Total	41.6	100.0%	277.6	100.0%
Titanium concentrates produced by the Group				
Amount of titanium concentrates produced from ilmenite ore of Zhuge Shangyu Ilmenite Mine (46% titanium concentrates)	–	–	5.7	58.2%
Amount of titanium concentrates produced from ilmenite ore of Luxing Titanium Mine (20%-30% titanium concentrates)	–	–	4.1	41.8%
Total	–	–	9.8	100.0%



Management Discussion and Analysis

For the six months ended 30 June 2015, revenue is mainly derived from sales of coarse iron powder to the Group's trading customers. Revenue is also derived from sales of iron concentrates produced by the Group.

The Group's revenue has decreased by approximately RMB97.5 million, or approximately 34.9% during the six months ended 30 June 2015 as compared to the six months ended 30 June 2014. The decrease in revenue is mainly due to (1) the decrease in sales of iron concentrates produced from iron ore of Yangzhuang Iron Mine by approximately RMB58.2 million for the six months ended 30 June 2015; (2) the decrease in sales of titanium concentrates produced from ilmenite ore of Zhuge Shangyu by approximately RMB2.9 million for the six months ended 30 June 2015; (3) the decrease in sales of iron concentrates produced from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder by approximately RMB107.0 million for the six months ended 30 June 2015; and such decline in revenue was offset by the increase in turnover of trading of coarse iron powder by approximately RMB72.6 million from approximately RMB43.6 million for the six months ended 30 June 2014 to RMB116.2 million for the six months ended 30 June 2015.

The decrease in sales of iron concentrates produced from iron ore of Yangzhuang Iron Mine was mainly due to the fact that the management strategically reduced production volume and sales volume and increased inventory during the downturn of steel market.

Sales derived from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder dropped by approximately 86.7% from approximately RMB123.4 million for the six months ended 30 June 2014 to approximately RMB16.4 million for the six months ended 30 June 2015, mainly as a result of the slowdown of China's economy, decline in demand from steel manufacturers in Shandong Province and the strategic decision of the management to reduce production volume and sales volume of iron concentrates produced from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder.

The entire iron and steel market has demonstrated an ongoing downward moving trend as the economy in China continued to remain sluggish. The management has restructured the sales mix of products and increased trading activities. The total sales generated from trading activities significantly increased by approximately 166.5%, which was mainly due to the increase of trading turnover of coarse iron powder from approximately RMB43.6 million for the six months ended 30 June 2014 to approximately RMB116.2 million for the six months ended 30 June 2015.

Management Discussion and Analysis

Cost of Sales

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

	Six months ended 30 June 2015		Six months ended 30 June 2014	
	RMB'000	%	RMB'000	%
Cost of Sales				
Cost of sales of iron concentrates produced by the Group				
– from iron ore of Yangzhuang Iron Mine (65% iron concentrates)	47,566	25.0%	65,042	27.7%
– from ilmenite ore of Luxing Ilmenite Mine (57% iron concentrates)	2,975	1.6%	4,369	1.9%
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder (65% iron concentrates)	16,265	8.6%	119,159	50.8%
	66,806	35.2%	188,570	80.4%
Cost of sales of titanium concentrates produced by the Group				
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine (46% titanium concentrates)	–	–	2,876	1.2%
Cost of sales of trading activities				
– from sales of coarse iron powder	122,130	64.4%	41,059	17.5%
Exploration costs incurred by Ishine International	799	0.4%	2,184	0.9%
	189,735	100.0%	234,689	100.0%

Cost of sales was mainly derived from trading of coarse iron powder. The cost of sales during production of iron concentrates and titanium concentrates 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.

Management Discussion and Analysis

Total cost of sales decreased by approximately 19.2% to approximately RMB189.7 million for the six months ended 30 June 2015, as compared with approximately RMB234.7 million for the corresponding period of 2014. Such decrease was consistent with the decrease in the Group's revenue during the six months ended 30 June 2015, which was mainly due to (1) the decrease in the sales volume of iron concentrates produced from iron ore of Yangzhuang Iron Mine, ilmenite ore of Zhuge Shangyu and ilmenite ore of Luxing Titanium Mine by approximately 25.6 Kt for the six months ended 30 June 2015; and (2) the decreases in sales volume of iron concentrates produced from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder by 104.3 Kt for the six months ended 30 June 2015.

