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## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in doubt** as to any aspect of this Scheme Document, the Proposal, the Option Offer or as to the action to be taken, you are recommended to seek your own independent financial advice immediately or consult a licensed securities dealer or other registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**Scheme Shareholders should read the whole of this Scheme Document.** In addition, the document should be read in conjunction with the accompanying forms of proxy.

**If you have sold or transferred** all your shares in China Vanadium Titano-Magnetite Mining Company Limited, you should at once hand this Scheme Document and the accompanying forms of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

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**Trisonic International Limited**  
(Incorporated in Hong Kong with limited liability)

**Keen Talent Holdings Limited**  
(Incorporated in Hong Kong with limited liability)



**China Vanadium Titano-Magnetite Mining Company Limited**  
(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 00893)

**PROPOSED PRIVATISATION OF  
CHINA VANADIUM TITANO-MAGNETITE MINING COMPANY LIMITED  
BY KEEN TALENT HOLDINGS LIMITED  
TO BE EFFECTED BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 86 OF THE COMPANIES LAW (2012 REVISION) OF THE CAYMAN ISLANDS)  
WITH CANCELLATION CONSIDERATION IN CASH  
OF HK\$1.93 FOR EVERY SCHEME SHARE  
AND  
PROPOSED CASH OFFER TO CANCEL ALL OUTSTANDING OPTIONS**

Financial Adviser to the Offeror

**BofA Merrill Lynch**

Independent Financial Adviser to the Independent Committee of the Board of Directors of  
China Vanadium Titano-Magnetite Mining Company Limited



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All capitalised terms used in this Scheme Document have the meanings set out in the section headed "Definitions" on pages 1 to 7 of this Scheme Document.

A letter from the Board is set out on pages 11 to 24 of this Scheme Document. An Explanatory Memorandum regarding the Proposal and the Option Offer is set out on pages 43 to 63 of this Scheme Document. A letter from the IBC containing its advice to the Scheme Shareholders in respect of the Proposal and the Optionholders in respect of the Option Offer is set out on pages 25 and 26 of this Scheme Document. A letter from Guangdong Securities, the Independent Financial Adviser, containing its advice to the IBC in respect of the Proposal and the Option Offer is set out on pages 27 to 42 of this Scheme Document.

Notices convening the Court Meeting and the EGM to be held at Taishan Room, Level 5, Island Shangri-la Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Wednesday, 15 May 2013 at 9:30 a.m. and 10:00 a.m. respectively (or in the case of the EGM immediately after the conclusion or adjournment of the Court Meeting) are set out on pages V-1 to VI-3 of this Scheme Document. Whether or not you are able to attend the Court Meeting and/or EGM, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting and the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed on them respectively, and to deposit them at the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than the respective times and dates as stated under paragraph 21 headed "Action to be Taken" in the Explanatory Memorandum on pages 61 to 63 of this Scheme Document. The pink form of proxy in respect of the Court Meeting may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so deposited.

This Scheme Document is jointly issued by Keen Talent Holdings Limited, Trisonic International Limited and China Vanadium Titano-Magnetite Mining Company Limited.

**The English language text of this Scheme Document shall prevail over the Chinese language text.**

16 April 2013

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## IMPORTANT NOTICE

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### NOTICE TO US INVESTORS

The Proposal relates to the ordinary shares with a par value of HK\$0.10 each in the share capital of the Company, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange, and is proposed to be effected by way of a scheme of arrangement under the laws of the Cayman Islands and applicable rules and regulations in Hong Kong. Neither the proxy solicitation rules nor the tender offer rules under the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, will apply to the Proposal. Accordingly, the Proposal is subject to the disclosure requirements, rules and practices applicable in the Cayman Islands and Hong Kong, and the information disclosed in this Scheme Document may not be the same as that which would have been disclosed if this Scheme Document had been prepared for the purpose of complying with the disclosure requirements of the United States proxy solicitation rules and tender offer rules or in accordance with the laws or regulations of any other jurisdiction. The financial information included in this Scheme Document has been prepared in accordance with International Financial Reporting Standards and thus may not be comparable to financial information of United States companies or companies whose financial statements are prepared in accordance with the generally accepted accounting principles set by the Financial Accounting Standards Board of the United States. In addition, the settlement procedure with respect to the Proposal will comply with the rules of the Takeovers Code and the Companies Law, which differ from United States domestic settlement procedures in certain material respects, particularly with regard to the date of payment of consideration.

It may be difficult for United States holders of the Shares to enforce their rights and any claim arising out of United States securities laws, since the Offeror Group and the Company are incorporated outside of the United States, some or all of their respective officers and directors are resident outside of the United States and a substantial portion of their respective assets are located outside of the United States. United States holders of the Shares may not be able to sue a non-United States company or its officers or directors in a non-United States court for violations of United States securities laws, or enforce against them a judgment rendered by a United States court. Further, it may be difficult to compel a non-United States company and its affiliates to subject themselves to a United States court's jurisdiction.

Shareholders may obtain free copies of this Scheme Document at the websites maintained by the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and by the Company at [www.chinavtmmining.com](http://www.chinavtmmining.com).

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## DEFINITIONS

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*In this Scheme Document, the following expressions have the meanings respectively set opposite them unless the content requires otherwise:*

“acting in concert”	has the meaning given to it in the Takeovers Code, and “persons acting in concert” and “concert parties” will be construed accordingly
“Announcement”	the announcement dated 21 December 2012 issued jointly by the Offeror, the Parent and the Company pursuant to Rule 3.5 of the Takeovers Code in relation to the Proposal
“associate”	has the meaning given to it in the Takeovers Code
“Authorisations”	all necessary approvals, licences, consents, registrations, filing, rulings, permits and authorisations which may be required in connection with the Proposal
“Authority”	any relevant government, quasi-governmental, supranational, regulatory, administrative or investigative body, court, tribunal, arbitrator, agency, authority or department in any jurisdiction
“Bank Accounts”	one or more bank accounts of the Group with Standard Chartered Bank and/or its affiliates
“Beneficial Owner”	any beneficial owner of the Shares registered in the name of any nominee, trustee, depository or any other authorised custodian or third party
“Board”	the board of Directors
“BofA Merrill Lynch”	Merrill Lynch (Asia Pacific) Limited, a registered institution under the SFO, registered to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the SFO, being the financial adviser to the Offeror in connection with the Proposal
“Business Day”	a day on which the Stock Exchange is open for the transaction of business
“Cash Consideration”	the consideration payable under the terms of the Scheme by the Offeror to the Scheme Shareholders in an amount of HK\$1.93 in cash for every Scheme Share cancelled
“CCASS”	the Central Clearing and Settlement System established and operated by the Hong Kong Securities Clearing Company Limited

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## DEFINITIONS

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“Companies Law”	the Companies Law (2012 Revision) of the Cayman Islands (as amended)
“Company”	China Vanadium Titano-Magnetite Mining Company Limited, an exempted company incorporated in the Cayman Islands on 28 April 2008 with limited liability, the ordinary shares of which are currently listed on the Main Board of the Stock Exchange
“Concert Parties”	Mr. Wang Jin (a non-executive Director and a director and the controlling shareholder of the Parent), the Parent and Sapphire, being persons presumed to be acting in concert with the Offeror
“Conditions”	the conditions to the implementation of the Proposal and the Scheme as described under the section headed “Conditions of the Proposal” in the Explanatory Memorandum on pages 49 to 51 of this Scheme Document
“connected person”	has the meaning given to it in the Listing Rules
“controlling shareholder”	has the meaning given to it on the Listing Rules
“Court Hearing”	the hearing by the Grand Court of the petition seeking sanction of the Scheme and to confirm the proposed reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares
“Court Meeting”	the meeting of the Scheme Shareholders to be convened at the direction of the Grand Court for the purposes of considering and, if thought fit, approving the Scheme (with or without amendment), notice of which is set out on pages V-1 to V-2 ( <i>Notice of Court Meeting</i> ) of this Scheme Document, and any adjournment thereof
“Court Order”	the order of the Grand Court sanctioning the Scheme under section 86 of the Companies Law
“Deposit Amount”	an amount of not less than RMB1,200 million (or its equivalent in any other currency or currencies based on the RMB Benchmark Rate)
“Directors”	directors of the Company
“Dividend Payments”	dividend or other distribution (whether in cash or in kind) declared, made or paid to the Shareholders
“Effective Date”	the date on which the Scheme becomes effective

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## DEFINITIONS

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“EGM”	an extraordinary general meeting of the Company to be convened immediately following the close of the Court Meeting for the purpose of approving (i) by special resolution, the Reduction; (ii) by ordinary resolution, the restoration in the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and to apply the credit arising in its books of account as a result of the Reduction to pay up in full at par and issue to the Offeror such number of New Shares as is equal to the number of Scheme Shares cancelled; and (iii) by ordinary resolution the deposit and maintenance of the Deposit Amount by the Company in the Bank Accounts as referred to in Condition (e)
“Executive”	the Executive Director of the Corporate Finance Division of the SFC (or any delegate of the Executive Director)
“Exercise Price”	in respect of each Option, the relevant exercise price payable by the relevant Optionholder to subscribe for a Share under the Share Option Schemes
“Facility”	the bank facility arranged by Bank of America, N.A., Deutsche Bank AG, London Branch, ICBC International Strategic Investment Limited and Standard Chartered Bank (Hong Kong) Limited which the Parent has obtained for the purpose of financing the Proposal
“Grand Court”	the Grand Court of the Cayman Islands
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IBC”	the independent committee of the Board formed for the purpose of advising the Independent Shareholders as to what action they should take in relation to the Proposal and the Option Offer and comprise all the independent non-executive Directors
“Independent Financial Adviser” or “Guangdong Securities”	Guangdong Securities Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the IBC in relation to the Proposal and the Option Offer
“IPO”	the listing of the Shares on the Stock Exchange on 8 October 2009

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## DEFINITIONS

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“Independent Shareholders”	the Shareholders (other than the Concert Parties and any other persons acting in concert with the Offeror)
“Investor Participant”	a person admitted to participate in CCASS as an investor participant
“Last Accounting Date”	31 December 2012, being the date to which the latest published audited accounts of the Company were made up
“Last Trading Date”	19 December 2012, being the last full trading day prior to the issue of the Announcement
“Latest Practicable Date”	12 April 2013, being the latest practicable date prior to the despatch of this Scheme Document for the purpose of ascertaining certain information contained in this Scheme Document
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	10 June 2013 (or such later date, if any, as: (i) the Offeror and the Company may agree in writing; or (ii) as the Grand Court may, on application of the Offeror or the Company, allow or direct)
“Mr. Wang”	Mr. Wang Jin, a non-executive Director, a director and the controlling shareholder of the Parent and a person acting in concert with the Offeror
“New Shares”	the new Shares to be issued to the Offeror pursuant to the Scheme, the number of which is equal to the number of Scheme Shares to be cancelled
“New Share Option Scheme”	the share option scheme approved by the Shareholders at the annual general meeting of the Company held on 15 April 2010
“Offer Period”	has the meaning given to it in the Takeovers Code
“Offeror”	Keen Talent Holdings Limited, a company incorporated in Hong Kong, being a wholly-owned subsidiary of the Parent
“Offeror Board”	the board of director of the Offeror
“Offeror Director”	the sole director of the Offeror
“Offeror Group”	the Offeror, the Parent and the subsidiaries of the Parent (other than the Group)



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## DEFINITIONS

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“Old Share Option Scheme”	the share option scheme adopted by the Board on 4 September 2009
“Option Amount”	the consideration of HK\$0.001 in cash for every Option cancelled
“Option Irrevocable Undertaking”	irrevocable undertaking to not exercise the vested and unvested Options (as applicable) in respect of the Options held by the Optionholder(s)
“Option Offer”	the offer made by the Offeror for the cancellation of the outstanding Options, subject to the Scheme becoming unconditional
“Option Offer Letter”	the letter dated 16 April 2013, setting out the terms and conditions of the Option Offer sent separately to the Optionholders, and substantially in the form set out in “Appendix VII- Sample Option Offer Letter” to this Scheme Document
“Optionholders”	holder(s) of the Options
“Options”	the rights to subscribe for Shares under the Share Option Schemes, with each Option representing the right to subscribe for a Share at the relevant Exercise Price
“Other CCASS Participant”	a broker, custodian, nominee or other relevant person who is, or has deposited the Shares with, a CCASS participant
“Parent”	Trisonic International Limited, a company incorporated in Hong Kong and the controlling shareholder of the Company
“PRC”	the People’s Republic of China
“Pre-Announcement Date”	1 November 2012, being the trading day immediately prior to the suspension of trading in the Shares pending the issuance of the announcement on 5 November 2012
“Proposal”	the proposed privatisation of the Company by the Offeror to be effected by way of the Scheme
“Record Date”	28 May 2013, being the record date for determining entitlements under the Scheme
“Record Time”	4:30 p.m. (Hong Kong time) on the Record Date
“Reduction”	the proposed reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares

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## DEFINITIONS

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“Registered Owner”	any owner of the Shares (including without limitation a nominee, trustee, depository or any other authorised custodian or third party) entered in the register of members of the Company
“Registrar of Companies”	the registrar of companies appointed under the Companies Law
“RMB”	Renminbi, the lawful currency of the PRC
“RMB Benchmark Rate”	the applicable exchange rate published by the People’s Bank of China at closing of the PRC market on the day immediately prior to the date of the Court Hearing in the Cayman Islands or, if that day is not a day on which the applicable exchange rate is published, the immediately preceding day that the applicable exchange rate was published
“Sapphire”	Sapphire Corporation Limited, a company incorporated in Singapore and listed on the Singapore Stock Exchange
“Scheme”	the proposed scheme of arrangement between the Company and the Scheme Shareholders under Section 86 of the Companies Law for the implementation of the Proposal, with or subject to any modification, addition or condition approved or imposed by the Grand Court and agreed to by the Company
“Scheme Document”	this composite document, including each of the letters, statements, appendices and notices in it, as may be amended or supplemented from time to time
“Scheme Shareholders”	the Shareholders other than the Parent
“Scheme Shares”	the Shares held by the Scheme Shareholders
“Security Interest”	a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having similar effect (other than a lien arising under the standard terms of the Bank Accounts)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Share Financing Agreement”	the share financing agreement between Sapphire and Credit Suisse International dated 12 January 2011
“Share Option Schemes”	the Old Share Option Scheme and the New Share Option Scheme

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## DEFINITIONS

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“Shareholders”	registered holders of Shares whose names appear on the Company’s register of members
“Shares”	ordinary shares of HK\$0.10 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“US\$”	United States dollars, the lawful currency of the United States

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## EXPECTED TIMETABLE

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**Hong Kong time**

(unless otherwise stated)

Date of despatch of (1) this Scheme Document and (2) Option Offer Letter . . . . . Tuesday, 16 April 2013

Latest time for lodging transfers of the Shares in order to qualify  
for attending and voting at the Court Meeting and the EGM . . . . . before 4:30 p.m.  
on Thursday, 9 May 2013

Register of members of the Company closed for determination  
of entitlements of the Shareholders to attend and vote  
at the Court Meeting and at the EGM<sup>(1)</sup> . . . . . Friday, 10 May 2013 to  
Wednesday, 15 May 2013  
(both days inclusive)

Latest time for lodging forms of proxy in respect  
of the Court Meeting<sup>(2)</sup> . . . . . 9:30 a.m. on Monday, 13 May 2013

Latest time for lodging forms of proxy in respect  
of the EGM<sup>(2)</sup> . . . . . 10:00 a.m. on Monday, 13 May 2013

Suspension of dealing in the Shares on the Stock Exchange . . . . . 9:00 a.m. on Wednesday, 15 May 2013

Court Meeting<sup>(3)</sup> . . . . . 9:30 a.m. on Wednesday, 15 May 2013

EGM<sup>(3)</sup> . . . . . 10:00 a.m. on Wednesday, 15 May 2013  
(or immediately after the conclusion  
or adjournment of the Court Meeting)

Announcement of the results of the Court Meeting and  
the EGM published on the website of the Stock Exchange  
and the website of the Company . . . . . No later than 7:00 p.m. on Wednesday, 15 May 2013

Resumption of dealing in the Shares . . . . . 9:00 a.m. on Thursday, 16 May 2013

Latest time for dealing in the Shares . . . . . 4:00 p.m. on Tuesday, 21 May 2013

Court Hearing to sanction the Scheme and to confirm the Reduction<sup>(4)</sup> . . . . . 10:00 a.m. on Tuesday,  
21 May 2013  
(Cayman Islands time)

Announcement of (1) the results of the Court Hearing and (2) the intention  
to withdraw the listing of the Shares on the Stock Exchange . . . . . Wednesday, 22 May 2013

Latest time for lodging transfers of the Shares to qualify  
for entitlements under the Scheme . . . . . 4:30 p.m. on Friday, 24 May 2013

Register of members of the Company closed for determination of  
Scheme Shareholders who are qualified for entitlements  
under the Scheme . . . . . Monday, 27 May 2013 to Tuesday, 28 May 2013  
(both days inclusive)

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## EXPECTED TIMETABLE

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**Hong Kong time**  
(unless otherwise stated)

Effective Date <sup>(4), (5)</sup> .....	Monday, 27 May 2013 <b>(Cayman Islands time)</b>
Announcement of the Effective Date and the withdrawal of the listing of the Shares on the Stock Exchange .....	Tuesday, 28 May 2013
Record Time .....	4:30 p.m. on Tuesday, 28 May 2013
Expected withdrawal of the listing of the Shares on the Stock Exchange becomes effective .....	9:00 a.m. on Wednesday, 29 May 2013
Cheques for cash entitlements under the Proposal <sup>(6)</sup> .....	on or before Tuesday, 4 June 2013
Latest time to accept Option Offer <sup>(7)</sup> .....	4:30 p.m. on Monday, 10 June 2013
Lapse of outstanding Options not tendered into Option Offer .....	Monday, 10 June 2013
Last day for despatch of cheques for cash payment under the Option Offer <sup>(8)</sup> .....	Thursday, 20 June 2013

**Shareholders and Optionholders should note that the timetable is subject to change. Further announcement(s) will be made in the event that there is any change to the timetable.**

*Notes:*

- (1) The closure of the register of members of the Company during this period is not for the purpose of determining entitlements under the Scheme. Instead, it is for the purpose of determining entitlements of the Shareholders to attend and vote at the Court Meeting and the EGM.
- (2) Forms of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited with Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than the times and dates stated above. The pink form of proxy in respect of the Court Meeting may alternatively be handed to the chairman of the Court Meeting at the Court Meeting before the taking of the poll if it is not so deposited. In order to be valid, the pink form of proxy for the Court Meeting and the white form of proxy for the EGM must be deposited by the time and date stated above. Completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude a Shareholder entitled to do so from attending the relevant meeting and voting in person. In such event, the relevant form of proxy will be deemed to have been revoked.
- (3) The Court Meeting and EGM will be held at Taishan Room, Level 5, Island Shangri-la Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong at the times and dates specified above. Notice of the Court Meeting is set out on pages V-1 to V-2 of this Scheme Document and Notice of the EGM is set out on pages VI-1 to VI-3 of this Scheme Document.

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## EXPECTED TIMETABLE

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- (4) All references in this Scheme Document to times and dates are references to Hong Kong times and dates, other than references to the expected dates of the Court Hearing of the petition to sanction the Scheme and to confirm the Reduction and the Effective Date, which are the relevant times and dates in the Cayman Islands. Cayman Islands time is 13 hours behind Hong Kong time.
- (5) The Scheme will become effective upon all the Conditions having been satisfied or waived, as applicable.
- (6) Cheques for cash entitlements to the Scheme Shareholders will be despatched by ordinary post in pre-paid envelopes addressed to Scheme Shareholders at their respective addresses as appearing in the register of members at the Record Date or, in the case of joint holders, at the address appearing in the register of members at the Record Date of the joint holder whose name then stands first in the register of members in respect of the relevant joint holdings as soon as possible but in any event within 7 Business Days from the Effective Date. Cheques shall be posted at the risk of the addresses and neither the Offeror nor the Company shall be responsible for any loss or delay in receipt.
- (7) The form of acceptance in relation to the Option Offer (which is appended to the Option Offer Letter) duly completed and executed in accordance with the instructions on them, together with the relevant certificate(s) or other documents (if any) evidencing the grant of the outstanding Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) for the aggregate principal amount of outstanding Options which you hold, must be lodged with the Company at Room 2201, 22/F, Wheelock House, 20 Pedder Street, Central, Hong Kong (marked for the attention of the "Company Secretary"), so as to reach it no later than 4:30 p.m. on Monday, 10 June 2013 or such later date and time as may be notified through announcement, failing which the Optionholders will not receive the Option Amount. Copies of the Option Offer Letter and the form of acceptance in relation to the Option Offer can also be obtained from the Company at Room 2201, 22/F, Wheelock House, 20 Pedder Street, Central, Hong Kong, subsequent to the despatch of the Option Offer Letter.
- (8) Payment (by cheque or bank transfer) in respect of validly completed form of acceptance in relation to the Option Offer received before 4:30 p.m. on Monday, 10 June 2013 will be despatched as soon as possible but in any event within 7 Business Days of the later of: (i) the Scheme becoming effective; and (ii) the receipt of such validly completed form of acceptance in relation to the Option Offer.

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## LETTER FROM THE BOARD

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### **China Vanadium Titano-Magnetite Mining Company Limited**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 00893)**

*Executive Directors:*

Mr. Jiang Zhong Ping

Mr. Liu Feng

Mr. Yu Xing Yuan

*Registered office:*

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Non-executive Directors:*

Mr. Wang Jin

Mr. Teo Cheng Kwee

*Principal place of business in Hong Kong:*

Room 2201, 22/F, Wheelock House

20 Pedder Street

Central

Hong Kong

*Independent Non-executive Directors:*

Mr. Yu Haizong

Mr. Gu Peidong

Mr. Liu Yi

16 April 2013

*To Shareholders and Optionholders*

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF  
CHINA VANADIUM TITANO-MAGNETITE MINING COMPANY LIMITED  
BY KEEN TALENT HOLDINGS LIMITED  
TO BE EFFECTED BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 86 OF THE COMPANIES LAW (2012 REVISION) OF  
THE CAYMAN ISLANDS)  
WITH CANCELLATION CONSIDERATION IN CASH  
OF HK\$1.93 FOR EVERY SCHEME SHARE  
AND  
PROPOSED CASH OFFER TO CANCEL ALL OUTSTANDING OPTIONS**

#### **1. INTRODUCTION**

On 21 December 2012, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders which, if approved and implemented, would result in the Company becoming wholly-owned by the Offeror and the Parent and the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules.