Gross profit and gross profit margin

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

	Six months ended 30 June 2015		Six months ended 30 June 2014	
	RMB'000	%	RMB'000	%
Gross (loss)/profit				
Gross (loss)/profit of iron concentrates produced by the Group				
– from iron ore of Yangzhuang Iron Mine (65% iron concentrates)	(2,613)	32.4%	38,076	85.5%
– from ilmenite ore of Luxing Ilmenite Mine (57% iron concentrates)	(23)	0.3%	(733)	(1.7)%
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder (65% iron concentrates)	104	(1.3)%	4,227	9.5%
	(2,532)	31.4%	41,570	93.3%
Gross profit of titanium concentrates produced by the Group				
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine (46% titanium concentrates)	–	–	33	0.1%
Gross (loss)/profit of trading activities				
– from sales of coarse iron powder	(5,962)	74.0%	2,547	5.7%
Gross profit of exploration activities	436	(5.4)%	396	0.9%
	(8,058)	100.0%	44,546	100.0%

Management Discussion and Analysis

	Six months ended 30 June 2015	Six months ended 30 June 2014
	%	%
Gross profit margin		
Gross profit margin of iron concentrates		
– from iron ore of Yangzhuang Iron Mine (65% iron concentrates)	(5.8)%	36.9%
– from ilmenite ore of Luxing Ilmenite Mine (57% iron concentrates)	(0.8)%	(20.2)%
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder (65% iron concentrates)	0.6%	3.4%
	(3.9)%	18.1%
Gross profit margin of titanium concentrates		
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine (46% titanium concentrates)	–	1.1%
Gross profit margin of trading activities		
– from sales of coarse iron powder	(5.1)%	5.8%
Gross profit margin of exploration activities	35.3%	15.3%
	(4.4)%	16.0%

Gross profit decreased by approximately RMB52.6 million from gross profit of approximately RMB44.5 million for the six months ended 30 June 2014 to gross loss of approximately RMB8.1 million for the six months ended 30 June 2015. The main reasons for the decline were (1) the decrease in sales gross profit of iron concentrates produced from Yangzhuang Iron Mine by approximately RMB40.7 million from gross profit of approximately RMB38.1 million for the six months ended 30 June 2014 to gross loss of approximately RMB2.6 million for the six months ended 30 June 2015; (2) the decrease in sales gross profit of iron concentrates produced from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder by approximately RMB4.1 million from approximately RMB4.2 million for the six months ended 30 June 2014 to approximately RMB0.1 million for the six months ended 30 June 2015; and (3) the decrease in gross profit of trading of coarse iron powder by approximately RMB8.5 million from gross profit of approximately RMB2.5 million for the six months ended 30 June 2014 to gross loss of approximately RMB6.0 million for the six months ended 30 June 2015.



Management Discussion and Analysis

Overall gross profit margin decreased from gross profit margin of 16.0% to gross loss margin of 4.4% for the six months ended 30 June 2015 as compared with the corresponding period of 2014. The decrease in overall gross profit margin was primarily due to the sluggish global economy, especially the economic slowdown and the decrease in domestic demand in China, together with a substantial increase in production volume of the four largest mining companies in the world, which increased the supply of iron ore products and resulted in the decline of the price. The average unit selling price of 65% iron concentrates declined by 45.5% from approximately RMB895.6 per tonne for the six months ended 30 June 2014 to approximately RMB488.1 per tonne for the six months ended 30 June 2015.

Other losses/gains, net

The Group's other losses were approximately RMB13.2 million for the six months ended 30 June 2015 as compared with other gains of approximately RMB1.3 million for the six months ended 30 June 2014, which was mainly due to the loss from issuance of non-listed warrants of approximately RMB13.5 million. On 1 June 2015, 140,000,000 non-listed warrants were issued at par value of RMB0.0016 each and the exercise price was RMB0.319.

Finance costs, net

Net finance costs mainly comprised interest expense on bank loans of the Group, offset by interest income of bank deposits. Finance costs decreased by approximately 6.9% from approximately RMB10.1 million for the six months ended 30 June 2014 to approximately RMB9.4 million for the six months ended 30 June 2015, mainly due to the decrease in weighted average bank loans during the six months ended 30 June 2015 which reduced the interest expense by approximately RMB1.6 million.