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## LETTER FROM THE BOARD

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The Proposal will be implemented by way of a Cayman Islands scheme of arrangement under Section 86 of the Companies Law. If the Scheme becomes effective, the Scheme Shares will be cancelled and the New Shares will be issued and credited as fully paid to the Offeror. Pursuant to Rule 13 of the Takeovers Code, the Offeror is making an appropriate cash offer to the Optionholders to cancel their Options. The Option Offer is conditional upon the Scheme becoming effective.

Having reviewed the Proposal, the Board has agreed to put forward the Scheme for consideration by the Scheme Shareholders.

In compliance with Rule 2.1 of the Takeovers Code, the Board has established the IBC, comprising only of the independent non-executive Directors, being Mr. Yu Haizong, Mr. Gu Peidong and Mr. Liu Yi (as each of the non-executive Directors, being Mr. Wang Jin and Mr. Teo Cheng Kwee, is a party acting in concert with the Offeror), to advise and make a recommendation to the Scheme Shareholders in respect of the Proposal and the Optionholders in respect of the Option Offer. The IBC has approved the appointment of Guangdong Securities as the Independent Financial Adviser to the IBC in respect of the Proposal and the Option Offer.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal and the Option Offer and, in particular, the Scheme, and to give you notices of the Court Meeting and the EGM. Your attention is also drawn to: (i) the letter from the IBC set out on pages 25 to 26 of this Scheme Document; (ii) the letter from Guangdong Securities, the Independent Financial Adviser to the IBC, set out on pages 27 to 42 of this Scheme Document; (iii) the Explanatory Memorandum set out on pages 43 to 63 of this Scheme Document; and (iv) the terms of the Scheme set out on pages IV-1 to IV-6 of this Scheme Document.

## 2. TERMS OF THE PROPOSAL

### *Scheme of Arrangement*

Under the Scheme, the Scheme Shareholders will receive from the Offeror the Cash Consideration as consideration for the cancellation of the Scheme Shares:

HK\$1.93 in cash . . . . . for every Scheme Share cancelled

The Cash Consideration for each Scheme Share under the Proposal represents:

- a premium of approximately 21% over the closing price of HK\$1.59 per Share as quoted on the Stock Exchange on the Pre-Announcement Date;
- a premium of approximately 50% over the average closing price of HK\$1.29 per Share as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Pre-Announcement Date;
- a premium of approximately 57% over the average closing price of HK\$1.23 per Share as quoted on the Stock Exchange for the 60 trading days immediately prior to and including the Pre-Announcement Date;



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## LETTER FROM THE BOARD

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- a premium of approximately 58% over the average closing price of HK\$1.22 per Share as quoted on the Stock Exchange for the 90 trading days immediately prior to and including the Pre-Announcement Date;
- a premium of approximately 16% over the closing price of HK\$1.67 per Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 17% over the average closing price of approximately HK\$1.65 per Share as quoted on the Stock Exchange over the 30 trading days up to and including the Last Trading Date;
- a premium of approximately 30% over the average closing price of approximately HK\$1.49 per Share as quoted on the Stock Exchange over the 60 trading days up to and including the Last Trading Date;
- a premium of approximately 40% over the average closing price of HK\$1.38 per Share as quoted on the Stock Exchange for the 90 trading days immediately prior to and including the Last Trading Date;
- a premium of approximately 8% over the closing price of HK\$1.78 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- a discount of approximately 7.7% to the net asset per Share based on the financial statements of the Company for the year ended 31 December 2012. The calculation of net assets per Share is based on: (i) net assets attributable to owners of the Company and the number of Shares of 2,075,000,000 in issue during the year ended 31 December 2012; and (ii) translations of RMB into HK\$ at the rate of RMB1.00 to HK\$1.233 (for illustration purpose only).

During the period commencing six months preceding the Pre-Announcement Date and ending on the Latest Practicable Date, the highest closing price and the lowest closing price of the Shares as quoted on the Stock Exchange were HK\$1.85 per Share on 27 December 2012 and 8 January 2013 and HK\$1.08 per Share on 26 July 2012 and 5 September 2012, respectively.

The Board did not recommend any Dividend Payments for the year ended 31 December 2012. The Cash Consideration of HK\$1.93 per Share assumes that no Dividend Payments will be made during the Offer Period. Accordingly, the Company will not declare, make or pay any dividend or other distribution (whether in cash or in kind) to the Shareholders during the Offer Period.

As at the Latest Practicable Date, there were 2,075,000,000 Shares in issue and 56,900,000 outstanding Options which are convertible into 56,900,000 Shares. Save as disclosed in this paragraph, the Company does not have any outstanding convertible securities, warrants, options or derivatives in respect of any Shares.

As at the Latest Practicable Date, BofA Merrill Lynch did not hold any voting rights or other rights over the Shares.

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## LETTER FROM THE BOARD

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### *The Share Option Schemes and Option Offer*

Your attention is drawn to “Appendix VII - Sample Option Offer Letter” to this Scheme Document.

As at the Latest Practicable Date, the Company had two share option schemes (namely, the Old Share Option Scheme and the New Share Option Scheme).

As at the Latest Practicable Date, there were 29,600,000 outstanding Options under the Old Share Option Scheme and 27,300,000 outstanding Options under the New Share Option Scheme, of which 14,800,000 outstanding Options under the Old Share Option Scheme and all of the outstanding Options under the New Share Option Scheme remained unvested.

Under the Old Share Option Scheme: (i) 10,100,000 outstanding Options with an Exercise Price of HK\$5.05 per Share and 4,700,000 outstanding Options with an Exercise Price of HK\$4.99 per Share had vested and were exercisable on or after 29 June 2012 and 1 October 2012, respectively; and (ii) 10,100,000 outstanding Options with an Exercise Price of HK\$5.05 per Share and 4,700,000 outstanding Options with an Exercise Price of HK\$4.99 per Share were unvested and would become exercisable on or after 29 December 2014 and 1 April 2015, respectively. Under the New Share Option Scheme, all outstanding Options with an Exercise Price of HK\$3.60 per Share were unvested and would become exercisable on or after 23 May 2013. The weighted average exercise price of the outstanding Options is HK\$4.34 per Share and the lowest exercise price of the outstanding Options is HK\$3.60 per Share. All the Optionholders have each given an irrevocable undertaking to the Offeror and the Company to not exercise any of his/her outstanding Options during the Offer Period. The Optionholders have also confirmed to the Company that the Company has no obligation to issue any new Shares to them.

Other than the Shares to be issued under the outstanding Options, the Company does not have any outstanding convertible securities, warrants, options or derivatives in respect of any Shares.

Pursuant to Rule 13 of the Takeovers Code, the Offeror is also making an appropriate cash offer to the Optionholders to cancel their Options. The Option Offer is conditional upon the Scheme becoming effective. The Option Amount to cancel an Option is calculated by deducting the Exercise Price payable on exercise of an Option from the Cash Consideration (ie, the “see-through” price). As the Exercise Price of all the Options is above the Cash Consideration, the “see-through” price is zero and the Option Amount under the Option Offer is a nominal value of HK\$0.001 per Option.

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## LETTER FROM THE BOARD

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The following table sets out details of the outstanding Options:

	Number	Exercise Price (HK\$)	Exercisable on or after	Vesting
<i>Options under Old</i>	10,100,000	5.05	29 June 2012	Vested
<i>Share Option Scheme</i>	4,700,000	4.99	1 October 2012	Vested
	10,100,000	5.05	29 December 2014	Not yet vested
	4,700,000	4.99	1 April 2015	Not yet vested
	<hr/>			
Total Options under Old Share Option Scheme	29,600,000			
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<i>Options under New Share Option Scheme</i>	27,300,000	3.60	23 May 2013	Not yet vested
	<hr/>			
Total Options under New Share Option Scheme	27,300,000			
	<hr/> <hr/>			
<b>Total outstanding Options convertible into the same number of the Shares</b>	56,900,000			
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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the following Directors held the following number of outstanding Options under the Old Share Option Scheme:

Name of Director	Number of Options	Exercise Price (HK\$)	Exercisable on or after
Mr. Jiang Zhong Ping	1,500,000	5.05	29 June 2012
	1,500,000	5.05	29 December 2014
	250,000	4.99	1 October 2012
	250,000	4.99	1 April 2015
Total	<u>3,500,000</u>		
Mr. Liu Feng	2,000,000	5.05	29 June 2012
	2,000,000	5.05	29 December 2014
	1,250,000	4.99	1 October 2012
	1,250,000	4.99	1 April 2015
Total	<u>6,500,000</u>		
Mr. Yu Xing Yuan	3,500,000	5.05	29 June 2012
	3,500,000	5.05	29 December 2014
	1,250,000	4.99	1 October 2012
	1,250,000	4.99	1 April 2015
Total	<u>9,500,000</u>		

As at the Latest Practicable Date, the following Directors held the following number of outstanding Options under the New Share Option Scheme:

Name of Director	Number of Options	Exercise Price (HK\$)	Exercisable on or after
Mr. Jiang Zhong Ping	5,000,000	3.60	23 May 2013
Mr. Liu Feng	4,500,000	3.60	23 May 2013
Mr. Yu Xing Yuan	5,000,000	3.60	23 May 2013

Under the terms of the New Share Option Scheme and the Old Share Option Scheme, following receipt of a notice from the Company an Optionholder may exercise his outstanding Option(s) (to the extent not already exercised), even if they are not otherwise exercisable, once the Scheme and the Reduction are approved by the requisite majorities at the Court Meeting and the EGM. However, as all

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## LETTER FROM THE BOARD

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the Optionholders have each given an Option Irrevocable Undertaking to the Offeror and the Company to not exercise any of their outstanding Options (whether vested or unvested during the Offer Period), the Company will not be issuing such notice.

The Offeror is making an offer to cancel the outstanding Options under the Option Offer, conditional upon the Scheme becoming effective. The Option Offer Letter to Optionholders setting out the terms and conditions of the Option Offer is being despatched separately to Optionholders on the date of this Scheme Document and is substantially in the form set out in “Appendix VII - Sample Option Offer Letter” of this Scheme Document. The offer to cancel each Option is calculated on a “see-through” basis, so that each Optionholder is entitled to receive a price for his/her Options being the amount by which the Cash Consideration exceeds the Exercise Price of his/her Options. As the Exercise Price of all the Options is above the Cash Consideration, the “see-through” price is zero and the Option Amount under the Option Offer is HK\$0.001 per Option. No stamp duty is payable in relation to the Option Amount under the Option Offer. The Option Offer is conditional upon the Scheme becoming effective. In order to accept the Option Offer, each Optionholder must duly complete the form of acceptance (appended to the Option Offer Letter) in accordance with the instructions contained therein and return it to the Company, at Room 2201, 22/F, Wheelock House, 20 Pedder Street, Central, Hong Kong (marked for the attention of the “Company Secretary”), at or before 4:30 p.m. on Monday, 10 June 2013. Further details are set out in the section headed “Action to be Taken” in the Explanatory Memorandum on pages 61 to 63 of this Scheme Document.

If the Scheme and the Reduction are approved by the requisite majorities at the Court Meeting and the EGM, respectively, and the Scheme is sanctioned by the Grand Court at the Court Hearing and becomes effective, any Options that are not cancelled pursuant to the Option Offer will automatically lapse at 4:30 p.m. on Monday, 10 June 2013, being the latest time to accept the Option Offer.

If the Scheme is not sanctioned by the Grand Court or any of the Conditions are not satisfied and the Scheme does not become effective, the Option Offer will lapse and all Options will remain unaffected and will be exercisable during their relevant exercise periods pursuant to the terms of the Share Option Schemes.

Settlement of the Cash Consideration and the Option Amount to which the Scheme Shareholders and the Optionholders are entitled under the Proposal and the Option Offer, respectively, will be implemented in full in accordance with the terms of the Proposal and the Option Offer, respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder or Optionholder.

### **3. TOTAL CONSIDERATION AND CONFIRMATION OF FINANCIAL RESOURCES**

As all the Optionholders have each given an Option Irrevocable Undertaking to the Offeror and the Company to not exercise any of their outstanding Options during the Offer Period, the maximum amount of cash required to implement the Proposal in full (including the Option Amount) would be approximately HK\$2,061.77 million, of which HK\$2,061.71 million would be for the Cash Consideration and HK\$56,900 for the Option Amount.

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## LETTER FROM THE BOARD

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The Offeror will finance the aggregate Cash Consideration and Option Amount payable under the Proposal by a combination of external debt financing provided by the Facility and internal cash resources of the Offeror Group.

BofA Merrill Lynch has been appointed as the financial adviser to the Offeror in respect of the Proposal. BofA Merrill Lynch is satisfied that sufficient financial resources are available to the Offeror for the full payment in cash of: (i) the aggregate Cash Consideration payable by the Offeror under the Scheme; and (ii) the aggregate Option Amount payable by the Offeror under the Option Offer.

#### 4. CONDITIONS OF THE PROPOSAL

The Proposal is subject to the fulfilment or waiver (as applicable) of the Conditions as set out in the section headed “Conditions of the Proposal” in the Explanatory Memorandum on pages 49 to 51 of this Scheme Document. When the Conditions are fulfilled or waived (as applicable) the Scheme will become effective and binding on the Company, the Offeror and all the Scheme Shareholders.

The Offeror reserves the right to waive any of Conditions (e), (f), (g), (h), (i), (j) and (l), either in whole or in respect of any particular matter. The Company has no right to waive any of the Conditions. Conditions (a), (b), (c), (d) and (k) cannot be waived in any event. If Condition (e) is approved by the Independent Shareholders at the EGM, the Company and/or its subsidiaries will use its reasonable endeavours to ensure that Condition (e) is fulfilled by depositing the Deposit Amount to the credit of the Bank Accounts on or before the date of the Court Hearing. As of 28 February 2013, the Company’s cash and cash equivalents are sufficient to satisfy Condition (e). Neither the Parent nor the Offeror will take any action to prevent Condition (e) from being fulfilled. Further, each of the Parent, the Offeror, Mr. Wang and Mr. Teo Cheng Kwee undertakes to the Shareholders and the Company that they will not and will ensure that their associates will not (whether directly or indirectly) direct, instruct or otherwise cause the Board to take any action (or omit to take any action) to prevent Condition (e) from being fulfilled.

All of the Conditions will have to be fulfilled or waived (as applicable) on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Grand Court may direct), failing which the Proposal and the Scheme will lapse.

**Shareholders, Optionholders and investors should note that the implementation of the Proposal is subject to the Conditions being fulfilled or waived (as applicable). Therefore, the Proposal may or may not become effective. Shareholders and investors are advised to exercise caution when dealing in the Shares.**

#### 5. CASH AMOUNT TO BE DEPOSITED AND MAINTAINED IN AN ACCOUNT OF THE COMPANY IN THE PRC

To ensure that there is no leakage of value in the Company and to ensure that the Company has at least RMB1,200 million (or is equivalent in any other currency or currencies based on the RMB Benchmark Rate) in cash available for distribution (subject to the relevant laws, rules, regulations or codes in connection with distributions) to the Parent and the Offeror, being the Shareholders after the Scheme has become effective, the Offeror has included as a condition to the Scheme that the Deposit Amount is standing to the credit of the Bank Accounts on the date of the Court Hearing. The Deposit Amount shall

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## LETTER FROM THE BOARD

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be (i) deposited by the Company and/or its subsidiaries; (ii) standing to the credit of the Bank Accounts on the date of the Court Hearing; and (iii) shall be (and shall remain until and including the date of the Court Hearing) free from any Security Interest at all times once deposited. Prior to the date of the Court Hearing, the Offeror will not impose any restrictions on the Company's use of the Deposit Amount and the Bank Accounts. **The Deposit Amount will not be paid to the Scheme Shareholders and therefore, the Deposit Amount will remain in the Bank Accounts for the benefit of the Offeror to the exclusion of the Scheme Shareholders.**

This condition will be put forward to the Independent Shareholders for approval by ordinary resolution at the EGM. If this condition is approved by the Independent Shareholders at the EGM, the Company and/or its subsidiaries will use its reasonable endeavours to ensure that this condition is fulfilled by depositing the Deposit Amount to the credit of the Bank Accounts on or before the date of the Court Hearing.

### 6. IRREVOCABLE UNDERTAKINGS TO ACCEPT THE PROPOSAL

As at the Latest Practicable Date, none of the Offeror and persons acting in concert with it has received any irrevocable commitment from the Independent Shareholders in respect of voting at the Court Meeting or the EGM.

### 7. IRREVOCABLE UNDERTAKINGS TO NOT EXERCISE THE OUTSTANDING OPTIONS

All the Optionholders have each given an irrevocable undertaking to the Offeror and the Company to not exercise any of his outstanding Options (whether vested or unvested during the Offer Period). The Optionholders have also confirmed to the Company that the Company has no obligation to issue any new Shares to them.

### 8. REASONS FOR AND BENEFITS OF THE PROPOSAL

The Directors (other than members of the IBC who will express their view after receiving advice from Guangdong Securities) are of the view that the terms of the Proposal are attractive to the Scheme Shareholders and that the Proposal will be beneficial to the Scheme Shareholders in a number of ways.

The Directors (other than members of the IBC) consider that the Scheme provides an opportunity for the Scheme Shareholders to realise their Shares (which have a relatively low degree of market liquidity) in return for cash. In this regard, the Board noted that the trading volume of the Shares on the Stock Exchange since the IPO has been, in general, decreasing. The average daily trading volume of the Shares for the six months following the IPO was 13.7 million Shares (representing approximately 0.66% of the Shares in issue as at the date of the Announcement) whereas the average trading volume of the Shares for the six months preceding the Pre-Announcement Date was 5.3 million Shares (representing approximately 0.26% of the Shares in issue as at the date of the Announcement). Given this relatively low liquidity of the Shares traded on the Stock Exchange, the Offeror Director and the Directors (excluding members of the IBC) believe that there is currently limited opportunity for the Scheme Shareholders to divest their investment in the Company.

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## LETTER FROM THE BOARD

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Over the 365 trading days up to and including the Last Trading Date, the price of the Shares fell by approximately 44.0% and the market, as represented by the Hang Seng Index, increased by approximately 1.0%. During the period from the IPO to the Last Trading Date, the Hang Seng Index increased by approximately 5.3% to 22,623.37 and the price of the Shares fell by approximately 54.6% to HK\$1.67 per Share. This relatively weak performance of the Shares versus the broader market can in part be attributed to challenging macro sector dynamics, including the recent weakness in iron ore prices.

The Directors (other than members of the IBC) believe that, in view of the relatively thin trading liquidity and persistently weak performance of the Shares since the IPO, access to the equity capital markets does not provide the Company with an attractive fund raising avenue, and that the costs and management resources associated with the maintenance of the Company's listing status are not warranted.

The Directors (other than members of the IBC) believe the Scheme offers an opportunity to the Scheme Shareholders to realise their investment at a premium to the current Share price without having to incur the brokerage fees, transaction levies and trading fees which are customarily payable when disposing of shares in the open market.

The Proposal provides the Scheme Shareholders with an attractive opportunity to divest their holding of Shares in exchange for cash during the current global economic downturn, at a significant premium over the recent market trading price.

In addition, the Proposal allows the Scheme Shareholders a chance to redeploy capital into other investment opportunities that they may consider more attractive in the current market environment.

On the basis of the foregoing, the Directors (other than members of the IBC) have decided to put forward to the Shareholders for their consideration, and proceed with, the Proposal.

The Offeror believes that the Company will benefit from the flexibilities as a non-listed company which includes access to additional growth capital from the Offeror at short notice and without exposure to market volatility, the ability to make decisions pertaining to investments focused on the long-term benefits to the business of the Group and not being distracted or pressurised to deliver short and medium-term performance for its public shareholders due to the requirements of regular reporting, disclosure of its financial results and the ability to keep confidential certain commercially sensitive data including margins and corporate strategies.

In addition, maintaining a listing platform requires the Company to bear administrative, compliance and other listing-related costs and expenses. Upon privatisation, such costs and expenses are eliminated and the funds could be more effectively allocated for the Group's business operations.

### **9. OFFEROR'S INTENTION REGARDING THE COMPANY**

It is the intention of the Offeror to continue the existing businesses of the Group in all material respects upon the successful privatisation of the Company.



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## LETTER FROM THE BOARD

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The Offeror has no plan, in the event that the Scheme becomes effective, to: (i) make any material changes to the existing businesses of the Group (including any material redeployment of the fixed assets of the Group); or (ii) make any material changes to the continued employment of the employees of the Group.

On the other hand, the Offeror will continue to assess any business opportunity that may arise from time to time involving the business and/or assets of the Group and will formulate strategic corporate planning as and when appropriate.

The Board has considered the Offeror's intentions as set out in this section and is of the view that, based on the Offeror's plans, there will be no material change to the existing businesses of the Group and the employees of the Group. The IBC has taken the Offeror's intentions into account in making its recommendations as set out on page 26 of this Scheme Document.

### **10. INFORMATION ON THE COMPANY, THE OFFEROR AND THE PARENT**

Your attention is drawn to paragraph 13 headed "Information on the Company" in the Explanatory Memorandum on page 56 of this Scheme Document and paragraph 14 headed "Information on the Offeror and the Parent" in the Explanatory Memorandum on page 57 of this Scheme Document. Your attention is also drawn to the "Financial Information of the Group" set out in Appendix I to this Scheme Document and the "Property Valuation" set out in Appendix II to this Scheme Document.

### **11. OVERSEAS SHAREHOLDERS AND OVERSEAS OPTIONHOLDERS**

Your attention is drawn to paragraph 16 headed "Overseas Shareholders and Overseas Optionholders" in the Explanatory Memorandum on page 58 of this Scheme Document.

### **12. COURT MEETING AND EGM**

In accordance with the direction of the Grand Court, the Court Meeting will be held at 9:30 a.m. on Wednesday, 15 May 2013 at Taishan Room, Level 5, Island Shangri-la Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications). All the Scheme Shareholders will be entitled to vote at the Court Meeting but, for the purposes of Rule 2.10 of the Takeovers Code, only the votes of the Independent Shareholders on the Scheme will be counted at the Court Meeting. Cayman Islands law requires the resolution to approve the Scheme to be passed by a majority in number of the Scheme Shareholders (present in person or by proxy) at the Court Meeting representing not less than 75% in value of the Scheme Shares.