Total comprehensive income/loss

The total comprehensive loss attributable to owners of the Company was approximately RMB76.1 million for the six months ended 30 June 2015, representing a decrease of approximately RMB83.6 million, or 1,114.7%, as compared with total comprehensive income attributable to owners of the Company of RMB7.5 million for the six months ended 30 June 2014. This was mainly due to (1) the gross profit decreased by approximately RMB52.6 million from gross profit of approximately RMB44.5 million for the six months ended 30 June 2014 to gross loss of approximately RMB8.1 million for the six months ended 30 June 2015. The main reasons for the decline were (i) the decrease in sales gross profit of iron concentrates produced from Yangzhuang Iron Mine by approximately RMB40.7 million from gross profit of approximately RMB38.1 million for the six months ended 30 June 2014 to gross loss of approximately RMB2.6 million for the six months ended 30 June 2015; (ii) the decrease in sales gross profit of iron concentrates produced from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder by approximately RMB4.1 million from approximately RMB4.2 million for the six months ended 30 June 2014 to approximately RMB0.1 million for the six months ended 30 June 2015; and (iii) the decrease in gross profit of trading of coarse iron powder by approximately RMB8.5 million from gross profit of approximately RMB2.5 million for the six months ended 30 June 2014 to gross loss of approximately RMB6.0 million for the six months ended 30 June 2015; (2) the loss from issuance of non-listed warrants of approximately RMB13.5 million. On 1 June 2015, 140,000,000 non-listed warrants were issued at par value of RMB0.0016 each and the exercise price was RMB0.319; and (3) increase in the impairment loss of assets by approximately RMB19.5 million from approximately RMB0.8 million for the six months ended 30 June 2014 to approximately RMB20.3 million for the six months ended 30 June 2015.

Management Discussion and Analysis

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 six months ended 30 June 2015 was approximately RMB0.8 million as compared with net loss of approximately RMB1.4 million for the six months ended 30 June 2014.

CAPITAL STRUCTURE

The Company's issued share capital as at 30 June 2015 is HK\$8,851,215.84 divided into 4,425,607,920 shares of HK\$0.002 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 30 June 2015 was approximately 22.7% (31 December 2014: approximately 23.6%). The current ratio (calculated as current assets divided by current liabilities) as at 30 June 2015 was approximately 2.0 times (31 December 2014: approximately 2.2 times).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2015, the total amount of borrowings of the Group was approximately RMB239.0 million (31 December 2014: approximately RMB222.0 million). The Group's cash and bank balances amounted to approximately RMB185.1 million (31 December 2014: approximately RMB142.0 million), which were mainly denominated in RMB.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS OR DISPOSALS

There was no material investment, acquisition or disposal by the Group during the six months ended 30 June 2015.

FUND RAISING ACTIVITIES AND ISSUANCE OF SHARES

On 1 March 2015, the Company entered into a subscription agreement (as supplemented by a supplemental deed dated 2 March 2015) with X. Mining Resources Group Limited (the "Subscriber") for the subscription by the Subscriber of (i) 392,000,000 new shares of HK\$0.002 each in the capital of the Company ("Shares") at the subscription price of RMB0.304 (equivalent to approximately HK\$0.384) per Share ("Share Subscription"); and (ii) 140,000,000 units of unlisted warrants at the issue price of RMB0.016 (equivalent to approximately HK\$0.02) per warrant ("Warrant Subscription").

The Share Subscription was completed on 16 March 2015, and 392,000,000 subscription Shares were issued pursuant to the general mandate granted by the shareholders of the Company at the extraordinary general meeting held on 27 October 2014. A net proceeds from the Share Subscription of HK\$150,000,000 was raised. The net price per subscription Share was approximately HK\$0.383. As at the date of this report, the proceeds were not yet utilized.