In addition, the Scheme will, in compliance with Rule 2.10 of the Takeovers Code, only be implemented if: (i) the Scheme is approved (by way of a poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are voted at the Court Meeting (either in person or by proxy); and (ii) the number of votes cast (by way of a poll) against the resolution to approve the Scheme at the Court Meeting (either in person or by proxy) is not more than 10% of the votes attaching to the Scheme Shares held by all the Independent Shareholders. As at the Latest Practicable Date, the Independent Shareholders held in aggregate 1,051,442,928 Scheme Shares. On that basis, and assuming no outstanding Options are exercised, 10% of the votes attached to the Scheme Shares held by all the Independent Shareholders represent approximately 105,144,293 Shares as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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The EGM will be held at 10:00 a.m. on Wednesday, 15 May 2013 or as soon thereafter as the Court Meeting convened for the same date and place has been concluded or adjourned. All Shareholders shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to: (i) the special resolution to approve the Reduction resulting from the cancellation of the Scheme Shares; and (ii) the ordinary resolution to approve the restoration in the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and to apply the credit arising in its books of account as a result of the Reduction to pay up in full at par and issue to the Offeror such number of New Shares as is equal to the number of Scheme Shares cancelled. All Independent Shareholders shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to (iii) the ordinary resolution to approve the deposit and maintenance of the Deposit Amount by the Company in the Bank Accounts as referred to in Condition (e).

The special resolution described under (i) in the paragraph above will be passed if not less than 75% of the votes cast by the Shareholders present and voting, in person or by proxy, at the EGM are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Shareholders present and voting, in person or by proxy, at the EGM. The ordinary resolution described under (iii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Independent Shareholders present and voting, in person or by proxy, at the EGM.

Notice of the Court Meeting is set out on pages V-1 to V-2 of this Scheme Document. A form of proxy for the Court Meeting is enclosed with this Scheme Document.

Notice of the EGM is set out on pages VI-1 to VI-3 of this Scheme Document. A form of proxy for the EGM is enclosed with this Scheme Document.

Voting at the Court Meeting and at the EGM will be taken by poll as required under the Listing Rules and the Takeovers Code.

The Scheme will take effect when the Court Order has been delivered to the Registrar of Companies for registration pursuant to Section 86(3) of the Companies Law. If the Scheme becomes effective under the Companies Law, it will be binding on the Company and all Scheme Shareholders irrespective of whether they attended or voted, and if they voted, whether they voted for or against the Scheme at the Court Meeting.

**It is important that as many votes as possible are cast at the Court Meeting so that the Grand Court may be satisfied that there is a fair and reasonable representation of opinion of the Scheme Shareholders. You are therefore strongly urged to complete and return your form of proxy for the Court Meeting as soon as possible.**

Further details of the Scheme, the Court Meeting and the EGM are set out in the Explanatory Memorandum on pages 43 to 63 of this Scheme Document.

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## LETTER FROM THE BOARD

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### 13. ACTIONS TO BE TAKEN

The actions which you are required to take in relation to the Proposal are set out under paragraph 21 headed “Action to be taken” in the Explanatory Memorandum on pages 61 to 63 of this Scheme Document.

### 14. RECOMMENDATION

Your attention is drawn to the recommendations of the IBC in respect of the Proposal as set out in the letter from the IBC on pages 25 to 26 of this Scheme Document.

### 15. SHARE CERTIFICATES, DEALINGS, WITHDRAWAL OF LISTING, REGISTRATION AND PAYMENT

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as document or evidence of title, and the register of members of the Company will be updated to reflect the same. The Company will not retain its listing on the Stock Exchange and will apply for the withdrawal of listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules, with effect from the date on which the Scheme becomes effective. Dealings in the Shares on the Stock Exchange are expected to cease after 4:00 p.m. on Tuesday, 21 May 2013, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 9:00 a.m. on Wednesday, 29 May 2013. Shareholders will be notified by way of an announcement of the exact dates of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme is not approved or lapses.

### 16. TAXATION, EFFECTS AND LIABILITIES

As the Scheme does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

Similarly, as the acceptance of the Option Offer and the payment of the Option Amount for the cancellation of the outstanding Options does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance upon the acceptance of the Option Offer or the payment of the Option Amount.

It is emphasised that none of the Company, the Offeror Group, BofA Merrill Lynch, Guangdong Securities and any of their respective directors or associates or any other person involved in the Scheme and the Proposal accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal. Accordingly, you are asked to read paragraph 19 headed “Taxation, Effects and Liabilities” in the Explanatory Memorandum appearing on page 59 of this Scheme Document and if you are in any doubt as to any aspect of this Scheme Document or as to the action to be taken, you should consult an appropriately qualified professional adviser.

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## LETTER FROM THE BOARD

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### 17. FURTHER INFORMATION

You are urged to read carefully (i) the letter from the IBC as set out on pages 25 to 26 of this Scheme Document; (ii) the letter from Guangdong Securities, the Independent Financial Adviser to the IBC, as set out on pages 27 to 42 of this Scheme Document; (iii) the Explanatory Memorandum as set out on pages 43 to 63 of this Scheme Document; (iv) the Appendices to this Scheme Document, including the Scheme of Arrangement as set out on pages IV-1 to IV-6 of this Scheme Document; (v) the notice of the Court Meeting as set out on pages V-1 to V-2 of this Scheme Document; and (vi) the notice of the EGM as set out on pages VI-1 to VI-3 of this Scheme Document, the proxy form in respect of the Court Meeting as enclosed with this Scheme Document and the proxy form in respect of the EGM as enclosed with this Scheme Document. Optionholders are urged to read carefully the Option Offer Letter which was sent separately to Optionholders on the date of this Scheme Document and is substantially in the form set out in “Appendix VII - Sample Option Offer Letter” of this Scheme Document.

Yours faithfully,  
For and on behalf of the Board of  
**China Vanadium Titano-Magnetite Mining Company Limited**  
**Jiang Zhong Ping**  
*Chairman*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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**China Vanadium Titano-Magnetite Mining Company Limited**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 00893)**

16 April 2013

*To the Scheme Shareholders and the Optionholders*

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF  
CHINA VANADIUM TITANO-MAGNETITE MINING COMPANY LIMITED  
BY KEEN TALENT HOLDINGS LIMITED  
TO BE EFFECTED BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 86 OF THE COMPANIES LAW (2012 REVISION)  
OF THE CAYMAN ISLANDS)  
WITH CANCELLATION CONSIDERATION IN CASH  
OF HK\$1.93 FOR EVERY SCHEME SHARE  
AND  
PROPOSED CASH OFFER TO CANCEL ALL OUTSTANDING OPTIONS**

We refer to the document dated 16 April 2013 jointly issued by the Offeror, the Parent and the Company in relation to the Proposal (the “Scheme Document”), of which this letter forms part. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

On 21 December 2012, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders which, if approved and implemented, would result in the Company becoming wholly-owned by the Offeror and the Parent and the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules.

The Proposal will be implemented by way of a scheme of arrangement between the Company and the Scheme Shareholders under Section 86 of the Companies Law. If the Scheme becomes effective, the Scheme Shares will be cancelled and the New Shares will be issued and credited as fully paid to the Offeror. The Offeror is also making an appropriate cash offer to the Optionholders to cancel their Options. The Option Offer is conditional upon the Scheme becoming effective. Details of the Proposal and the Option Offer are set out in the “Letter from the Board” on pages 11 to 24 and the Explanatory Memorandum on pages 43 to 63 of the Scheme Document.

For the purpose of the Proposal and the Option Offer, we have been appointed by the Board as the IBC to give a recommendation to the Scheme Shareholders and the Optionholders in respect of the Proposal and the Option Offer. Guangdong Securities has been appointed with our approval as our Independent Financial Adviser in respect of the Proposal and the Option Offer. Details of the advice from

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Guangdong Securities and the principal factors Guangdong Securities has taken into consideration in arriving at its recommendation are set out in the “Letter from Guangdong Securities” on pages 27 to 42 of the Scheme Document.

We also wish to draw the attention of the Scheme Shareholders and the Optionholders to the additional information set out in the Appendices to the Scheme Document.

### RECOMMENDATIONS

Having considered the terms of the Proposal (including the Conditions) and the Option Offer and taken into account the advice from the Independent Financial Adviser, in particular the factors, reasons and recommendations as set out in the letter from the Independent Financial Adviser, we consider that the terms of the Proposal (including the Conditions) and the Option Offer are fair and reasonable so far as the Scheme Shareholders and the Optionholders, respectively, are concerned. Accordingly, we recommend that:

- (a) at the Court Meeting:
  - (i) the Scheme Shareholders vote in favour of the resolution to approve the Scheme;
- (b) at the EGM:
  - the Shareholders vote in favour of:
    - (i) the special resolution to approve the Reduction resulting from the cancellation of the Scheme Shares; and
    - (ii) the ordinary resolution to approve the restoration in the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and to apply the credit arising in its books of account as a result of the Reduction to pay up in full at par and issue to the Offeror such number of New Shares as is equal to the number of Scheme Shares cancelled; and
- (c) the Optionholders accept the Option Offer.

Further, having considered the terms of the Proposal (and specifically, Condition (e)) and taken into account the advice from the Independent Financial Adviser, in particular the factors, reasons and recommendations as set out in the letter from the Independent Financial Adviser, we consider that Condition (e) is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Shareholders vote in favour of the ordinary resolution to approve the deposit and maintenance of the Deposit Amount by the Company in the Bank Accounts as referred to in Condition (e).

Yours faithfully,  
*Independent Board Committee*  
**Mr. Yu Haizong**  
**Mr. Gu Peidong**  
**Mr. Liu Yi**

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## LETTER FROM GUANGDONG SECURITIES

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*Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the IBC regarding the Proposal and the Option Offer for the purpose of inclusion in this Scheme Document.*



Units 2505-06, 25/F.  
Low Block of Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

16 April 2013

*To: the independent board committee of  
China Vanadium Titano-Magnetite Mining Company Limited*

Dear Sirs,

**PROPOSED PRIVATISATION OF  
CHINA VANADIUM TITANO-MAGNETITE MINING COMPANY LIMITED  
BY KEEN TALENT HOLDINGS LIMITED  
TO BE EFFECTED BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 86 OF THE COMPANIES LAW (2012 REVISION)  
OF THE CAYMAN ISLANDS) WITH CANCELLATION CONSIDERATION  
IN CASH OF HK\$1.93 FOR EVERY SCHEME SHARE  
AND  
PROPOSED CASH OFFER TO CANCEL ALL OUTSTANDING OPTIONS**

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the IBC in relation to the Proposal and the Option Offer, details of which are set out in the letter from the Board (the “**Board Letter**”) and the explanatory memorandum (the “**Memorandum**”) contained in the Scheme Document dated 16 April 2013 jointly issued by the Company, the Parent and the Offeror to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Scheme Document unless the context requires otherwise.

On 21 December 2012, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders which, if approved and implemented, would result in the Company becoming wholly-owned by the Offeror and the Parent, as well as the withdrawal of the listing of the Shares on the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

The Proposal will be implemented by way of a Cayman Islands scheme of arrangement under Section 86 of the Companies Law. If the Scheme becomes effective, the Scheme Shares will be cancelled and the New Shares will be issued and credited as fully paid to the Offeror. Pursuant to Rule 13 of the Takeovers Code, the Offeror is also making an appropriate cash offer to the Optionholders to cancel their Options. The Option Offer is conditional upon the Scheme becoming effective.

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## LETTER FROM GUANGDONG SECURITIES

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Having reviewed the Proposal, the Board has agreed to put forward the Scheme for consideration by the Scheme Shareholders.

In compliance with Rule 2.1 of the Takeovers Code, an IBC, comprising only the independent non-executive Directors, being Mr. Yu Haizong, Mr. Gu Peidong and Mr. Liu Yi (as each of the non-executive Directors, being Mr. Wang Jin and Mr. Teo Cheng Kwee, is a party acting in concert with the Offeror), has been formed to advise and make a recommendation to the Scheme Shareholders in respect of the Proposal and the Optionholders in respect of the Option Offer. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the IBC in this respect, and our opinion herein is solely for the assistance of the IBC in connection with its consideration of the Proposal and the Option Offer pursuant to Rule 2.1 of the Takeovers Code. The appointment of Guangdong Securities as the Independent Financial Adviser has been approved by the IBC.

### **BASIS OF OUR OPINION**

In formulating our opinion to the IBC, we have relied on the statements, information, opinions and representations contained or referred to in the Scheme Document and the information and representations as provided to us by the Directors and the Offeror (where applicable). We have assumed that all information and representations that have been provided by the Directors and the Offeror (where applicable), for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. Should there be any material changes to our opinion after the Latest Practicable Date and prior to the date of the Court Meeting and the EGM, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Offeror (where applicable) in the Scheme Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Scheme Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors and the Offeror (where applicable), which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

The information contained in the Scheme Document relating to the Group has been supplied by the Company. The issue of the Scheme Document has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in the Scheme Document (other than that relating to the Offeror Group or Sapphire), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Scheme Document have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading.

The information contained in the Scheme Document relating to the Offeror Group and Sapphire has been supplied by the Offeror. The issue of the Scheme Document has been approved by the Offeror Director, who accepts full responsibility for the accuracy of the information contained in the Scheme Document (other than that relating to the Group) and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in the Scheme Document have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading.



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## LETTER FROM GUANGDONG SECURITIES

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The Scheme Document, for which all Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Scheme Document (other than the information relating to the Offeror Group and Sapphire) is in compliance with the Listing Rules. The Directors confirm, having made all reasonable enquiries, that to the best of their knowledge and belief: (i) the information contained in the Scheme Document is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in the Scheme Document misleading; and (iii) all opinions expressed in the Scheme Document have been arrived at after due and careful consideration and are founded on basis and assumptions that are fair and reasonable.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Parent, the Offeror, Sapphire or their respective subsidiaries or associates (where applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposal and the Option Offer. The Company has been separately advised by its own professional advisers with respect to the Proposal and the Option Offer and the preparation of the Scheme Document (other than this letter).

We have assumed that the Proposal and the Option Offer will be consummated in accordance with the terms and conditions set forth in the Scheme Document without any waiver, amendment, addition or delay of any terms or conditions. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the Proposal and the Option Offer, we have taken into consideration the following principal factors and reasons:

#### **(1) Background and terms of the Proposal and the Option Offer**

On 21 December 2012, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders which, if approved and implemented, would result in the Company becoming wholly-owned by the Offeror and the Parent, as well as the withdrawal of the listing of the Shares on the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

The Proposal will be implemented by way of a Cayman Islands scheme of arrangement under Section 86 of the Companies Law. If the Scheme becomes effective, the Scheme Shares will be cancelled and the New Shares will be issued and credited as fully paid to the Offeror. Pursuant to Rule 13 of the Takeovers Code, the Offeror is making an appropriate cash offer to the Optionholders to cancel their Options. The Option Offer is conditional upon the Scheme becoming effective.

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## LETTER FROM GUANGDONG SECURITIES

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Having reviewed the Proposal, the Board has agreed to put forward the Scheme for consideration by the Scheme Shareholders.

Under the Scheme, the Scheme Shareholders will receive from the Offeror the Cash Consideration as consideration for the cancellation of the Scheme Shares in the following manner:

**For every Scheme Share cancelled ..... HK\$1.93 in cash**

As confirmed by the Directors, as at the Latest Practicable Date, the Company had 2,075,000,000 Shares in issue. In addition, the Company had two share option schemes (namely, the Old Share Option Scheme and the New Share Option Scheme). There were 29,600,000 outstanding Options under the Old Share Option Scheme and 27,300,000 outstanding Options under the New Share Option Scheme, totalling 56,900,000 outstanding Options which are convertible into 56,900,000 Shares. Details regarding the Options are presented in the sub-section headed “The Share Option Schemes and Option Offer” of the Board Letter. Save as disclosed just above, the Company does not have any outstanding convertible securities, warrants, options or derivatives in respect of any Shares.

Pursuant to Rule 13 of the Takeovers Code, the Offeror is also making an appropriate cash offer to the Optionholders to cancel their Options. The Option Offer is conditional upon the Scheme becoming effective. The Option Amount to cancel an Option is calculated by deducting the Exercise Price payable on exercise of an Option from the Cash Consideration (i.e. the “see-through” price). As the Exercise Price of all the Options is above the Cash Consideration, the “see-through” price is zero and the Option Amount under the Option Offer will be a nominal value of HK\$0.001 per Option.

With reference to the Board Letter, as all the Optionholders have each given an Option Irrevocable Undertaking to the Offeror and the Company of not exercising any of their outstanding Options during the Offer Period, the maximum amount of cash required to implement the Proposal in full (including the Option Amount) would be approximately HK\$2,061.77 million, of which HK\$2,061.71 million would be for the Cash Consideration and HK\$56,900 for the Option Amount.

Further terms and conditions of the Proposal are included in the Board Letter and the Memorandum.

### **(2) Information on the Group**

The Company is an exempted company incorporated in the Cayman Islands with limited liability and its shares have been listed on the Stock Exchange since 8 October 2009. The Group is principally engaged in the business of mining, ore processing, iron pellestising, sale of vanadium-bearing iron concentrates, ordinary iron concentrates, iron pellets and titanium concentrates and management of strategic investments.

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## LETTER FROM GUANGDONG SECURITIES

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### *Financial performance of the Group*

Set out below is a summary of the audited consolidated financial performance of the Group for each of the three years ended 31 December 2012 as extracted from the annual report of the Company for the year ended 31 December 2012 (the “**2012 Annual Report**”) and the annual report of the Company for the year ended 31 December 2011 (the “**2011 Annual Report**”) respectively:

	<b>For the year ended 31 December 2012 RMB'000</b>	<b>For the year ended 31 December 2011 RMB'000</b>	<b>For the year ended 31 December 2010 RMB'000</b>
Revenue	1,533,732	1,712,978	1,576,428
Gross profit	693,182	826,571	840,446
Profit and total comprehensive income for the year	410,602	612,725	595,790
<i>Gross profit margin</i>	<i>45%</i>	<i>48%</i>	<i>53%</i>
<i>Net profit margin</i>	<i>27%</i>	<i>36%</i>	<i>38%</i>

For the year ended 31 December 2012, the Group’s revenue shrank by approximately 10.5% to approximately RMB1,533.7 million from approximately RMB1,713.0 million for the year ended 31 December 2011. The Group’s profitability in terms of gross profit margin (being the gross profit divided by the revenue) and net profit margin (being the profit and total comprehensive income for the year divided by the revenue) also shrank by approximately 6.3% and 25% respectively during the same said period under review. As referred to in the 2012 Annual Report, such extensive decline in revenue and profitability was largely due to the decrease in sales volume of iron pellets and the decrease in the average selling prices of iron ore products due to unfavourable market conditions, coupled with the impact of increased unit production costs such as increased stripping costs, levied resource tax, depreciation and other miscellaneous expenses. Furthermore, according to the Directors, the occasion power suspension and power supply restriction measures adopted for upgrading of the power grid since late March 2012 in Panxi region of Sichuan province, the PRC, where the Group’s major processing plants are located, have led to a decrease in the total production volume and sales volume of the vanadium-bearing iron concentrates of the Group.

Based on our further discussion with the Company regarding the trading and financial position of the Group in 2013, we understand that given that the customers of the Group had placed more orders and made more prepayments with the Group, the Group’s advances from customers as at 28 February 2013 (based on the unaudited consolidated management accounts of the Group prepared in accordance with the PRC accounting standards) increased by around 150% as compared to 31 December 2012. Since such increase in advances from customers happened during the first two months of 2013 and may not represent any long term trend, it does not affect our analysis.

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## LETTER FROM GUANGDONG SECURITIES

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### *Industry outlook relating to the Group's business*

The Group's mines are located in Sichuan province, which is in western PRC. In midst of the gloomy global economic environment, the PRC government has implemented a strategic plan to further develop the country's western regions. Under the 12th Five-Year Plan for the National Economic and Social Development of the PRC, transportation has been one of the two key aspects in the field of infrastructure construction. The PRC government has focused on the improvement of transportation network. In accordance with the "Western Development Progress in 2011 and the 2012 Work Plan" (《西部大開發2011年進展情況和2012年工作安排》) issued by the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會), infrastructure construction was the key focus in 2012. Included therein was the speed up of the construction of Chengdu-Chongqing (成都至重慶) high-speed railway as well as the commencement of the constructions of Xi'an-Chengdu (西安至成都) high-speed railway, Chengdu-Guiyang (成都至貴陽) high-speed railway and other key railway projects. With these favourable policies, steel consumption in western PRC is expected to grow further. Thus, it will provide more business opportunities for the steel enterprises in the future while benefiting the upstream mining companies within the region.

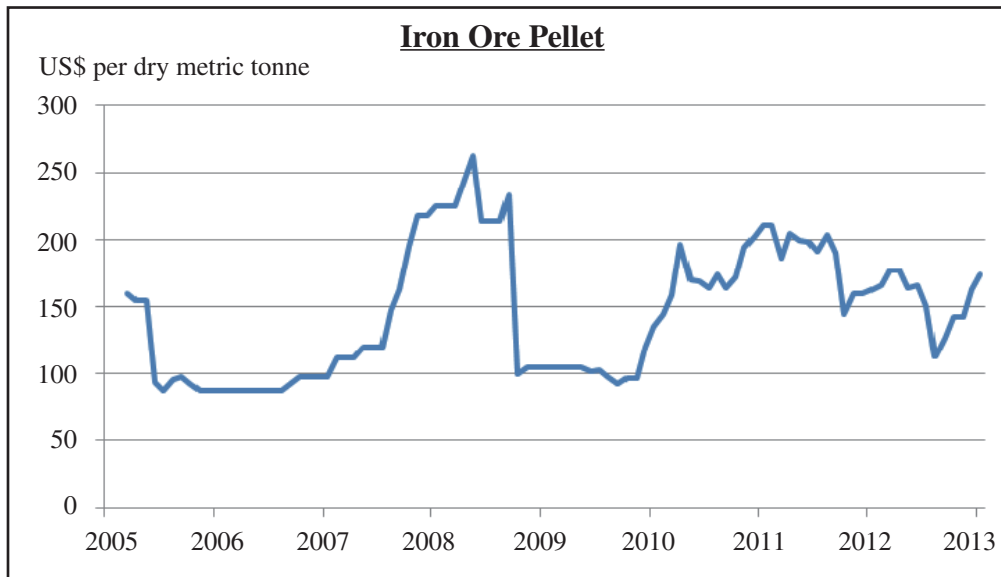
The economic zone in Panxi region of Sichuan province enjoys economic development potential with abundant natural resources like vanadium and titanium. In order to promote the industry development and enhance competitiveness of the region, the "Industrial Development Strategy of 12th Five-Year Plan in Sichuan Province" (《四川省「十二五」工業發展規劃》) encouraged the strengthening of strategic co-operation among upstream and downstream vanadium and titanium enterprises so as to extend the industry chain. Meanwhile, the "Comprehensive Utilisation on Vanadium and Titanium and Industry Development Strategy of 12th Five-Year Plan" (《鈮鈦資源綜合利用和產業發展十二五規劃》) stated that the PRC will focus on developing vanadium and titanium-bearing iron ore resources in Panxi region and aim to set up a national strategic resource development zone in the region. In view of this, the economic zone in Panxi region will further consolidate its resources and develop more high-tech and value-added vanadium-bearing and titanium-bearing products, in order to drive the industry demand and further benefit upstream mining companies within the region.

As the commodity trading market is becoming increasingly globalised, the prices of the iron ores, vanadium ores and titanium ores in the PRC are correlated with their international prices. As sourced and extracted from Bloomberg, tabulated below are the historical prices of (i) iron ores, as represented by the cost and freight (cfr) price of iron ore pellet with destination in main port of the PRC; (ii) vanadium ores, as represented by the cost, insurance and freight (cif) price of vanadium ore with minimum 98% purity of vanadium pentoxide (V<sub>2</sub>O<sub>5</sub>) with port of destination in Europe; and (iii) titanium ores, as represented by the free on board (fob) price of rutile with minimum 95% of titanium dioxide (TiO<sub>2</sub>) with port of destination in Australia:

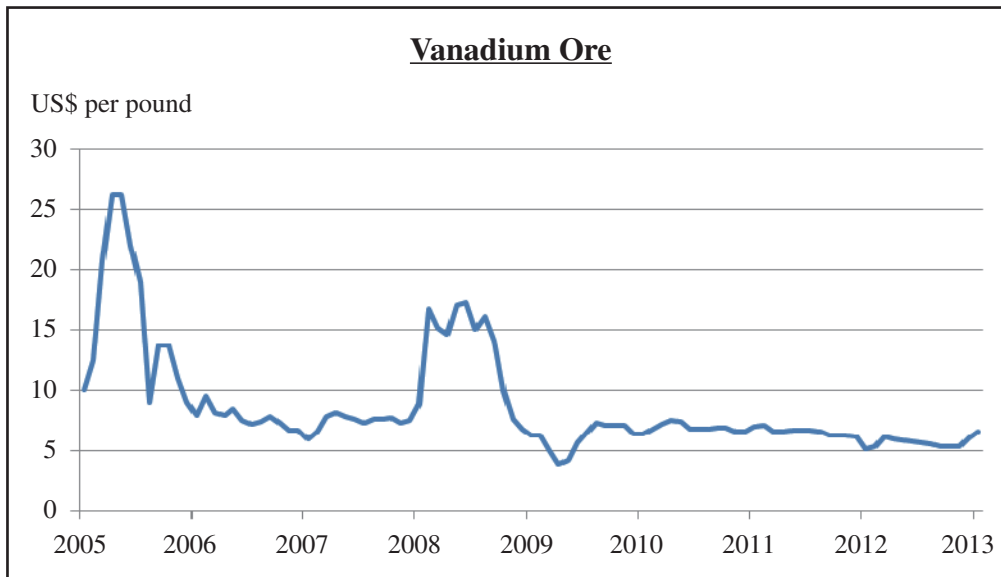
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## LETTER FROM GUANGDONG SECURITIES

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*Note: The historical price of iron ores is represented by the cost and freight (cfr) price of iron ore pellet with destination in main port of the PRC.*

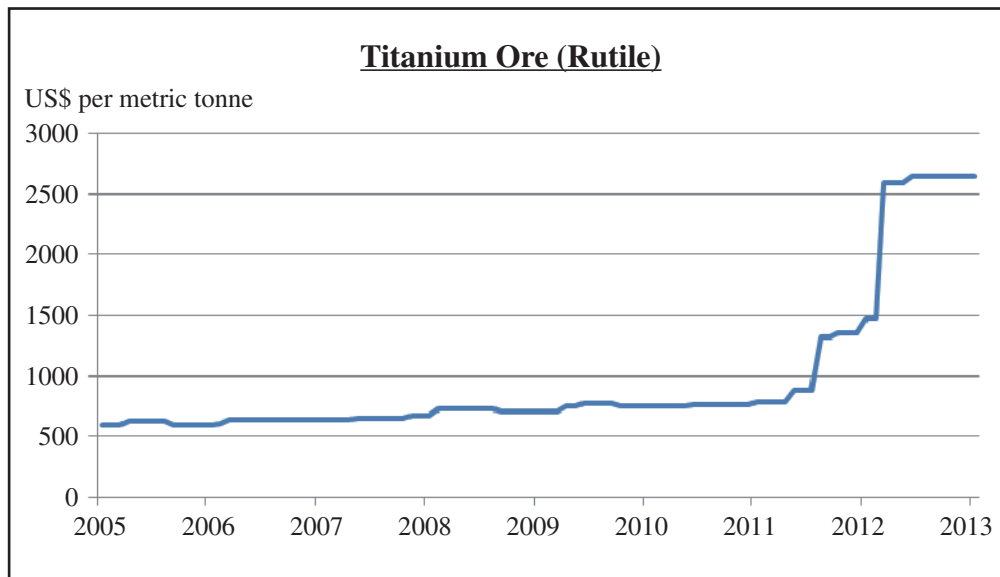


*Note: The historical price of vanadium ores is represented by the cost, insurance and freight (cif) price of vanadium ore with minimum 98% purity of vanadium pentoxide (V<sub>2</sub>O<sub>5</sub>) with port of destination in Europe.*

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## LETTER FROM GUANGDONG SECURITIES

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*Note: The historical price of titanium ores is represented by the free on board (fob) price of rutile with minimum 95% of titanium dioxide (TiO<sub>2</sub>) with port of destination in Australia.*

*Source: Bloomberg*

As illustrated above, the price of iron pellets achieved the highest level in mid 2008 but there was an abrupt substantial drop soon afterwards. The price of iron pellets then remained at a low level until late 2009 when it suddenly rose by nearly twofold. From 2010 to present, the price of iron pellets has been unstable and did not demonstrate a general upward or downward moving trend. As for the price of vanadium, it followed a similar moving pattern as that of iron pellets before mid 2009. In recent years, the price of vanadium has levelled off at below USD10 per pound.

As also illustrated above, the international price of titanium had stayed rather constant from 2005 to mid 2011. It jumped vigorously afterwards until early 2012 when it has started to level off at above USD2,500 per metric tonne.

In general, the aforesaid prices of the iron ores, vanadium ores and titanium ores have been rather fluctuating and unpredictable.

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## LETTER FROM GUANGDONG SECURITIES

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### *Financial position of the Group*

Set out below is a summary of the audited consolidated financial position of the Group as at 31 December 2012, 2011 and 2010 as extracted from the 2012 Annual Report and the 2011 Annual Report respectively:

	<b>As at 31 December 2012 RMB'000</b>	<b>As at 31 December 2011 RMB'000</b>	<b>As at 31 December 2010 RMB'000</b>
Non-current assets	3,085,440	2,979,105	2,399,098
Current assets	2,330,527	1,479,313	1,480,726
Non-current liabilities	(91,938)	(118,938)	(171,273)
Current liabilities	(1,777,556)	(1,118,622)	(871,309)
Net assets	3,546,473	3,220,858	2,837,242

As depicted by the above table, the net assets of the Group grew gradually and amounted to approximately RMB3,546.5 million as at 31 December 2012. The Group's assets as at 31 December 2012 were primarily consisted of property, plant and equipment of approximately RMB1,778.8 million, intangible assets of approximately RMB566.3 million and cash and cash equivalents of approximately RMB1,649.1 million. On the other hand, the Group's liabilities as at 31 December 2012 were primarily consisted of trade and bills payables of approximately RMB816.6 million, other payables and accruals of approximately RMB345.8 million and interest-bearing bank and other loans of approximately RMB317.3 million.

### **(3) Information on the Offeror and the Parent**

Set out below is the information on the Offeror and the Parent as extracted from the Memorandum:

The Offeror is an investment holding company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Parent. The Parent is the controlling shareholder of the Company.

The Parent is an investment holding company incorporated in Hong Kong with limited liability and is 82.6% beneficially owned by Mr. Wang, a non-executive Director. The remaining of the entire issued share capital of the Parent was owned by Mr. Shi Yinjun as to 7.20%, Mr. Zhang Yuanguai as to 7.20% and Mr. Li Hesheng as to 3.00% as at the Latest Practicable Date.

### **(4) Intention of the Offeror regarding the Company**

We understand from the Board Letter that it is the intention of the Offeror to continue the existing businesses of the Group in all material respects upon the successful privatisation of the Company.

Moreover, the Offeror has no plan, in the event that the Scheme becomes effective, to: (i) make any material changes to the existing businesses of the Group (including any material redeployment of the fixed assets of the Group); or (ii) make any material changes to the continued employment of the employees of the Group.

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## LETTER FROM GUANGDONG SECURITIES

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On the other hand, the Offeror will continue to assess any business opportunity that may arise from time to time involving the business and/or assets of the Group and will formulate strategic corporate planning as and when appropriate.

As confirmed by the Directors, the Board has considered the Offeror's intention as set out above and is of the view that, based on the Offeror's plans, there will be no material change to the existing business of the Group and the employees of the Group. Based on the Offeror's intention as set out above, we concur with the Directors that it is likely that there would be no material change to the existing business of the Group and the employees of the Group as a result of the Proposal in the short run.

### **(5) Reasons for and benefits of the Proposal**

As advised by the Directors (other than members of the IBC), the terms of the Proposal are attractive to the Scheme Shareholders and that the Proposal will be beneficial to the Scheme Shareholders in the following ways:

The Directors (other than members of the IBC) consider that the Scheme provides an opportunity for the Scheme Shareholders to realise their Shares (which have a relatively low degree of market liquidity) in return for cash. In this regard, the Board noted that the trading volume of the Shares on the Stock Exchange since the IPO has been, in general, decreasing. The average daily trading volume of the Shares for the six months following the IPO was 13.7 million Shares (representing approximately 0.66% of the Shares in issue as at the date of the Announcement); whereas the average trading volume of the Shares for the six months preceding the Pre-Announcement Date was 5.3 million Shares (representing approximately 0.26% of the Shares in issue as at the date of the Announcement). Given this relatively low liquidity of the Shares traded on the Stock Exchange, the Offeror Director and the Directors (excluding members of the IBC) believe that there is currently limited opportunity for the Scheme Shareholders to divest their investments in the Company.

Over the 365 trading days up to and including the Last Trading Date, the price of the Shares fell by approximately 44.0% and the market, as represented by the Hang Seng Index, increased by approximately 1.0%. During the period from the IPO to the Last Trading Date, the Hang Seng Index increased by approximately 5.3% to 22,623.37 points and the price of the Shares fell by approximately 54.6% to HK\$1.67 per Share. This relatively weak performance of the Shares versus the broader market can in part be attributed to challenging macro sector dynamics, including the recent weakness in iron ore prices.

The Directors (other than members of the IBC) believe that, in view of the relatively thin trading liquidity and persistently weak performance of the Shares since the IPO, access to the equity capital markets does not provide the Company with an attractive fund raising avenue, and that the costs and management resources associated with the maintenance of the Company's listing status are not warranted.

The Directors (other than members of the IBC) believe the Scheme offers an opportunity to the Scheme Shareholders to realise their investment at a premium over the current Share price without having to incur the brokerage fees, transaction levies and trading fees which are customarily payable when disposing of shares in the open market.



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## LETTER FROM GUANGDONG SECURITIES

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The Proposal provides the Scheme Shareholders with an attractive opportunity to divest their holding of Shares in exchange for cash during the current global economic downturn, at a significant premium over the recent market trading price.

In addition, the Proposal allows the Scheme Shareholders a chance to redeploy capital into other investment opportunities that they may consider more attractive in the current market environment.

### **(6) The Cash Consideration**

The Cash Consideration of HK\$1.93 for each Scheme Share under the Proposal represents:

- (a) a premium of approximately 8% over the closing price of HK\$1.78 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (b) a premium of approximately 21% over the closing price of HK\$1.59 per Share as quoted on the Stock Exchange on the Pre-Announcement Date;
- (c) a premium of approximately 50% over the average closing price of HK\$1.29 per Share as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Pre-Announcement Date;
- (d) a premium of approximately 57% over the average closing price of HK\$1.23 per Share as quoted on the Stock Exchange for the 60 trading days immediately prior to and including the Pre-Announcement Date;
- (e) a premium of approximately 58% over the average closing price of HK\$1.22 per Share as quoted on the Stock Exchange for the 90 trading days immediately prior to and including the Pre-Announcement Date;
- (f) a premium of approximately 16% over the closing price of HK\$1.67 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (g) a premium of approximately 17% over the average closing price of HK\$1.65 per Share as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Last Trading Date;
- (h) a premium of approximately 30% over the average closing price of HK\$1.49 per Share as quoted on the Stock Exchange for the 60 trading days immediately prior to and including the Last Trading Date;
- (i) a premium of approximately 40% over the average closing price of HK\$1.38 per Share as quoted on the Stock Exchange for the 90 trading days immediately prior to and including the Last Trading Date; and

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## LETTER FROM GUANGDONG SECURITIES

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- (j) a discount of approximately 7.7% to the Group's consolidated net assets of approximately HK\$2.09 per Share calculated based on the Group's audited consolidated net assets attributable to owners of the Company of approximately HK\$4,336,505,388 (being approximately RMB3,517,036,000 converted into HK\$ based on the exchange rate of HK\$1.233: RMB1) as at 31 December 2012 and 2,075,000,000 Shares in issue as at the Latest Practicable Date.

### *Historical price performance of the Shares*

The highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each month during the period commencing from 1 April 2012 up to and including the Latest Practicable Date (the "Review Period") are shown as follows:

<b>Month</b>	<b>Highest closing price HK\$</b>	<b>Lowest closing price HK\$</b>	<b>Average daily closing price HK\$</b>	<b>No. of trading days in each month</b>
<b>2012</b>				
April	1.84	1.73	1.79	18
May	1.84	1.25	1.45	22
June	1.34	1.15	1.22	21
July	1.30	1.08	1.18	21
August	1.22	1.12	1.18	23
September	1.26	1.08	1.18	20
October	1.52	1.18	1.32	20
November ( <i>Note 1</i> )	1.70	1.53	1.63	20
December ( <i>Note 2</i> )	1.85	1.64	1.70	16
<b>2013</b>				
January	1.85	1.77	1.81	22
February	1.81	1.73	1.78	17
March	1.80	1.76	1.78	20
April (up to and including the Latest Practicable Date)	1.79	1.75	1.77	8

*Source: the Stock Exchange web-site (www.hkex.com.hk)*

*Notes:*

- Trading in the Shares was suspended on 2 November 2012 and 5 November 2012.
- Trading in the Shares was suspended from 20 December 2012 to the morning session of 27 December 2012 (both dates inclusive).

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## LETTER FROM GUANGDONG SECURITIES

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We noted from the above table that the Cash Consideration had been above the closing prices of the Shares during the entire Review Period. The closing price of the Shares reached the lowest level at HK\$1.08 on 26 July 2012 and 5 September 2012, respectively, and the Cash Consideration represents a substantial premium of approximately 78.7% over such lowest closing price of the Shares. On 5 November 2012, the Company made the first announcement regarding the interest of the Parent to pursue a proposal for privatisation of the Company by the Offeror (the “**Pre-Announcement**”). The Share prices had risen significantly since then. On 21 December 2012, the Announcement was further made with regard to the concrete plan of the Proposal, and the Share prices had jumped to an even higher level afterwards up to and including the Latest Practicable Date. Upon our enquiry, the Directors confirmed that save for the overall favourable stock market sentiment together with the market reaction towards the Proposal, they are not aware of any reasons which may lead to the aforesaid surges of the Share prices. We also noted that besides the Pre-Announcement and the Announcement, the Company had not published other material announcements at the relevant time. The Independent Shareholders should note that the sustainability of the increased price level is uncertain. **Nonetheless, the Independent Shareholders must also closely monitor the prevailing market price of the Shares, which may be trading at above the Cash Consideration, and exercise due care and caution when deciding whether or not to accept the Proposal.**

Moreover, as demonstrated by the above table, from April 2012 up to October 2012 before the Company made the Pre-Announcement, the monthly average closing prices of the Shares had been falling relatively persistently by approximately 26.3% from HK\$1.79 to HK\$1.32. While the broader stock market, as represented by the Hang Seng Index, had increased by approximately 5.5% from 20,522.3 points recorded on 2 April 2012 to 21,641.8 points recorded on 31 October 2012. We further noted that the offer price of the Shares as at the IPO was HK\$3.50 per Share. As compared to the closing price of the Shares at as the Last Trading Date of HK\$1.67, the closing price of the Shares had fallen considerably by approximately 52.3%; whereas the Hang Seng Index had increased by approximately 5.3% from 21,492.9 points recorded on 8 October 2009, being the date of listing of the Company, to 22,623.4 points recorded on the Last Trading Date. As such, the Shares underperformed the Hang Seng Index and the historical price performance of the Shares was relatively weak.

### *Historical trading liquidity of the Shares*

The number of trading days, the average daily number of the Shares traded per month, and the respective percentages of the Shares’ monthly trading volume as compared to: (i) the total number of issued Shares held by the public as at the Latest Practicable Date; and (ii) the total number of issued Shares as at the Latest Practicable Date during the Review Period are tabulated as below:

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## LETTER FROM GUANGDONG SECURITIES

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Month	No. of trading days in each month	Average daily trading volume (the "Average Volume") Shares	% of the Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date (Note 3) %	% of the Average Volume to total number of issued Shares as at the Latest Practicable Date (Note 4) %
<b>2012</b>				
April	18	2,419,048	0.23	0.12
May	22	6,401,302	0.61	0.31
June	21	6,540,800	0.62	0.32
July	21	2,867,143	0.27	0.14
August	23	1,973,794	0.19	0.10
September	20	4,182,362	0.40	0.20
October	20	9,493,176	0.90	0.46
November (Note 1)	20	10,320,500	0.98	0.50
December (Note 2)	16	5,488,802	0.52	0.26
<b>2013</b>				
January	22	5,518,955	0.52	0.27
February	17	3,918,303	0.37	0.19
March	20	2,240,272	0.21	0.11
April (up to and including the Latest Practicable Date)	8	2,238,750	0.21	0.11

Source: the Stock Exchange web-site ([www.hkex.com.hk](http://www.hkex.com.hk))

*Notes:*

1. Trading in the Shares was suspended on 2 November 2012 and 5 November 2012.
2. Trading in the Shares was suspended from 20 December 2012 to the morning session of 27 December 2012 (both dates inclusive).
3. Based on 1,051,442,928 Shares held by the public as at the Latest Practicable Date.
4. Based on 2,075,000,000 Shares in issue as at the Latest Practicable Date.

As noted from the above table, trading in the Shares had been extremely thin during the entire Review Period, with average daily trading volume of below 1% of the total number of issued Shares held by the public. The total issued share capital of the Company was 2,075,000,000 Shares as at the IPO and the Latest Practicable Date but the Average Volume was below 10,000,000 Shares during the Review Period, save for November 2012 when the Pre-Announcement was published. Given that the Shares are highly illiquid, there is currently limited opportunity for the Independent Shareholders to divest their investments in the Company not to mention that the disposal of large blocks of Shares held by them in the open market would likely trigger price slump of the Shares.

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## LETTER FROM GUANGDONG SECURITIES

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We wish to highlight to the Independent Shareholders that the trading volume of the Shares had been unstable during the Review Period and was the highest in November 2012 when the Pre-Announcement was published, which was likely to be mainly attributable to the overall favourable stock market sentiment together with the market reaction towards the Proposal. **Independent Shareholders should note that the future liquidity of the Shares is uncertain.**

### (7) The Option Offer

As mentioned in the section headed “Background and terms of the Proposal and the Option Offer” of this letter, the Offeror is making an appropriate cash offer to cancel the outstanding Options under the Option Offer, which is conditional upon the Scheme becoming effective. The Option Amount to cancel each Option is calculated on a “see-through” basis, so that each Optionholder is entitled to receive a price for the cancellation of his/her Options being the amount by which the Cash Consideration exceeds the Exercise Price of his/her Options. As the Exercise Price of all the Options is above the Cash Consideration, the “see-through” price is zero and the Option Amount under the Option Offer will be a nominal value of HK\$0.001 per Option. Further terms and conditions of the Option Offer are included in the Board Letter and the Memorandum.

Given that the Optionholders are entitled to receive the Option Amount for the cancellation of their outstanding Options, and the Exercise Prices of HK\$4.99 and HK\$5.05 per Share under the Old Share Option Scheme and the Exercise Price of HK\$3.60 per Share under the New Option Scheme are far above the closing prices of the Shares throughout the entire Review Period, i.e. the Options are all extremely out-of-money, we consider the Option Offer to be fair and reasonable so far as the Optionholders are concerned.

### RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular:

- (i) the Group’s revenue and profitability in terms of gross profit margin as well as net profit margin had declined extensively by approximately 10.5%, 6.3% and 25% respectively for the year ended 31 December 2012 as compared to the year ended 31 December 2011;
- (ii) despite the government policies which are favourable to the development of the mining industry in the western regions of the PRC, the Group’s mining business is affected by the world prices of iron ores and titanium products which have been rather fluctuating and unpredictable, and is vulnerable to occasional power shortage which is beyond the control of the Group. For this reason, there is no assurance that the Group’s financial performance will improve in the future;
- (iii) the Cash Consideration had been above the historical closing prices of the Shares during the entire Review Period and the recent surges of the price of the Shares was as represented by the Directors mainly attributable to the overall favourable stock market sentiment together with the market reaction towards the Proposal as they were not aware of any other reasons which may lead to such sudden surges. The Independent Shareholders should note that the sustainability of the increased price level is uncertain;

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## LETTER FROM GUANGDONG SECURITIES

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- (iv) the Shares underperformed the Hang Seng Index and the historical price performance of the Shares was relatively weak;
- (v) there is currently limited opportunity for the Independent Shareholders to divest their investments in the Company and the disposal of large blocks of Shares held by the Independent Shareholders in the open market would likely to trigger price slump of the Shares as a result of the extremely thin trading volume of the Shares; and
- (vi) the possible benefits of the Proposal as set out in the sub-section headed “Reasons for and benefits of the Proposal” of this letter,

we consider that the Proposal provides an opportunity to the Independent Shareholders, in particular those who hold large blocks of the Shares, to realise their investments in the Company and that the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the IBC to recommend the Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the Court Meeting and the EGM to approve the Scheme.

Besides that, since the Optionholders are entitled to receive the Option Amount for the cancellation of their outstanding Options, and the Exercise Prices of all the Options are far above the closing prices of the Shares throughout the entire Review Period, i.e. the Options are extremely out-of-money, we consider that the terms of the Option Offer are fair and reasonable so far as the Optionholders are concerned. Accordingly, we advise the IBC to recommend the Optionholders to accept the Option Offer.