The warrants conferring its holder the right to subscribe for an aggregate of 140,000,000 Shares at the subscription price (subject to adjustments) of RMB0.319 (equivalent to approximately HK\$0.402) per Share for a period of 12 months commencing from the date of issuance of the warrants. The Warrant Subscription was approved by the shareholders of the Company at the extraordinary general meeting held on 27 May 2015, and was completed on 1 June 2015. A net proceeds of approximately HK\$2,750,000 from the Warrant Subscription in respect of the issuance of the warrant at the issue price of RMB0.016 was raised. As at the date of this report, the net proceeds were not yet utilized.



Management Discussion and Analysis

For further details of the above Share Subscription and Warrant Subscription, please refer to the announcement of the Company dated 2 March 2015 and the circular of the Company dated 11 May 2015.

During the six months ended 30 June 2015, an aggregate of 125,750,000 Shares have been issued upon exercise of the subscription rights attaching to the warrants issued by the Company on 17 July 2014 at the adjusted exercise price of HK\$0.338 per Share. 289,500,000 units of unexercised warrants were expired on 17 July 2015. A further net proceeds of approximately HK\$42.4 million (i.e. approximately HK\$0.337 per Share) was raised. The aggregate nominal value of the warrants converted into ordinary shares during the six months ended 30 June 2015 was HK\$251,500. The Company has utilised the net proceeds as general working capital of the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

Shandong Ishine, Luxing Titanium and Ishine International, which operate in the PRC and Australia respectively, are three major subsidiaries of the Group. Almost all the transactions of Shandong Ishine, Luxing Titanium and Ishine International are denominated and settled in their respective functional currencies, i.e. RMB and AUD.

Although the Group may be exposed to foreign exchange risk, 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 30 June 2015, the mining rights of Shandong Ishine with book value of approximately RMB3.6 million were pledged for bank borrowings of approximately RMB70.0 million.

EXPLORATION COMMITMENTS AND CAPITAL 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 in Australia. 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 expenditures beyond the next year. Expenditures may be reduced by seeking exemption from individual commitments, by relinquishing of tenure or any new joint venture agreements. Expenditures may be increased when new tenements are granted or joint venture agreements are amended. The total tenement commitment for Ishine International as at 30 June 2015 is approximately RMB2.3 million (equivalent to approximately AUD0.5 million).

EMPLOYEE BENEFITS AND REMUNERATION POLICIES

As at 30 June 2015, the Group had a total of 259 employees (31 December 2014: 427). The employees of the Group were remunerated based on their experience, qualifications, the Group's performance and market conditions. During the six months ended 30 June 2015, staff costs (including Directors' remunerations) amounted to approximately RMB8.8 million (six months ended 30 June 2014: approximately RMB12.6 million).

CONTINGENT LIABILITIES

As at 30 June 2015, the Group has no material contingent liabilities.

Management Discussion and Analysis

USE OF THE IPO PROCEEDS

Purpose	Amount allocated as provided in the Prospectus <i>RMB million</i> <i>(approximately)</i>	Amount utilised up to the date of the Announcement ^(Note) <i>RMB million</i> <i>(approximately)</i>	Unutilised amount as at the date of the Announcement <i>RMB million</i> <i>(approximately)</i>	Amount to be reallocated to new purposes <i>RMB million</i> <i>(approximately)</i>	Amount utilised up to 31 December 2013 <i>RMB million</i> <i>(approximately)</i>	Unutilised amount as at 30 June 2015 <i>RMB million</i> <i>(approximately)</i>
Purposes disclosed in the Prospectus						
Financing the expansion of mining capacity of Yangzhuang Iron Mine	62.4	36.6	25.8	–	36.6	–
Financing the first stage of development plan of Zhuge Shangyu Ilmenite Mine	42.7	4.1	38.6	12.6	16.7	–
New Purposes						
Commencement of operation of Zhuge Shangyu Ilmenite Mine	–	–	–	22.0	22.0	–
Commencement of the Qinjiazhuang Ilmenite Project	–	–	–	16.0	16.0	–
Technology improvement plan to increase annual processing capacity of Luxing Titanium Ilmenite Mine	–	–	–	3.8	3.8	–
General working capital	–	–	–	10.0	10.0	–
Total	105.1	40.7	64.4	64.4	105.1	–

Note: The Company published an announcement dated 7 February 2013 (the “Announcement”) in relation to, among others, change in use of IPO proceeds. On 3 April 2013, the Company published a clarification announcement 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 re-allocated.