**We wish to highlight to the Independent Shareholders that the recent surges of the price of the Shares was as represented by the Directors mainly attributable to the overall favourable stock market sentiment together with the market reaction towards the Proposal and the Independent Shareholders should note that the sustainability of the increased price level is uncertain. Should the Independent Shareholders be concerned that the Share price may fall back to lower levels if the Proposal does not become effective, Independent Shareholders may, instead of accepting the Proposal, consider selling their Shares in the open market.**

**As different Independent Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any Independent Shareholder who may require advice in relation to any aspect of the Scheme Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.**

Yours faithfully,  
For and on behalf of  
**Guangdong Securities Limited**  
**Graham Lam**  
*Managing Director*

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## EXPLANATORY MEMORANDUM

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*This Explanatory Memorandum constitutes the memorandum required under Order 102, rule 20(4) (e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).*

### SCHEME OF ARRANGEMENT TO CANCEL ALL THE SCHEME SHARES IN CONSIDERATION OF THE OFFEROR AGREEING TO PAY THE CASH CONSIDERATION FOR EACH SCHEME SHARE

#### 1. INTRODUCTION

On 21 December 2012, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders which, if approved and implemented, would result in the Company becoming wholly-owned by the Offeror and the Parent and the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules.

The Proposal will be implemented by way of a scheme of arrangement between the Company and the Scheme Shareholders under Section 86 of the Companies Law. If the Scheme becomes effective, the Scheme Shares will be cancelled and the New Shares will be issued and credited as fully paid to the Offeror.

The Offeror is also making the Option Offer to the Optionholders to cancel all outstanding Options. The Option Offer is conditional upon the Scheme becoming effective.

The purpose of this Explanatory Memorandum is to explain the terms and effects of the Proposal and the Option Offer, which are to be implemented by the Scheme and the Option Offer Letters, respectively, and to provide the Scheme Shareholders and Optionholders with other relevant information in relation to the Scheme and the Option Offer, in particular, to provide the intentions of the Offeror with regard to the Group and the shareholding structure of the Company before and after the Scheme.

The particular attention of the Scheme Shareholders and Optionholders is drawn to the following sections of this Scheme Document: (i) a letter from the Board set out on pages 11 to 24 of this Scheme Document; (ii) a letter from the IBC set out on pages 25 to 26 of this Scheme Document; (iii) a letter from Guangdong Securities, the Independent Financial Adviser to the IBC, set out on pages 27 to 42 of this Scheme Document; and (iv) the Appendices to this Scheme Document, including the Scheme of Arrangement as set out on pages IV-1 to IV-6 of this Scheme Document.

#### 2. TERMS OF THE PROPOSAL

##### *Scheme of Arrangement*

Under the Scheme, the Scheme Shareholders will receive from the Offeror the Cash Consideration as consideration for the cancellation of the Scheme Shares:

HK\$1.93 in cash . . . . . for every Scheme Share cancelled

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## EXPLANATORY MEMORANDUM

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The Cash Consideration for each Scheme Share under the Proposal represents:

- a premium of approximately 21% over the closing price of HK\$1.59 per Share as quoted on the Stock Exchange on the Pre-Announcement Date;
- a premium of approximately 50% over the average closing price of HK\$1.29 per Share as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Pre-Announcement Date;
- a premium of approximately 57% over the average closing price of HK\$1.23 per Share as quoted on the Stock Exchange for the 60 trading days immediately prior to and including the Pre-Announcement Date;
- a premium of approximately 58% over the average closing price of HK\$1.22 per Share as quoted on the Stock Exchange for the 90 trading days immediately prior to and including the Pre-Announcement Date;
- a premium of approximately 16% over the closing price of HK\$1.67 per Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 17% over the average closing price of approximately HK\$1.65 per Share as quoted on the Stock Exchange over the 30 trading days up to and including the Last Trading Date;
- a premium of approximately 30% over the average closing price of approximately HK\$1.49 per Share as quoted on the Stock Exchange over the 60 trading days up to and including the Last Trading Date;
- a premium of approximately 40% over the average closing price of HK\$1.38 per Share as quoted on the Stock Exchange for the 90 trading days immediately prior to and including the Last Trading Date;
- a premium of approximately 8% over the closing price of HK\$1.78 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- a discount of approximately 7.7% to the net asset per Share based on the financial statements of the Company for the year ended 31 December 2012. The calculation of net assets per Share is based on: (i) net assets attributable to owners of the Company and the number of Shares of 2,075,000,000 in issue during the year ended 31 December 2012; and (ii) translations of RMB into HK\$ at the rate of RMB1.00 to HK\$1.233 (for illustration purpose only).

During the period commencing six months preceding the Pre-Announcement Date and ending on the Latest Practicable Date, the highest closing price and the lowest closing price of the Shares as quoted on the Stock Exchange were HK\$1.85 per Share on 27 December 2012 and 8 January 2013 and HK\$1.08 per Share on 26 July 2012 and 5 September 2012, respectively.

The Board did not recommend any Dividend Payments for the year ended 31 December 2012. The Cash Consideration of HK\$1.93 per Share assumes that no Dividend Payments will be made during the Offer Period. Accordingly, the Company will not declare, make or pay any dividend or other distribution (whether in cash or in kind) to the Shareholders during the Offer Period.



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## EXPLANATORY MEMORANDUM

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As at the Latest Practicable Date, there were 2,075,000,000 Shares in issue and 56,900,000 outstanding Options which are convertible into 56,900,000 Shares. Save as disclosed in this paragraph, the Company does not have any outstanding convertible securities, warrants, options or derivatives in respect of any Shares.

As at the Latest Practicable Date, BofA Merrill Lynch did not hold any voting rights or other rights over the Shares.

### *The Share Option Schemes and Option Offer*

Your attention is drawn to “Appendix VII - Sample Option Offer Letter” to this Scheme Document.

As at the Latest Practicable Date, the Company had two share option schemes (namely, the Old Share Option Scheme and the New Share Option Scheme).

As at the Latest Practicable Date, there were 29,600,000 outstanding Options under the Old Share Option Scheme and 27,300,000 outstanding Options under the New Share Option Scheme, of which 14,800,000 outstanding Options under the Old Share Option Scheme and all of the outstanding Options under the New Share Option Scheme remained unvested.

Under the Old Share Option Scheme: (i) 10,100,000 outstanding Options with an Exercise Price of HK\$5.05 per Share and 4,700,000 outstanding Options with an Exercise Price of HK\$4.99 per Share had vested and were exercisable on or after 29 June 2012 and 1 October 2012, respectively; and (ii) 10,100,000 outstanding Options with an Exercise Price of HK\$5.05 per Share and 4,700,000 outstanding Options with an Exercise Price of HK\$4.99 per Share were unvested and would become exercisable on or after 29 December 2013 and 1 April 2015, respectively. Under the New Share Option Scheme, all outstanding Options with an Exercise Price of HK\$3.60 per Share were unvested and would become exercisable on or after 23 May 2013. The weighted average exercise price of the outstanding Options is HK\$4.34 per Share and the lowest exercise price of the outstanding Options is HK\$3.60 per Share. All the Optionholders have each given an irrevocable undertaking to the Offeror and the Company to not exercise any of his/her outstanding Options during the Offer Period. The Optionholders have also confirmed to the Company that the Company has no obligation to issue any new Shares to them.

Other than the Shares to be issued under the outstanding Options, the Company does not have any outstanding convertible securities, warrants, options or derivatives in respect of any Shares.

Pursuant to Rule 13 of the Takeovers Code, the Offeror is also making an appropriate cash offer to the Optionholders to cancel their Options. The Option Offer is conditional upon the Scheme becoming effective. The Option Amount to cancel an Option is calculated by deducting the Exercise Price payable on exercise of an Option from the Cash Consideration (ie, the “see-through” price). As the Exercise Price of all the Options is above the Cash Consideration, the “see-through” price is zero and the Option Amount under the Option Offer is a nominal value of HK\$0.001 per Option.

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## EXPLANATORY MEMORANDUM

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The following table sets out details of the outstanding Options:

	Number	Exercise Price (HK\$)	Exercisable on or after	Vesting
<i>Options under Old Share Option Scheme</i>	10,100,000	5.05	29 June 2012	Vested
	4,700,000	4.99	1 October 2012	Vested
	10,100,000	5.05	29 December 2014	Not yet vested
	4,700,000	4.99	1 April 2015	Not yet vested
	<hr/>			
Total Options under Old Share Option Scheme	29,600,000			
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<i>Options under New Share Option Scheme</i>	27,300,000	3.60	23 May 2013	Not yet vested
	<hr/>			
Total Options under New Share Option Scheme	27,300,000			
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<b>Total outstanding Options convertible into the same number of the Shares</b>	56,900,000			
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## EXPLANATORY MEMORANDUM

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As at the Latest Practicable Date, the following Directors held the following number of outstanding Options under the Old Share Option Scheme:

Name of Director	Number of Options	Exercise Price (HK\$)	Exercisable on or after
Mr. Jiang Zhong Ping	1,500,000	5.05	29 June 2012
	1,500,000	5.05	29 December 2014
	250,000	4.99	1 October 2012
	250,000	4.99	1 April 2015
Total	<u>3,500,000</u>		
Mr. Liu Feng	2,000,000	5.05	29 June 2012
	2,000,000	5.05	29 December 2014
	1,250,000	4.99	1 October 2012
	1,250,000	4.99	1 April 2015
Total	<u>6,500,000</u>		
Mr. Yu Xing Yuan	3,500,000	5.05	29 June 2012
	3,500,000	5.05	29 December 2014
	1,250,000	4.99	1 October 2012
	1,250,000	4.99	1 April 2015
Total	<u>9,500,000</u>		

As at the Latest Practicable Date, the following Directors held the following number of outstanding Options under the New Share Option Scheme:

Name of Director	Number of Options	Exercise Price (HK\$)	Exercisable on or after
Mr. Jiang Zhong Ping	5,000,000	3.60	23 May 2013
Mr. Liu Feng	4,500,000	3.60	23 May 2013
Mr. Yu Xing Yuan	5,000,000	3.60	23 May 2013

Under the terms of the New Share Option Scheme and the Old Share Option Scheme, following receipt of a notice from the Company an Optionholder may exercise his outstanding Option(s) (to the extent not already exercised), even if they are not otherwise exercisable, once the Scheme and the Reduction are approved by the requisite majorities at the Court Meeting and the EGM. However, as all

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## EXPLANATORY MEMORANDUM

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the Optionholders have each given an Option Irrevocable Undertaking to the Offeror and the Company to not exercise any of their outstanding Options (whether vested or unvested during the Offer Period), the Company will not be issuing such notice.

The Offeror is making an offer to cancel the outstanding Options under the Option Offer, conditional upon the Scheme becoming effective. The Option Offer Letter to Optionholders setting out the terms and conditions of the Option Offer is being despatched separately to Optionholders on the date of this Scheme Document and is substantially in the form set out in “Appendix VII - Sample Option Offer Letter” of this Scheme Document. The offer to cancel each Option is calculated on a “see-through” basis, so that each Optionholder is entitled to receive a price for his/her Options being the amount by which the Cash Consideration exceeds the Exercise Price of his/her Options. As the Exercise Price of all the Options is above the Cash Consideration, the “see-through” price is zero and the Option Amount under the Option Offer is HK\$0.001 per Option. No stamp duty is payable in relation to the Option Amount under the Option Offer. The Option Offer is conditional upon the Scheme becoming effective. In order to accept the Option Offer, each Optionholder must duly complete the form of acceptance (appended to the Option Offer Letter) in accordance with the instructions contained therein and return it to the Company, at Room 2201, 22/F, Wheelock House, 20 Pedder Street, Central, Hong Kong (marked for the attention of the “Company Secretary”), at or before 4:30 p.m. on Monday, 10 June 2013. Further details are set out in the section headed “Action to be Taken” below.

If the Scheme and the Reduction are approved by the requisite majorities at the Court Meeting and the EGM, respectively, and the Scheme is sanctioned by the Grand Court and becomes effective, any Options that are not cancelled pursuant to the Option Offer will automatically lapse at 4:30 p.m. on Monday, 10 June 2013, being the latest time to accept the Option Offer.

If the Scheme is not sanctioned by the Grand Court or any of the Conditions are not satisfied and the Scheme does not become effective, the Option Offer will lapse and all Options will remain unaffected and will be exercisable during their relevant exercise periods pursuant to the terms of the Share Option Schemes.

Settlement of the Cash Consideration and the Option Amount to which the Scheme Shareholders and the Optionholders are entitled under the Proposal and the Option Offer, respectively, will be implemented in full in accordance with the terms of the Proposal and the Option Offer, respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder or Optionholder.

### **3. TOTAL CONSIDERATION AND CONFIRMATION OF FINANCIAL RESOURCES**

As all the Optionholders have each given an Option Irrevocable Undertaking to the Offeror and the Company to not exercise any of their outstanding Options during the Offer Period, the maximum amount of cash required to implement the Proposal in full (including the Option Amount) would be approximately HK\$2,061.77 million, of which HK\$2,061.71 million would be for the Cash Consideration and HK\$56,900 for the Option Amount.

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## EXPLANATORY MEMORANDUM

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The Offeror will finance the aggregate Cash Consideration and Option Amount payable under the Proposal by a combination of external debt financing provided by the Facility and internal cash resources of the Offeror Group.

BofA Merrill Lynch has been appointed as the financial adviser to the Offeror in respect of the Proposal. BofA Merrill Lynch is satisfied that sufficient financial resources are available to the Offeror for the full payment in cash of: (i) the aggregate Cash Consideration payable by the Offeror under the Scheme; and (ii) the aggregate Option Amount payable by the Offeror under the Option Offer.

#### **4. CONDITIONS OF THE PROPOSAL**

The Scheme will become effective and binding on the Company, the Offeror and all the Scheme Shareholders subject to the fulfilment or waiver (as applicable) of the following Conditions:

- (a) the approval of the Scheme (by way of a poll) by a majority in number of Scheme Shareholders representing not less than three-fourths in value of the Scheme Shares held by the Scheme Shareholders present and voting at the Court Meeting (either in person or by proxy), provided that:
  - (i) the Scheme is approved (by way of a poll) by the Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are voted at the Court Meeting (either in person or by proxy); and
  - (ii) the number of votes cast (by way of a poll) against the resolution to approve the Scheme at the Court Meeting (either in person or by proxy) is not more than 10% of the votes attaching to the Scheme Shares held by all the Independent Shareholders;
- (b)
  - (i) the passing of a special resolution to approve and give effect to the Reduction by a majority of at least three-fourths of the votes cast by the Shareholders present and voting either in person or by proxy at the EGM;
  - (ii) the passing of an ordinary resolution by the Shareholders at the EGM to immediately restore the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and to apply the credit arising in its books of account as a result of the Reduction to pay up in full at par and issue to the Offeror such number of New Shares as is equal to the number of Scheme Shares cancelled; and
  - (iii) the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the deposit and maintenance of the funds by the Company in the Bank Accounts as referred to in Condition (e);
- (c) the sanction of the Scheme (with or without modifications) by the Grand Court and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;

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## EXPLANATORY MEMORANDUM

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- (d) compliance, to the extent necessary, with the procedural requirements of Section 15 of the Companies Law and compliance with any conditions imposed under Section 16 of the Companies Law, in each case in relation to the Reduction and the confirmation of the Reduction by the Grand Court;
- (e) the Deposit Amount (or its equivalent in any other currency or currencies based on the RMB Benchmark Rate), free from any Security Interest at all times once deposited by the Company and/or its subsidiaries, is standing to the credit of the Bank Accounts on the date of the Court Hearing;
- (f) no dividend or other distribution (whether in cash or in kind) during the Offer Period having been declared, made or paid by the Company to the Shareholders;
- (g) all Authorisations having been obtained from the relevant Authorities in the Cayman Islands, Hong Kong, the PRC and/or any other relevant jurisdictions on terms reasonably satisfactory to the Offeror;
- (h) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any of the relevant Authorities which is not expressly provided for (or is in addition to requirements expressly provided for) in the relevant laws, rules, regulations or codes in connection with the Proposal (or any matters, documents or things relating to the Proposal), in each case up to the date immediately preceding the Effective Date;
- (i) all Authorisations having been obtained from the relevant third parties (other than, for the avoidance of doubt, any that may be required from any member of the Offeror Group) under any existing contractual obligations of any member of the Group on terms reasonably satisfactory to the Offeror and remaining in full force and effect without modification;
- (j) save as publicly announced prior to the Latest Practicable Date (and except in so far as such event forms part of the Proposal), since the Last Accounting Date:
  - (i) there having been no material adverse change in the business, financial or trading position or prospects of any member of the Group; or
  - (ii) there not having been instituted or remaining outstanding any material litigation, arbitration proceedings, prosecution or other legal proceedings to which any member of the Group is a party (whether as plaintiff or defendant or otherwise) and no such proceedings having been threatened in writing against any such member and no investigation by any Authority against or in respect of any member of the Group (or the business carried on by any such member) having been threatened in writing, announced, instituted or remaining outstanding by, against or in respect of any such member,

in each case which is material and adverse in the context of the Group taken as a whole;

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## EXPLANATORY MEMORANDUM

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- (k) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order) that would make the Proposal or the Scheme or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the Proposal or the Scheme; and
- (l) each member of the Group remaining solvent and not being subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, receiver or other person carrying out any similar function having been appointed anywhere in the world in respect of the whole or any substantial part of the assets or undertakings of any member of the Group up to the date immediately preceding the Effective Date, in each case which is material and adverse in the context of the Group taken as a whole.

The Offeror reserves the right to waive any of Conditions (e), (f), (g), (h), (i), (j) and (l), either in whole or in respect of any particular matter. The Company has no right to waive any of the Conditions. Conditions (a), (b), (c), (d) and (k) cannot be waived in any event. If Condition (e) is approved by the Independent Shareholders at the EGM, the Company and/or its subsidiaries will use its reasonable endeavours to ensure that Condition (e) is fulfilled by depositing the Deposit Amount to the credit of the Bank Accounts on or before the date of the Court Hearing. As of 28 February 2013, the Company's cash and cash equivalents are sufficient to satisfy Condition (e). Neither the Parent nor the Offeror will take any action to prevent Condition (e) from being fulfilled. Further, each of the Parent, the Offeror, Mr. Wang and Mr. Teo Cheng Kwee undertakes to the Shareholders and the Company that they will not and will ensure that their associates will not (whether directly or indirectly) direct, instruct or otherwise cause the Board to take any action (or omit to take any action) to prevent Condition (e) from being fulfilled.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to a right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal. All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Grand Court may direct), failing which the Proposal and the Scheme will lapse.

When the Conditions are fulfilled or waived (as applicable) the Scheme will become effective and binding on the Offeror, the Company and all the Scheme Shareholders. Assuming that the Conditions are fulfilled (or, as applicable, waived), it is expected that the Scheme may become effective on or before 27 May 2013 (Cayman Islands time).

**Shareholders, Optionholders and investors should note that the implementation of the Proposal is subject to the Conditions being fulfilled or waived (as applicable). Therefore, the Proposal may or may not become effective. Shareholders and investors are advised to exercise caution when dealing in the Shares.**

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## EXPLANATORY MEMORANDUM

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### 5. CASH AMOUNT TO BE DEPOSITED AND MAINTAINED IN AN ACCOUNT OF THE COMPANY IN THE PRC

To ensure that there is no leakage of value in the Company and to ensure that the Company has at least RMB1,200 million (or is equivalent in any other currency or currencies based on the RMB Benchmark Rate) in cash available for distribution (subject to the relevant laws, rules, regulations or codes in connection with distributions) to the Parent and the Offeror, being the Shareholders after the Scheme has become effective, the Offeror has included as a condition to the Scheme that the Deposit Amount is standing to the credit of the Bank Accounts on the date of the Court Hearing. The Deposit Amount shall be (i) deposited by the Company and/or its subsidiaries; (ii) standing to the credit of the Bank Accounts on the date of the Court Hearing; and (iii) shall be (and shall remain until and including the date of the Court Hearing) free from any Security Interest at all times once deposited. Prior to the date of the Court Hearing, the Offeror will not impose any restrictions on the Company's use of the Deposit Amount and the Bank Accounts. **The Deposit Amount will not be paid to the Scheme Shareholders and therefore, the Deposit Amount will remain in the Bank Accounts for the benefit of the Offeror to the exclusion of the Scheme Shareholders.**

This condition will be put forward to the Independent Shareholders for approval by ordinary resolution at the EGM. If this condition is approved by the Independent Shareholders at the EGM, the Company and/or its subsidiaries will use its reasonable endeavours to ensure that this condition is fulfilled by depositing the Deposit Amount to the credit of the Bank Accounts on or before the date of the Court Hearing.

### 6. IRREVOCABLE UNDERTAKINGS TO ACCEPT THE PROPOSAL

As at the Latest Practicable Date, none of the Offeror and persons acting in concert with it has received any irrevocable commitment from the Independent Shareholders in respect of voting at the Court Meeting or the EGM.

### 7. IRREVOCABLE UNDERTAKINGS TO NOT EXERCISE THE OUTSTANDING OPTIONS

All the Optionholders have each given an irrevocable undertaking to the Offeror and the Company to not exercise any of his outstanding Options (whether vested or unvested during the Offer Period). The Optionholders have also confirmed to the Company that the Company has no obligation to issue any new Shares to them.

### 8. SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW AND THE COURT MEETING

Pursuant to Section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Grand Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be held in such manner as the Grand Court directs.



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## **EXPLANATORY MEMORANDUM**

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### **9. ADDITIONAL REQUIREMENTS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE**

In addition to satisfying any requirements imposed by law as summarised above, other than with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

- (a) the Scheme is approved by at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at a duly convened meeting of the Independent Shareholders; and
- (b) the number of votes cast against the resolution to approve the Scheme at such meeting is not more than 10% of the votes attaching to the Scheme Shares held by all the Independent Shareholders.

For the purpose of this vote, Independent Shareholders comprise all Shareholders other than the Concert Parties and any other persons acting in concert with the Offeror. Scheme Shareholders that are not Independent Shareholders will be required to abstain from voting at the Court Meeting in accordance with the Takeovers Code.

As at the Latest Practicable Date, the Independent Shareholders held in aggregate 1,051,442,928 Scheme Shares. On that basis, 10% of the votes attached to the Scheme Shares held by all the Independent Shareholders represent approximately 105,144,293 Shares as at the Latest Practicable Date.

### **10. BINDING EFFECT OF THE SCHEME**

If the Scheme becomes effective under the Companies Law, it will be binding on the Company and all the Scheme Shareholders, irrespective of whether they attended or voted, and if they voted, whether they voted for or against the Scheme at the Court Meeting.