CURRENT STATUS AND FUTURE PLANS

In the new economic environment, the Group has planned its business layouts, resolved to seize newly emerged opportunities in the markets and performed detailed analysis on upstream and downstream activities of iron and ilmenite ore product industry in order to adopt more accurate industrial positioning and development strategies. Meanwhile, as a listed resources holdings company with a strong sense of accountability towards investors, the Group focuses on China’s newly published resource policies in order to actively seek new directions of investment in resources and formulate a new industrial plan for new clean energy, laying foundation for future development. Having conducted market research and analyzing all the data comprehensively, the management formulates the following development plans:



Management Discussion and Analysis

I. Production and operation

In the coming year, the Group will still insist on the development direction of relying on iron concentrates as basis and focusing on titanium concentrates. The Group will analyze the operational risk in depth, carefully judge the timing of trading activity, implement production plans in a timely manner and seize potential trading opportunities in order to maximize value of the Group.

1. Yangzhuang Iron Mine

Currently, the Group possesses mining rights of Yangzhuang Iron Mine with an approved annual production scale of 2.3Mt.

According to market conditions, the Group plans to mine and process approximately 1.4Mt of iron ores and produce approximately 0.20Mt of 65% iron concentrates in this year. If there is a market downturn in 2015, the Group will further strengthen its mining projects, maintain its mines and protect resources by appropriately controlling production and processing volume, in order to be well-prepared for the future. In order to fully utilize production equipment, the Group will determine whether to process iron concentrates purchased from other suppliers and/or a portion of coarse powder based on profitability. Meanwhile, the Group will continue to implement the comprehensive utilisation of residual ores and improve overall benefits of maintaining green environment in Yangzhuang Iron Mine. The Group invested approximately RMB3.6 million in Yangzhuang Iron Mine during the first half year of 2015.

Approximately 0.2Mt and 0.063Mt of iron ores were mined and processed respectively and 0.008Mt of 65% iron concentrates were produced from Yangzhuang Iron Mine during the first half year of 2015.

There was no exploration activity carried out in Yangzhuang Iron Mine during the first half year of 2015.

2. Zhuge Shangyu Ilmenite Mine

Currently, the Group possesses mining rights of Zhuge Shangyu Ilmenite Mine with an approved annual production scale of 400,000m³; or approximately 1.2Mt.

The Group rented an iron ore processing plant and installed a new titanium processing line in it in 2013. The Group will use the production line as a platform to strengthen cooperation with national scientific research institutions in order to improve processing technology for extraction of titanium, control production costs and enhance the comprehensive recovery rate of ilmenite ore.

If the market recovers in the future, the Group will increase its investment in the 2.0Mt production line in Zhuge Shangyu Ilmenite Mine. If it is less profitable or not profitable at all, the Group will suspend investments. The Group will decide whether to mine its own mines based on market conditions. The Group invested approximately RMB1.4 million in Zhuge Shangyu Ilmenite Mine in the first half year of 2015.

Due to a market downturn during the first half year of 2015, there was no exploration, mining or processing activity carried out in Zhuge Shangyu Ilmenite Mine.

Management Discussion and Analysis

3. *Qinjazhuang Ilmenite Mine*

In 2015, the Group will determine whether to invest in and conduct production activities in Qinjazhuang Ilmenite Mine based on future market changes.

Due to a market downturn during the first half year of 2015, there was no exploration, investment or production activity carried out in Qinjazhuang Ilmenite Mine.

4. *Luxing Titanium Mine*

Currently, the Group possesses mining rights of Luxing Titanium Mine with an approved annual production scale of 1.5 Mt.

Based on market conditions of the first half year of 2015, the Group has set its basic business objectives as protecting resources instead of selling-off and maintaining the interest of shareholders. The Group will decide whether to mine and process its own mines based on future profitability.

Due to a market downturn during the first half year of 2015, there was neither investment nor exploration, mining or processing activity carried out in Luxing Titanium Mine.

5. *Gaozhuang Shangyu Ilmenite Mine*

During the first half year of 2015, there was no capital expenditure and no exploration and mining activity carried out in Gaozhuang Shangyu Ilmenite Mine.