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## EXPLANATORY MEMORANDUM

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### 11. SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, there were 2,075,000,000 Shares in issue. The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately following the completion of the Proposal, on the basis that no outstanding Options would be exercised during the Offer Period because of the Option Irrevocable Undertakings from all the Optionholders to the Offeror and the Company and that there is no other change to the shareholding structure:

	<b>As at the Latest Practicable Date</b>		<b>Upon completion of the Proposal</b>	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
<b>Shareholders</b>				
Offeror	0	0	1,068,246,000	51.48
<b>Concert Parties</b>				
Parent	1,006,754,000	48.52	1,006,754,000	48.52
Sapphire	16,803,072	0.81	0	0
<b>Subtotal</b>	<b>1,023,557,072</b>	<b>49.33</b>	<b>1,006,754,000</b>	<b>48.52</b>
<b>Other Shareholders</b>				
Independent Shareholders	1,051,442,928	50.67	0	0
<b>Total Shares in issue</b>	<b>2,075,000,000</b>	<b>100.00</b>	<b>2,075,000,000</b>	<b>100.00</b>

As at the Latest Practicable Date, Mr. Wang, a non-executive Director, owns or controls approximately 82.6% of the entire issued share capital of the Parent and approximately 27.2% of the entire issued share capital of Sapphire. The remaining of the entire issued share capital of the Parent is owned by Mr. Shi Yinjun as to 7.20%, Mr. Zhang Yuangui as to 7.20% and Mr. Li Hesheng as to 3.00% as at the Latest Practicable Date.

Pursuant to the Takeovers Code, the Parent and Sapphire are deemed to be associated companies of Mr. Wang and each other, and the Parent, Sapphire and Mr. Wang are presumed to be parties acting in concert with the Offeror. Sapphire holds approximately 0.81% of the entire issued share capital of the Company as at the Latest Practicable Date. Accordingly, the Offeror and parties acting in concert with it hold an aggregate of approximately 49.33% of the entire issued share capital of the Company as at the Latest Practicable Date.

Sapphire reduced its shareholding in the Company from 9.20% as at 5 November 2012 to 0.81% as at the date of the Announcement due to the termination of the Share Financing Agreement and which the outstanding amount owing by Sapphire to Credit Suisse International under the Share Financing Agreement was settled by cash and 174,140,928 Shares (representing approximately 8.39% of the issued share capital of the Company). As such Shares were held by Credit Suisse International as collateral under the Share Financing Agreement, there was no physical transfer of such Shares by Sapphire to Credit Suisse International for the settlement.

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## EXPLANATORY MEMORANDUM

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The Scheme Shareholders held an aggregate of 1,068,246,000 Shares (representing approximately 51.48% of the Shares in issue) as at the Latest Practicable Date, of which 1,051,442,928 Shares were held by the Independent Shareholders (representing approximately 50.67% of the Shares in issue) and 16,803,072 Shares (representing approximately 0.81% of the Shares in issue) were held by Sapphire, a party presumed to be acting in concert with the Offeror.

The Shares held by the Parent will not form part of the Scheme Shares and will not be cancelled upon the Scheme becoming effective.

As at the Latest Practicable Date, BofA Merrill Lynch did not hold any voting rights or other rights over the Shares.

Each of the Offeror and the Parent have agreed to undertake to the Grand Court that each of them will be bound by the Scheme, so as to ensure that they will be subject to the terms and conditions of the Scheme.

### **12. REASONS FOR AND BENEFITS OF THE PROPOSAL**

The Directors (other than members of the IBC who will express their view after receiving advice from Guangdong Securities) are of the view that the terms of the Proposal are attractive to the Scheme Shareholders and that the Proposal will be beneficial to the Scheme Shareholders in a number of ways.

The Directors (other than members of the IBC) consider that the Scheme provides an opportunity for the Scheme Shareholders to realise their Shares (which have a relatively low degree of market liquidity) in return for cash. In this regard, the Board noted that the trading volume of the Shares on the Stock Exchange since the IPO has been, in general, decreasing. The average daily trading volume of the Shares for the six months following the IPO was 13.7 million Shares (representing approximately 0.66% of the Shares in issue as at the date of the Announcement) whereas the average trading volume of the Shares for the six months preceding the Pre-Announcement Date was 5.3 million Shares (representing approximately 0.26% of the Shares in issue as at the date of the Announcement). Given this relatively low liquidity of the Shares traded on the Stock Exchange, the Offeror Director and the Directors (excluding members of the IBC) believe that there is currently limited opportunity for the Scheme Shareholders to divest their investment in the Company.

Over the 365 trading days up to and including the Last Trading Date, the price of the Shares fell by approximately 44.0% and the market, as represented by the Hang Seng Index, increased by approximately 1.0%. During the period from the IPO to the Last Trading Date, the Hang Seng Index increased by approximately 5.3% to 22,623.37 and the price of the Shares fell by approximately 54.6% to HK\$1.67 per Share. This relatively weak performance of the Shares versus the broader market can in part be attributed to challenging macro sector dynamics, including the recent weakness in iron ore prices.

The Directors (other than members of the IBC) believe that, in view of the relatively thin trading liquidity and persistently weak performance of the Shares since the IPO, access to the equity capital

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## EXPLANATORY MEMORANDUM

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markets does not provide the Company with an attractive fund raising avenue, and that the costs and management resources associated with the maintenance of the Company's listing status are not warranted.

The Directors (other than members of the IBC) believe the Scheme offers an opportunity to the Scheme Shareholders to realise their investment at a premium to the current Share price without having to incur the brokerage fees, transaction levies and trading fees which are customarily payable when disposing of shares in the open market.

The Proposal provides the Scheme Shareholders with an attractive opportunity to divest their holding of Shares in exchange for cash during the current global economic downturn, at a significant premium over the recent market trading price.

In addition, the Proposal allows the Scheme Shareholders a chance to redeploy capital into other investment opportunities that they may consider more attractive in the current market environment.

The Offeror believes that the Company will benefit from the flexibilities as a non-listed company which includes access to additional growth capital from the Offeror at short notice and without exposure to market volatility, the ability to make decisions pertaining to investments focused on the long-term benefits to the business of the Group and not being distracted or pressurised to deliver short and medium-term performance for its public shareholders due to the requirements of regular reporting, disclosure of its financial results and the ability to keep confidential certain commercially sensitive data including margins and corporate strategies.

In addition, maintaining a listing platform requires the Company to bear administrative, compliance and other listing-related costs and expenses. Upon privatisation, such costs and expenses are eliminated and the funds could be more effectively allocated for the Group's business operations.

### **13. INFORMATION ON THE COMPANY**

The Company is an exempted company incorporated in the Cayman Islands with limited liability, the shares of which have been listed on the Stock Exchange since October 2009. The Group is principally engaged in the business of mining, ore processing, iron pelletising, sale of vanadium-bearing iron concentrates, ordinary iron concentrates, iron pellets and titanium concentrates and management of strategic investments.

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## EXPLANATORY MEMORANDUM

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Set out below is a summary of the audited consolidated results of the Company for financial years ended 31 December 2011 and 31 December 2012 as extracted from the Company's annual report for the year ended 31 December 2012:

	<b>For the year ended</b>		<b>YoY Change</b>
	<b>31 December</b>		
	<b>2012</b>	<b>2011</b>	
	<i>RMB million</i>	<i>RMB million</i>	
Revenue	1,534	1,713	-10.5%
Profit before income tax	531	748	-29.0%
Profit and total comprehensive income for the period/year	411	613	-33.0%
Profit and total comprehensive income for the period/year attributable to owners of the Company	403	606	-33.5%
	<i>RMB cents</i>	<i>RMB cents</i>	
Earnings per Share:			
– Basic and diluted	19	29	-33.5%

The audited consolidated net assets of the Company attributable to owners of the Company as at 31 December 2012 and 2011 were approximately RMB3,517 million and RMB3,199 million, respectively (equivalent to approximately HK\$4,337 million and HK\$3,945 million, respectively, translated at the rate of RMB1.00 to HK\$1.233 (for illustration purpose only)).

#### **14. INFORMATION ON THE OFFEROR AND THE PARENT**

The Offeror is an investment holding company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Parent. The Parent is the controlling shareholder of the Company.

The Parent is an investment holding company incorporated in Hong Kong with limited liability and 82.6% beneficially owned by Mr. Wang, a non-executive Director. The remaining of the entire issued share capital of the Parent is owned by Mr. Shi Yinjun as to 7.20%, Mr. Zhang Yuanguai as to 7.20% and Mr. Li Hesheng as to 3.00% as at the Latest Practicable Date.

#### **15. OFFEROR'S INTENTION REGARDING THE COMPANY**

It is the intention of the Offeror to continue the existing businesses of the Group in all material respects upon the successful privatisation of the Company.

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## EXPLANATORY MEMORANDUM

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The Offeror has no plan, in the event that the Scheme becomes effective, to: (i) make any material changes to the existing businesses of the Group (including any material redeployment of the fixed assets of the Group); or (ii) make any material changes to the continued employment of the employees of the Group.

On the other hand, the Offeror will continue to assess any business opportunity that may arise from time to time involving the business and/or assets of the Group and will formulate strategic corporate planning as and when appropriate.

The Board has considered the Offeror's intentions as set out in this section and is of the view that, based on the Offeror's plans, there will be no material change to the existing businesses of the Group and the employees of the Group. The IBC has taken the Offeror's intentions into account in making its recommendations as set out on page 26 of this Scheme Document.

### **16. OVERSEAS SHAREHOLDERS AND OVERSEAS OPTIONHOLDERS**

The making of the Proposal to and acceptance of the Proposal by Scheme Shareholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions where such Scheme Shareholders are located. Such Scheme Shareholders should inform themselves about and observe any applicable legal, tax or regulatory requirements of their own jurisdictions.

It is the responsibility of any overseas Scheme Shareholders and Optionholders wishing to accept the Proposal and the Option Offer to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection with such acceptance (including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due by such overseas Scheme Shareholder or Optionholder in any such jurisdiction).

### **17. SHARE CERTIFICATES, DEALINGS AND WITHDRAWAL OF LISTING**

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as document or evidence of title, and the register of members of the Company will be updated to reflect the same. The Company will not retain its listing on the Stock Exchange and will apply for the withdrawal of listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules, with effect from the date on which the Scheme becomes effective. Dealings in the Shares on the Stock Exchange are expected to cease after 4:00 p.m. on Tuesday, 21 May 2013, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 9:00 a.m. on Wednesday, 29 May 2013. Shareholders will be notified by way of an announcement of the exact dates of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme is not approved or lapses.

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### **18. IF THE SCHEME IS NOT APPROVED OR LAPSES**

The Scheme will lapse if any of the Conditions has not been fulfilled or waived (as applicable) on or before the Long Stop Date. If the Scheme is withdrawn, not approved or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

If the Scheme is not approved or otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Proposal lapses announce an offer or possible offer for the Company, except with the consent of the Executive.

### **19. TAXATION, EFFECTS AND LIABILITIES**

As the Scheme does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

Similarly, as the acceptance of the Option Offer and the payment of the Option Amount for the cancellation of the outstanding Options does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance upon the acceptance the Option Offer or the payment of the Option Amount.

It is emphasised that none of the Company, the Offeror Group, BofA Merrill Lynch, Guangdong Securities and any of their respective directors or associates or any other person involved in the Scheme and the Proposal accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal. If you are in any doubt as to any aspect of this Scheme Document or as to the action to be taken, you should consult an appropriately qualified professional adviser.

### **20. COURT MEETING AND EGM**

In accordance with the direction of the Grand Court, the Court Meeting will be held at 9:30 a.m. on Wednesday, 15 May 2013 at Taishan Room, Level 5, Island Shangri-la Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications). All the Scheme Shareholders will be entitled to vote at the Court Meeting but, for the purposes of Rule 2.10 of the Takeovers Code, only the votes of the Independent Shareholders on the Scheme will be counted at the Court Meeting. Cayman Islands law requires the resolution to approve the Scheme to be passed by a majority in number of the Scheme Shareholders (present in person or by proxy) at the Court Meeting representing not less than 75% in value of the Scheme Shares.

In addition, the Scheme will, in compliance with Rule 2.10 of the Takeovers Code, only be implemented if: (i) the Scheme is approved (by way of a poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are voted at the Court Meeting (either in person or by proxy); and (ii) the number of votes cast (by way of a poll) against the resolution to approve the Scheme at the Court Meeting (either in person or by proxy) is not

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more than 10% of the votes attaching to the Scheme Shares held by all the Independent Shareholders. As at the Latest Practicable Date, the Independent Shareholders held in aggregate 1,051,442,928 Scheme Shares. On that basis, and assuming no outstanding Options are exercised, 10% of the votes attached to the Scheme Shares held by all the Independent Shareholders represent approximately 105,144,293 Shares as at the Latest Practicable Date.

The EGM will be held at 10:00 a.m. on Wednesday, 15 May 2013 or as soon thereafter as the Court Meeting convened for the same date and place has been concluded or adjourned. All Shareholders shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to: (i) the special resolution to approve the Reduction resulting from the cancellation of the Scheme Shares; and (ii) the ordinary resolution to approve the restoration in the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and to apply the credit arising in its books of account as a result of the Reduction to pay up in full at par and issue to the Offeror such number of New Shares as is equal to the number of Scheme Shares cancelled. All Independent Shareholders shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to (iii) the ordinary resolution to approve the deposit and maintenance of the Deposit Amount by the Company in the Bank Accounts as referred to in Condition (e).

The special resolution described under (i) in the paragraph above will be passed if not less than 75% of the votes cast by the Shareholders present and voting, in person or by proxy, at the EGM are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Shareholders present and voting, in person or by proxy, at the EGM. The ordinary resolution described under (iii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Independent Shareholders present and voting, in person or by proxy, at the EGM.

Notice of the Court Meeting is set out on pages V-1 to V-2 of this Scheme Document. A form of proxy for the Court Meeting is enclosed with this Scheme Document.

Notice of the EGM is set out on pages VI-1 to VI-3 of this Scheme Document. A form of proxy for the EGM is enclosed with this Scheme Document.

Voting at the Court Meeting and at the EGM will be taken by poll as required under the Listing Rules and the Takeovers Code.

The Scheme will take effect when the Court Order has been delivered to the Registrar of Companies for registration pursuant to Section 86(3) of the Companies Law. If the Scheme becomes effective under the Companies Law, it will be binding on the Company and all Scheme Shareholders irrespective of whether they attended or voted, and if they voted, whether they voted for or against the Scheme at the Court Meeting.



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**It is important that as many votes as possible are cast at the Court Meeting so that the Grand Court may be satisfied that there is a fair and reasonable representation of opinion of the Scheme Shareholders. You are therefore strongly urged to complete and return your form of proxy for the Court Meeting as soon as possible.**

Further details of the Scheme, the Court Meeting and the EGM are set out in the Explanatory Memorandum on pages 43 to 63 of this Scheme Document.

### **21. ACTION TO BE TAKEN**

#### *Shareholders*

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the EGM have been enclosed with this Scheme Document that has been sent to the Registered Owners of the Shares. Subsequent purchasers of the Scheme Shares will need to obtain proxy forms from the transferor.

Whether or not you are able to attend the Court Meeting and/or the EGM, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting, and if you are a Shareholder, you are strongly urged to complete and sign the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them with Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 9:30 a.m. on Monday, 13 May 2013 or be handed to the chairman of the Court Meeting at the Court Meeting before the taking of the poll, and the white form of proxy for use at the EGM should be lodged not later than 10:00 a.m. on Monday, 13 May 2013. The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending the relevant meeting and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the EGM, you will still be bound by the terms of the Scheme should it be sanctioned by the Grand Court and become effective. You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

For the purpose of determining the entitlements of Scheme Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 10 May 2013 to Wednesday, 15 May 2013 (both days inclusive) and during such period, no transfer of the Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Thursday, 9 May 2013.

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An announcement will be made by the Company in relation to the results of the Court Meeting and the EGM. If all the resolutions are passed at those meetings, further announcement(s) will be made of the results of the Court Hearing of the petition to sanction the Scheme by the Grand Court and, if the Scheme is sanctioned, the Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

### *Holder through trusts or CCASS*

The Company will not recognise any person as holding any Shares upon any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with, an Other CCASS Participant regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC Nominees Limited with instructions or make arrangements with HKSCC Nominees Limited in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. The procedure for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

HKSCC Nominees Limited may also vote for and against the Scheme in accordance with instructions received from CCASS participants. The number of votes cast in favour of the Scheme and the number of CCASS participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS participants on whose instructions they are cast may be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

### *Optionholders*

Option Offer Letters are being sent to Optionholders separately, together with this Scheme Document. If you are an Optionholder and you wish to accept the Option Offer, you must complete and return the duly completed and executed form of acceptance in relation to the Option Offer (which will be

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## EXPLANATORY MEMORANDUM

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appended to the Option Offer Letter) together with the relevant certificate(s) or other documents (if any) evidencing the grant of the outstanding Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) for the aggregate principal amount of outstanding Options which you hold, so as to reach the Company at Room 2201, 22/F, Wheelock House, 20 Pedder Street, Central, Hong Kong (marked for the attention of the “Company Secretary”) by 4:30 p.m. on Monday, 10 June 2013, or such later date and time as may be notified through announcement. No acknowledgement of receipt of any form of acceptance in relation to the Option Offer or other document evidencing the grant of the outstanding Options or other documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given. The Offeror is offering to cancel the outstanding Options under the Option Offer at HK\$0.001 per Option. Optionholders should be aware that after the Scheme becomes effective, the outstanding Options will no longer be exercisable and will no longer entitle you to subscribe for the Shares. **If you, as an Optionholder, do not lodge the duly completed and executed form of acceptance in relation to the Option Offer together with the relevant certificate(s) or other documents as mentioned above at or before 4:30 p.m. on Monday, 10 June 2013 (or such later date and time as may be notified through announcement), your outstanding Options will automatically lapse on 10 June 2013 and you will not receive the Option Amount.**

You are urged to read the instructions and other terms and conditions of the Option Offer in the Option Offer Letter.

### 22. COSTS OF THE SCHEME

If the IBC or the Independent Financial Adviser to the IBC do not recommend the Proposal, the Scheme or the Option Offer, and the Scheme is not approved, all expenses incurred by the Company in connection therewith shall be borne by the Offeror in accordance with Rule 2.3 of the Takeovers Code.

The costs of the Scheme and of its implementation incurred by the Company are expected to amount to approximately HK\$4.8 million. These primarily consist of fees for financial advisers, legal advisers, accounting, printing and other related charges.

### 23. RECOMMENDATION

Your attention is drawn to the following:

- (a) paragraph 14 headed “Recommendation” in the “Letter from the Board” set out on page 23 of this Scheme Document;
- (b) the letter from the IBC set out on pages 25 to 26 of this Scheme Document; and
- (c) the letter from Guangdong Securities, the Independent Financial Adviser to the IBC, set out on pages 27 to 42 of this Scheme Document.

### 24. FURTHER INFORMATION

Further information is set out in the Appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Memorandum.

## 1. FINANCIAL SUMMARY

The following is a summary of the financial information of the Group for each of the three years ended 31 December 2010, 2011 and 2012 as extracted from the annual reports of the Company for the respective periods.

The auditor's reports issued by Ernst & Young in respect of the Group's audited consolidated financial statements for each of the three years ended 31 December 2010, 2011 and 2012 did not contain any qualifications.

No exceptional item because of size, nature or incidence was recorded in the financial statements of the Group for the three financial years ended 31 December 2010, 2011 and 2012.

### Consolidated Statements of Comprehensive Income

	<b>For the year ended</b>		
	<b>31 December</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>REVENUE</b>	1,533,732	1,712,978	1,576,428
Cost of sales	(840,550)	(886,407)	(735,982)
<b>Gross profit</b>	693,182	826,571	840,446
Other income and gains	64,360	109,742	69,868
Selling and distribution expenses	(45,921)	(46,473)	(47,283)
Administrative expenses	(118,138)	(102,219)	(88,678)
Other expenses	(20,576)	(19,035)	(38,802)
Finance costs	(42,599)	(21,120)	(17,968)
Share of profits and losses of jointly-controlled entities	517	34	–
Share of loss of an associate	–	–	(4,477)
<b>PROFIT BEFORE TAX</b>	530,825	747,500	713,106
Income tax expense	(120,223)	(134,775)	(117,316)
<b>PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>410,602</u>	<u>612,725</u>	<u>595,790</u>
Attributable to:			
Owners of the Company	403,042	605,892	541,816
Non-controlling interests	7,560	6,833	53,974
	<u>410,602</u>	<u>612,725</u>	<u>595,790</u>
Earnings per Share attributable to ordinary equity holders of the Company ( <i>RMB</i> ) – Basic and diluted	<u>0.19</u>	<u>0.29</u>	<u>0.26</u>
Proposed final dividend per Share ( <i>HK\$</i> )	<u>–</u>	<u>0.073</u>	<u>0.062</u>

## 2. AUDITED FINANCIAL STATEMENTS

The following is the full text of the audited financial statements of the Group for the year ended 31 December 2012 as extracted from the annual report of the Company for the year ended 31 December 2012:

**Consolidated Statement of Comprehensive Income**

	<i>Notes</i>	<b>For the year ended</b>	
		<b>2012</b>	<b>2011</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>REVENUE</b>	4	1,533,732	1,712,978
Cost of sales		(840,550)	(886,407)
<b>Gross profit</b>		693,182	826,571
Other income and gains	5	64,360	109,742
Selling and distribution expenses		(45,921)	(46,473)
Administrative expenses		(118,138)	(102,219)
Other expenses		(20,576)	(19,035)
Finance costs	6	(42,599)	(21,120)
Share of profits and losses of jointly-controlled entities	16	517	34
<b>PROFIT BEFORE TAX</b>	7	530,825	747,500
Income tax expense	9	(120,223)	(134,775)
<b>PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		410,602	612,725
Attributable to:			
Owners of the Company	10	403,042	605,892
Non-controlling interests		7,560	6,833
		410,602	612,725
Earnings per Share attributable to ordinary equity holders of the Company:			
Basic and diluted	11	RMB0.19	RMB0.29

**Consolidated Statement of Financial Position**

		<b>As at 31 December</b>	
	<i>Notes</i>	<b>2012</b>	<b>2011</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	1,778,789	1,726,804
Intangible assets	13	566,302	576,901
Prepaid land lease payments	14	49,451	50,678
Investments in jointly-controlled entities	16	12,031	584
Financial assets at fair value through profit or loss	17	239,272	207,942
Prepayments and deposits	18	203,585	231,180
Payments in advance	19	202,095	165,712
Goodwill	20	15,318	15,318
Deferred tax assets	21	18,597	3,986
		<hr/>	<hr/>
<b>Total non-current assets</b>		3,085,440	2,979,105
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Inventories	22	180,024	137,333
Trade and bills receivables	23	109,053	134,418
Prepayments, deposits and other receivables	18	122,788	148,139
Due from related parties	24	733	600
Pledged time deposits	25	268,783	111,993
Cash and cash equivalents	25	1,649,146	946,830
		<hr/>	<hr/>
<b>Total current assets</b>		2,330,527	1,479,313
		<hr/>	<hr/>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	26	816,558	341,192
Other payables and accruals	27	345,754	278,779
Commercial paper liabilities	28	150,000	–
Interest-bearing bank and other loans	29	317,283	321,514
Due to related parties	24	33,735	85,681
Tax payable		112,425	89,655
Dividend payable		1,801	1,801
		<hr/>	<hr/>
<b>Total current liabilities</b>		1,777,556	1,118,622
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		552,971	360,691
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		3,638,411	3,339,796
		<hr/>	<hr/>