6. *Bashan Iron Mine*

During the first half year of 2015, there was no capital expenditure and no exploration and mining activity carried out in Bashan Iron Mine.

II. Business relating to capital markets and others

1. In order to fully capitalize on the re-financing platform, the Group placed its new shares in due time, continuously broadening its shareholder base, increasing the liquidity of its shares and providing financial support to potential merger and acquisition projects, if any, or extension of the Group's industrial chain of titanium products.

As of 30 June 2015, the Group utilized the re-financing platform to place its shares and raised approximately RMB153.0 million.

2. The Group always follows the industrial incentive policies of the central government. In order to capitalize on its domestic resources and advantages, the Group plans to engage in financial leasing business and funding business in due course, so as to turn the new businesses into new growth drivers for the Group.

During the first half year of 2015, the Company established a financial leasing company in Tianjin, the PRC, to carry out financial leasing business in respect of purchase of leased properties in domestic and overseas markets, maintenance and disposal of leased properties, as well as consultation and guarantee on leasing transactions. The financial leasing company is now in normal operation.



Management Discussion and Analysis

III. Technological innovation and other businesses

1. In 2015, Shandong Academician Workstation has been approved for establishment as the basis of closer industry-university-research cooperation for research on new techniques relating to hydrometallurgy processing of ilmenite and associated elements with furnace method.

During the first half year of 2015, the research on new techniques was conducted orderly.

2. The Group actively seeks further research support from Institute of Process Engineering of the Chinese Academy of Sciences in regards to the development and innovation of hydrometallurgy processing of 76%-or-above titanium concentrate based on the so-far achieved results.

During the first half year of 2015, the cooperation with Institute of Process Engineering of the Chinese Academy of Sciences was conducted orderly.

3. The Group actively advances the cooperation with Siberian Branch of the Russian Academy of Sciences to introduce new technology to efficiently extract titanium from ilmenite ores.

During the first half of year 2015, the cooperation with Siberian Branch of the Russian Academy of Sciences achieved significant progress.

IV. Fuel oil business

To explore new business opportunities in 2015, the Group plans to engage in import and sales of fuel oil based on market conditions to develop new profit drivers for the Group.

Due to market conditions, the Group did not engage in import and sales of fuel oil in the first half year of 2015.

V. Clean energy

During the first half year of 2015, the Group focused on investigation and research on national policies in respect of new clean energy such as wind power and solar energy. Based on the natural characteristics such as geography and landform of its mines, the Group selectively cooperated with professional state-owned enterprises and well-established companies to outline a specific blueprint for resource development. The Group plans to steadily expand utilization of sustainable and renewable energy such as wind power and solar energy in idle areas available for use of the Group's mines in the future to reduce production costs and increase economic benefit as well as to develop a new business with economic growth.

The above sets forth our current status and future plans in the first half year of 2015. To conclude, the Group will selectively adjust its working plans in a timely manner in response to changes of market conditions, make more efforts to retain and foster talents, and endeavor to implement and evaluate the plans in order to pursue long-term development of the Group. The Group will try its best to maximize long-term and sustainable value for investors.

SEGMENTAL INFORMATION

Details of segmental information of the Group as at 30 June 2015 are set out in note 6 in this report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Other Information

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2015, the interests or short positions of the Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "SFO") which were notified to the Company and The Stock Exchange of Hong Kong Limited (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 provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), 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 shareholding in the Company
Mr. Li Yunde ("Mr. Li")	Interest of controlled corporation	Long position	2,035,642,660 (Note 1)	46.00%
Mr. Lang Weiguo ("Mr. Lang")	Interest of controlled corporation	Long position	665,850,000 (Note 2)	15.05%

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 shareholding in the associated corporation
Mr. Li	Hongfa Holdings Limited	Beneficial owner	1 (Note 1)	100.00%
Mr. Li	Ishine International Resources Limited	Beneficial owner	10,000,000	11.45%
Mr. Li	Linyi Luxing Titanium Co., Ltd	Interest of controlled corporation	1,100,000 (Note 3)	5.00%

Notes:

- 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 2,035,642,660 shares of the Company (the "Share(s)"). For the purposes of the SFO, Mr. Li is deemed or taken to be interested in all the Shares held by Hongfa Holdings Limited.
- Mr. Lang beneficially holds the entire issued share capital of Novi Holdings Limited and All Five Capital Ltd, both of which were incorporated in the BVI with limited liability, which in turn beneficially hold 532,650,000 Shares and 133,200,000 Shares, respectively. For the purposes of the SFO, Mr. Lang is deemed or taken to be interested in all the Shares held by Novi Holdings Limited and All Five Capital Ltd.

Other Information

3. Mr. Li and his spouse, Ms. Zhang Limei, together hold the entire equity interest of Linyi Run Xing Investment Company Limited, which in turn holds 1,100,000 shares in Linyi Luxing Titanium Co., Ltd. For the purposes of the SFO, Mr. Li is deemed or taken to be interested in all the shares held by Linyi Run Xing Investment Company Limited.

Save as disclosed above, as at 30 June 2015, 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 30 June 2015, 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 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 Shares held	Approximate percentage of interest
Hongfa Holdings Limited	Beneficial owner	Long position	2,035,642,660	46.00%
Ms. Zhang Limei	Interest of spouse	Long position	2,035,642,660 (Note 1)	46.00%
Novi Holdings Limited	Beneficial owner	Long position	532,650,000	12.04%
X. Mining Resources Group Limited	Beneficial owner	Long position	467,000,000 (Note 2)	10.55%
Mr. Wu Pun Yan ("Mr. Wu")	Interest of controlled corporation	Long position	467,000,000 (Note 3)	10.55%
	Beneficial Owner	Long position	12,000,000	0.27%

Notes:

- (1) Ms. Zhang Limei ("Ms. Zhang") is the spouse of Mr. Li. For the purpose of the SFO, Ms. Zhang is deemed or taken to be interested in all the Shares in which Mr. Li is interested.
- (2) These 467,000,000 Shares include 140,000,000 Shares derived from the 140,000,000 units unlisted warrants ("Unlisted Warrants") issued by the Company entitling X. Mining Resources Group Limited to subscribe for one Share for each Unlisted Warrant. Details of the Unlisted Warrants are set out in the Circular to Shareholders dated 11 May 2015.
- (3) Mr. Wu beneficially holds the entire issued share capital of X. Mining Resources Group Limited which in turn beneficially holds 467,000,000 Shares. For the purposes of SFO, Mr. Wu is deemed or taken to be interested in all the Shares held by X. Mining Resources Limited.

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 30 June 2015.

Other Information

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 for 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 date of commencement of the listing of the shares on the Stock Exchange (i.e., 27 April 2012) (the "Listing Date") (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 under the Scheme 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.



Other Information

SHARE OPTION OF ISHINE INTERNATIONAL RESOURCES LIMITED (“ISHINE INTERNATIONAL”)

As at 30 June 2015, Ishine International, an indirectly non-wholly-owned subsidiary of the Company, has a total of 6,075,000 options to acquire shares in 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

At no time during the six months ended 30 June 2015 was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of shares in, or debt securities, including debentures, of the Company or any other body corporate.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors had complied with the required standards as set out in the Model Code during the six months ended 30 June 2015.

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 Listing Rules as its own code of corporate governance.

In the opinion of the Directors, the Company was in compliance with all the relevant code provisions set out in the CG Code throughout the six months ended 30 June 2015.

AUDIT COMMITTEE

The Company established the Audit Committee on 9 April 2012 with written terms of reference in compliance with the CG Code. It currently comprises of three independent non-executive Directors, namely Mr. Lin Chu Chang (chairman), Mr. Li Xiaoyang and Mr. Zhang Jingsheng. The main objectives of the Audit Committee are to be responsible for relationship with the Company’s auditor, review of the Company’s financial information and monitoring the Company’s financial reporting system and internal control procedures. The Audit Committee had reviewed this interim report and the unaudited interim financial information for the six months ended 30 June 2015 before such documents were tabled at a meeting of the Board held on 28 August 2015 for the Board’s review and approval, and was of the opinion that such documents had complied with the applicable accounting standards, the Listing Rules and other applicable legal requirements and that adequate disclosures had been made.

By order of the Board

China Zhongsheng Resources Holdings Limited

Li Yunde

Chairman

Hong Kong, 28 August 2015