		As at 31 December	
	<i>Notes</i>	<b>2012</b>	<b>2011</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other loans	29	79,000	101,200
Provision for rehabilitation	30	8,188	7,664
Deferred income	31	4,000	9,574
Other payables	27	750	500
		<hr/>	<hr/>
<b>Total non-current liabilities</b>		91,938	118,938
		<hr/>	<hr/>
<b>Net assets</b>		3,546,473	3,220,858
		<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	32	182,787	182,787
Reserves	34	3,334,249	2,893,769
Proposed final dividend	35	–	122,425
		<hr/>	<hr/>
<b>Non-controlling interests</b>		3,517,036	3,198,981
		29,437	21,877
		<hr/>	<hr/>
<b>Total equity</b>		3,546,473	3,220,858
		<hr/> <hr/>	<hr/> <hr/>

**Consolidated Statement of Changes in Equity**  
Year ended 31 December 2012

	Attributable to owners of the Company												
	Issued capital	Share premium account	Statutory reserves	Safety fund surplus reserve	Contributed surplus	Share option reserve	Difference arising from acquisition of non-controlling interests	Capital reserve	Retained earnings	Proposed final dividend	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	note 32	note 34(a)	note 34(b)	note 34(d)	note 34(c)	note 33				note 35			
At 1 January 2011	182,787	1,998,721	111,421	-	167,454	19,136	(814,398)	-	1,034,129	107,756	2,807,006	30,236	2,837,242
Total comprehensive income for the year	-	-	-	-	-	-	-	-	605,892	-	605,892	6,833	612,725
Equity-settled share option arrangement	-	-	-	-	-	28,647	-	-	-	-	28,647	-	28,647
Transfer from/(to) reserves	-	-	49,182	-	-	-	-	-	(49,182)	-	-	-	-
Business combination under common control	-	-	-	-	(100,800)	-	-	-	-	-	(100,800)	-	(100,800)
Acquisition of non-controlling interests	-	-	-	-	-	-	(34,008)	-	-	-	(34,008)	(15,192)	(49,200)
Proposed final 2011 dividend	-	(122,425)	-	-	-	-	-	-	-	122,425	-	-	-
Final 2010 dividend declared	-	-	-	-	-	-	-	-	-	(107,756)	-	-	(107,756)
At 31 December 2011 and 1 January 2012	182,787	1,876,296*	160,603*	-	66,654*	47,783*	(848,406)*	-	1,590,839*	122,425	3,198,981	21,877	3,220,858
Total comprehensive income for the year	-	-	-	-	-	-	-	-	403,042	-	403,042	7,560	410,602
Equity-settled share option arrangement	-	-	-	-	-	28,307	-	-	-	-	28,307	-	28,307
Establishment for safety fund surplus reserve	-	-	-	48,388	-	-	-	-	(48,388)	-	-	-	-
Utilisation of safety fund surplus reserve	-	-	-	(3,817)	-	-	-	-	3,817	-	-	-	-
Transfer from/(to) reserves	-	-	43,048	-	-	-	-	-	(43,048)	-	-	-	-
Consideration adjustment in respect of business combination under common control (note 38 (a) (iii))	-	-	-	-	6,136	-	2,995	-	-	-	9,131	-	9,131
Capital injection to a subsidiary by way of transfer from retained earnings	-	-	-	-	-	-	-	186,200	(186,200)	-	-	-	-
Final 2011 dividend declared	-	-	-	-	-	-	-	-	-	(122,425)	(122,425)	-	(122,425)
At 31 December 2012	182,787	1,876,296*	203,651*	44,571*	72,790*	76,090*	(845,411)*	186,200*	1,720,062*	-	3,517,036	29,437	3,546,473

\* These reserve accounts comprise the consolidated reserves of RMB3,334,249,000 (2011: RMB2,893,769,000) in the consolidated statement of financial position.



## Consolidated Statement of Cash Flows

	<i>Notes</i>	<b>For the year ended</b>	
		<b>2012</b>	<b>2011</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		530,825	747,500
Adjustments for:			
Finance costs	6	41,145	21,895
Unrealised foreign exchange gain		(232)	(236)
Bank interest income	5	(28,910)	(12,221)
Equity-settled share option expense	33	28,307	28,647
Fair value gains on financial assets at fair value through profit or loss	17	(31,330)	(14,423)
Share of profits and losses of jointly-controlled entities	16	(517)	(34)
Loss on disposal of items of property, plant and equipment	7	–	5
Reversal of write-down of inventories to net realisable value	7	(24)	(2,547)
Depreciation	12	117,773	100,936
Impairment of items of property, plant and equipment	12	11,253	–
Prepaid technical fee released to profit or loss	18(b)	4,133	4,133
Amortisation of intangible assets	13	16,382	20,930
Amortisation of prepaid land lease payments	14	1,227	1,113
		690,032	895,698
Decrease in trade and bills receivables		25,365	73,180
Increase in inventories		(42,667)	(64,255)
Decrease/(increase) in prepayments, deposits, and other receivables		50,019	(113,419)
Increase in trade and bills payables		475,366	80,305
Increase/(decrease) in other payables and accruals		51,144	(20,031)
Increase in amounts due from related parties		(133)	–
Decrease in amounts due to related parties		(34,586)	(19,191)
		1,214,540	832,287
Interest paid		(40,299)	(22,941)
Interest received		28,236	2,856
Income tax paid		(112,064)	(123,985)
		1,090,413	688,217
Net cash flows from operating activities		1,090,413	688,217

	<i>Notes</i>	<b>For the year ended</b>	
		<b>2012</b>	<b>2011</b>
		<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows from operating activities		1,090,413	688,217
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of items of property, plant and equipment		(135,780)	(243,630)
Proceeds from disposal of items of property, plant and equipment		–	110
Increase in long-term deposits		(532)	(1,571)
Increase in time deposits with maturity of over three months		(523,800)	(320,000)
Investment in a jointly-controlled entity	16	(10,500)	(550)
Investments in financial assets at fair value through profit or loss		–	(193,519)
Purchase of intangible assets		(25,896)	(36,067)
Prepayment for the acquisition of a subsidiary	19	(50,000)	(150,000)
Increase in pledged bank balances		(156,790)	(111,993)
Receipts of government grant	31	1,600	11,200
Net cash flows used in investing activities		(901,698)	(1,046,020)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of commercial papers	28	150,000	–
Transaction fee on the issuance of commercial papers	6	(706)	–
Proceeds from bank loans		180,000	265,714
Repayment of bank loans		(207,000)	(175,000)
Proceeds from other loans		2,800	–
Repayment of other loans		(2,000)	–
Acquisition of a business combination under common control	38(a)(iii)	(10,869)	(100,000)
Purchase of non-controlling interests		–	(404)
Dividends paid	35(b)	(122,425)	(107,756)
Net cash flows used in financing activities		(10,200)	(117,446)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		178,515	(475,249)
Cash and cash equivalents at beginning of year		196,830	671,843
Effect of foreign exchange rate changes, net		1	236
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>375,346</b>	<b>196,830</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		375,346	108,823
Non-pledged time deposits		1,273,800	838,007
Cash and cash equivalents as stated in the consolidated statement of financial position	25	1,649,146	946,830
Time deposits with original maturity more than three months		(1,273,800)	(750,000)
Cash and cash equivalents as stated in the consolidated statement of cash flows		<b>375,346</b>	<b>196,830</b>

## Statement of Financial Position

	<i>Notes</i>	<b>As at 31 December</b>	
		<b>2012</b>	<b>2011</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Office equipment		63	77
Investments in subsidiaries	15	1,835,626	1,882,374
<b>Total non-current assets</b>		<u>1,835,689</u>	<u>1,882,451</u>
<b>CURRENT ASSETS</b>			
Dividend receivable		17,157	17,157
Due from subsidiaries	15	139,635	222,425
Prepayments, deposits and other receivables	18	264	373
Due from a related party	24	343	314
Cash and cash equivalents	25	1,451	8,359
<b>Total current assets</b>		<u>158,850</u>	<u>248,628</u>
<b>CURRENT LIABILITIES</b>			
Due to a subsidiary	15	22,429	20,934
Other payables and accruals	27	5,186	3,341
Interest-bearing bank loan	29(a)	94,283	94,514
<b>Total current liabilities</b>		<u>121,898</u>	<u>118,789</u>
<b>NET CURRENT ASSETS</b>		<u>36,952</u>	<u>129,839</u>
<b>Net assets</b>		<u><u>1,872,641</u></u>	<u><u>2,012,290</u></u>
<b>EQUITY</b>			
Issued capital	32	182,787	182,787
Reserves	34	1,689,854	1,707,078
Proposed final dividend	35	–	122,425
<b>Total equity</b>		<u><u>1,872,641</u></u>	<u><u>2,012,290</u></u>

**Notes to Financial Statements***31 December 2012***1. CORPORATE INFORMATION**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 28 April 2008 under the Companies Law. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Room 2201, 22/F, Wheelock House, 20 Pedder Street, Central, Hong Kong.

During the year ended 31 December 2012, the Group were principally engaged in the business of mining, ore processing, iron pelletising, sale of vanadium-bearing iron concentrates, ordinary iron concentrates, iron pellets and titanium concentrates and management of strategic investments. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the Directors, Trisonic International Limited ("Trisonic International"), a company incorporated in Hong Kong, is the parent and ultimate holding company of the Company.

**2.1 BASIS OF PRESENTATION**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by International Accounting Standards Board (the "IASB") and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

The proportionate share of total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investments retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate.

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
IAS 12 Amendments	Amendments to IAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE IFRSS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Government Loans</i> <sup>2</sup>
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> <sup>2</sup>
IFRS 9	<i>Financial Instruments</i> <sup>4</sup>
IFRS 10	<i>Consolidated Financial Statements</i> <sup>2</sup>
IFRS 11	<i>Joint Arrangements</i> <sup>2</sup>
IFRS 12	<i>Disclosure of Interests in Other Entities</i> <sup>2</sup>
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – <i>Transition Guidance</i> <sup>2</sup>
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – <i>Investment entities</i> <sup>3</sup>
IFRS 13	<i>Fair Value Measurement</i> <sup>2</sup>
IAS 1 Amendments	Amendments to IAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> <sup>1</sup>
IAS 19 Amendments	Amendments to IAS 19 <i>Employee Benefits</i> <sup>2</sup>
IAS 27 (Revised)	<i>Separate Financial Statements</i> <sup>2</sup>
IAS 28 (Revised)	<i>Investments in Associates and Joint Ventures</i> <sup>2</sup>
IAS 32 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> <sup>3</sup>
IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> <sup>2</sup>
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2015

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group expects to adopt the amendments from 1 January 2013.

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standards including all phases is issued.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and SIC 12 *Consolidation – Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC 12. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In June 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or SIC 12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

The amendments to IFRS 10 issued in October 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (Revised). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised), IAS 28 (Revised), and the subsequent amendments to these standards issued in June and October 2012 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

The IAS 1 Amendments change the grouping of items presented in other comprehensive income (“OCI”). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified. The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

The IAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to set off” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

IFRIC 20 addresses the recognition of waste removal costs that are incurred in surface mining activity during the production phase of a mine as an asset, as well as the initial measurement and subsequent measurement of the stripping activity asset. To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the costs incurred are accounted for in accordance with IAS 2 *Inventories*. To the extent that the benefit is improved access to ore and when criteria set out in the interpretation are met, the waste removal costs are recognised as a stripping activity asset under non-current assets. The Group expects to adopt the interpretation from 1 January 2013. The management has not yet been able to estimate the impact of the IFRIC 20.

The Annual *Improvements to IFRSs 2009-2011 Cycle* issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group’s policies are as follows:

- IAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company’s profit or loss to the extent of dividends received and receivable. The Company’s investments in subsidiaries are stated at cost less any impairment losses.

**Joint ventures**

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with IAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

**Jointly-controlled entity**

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the profit or loss and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entity is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's investment in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred. The adjustment is taken (i) in profit or loss against either the investor's profit or the share of the jointly-controlled entity's profit, according to whether the investor or the jointly-controlled entity recorded the profit on the transaction, respectively; and (ii) in the consolidated statement of financial position against the asset which was the subject of the transaction if it is held by the investor or against the carrying amount for the jointly-controlled entity if the asset is held by the jointly-controlled entity. Goodwill arising from the acquisition of a jointly-controlled entity is included as part of the Group's investments in the jointly-controlled entities.

**Business combinations and goodwill**

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.



When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and fair value of the Group's previously held equity interests in the acquiree over the fair value of identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a part of a cash-generating unit (or group of cash-generating units) and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

#### *Merger accounting for business combination under common control*

The combining entities or businesses over which the common control exists are consolidated from the date when the combining entities or businesses first came under the control of the controlling parties.

#### **Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, goodwill and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

**Related parties**

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;or
- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a); or
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation of items of property, plant and equipment, other than mining infrastructure, is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	7-35 years
Plant and machinery	7-18 years
Office equipment	5-7 years
Motor vehicles	5-10 years

Depreciation of mining infrastructure is calculated using the units of production (“UOP”) method to depreciate the cost of the assets in proportion to the extraction of the proved and probable mineral reserves. The estimated useful lives of the mining infrastructure ranging from 5.5 years to 22.7 years are determined in accordance with the production plans of the entities concerned and the proved and probable reserves of mines using the UOP method.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of these assets.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents items of property, plant and equipment under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowing funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

#### **Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

#### *Mining rights*

Mining rights are stated at cost less accumulated amortisation and any impairment losses. Mining rights include the cost of acquiring mining licences, exploration and evaluation costs transferred from exploration rights and assets upon determination that an exploration property is capable of commercial production, and the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights are amortised over the estimated useful lives of the mines, in accordance with the production plans of the entities concerned and the proved and probable reserves of the mines using the UOP method. Mining rights are written off to profit or loss if the mining property is abandoned.

*Exploration rights and assets*

Exploration rights are stated at cost less accumulated amortisation and any impairment losses and exploration assets are stated at cost less any impairment losses. Exploration rights and assets include the cost of acquiring exploration rights, topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and deferred amortisation and depreciation charges in respect of assets consumed during the exploration activities.

Exploration rights are amortised over the term of rights. Equipment used in exploration is depreciated over its useful life, or, if dedicated to a particular exploration project, over the life of the project on the straight-line basis, whichever is shorter. Amortisation and depreciation are included, in the first instance, in exploration rights and assets and are transferred to mining rights when it can be reasonably ascertained that an exploration property is capable of commercial production.

Exploration and evaluation costs include expenditure incurred to secure further mineralisation in existing ore bodies as well as in new areas of interest. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred.

Exploration and evaluation assets shall be assessed for impairment when facts and circumstances indicate that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. An impairment test is performed if any of the following indicators are present:

- (a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- (b) substantial expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- (c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or
- (d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to either mining infrastructure or mining rights and reserves and depreciated/amortised using the UOP method based on the proved and probable mineral reserves. Exploration and evaluation assets are written off to profit or loss if the exploration property is abandoned.

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash-generating units of production fields that are located in the same geographical region.

**Deferred stripping costs**

The Group defers and capitalises advanced stripping costs incurred during the production stage of its operations and allocates those costs to the production derived in the subsequent year. The Group adopted the specific identification approach where the deferred stripping costs are allocated to the quantity of mineral ore that becomes accessible. The deferred stripping costs are capitalised as "Advanced stripping fees" under "Prepayments, deposits and other receivables" in the consolidated statement of financial position and amortised when the related mineral ore is extracted.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases, net of any incentives received from the lessor, are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

**Investments and other financial assets***Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss represent financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under IAS 39 are satisfied.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets except for those at fair value through profit or loss is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or decreased by adjusting the allowance amount. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

**Financial liabilities***Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 represent loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to related parties and interest-bearing bank and other loans.

*Subsequent measurement*

The subsequent measurement of loans and borrowings is as follows:

After initial recognition, interest-bearing bank loans and other loans are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

**Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of fixed and variable overhead costs, including depreciation and amortisation incurred in converting materials into finished goods, based on the normal production capacity. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Provisions for the Group's obligations for rehabilitation are based on estimates of required expenditure at the mines in accordance with the rules and regulations of the PRC. The obligation generally arises when the asset is installed or the ground environment is disturbed at the production location. The Group estimates its liabilities for final rehabilitation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. When the liability is initially recognised, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining infrastructure.

Over time, the discounted liability is increased for the change in the present value based on the appropriate discount rate. The periodic unwinding of the discount is recognised within finance costs in profit or loss. The asset is depreciated using the UOP method over its expected life and the liability is accreted to the projected expenditure date. Additional disturbances or changes in estimates (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities) will be recognised as additions or charges to the corresponding assets and rehabilitation liabilities when they occur at the appropriate discount rate.

**Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.



Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, an associate and joint ventures when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, an associate and joint ventures deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### **Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (c) dividend income, when the shareholders' right to receive payment has been established.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Dividends**

Final dividends proposed by the Directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

**Share-based payments**

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including Directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 33 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### **Other employees' benefits**

#### *Pension schemes*

The employees of the subsidiaries in Mainland China are required to participate in a central defined pension scheme managed by the local municipal government of the areas in Mainland China in which they are operate. These subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the central pension scheme. The Group has no obligation for the payment of retirement benefits beyond the annual contributions. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

In addition to the above, the Group also participates in a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the MPF Scheme for its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independent administered fund.

#### *Housing fund*

Contributions to a defined contribution housing fund administered by the Public Accumulation Funds Administration Centre in Mainland China are charged to profit or loss as incurred.

### **Foreign currencies**

These financial statements are presented in RMB, which is the functional and presentation currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

### 3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these significant assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and liabilities affected in the future.

#### **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

(a) *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was RMB15,318,000 (2011: RMB15,318,000). Further details are given in note 20.

(b) *Impairment of receivables*

Impairment of receivables is estimated based on an assessment of the recoverability of receivables. The assessment of impairment of receivables involves the use of estimates and judgements. An estimate for doubtful debts is made when collection of the full amount under the invoice is no longer probable, as supported by objective evidence using available contemporary and historical information to evaluate the exposure. Bad debts are written off as incurred. Where the actual outcome or expectation in the future is different from the original estimates, such differences will affect the carrying amount of receivables and thus the impairment loss in the period in which such estimate is changed. There was no impairment provision for receivables during the two years ended 31 December 2012.

(c) *PRC corporate income tax ("PRC CIT")*

The Group's operating subsidiaries in Mainland China are subject to PRC CIT. As a result of the fact that certain matters relating to PRC CIT have not been confirmed by the relevant local tax authorities, objective estimates based on currently enacted tax laws, regulations and other related policies are required in determining the provision of PRC CIT to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the income tax expense and tax provision in the period in which the differences realise. The carrying amount of PRC CIT payable as at 31 December 2012 was RMB112,425,000 (2011: RMB89,655,000).

(d) *Useful lives of property, plant and equipment*

The Group estimates useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and actions of its competitors. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will record an impairment provision for technically obsolete assets that have been abandoned. The carrying amount of property, plant and equipment as at 31 December 2012 was RMB1,778,789,000 (2011: RMB1,726,804,000).

(e) *Mine reserves*

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated at regular intervals taking into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mine reserves also changes. This change is considered a change in estimates for accounting purposes and is reflected on a prospective basis in both depreciation and amortisation rates calculated on the UOP method and the time period for discounting the rehabilitation provision. Changes in the estimate of mine reserves are also taken into account in impairment assessments of non-current assets.

(f) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in downstream industries that consume the Group's products. Management reassesses these estimates at the end of each reporting period. The carrying amount of inventories as at 31 December 2012 was RMB180,024,000 (2011: RMB137,333,000).

(g) *Provision for rehabilitation*

Provision for rehabilitation is based on estimates of future expenditures incurred by management to undertake rehabilitation and restoration work which are discounted at a rate of 6.84% as at 31 December 2012 (2011: 6.84%) reflecting the term and nature of the obligations to their present values. Significant estimates and assumptions are made in determining the provision for rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in the discount rate. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the consolidated statement of financial position by adjusting the rehabilitation asset and liability. The carrying amount of provision for rehabilitation as at 31 December 2012 was RMB8,188,000 (2011: RMB7,664,000).

(h) *Deferred stripping costs*

The Group defers and capitalises advanced stripping fees incurred during the production stage of its operations and allocates those costs to the production derived in the subsequent years. This calculation requires the use of judgements and estimates such as estimates of tonnes of waste to be removed and allocated to the quantity of mineral ore that become accessible. Changes in an estimated useful life and the design of a mine will result in changes of the expected stripping ratio (waste to mineral reserves ratio). These changes are accounted for prospectively. The carrying amount of advanced stripping fees as at 31 December 2012 was RMB206,737,000 (2011: RMB241,417,000).

(i) *Deferred tax assets*

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax strategies. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the end of the reporting period could be impacted. The carrying amount of deferred tax assets recognised as at 31 December 2012 was RMB18,597,000 (2011: RMB3,986,000). Further details are contained in note 21.

Additionally, future changes in tax laws and regulations in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions on taxable income in future periods.

(j) *Valuation of financial assets at fair value through profit or loss*

The Group's exchangeable notes are designated upon initial recognition as at fair value through profit or loss and re-measured to fair value through profit or loss in subsequent reporting periods. The Group engaged an independent professional valuer to assist in determining the fair value of these exchangeable notes. The fair value of the exchangeable notes was estimated by the independent professional valuer using the Binomial Lattice Model and the estimation included some assumptions not supported by observable market prices or rates such as the discount rate, volatility, credit risk, and expected future cash flows, and hence they are subject to uncertainty. Favourable or unfavourable changes to these assumptions would result in significant changes in the fair value of the exchangeable notes and the corresponding adjustments to the amount of gain or loss reported in profit or loss. The fair value of the exchangeable notes at 31 December 2012 was RMB239,272,000 (2011: RMB207,942,000). Further details are contained in note 17.

(k) *Impairment of non-current assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Definite life non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### 4. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of various types of government surcharges.

The Group's revenue and contribution to profit are mainly derived from its sale of vanadium-bearing iron concentrates, ordinary iron concentrates, iron pellets, medium-grade titanium concentrates and high-grade titanium concentrates, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for purposes of resource allocation and performance assessment. In addition, the principal non-current assets employed by the Group are located in Sichuan Province, the PRC. Accordingly, no segment analysis is presented other than entity-wide disclosures.

**Entity-wide disclosures***Information about products*

The following table sets forth the total revenue from external customers by product and the percentage of total revenue by product during the year:

	2012		2011	
	RMB'000	%	RMB'000	%
Vanadium-bearing iron concentrates	872,719	56.9	960,203	56.1
Ordinary iron concentrates	69,535	4.5	32,556	1.9
Iron pellets	417,307	27.2	593,496	34.6
Medium-grade titanium concentrates	476	0.1	12,478	0.7
High-grade titanium concentrates	173,695	11.3	114,245	6.7
	<u>1,533,732</u>	<u>100.0</u>	<u>1,712,978</u>	<u>100.0</u>

*Geographical information*

All external revenue of the Group during each of the two years ended 31 December 2012 was attributable to customers located in the PRC, the place of domicile of the Group's operating entities. The Group's non-current assets are all located in the PRC.

*Information about major customers*

Revenue from each of the major customers, which amounted to 10% or more of the total revenue, is set out below:

	2012	2011
	RMB'000	RMB'000
Customer A	329,597	*
Customer B	255,163	229,492
Customer C	234,717	298,284
Customer D	233,035	278,782
Customer E	182,223	257,867
Customer F	*	271,685
	<u>                    </u>	<u>                    </u>

\* Less than 10% of total revenue

**5. OTHER INCOME AND GAINS**

An analysis of other income and gains is as follows:

	2012	2011
	RMB'000	RMB'000
Bank interest income	28,910	12,221
Sale of raw materials	3,885	18,134
Government grants*	6	55,000
Compensation from a local government	–	9,320
Fair value gains on financial assets at fair value through profit or loss (note 17)	31,330	14,423
Miscellaneous	229	644
	<u>                    </u>	<u>                    </u>
Total other income and gains	<u>64,360</u>	<u>109,742</u>

\* There were no unfulfilled conditions or contingencies relating to these grants.

## 6. FINANCE COSTS

	<i>Notes</i>	<b>2012</b> <i>RMB'000</i>	<b>2011</b> <i>RMB'000</i>
Interest on bank and other loans wholly repayable within five years		25,104	22,941
Interest on short term commercial paper		290	–
Interest on discounted bills receivable		15,195	–
Unwinding of discount on provision	30	524	491
		<u>41,113</u>	<u>23,432</u>
Less: interest capitalised to property, plant and equipment	12(a)	(674)	(1,537)
		40,439	21,895
Transaction fee on issuance of commercial paper		706	–
Foreign exchange loss/(gain), net		694	(775)
Others		760	–
		<u>42,599</u>	<u>21,120</u>
Capitalisation rate of borrowing costs		<u>7.04% to 7.59%</u>	<u>5.4% to 7.59%</u>

## 7. PROFIT BEFORE TAX

The Group's profit before tax was arrived at after charging/(crediting):

	<i>Notes</i>	<b>2012</b> <i>RMB'000</i>	<b>2011</b> <i>RMB'000</i>
Cost of inventories sold		840,550	886,407
Staff costs (including Directors' remuneration ( <i>note 8</i> )):			
Wages and salaries		71,805	58,739
Welfare and other benefits		18,540	13,890
Equity-settled share option expense	33	28,307	28,647
Pension scheme contributions			
– Defined contribution fund		10,150	8,303
Housing fund			
– Defined contribution fund		526	465
Total staff costs		<u>129,328</u>	<u>105,145</u>
Depreciation	12	117,773	100,936
Amortisation of intangible assets	13	16,382	20,930
Amortisation of prepaid land lease payments	14	1,227	1,113
Depreciation and amortisation expenses		<u>135,382</u>	<u>122,979</u>
Minimum lease payments under operating leases:			
– Land		108	108
– Office		1,298	1,057
Auditors' remuneration		3,500	4,000
Prepaid technical fee released to profit or loss	18(b)	4,133	4,133
Loss on disposal of items of property, plant and equipment		–	5
Impairment of property, plant and equipment	12(d)	11,253	–
Reversal of write-down of inventories to net realisable value	22	(24)	(2,547)



## 8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Fees	754	784
Other emoluments:		
Salaries, allowances and benefits in kind	1,450	1,206
Equity-settled share option expense	16,905	17,878
Pension scheme contributions		
– Defined contribution fund	51	52
	18,406	19,136
	19,160	19,920

During the prior years, certain Directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 33 to the financial statements. The fair values of such share options which have been recognised in profit or loss over the vesting period were determined as at dates of grant and amounts included in the financial statements for the current and prior years are included in the above Directors' remuneration disclosures.

## (a) Independent non-executive Directors

The fees paid to independent non-executive Directors during the year were as follows:

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Mr. Yu Haizong	98	99
Mr. Gu Peidong	98	99
Mr. Liu Yi	98	99
	294	297

There were no other emoluments payable to the independent non-executive Directors during the year (2011: Nil).

## (b) Executive Directors and non-executive Directors

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Equity- settled share option expense <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
<b>2012</b>					
Executive Directors					
Mr. Jiang Zhong Ping	80	436	4,160	17	4,693
Mr. Liu Feng	80	408	5,524	17	6,029
Mr. Yu Xing Yuan	80	606	7,221	17	7,924
	240	1,450	16,905	51	18,646
Non-executive Directors					
Mr. Wang Jin	122	–	–	–	122
Mr. Teo Cheng Kwee	98	–	–	–	98
	220	–	–	–	220
	460	1,450	16,905	51	18,866
<b>2011</b>					
Executive Directors					
Mr. Jiang Zhong Ping	88	415	3,937	16	4,456
Mr. Liu Feng	88	423	5,830	18	6,359
Mr. Yu Xing Yuan	88	368	8,111	18	8,585
	264	1,206	17,878	52	19,400
Non-executive Directors					
Mr. Wang Jin	124	–	–	–	124
Mr. Teo Cheng Kwee	99	–	–	–	99
	223	–	–	–	223
	487	1,206	17,878	52	19,623

(c) There was no arrangement under which a Director waived or agreed to waive any remuneration during the year (2011: Nil).

- (d) The five highest paid employees during the year included three (2011: three) Directors, details of whose remuneration are set out above. Details of the remuneration for the year of the remaining two (2011: two) non-director, highest paid employees, are as follows:

	<b>Group</b>	
	<b>2012</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances and benefits in kind	1,560	1,433
Equity-settled share option expense	6,737	6,149
Pension scheme contributions	86	80
	<u>8,383</u>	<u>7,662</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	<b>Number of employees</b>	
	<b>2012</b>	<b>2011</b>
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$4,000,001 to HK\$4,500,000	1	–
HK\$5,500,001 to HK\$6,000,000*	1	1
	<u>2</u>	<u>2</u>

\* The remuneration of this senior management member who is a non-director and highest paid employee fell in this band.

During the prior years, share options were granted to non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 33 to the financial statements. The fair values of such share options, which are being recognised in profit or loss over the vesting period, were determined as at dates of grant and amounts included in the financial statements for the current and prior years are included in the above non-director, highest paid employees' remuneration disclosures.

## 9. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group was not subject to any income tax in the Cayman Islands and the BVI during the two years ended 31 December 2012.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the two years ended 31 December 2012.

The provision for PRC CIT is based on the respective PRC CIT rates applicable to the subsidiaries located in Mainland China as determined in accordance with the relevant income tax rules and regulations of Mainland China for the year. Except for certain PRC subsidiaries (see note (a) below) that are entitled to a preferential income tax rate, PRC subsidiaries are subject to the PRC CIT rate of 25% during the two years ended 31 December 2012.

The major components of income tax expense are as follows:

	2012 RMB'000	2011 RMB'000
Current – the PRC		
Charge for the year	134,834	122,260
Deferred ( <i>note 21</i> )	(14,611)	12,515
	<u>120,223</u>	<u>134,775</u>
Income tax expenses for the year	<u>120,223</u>	<u>134,775</u>

A reconciliation of the tax expense applicable to profit before tax at the applicable tax rate for companies within the Group to the tax expense at the effective tax rate is as follows:

	<i>Notes</i>	2012 RMB'000	2011 RMB'000
Profit before tax		<u>530,825</u>	<u>747,500</u>
Tax at applicable tax rate of 25%		132,706	186,875
Lower tax rate for certain subsidiaries	(a)	(20,479)	(79,178)
Withholding income tax of 10% on interest paid by PRC subsidiary to HK subsidiary	(b)	(755)	3,971
Profits attributable to jointly-controlled entities		(129)	(9)
Expenses not deductible for tax	(c)	16,878	26,716
Income not subject to tax		(7,998)	(3,600)
		<u>120,223</u>	<u>134,775</u>
Tax expenses at the Group's effective tax rate		<u>120,223</u>	<u>134,775</u>

*Notes:*

- (a) Pursuant to the respective approval documents issued by the Tax Bureau of Wenchuan County on 6 August 2012 and the Tax Bureau of Huili County on 4 September 2012, Aba Mining Co., Ltd. (“Aba Mining”) and Huili County Xiushuihe Mining Co., Ltd. (“Xiushuihe Mining”) are entitled to a preferential tax rate of 15% (2011: 25%) according to the “Western Development Policy” as they are engaged in the encouraged industries listed in the catalogue of encouraged industries in the western China and revenue from such activities during the year accounted for over 70% of their respective total revenue.

Pursuant to the relevant tax rules and regulations of the PRC applicable to foreign investment enterprises (“FIEs”), Huili County Caitong Iron and Titanium Co., Ltd. (“Huili Caitong”) was approved to enjoy its tax holiday from 2007 and hence, was not liable to PRC CIT in 2007 and 2008 and was entitled to a 50% tax reduction for the subsequent three years (2009 to 2011). The applicable tax rate for Huili Caitong during the year was 25% (2011: 12.5%).

- (b) Pursuant to the resolution of board of directors of First China Limited (“First China”) dated 22 May 2012, interest expense of RMB40,779,000 for the year ended 31 December 2011 on the shareholder’s loan granted by First China to Huili Caitong was waived by First China. The related withholding tax was reversed during the current year accordingly.
- (c) Expenses not deductible for tax mainly consist of unrealised foreign exchange losses, equity-settled share option expense and administrative expenses incurred by offshore companies. These expenses are not expected to be deductible for tax.
- (d) The share of tax attributable to jointly-controlled entities amounting to RMB447,000 (2011: Nil) is included in “Share of profits and losses of jointly-controlled entities” in the profit or loss.

**10. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY**

The consolidated profit attributable to owners of the Company for the year ended 31 December 2012 includes a total loss of RMB45,531,000 (2011: RMB120,260,000) which has been dealt with in the financial statements of the Company (note 34).

**11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY**

The calculation of basic earnings per Share is based on the profit for the year attributable to ordinary equity holders of the Company, and the number of Shares of 2,075,000,000 (2011: 2,075,000,000) in issue during the year ended 31 December 2012.

No adjustment has been made to the basic earnings per Share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the exercise prices of the Company’s outstanding share options were higher than the average market price for the Company’s Shares during the current and prior years.

## 12. PROPERTY, PLANT AND EQUIPMENT

## Group

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress ("CIP") RMB'000	Total RMB'000
<b>31 December 2012</b>							
<b>Cost:</b>							
At 1 January 2012	1,128,071	504,547	2,473	10,343	87,413	275,189	2,008,036
Additions	13,122	19,259	1,432	224	10,012	144,136	188,185
Transferred from CIP	192,939	61,630	1,192	–	23,291	(279,052)	–
Offset against government grants received (note 31)	(5,476)	(1,698)	–	–	–	–	(7,174)
Impairment	–	(11,253)	–	–	–	–	(11,253)
At 31 December 2012	<u>1,328,656</u>	<u>572,485</u>	<u>5,097</u>	<u>10,567</u>	<u>120,716</u>	<u>140,273</u>	<u>2,177,794</u>
<b>Accumulated depreciation:</b>							
At 1 January 2012	126,348	134,104	1,038	4,214	15,528	–	281,232
Provided for the year	58,816	46,720	700	1,474	10,063	–	117,773
At 31 December 2012	<u>185,164</u>	<u>180,824</u>	<u>1,738</u>	<u>5,688</u>	<u>25,591</u>	<u>–</u>	<u>399,005</u>
<b>Net carrying amount:</b>							
At 1 January 2012	<u>1,001,723</u>	<u>370,443</u>	<u>1,435</u>	<u>6,129</u>	<u>71,885</u>	<u>275,189</u>	<u>1,726,804</u>
At 31 December 2012	<u>1,143,492</u>	<u>391,661</u>	<u>3,313</u>	<u>4,879</u>	<u>95,125</u>	<u>140,273</u>	<u>1,778,789</u>
<b>31 December 2011</b>							
<b>Cost:</b>							
At 1 January 2011	894,351	400,463	1,392	8,767	75,268	339,975	1,720,216
Additions	911	8,031	556	1,590	–	285,184	296,272
Transferred from CIP	241,180	96,120	525	–	12,145	(349,970)	–
Offset against government grants received (note 31)	(8,226)	–	–	–	–	–	(8,226)
Disposals	(145)	(67)	–	(14)	–	–	(226)
At 31 December 2011	<u>1,128,071</u>	<u>504,547</u>	<u>2,473</u>	<u>10,343</u>	<u>87,413</u>	<u>275,189</u>	<u>2,008,036</u>
<b>Accumulated depreciation:</b>							
At 1 January 2011	75,648	92,272	636	3,095	8,756	–	180,407
Provided for the year	50,741	41,888	402	1,133	6,772	–	100,936
Disposals	(41)	(56)	–	(14)	–	–	(111)
At 31 December 2011	<u>126,348</u>	<u>134,104</u>	<u>1,038</u>	<u>4,214</u>	<u>15,528</u>	<u>–</u>	<u>281,232</u>
<b>Net carrying amount:</b>							
At 1 January 2011	<u>818,703</u>	<u>308,191</u>	<u>756</u>	<u>5,672</u>	<u>66,512</u>	<u>339,975</u>	<u>1,539,809</u>
At 31 December 2011	<u>1,001,723</u>	<u>370,443</u>	<u>1,435</u>	<u>6,129</u>	<u>71,885</u>	<u>275,189</u>	<u>1,726,804</u>

- (a) Additions to CIP during the year included interest capitalised in respect of bank loans amounting to RMB674,000 (2011: RMB1,537,000) (note 6).
- (b) As at 31 December 2012, the Group was in the process of obtaining the relevant building ownership certificates (“BOCs”) for certain buildings with an aggregate net carrying amount of RMB5,736,000 (2011: RMB6,044,000). The Group’s buildings can only be sold, transferred or mortgaged when the relevant BOCs have been obtained.
- (c) As at 31 December 2012, the Group’s buildings with a carrying amount of approximately RMB28,545,000 (2011: RMB51,052,000) were erected on the land of which the Group was still in the process of applying for the land use rights certificate.
- (d) An impairment loss of RMB11,253,000 (2011: Nil) was recognised during the year to write down the carrying amounts of production machinery in the Old Iron Pelletising Plant to their recoverable amounts. The recoverable amounts were determined with reference to the best information available to reflect the amount that the Group could obtain from the disposal of the production machinery in the Old Iron Pelletising Plant in an arm’s length transaction between knowledgeable, willing parties.

### 13. INTANGIBLE ASSETS

#### Group

	<b>Mining rights RMB'000</b>	<b>Exploration rights and assets RMB'000</b>	<b>Total RMB'000</b>
<b>31 December 2012</b>			
<b>Cost:</b>			
At 1 January 2012	397,520	243,731	641,251
Additions	–	5,783	5,783
	<hr/>	<hr/>	<hr/>
At 31 December 2012	397,520	249,514	647,034
	<hr/>	<hr/>	<hr/>
<b>Accumulated amortisation:</b>			
At 1 January 2012	64,350	–	64,350
Provided for the year	16,382	–	16,382
	<hr/>	<hr/>	<hr/>
At 31 December 2012	80,732	–	80,732
	<hr/>	<hr/>	<hr/>
<b>Net carrying amount:</b>			
At 1 January 2012	333,170	243,731	576,901
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2012	316,788	249,514	566,302
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

	Mining rights <i>RMB'000</i>	Exploration rights and assets <i>RMB'000</i>	Total <i>RMB'000</i>
<b>31 December 2011</b>			
<b>Cost:</b>			
At 1 January 2011	388,385	203,476	591,861
Additions	9,135	40,255	49,390
	<hr/>	<hr/>	<hr/>
At 31 December 2011	397,520	243,731	641,251
	<hr/>	<hr/>	<hr/>
<b>Accumulated amortisation:</b>			
At 1 January 2011	43,420	–	43,420
Provided for the year	20,930	–	20,930
	<hr/>	<hr/>	<hr/>
At 31 December 2011	64,350	–	64,350
	<hr/>	<hr/>	<hr/>
<b>Net carrying amount:</b>			
At 1 January 2011	344,965	203,476	548,441
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2011	333,170	243,731	576,901
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**14. PREPAID LAND LEASE PAYMENTS**

	Group	
	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Carrying amount at 1 January	50,678	51,791
Amortised during the year	(1,227)	(1,113)
	<hr/>	<hr/>
Carrying amount at 31 December	49,451	50,678
	<hr/> <hr/>	<hr/> <hr/>

- (a) Prepaid land lease payments represented costs of land use rights in respect of the Group's leasehold land situated in Sichuan Province, the PRC, and held under medium lease terms.
- (b) As at 31 December 2012, the legal title of the land use rights with a net carrying amount of approximately RMB3,783,000 (2011: RMB3,849,000) has not been transferred to the Group and the application of the relevant title transfer is still in process. The Directors do not foresee any major obstacles to complete the transfer of the legal title of the above-mentioned land use rights to the Group.



## 15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB'000	RMB'000
Unlisted investments, at cost		
Powerside Holdings Limited (“Powerside”)	1	1
First China	618,699	618,699
Loans to a subsidiary <sup>^</sup>	1,216,926	1,263,674
	<u>1,835,626</u>	<u>1,882,374</u>

<sup>^</sup> In the opinion of Directors, these loans to a subsidiary are considered as quasi-equity loans to this subsidiary.

The amounts due from/to subsidiaries as at the end of the reporting period included in the Company’s current assets and current liabilities were unsecured, interest-free and were repayable on demand or within one year.

As at 31 December 2012, amounts due from subsidiaries (including the above quasi-equity loans) denominated in HK\$ and US\$ amounted to RMB1,232,664,000 (2011: RMB1,362,048,000) and RMB123,824,000 (2011: RMB124,128,000), respectively. As at 31 December 2012, the amount due to a subsidiary was denominated in RMB.

Particulars of the Company’s subsidiaries are set out below:

Company name	Place and date of incorporation/ registration	Nominal value of issued share/ paid-up capital	Percentage of equity interests attributable to the Company %	Principal activities
<i>Directly held:</i>				
Powerside	BVI 8 January 2008	US\$1	100.0	Investment holding
First China	Hong Kong 5 March 2008	HK\$1	100.0	Investment holding
Sure Prime Limited	BVI 12 April 2011	US\$1	100.0	Investment holding
<i>Indirectly held:</i>				
Simply Rise Holdings Limited	Hong Kong 2 January 2008	HK\$1	100.0	Investment holding
Huili Caitong*	PRC 7 July 1998	RMB610,520,000	100.0	Iron ore mining, iron ore beneficiation and sale of self-produced products
Sichuan Lingyu Investment Co., Ltd. (“Lingyu”)**	PRC 9 June 2010	HK\$770,000,000	100.0	Products trading and investment holding
Yanbian County Caitong Iron and Titanium Co., Ltd.	PRC 26 January 2010	RMB1,000,000	100.0	Sale and process of mining products

Company name	Place and date of incorporation/ registration	Nominal value of issued share/ paid-up capital	Percentage of equity interests attributable to the Company %	Principal activities
Xiushuihe Mining	PRC 21 March 2000	RMB200,000,000	95.0	Iron ore mining, iron ore beneficiation and sale of self-produced products
Aba Mining	PRC 27 April 2004	RMB20,000,000	100.0	Iron ore mining, iron ore beneficiation and sale of self-produced products
Huili Caitong Trading Co., Ltd.	PRC 13 June 2012	RMB20,000,000	100.0	Iron ore beneficiation and sale of iron pellets

\* Huili Caitong was converted from a domestic limited company to a FIE on 22 September 2006.

\*\* Lingyu is registered as a wholly-foreign-owned enterprise under the PRC law.

#### 16. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2012 RMB'000	2011 RMB'000
Unlisted investments, at cost:		
– Sichuan Xinglian Mining and Technology Construction Co., Ltd. (“Sichuan Xinglian”)	550	550
– Liangshan Prefecture Weichuan Mining Co., Ltd. (“Weichuan Mining”)	10,500	–
	<u>11,050</u>	<u>550</u>
Share of profits and losses		
– Sichuan Xinglian*	1,342	34
– Weichuan Mining	(361)	–
	<u>981</u>	<u>34</u>
Share of net assets	<u>12,031</u>	<u>584</u>

\* Included in the share of profits of Sichuan Xinglian was unrealised profit attributable to the Group of RMB430,000 arising from the mining consultancy services rendered to Aba Mining and Xiushuihe Mining by Sichuan Xinglian during the current year (2011: Nil).

Particulars of the Company’s jointly-controlled entities (“JCEs”) are as follows:

Name	Paid-up capital	Place of incorporation	Percentage of ownership interest
Sichuan Xinglian	RMB1,000,000	PRC	55%
Weichuan Mining	RMB20,500,000	PRC	51%

All of the above JCEs are indirectly held by the Company.

In the opinion of the Directors, according to the articles of association of the above JCEs, neither the Group nor the other investors has the power to control the financial and operating policies of these JCEs so as to obtain benefits from their activities. Accordingly, investments in these JCEs are accounted for as investments in jointly-controlled entities.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	<b>2012</b> <i>RMB'000</i>	<b>2011</b> <i>RMB'000</i>
Share of the JCEs' assets and liabilities:		
Current assets	14,573	639
Non-current assets	1,262	–
Current liabilities	(3,850)	(55)
Net assets	<u>11,985</u>	<u>584</u>
Share of the JCEs' results:		
Revenue	8,795	156
Cost of sales	(4,865)	(84)
Total expenses	(2,536)	(38)
Tax	(447)	–
Profit after tax	<u>947</u>	<u>34</u>

#### 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The balance represented exchangeable notes of US\$20,000,000 and US\$10,000,000 subscribed by the Group on 2 May 2011 and 18 November 2011, respectively (the "Exchangeable Notes") and designated by the Group as financial assets at fair value through profit or loss upon initial recognition. The maturity dates of the Exchangeable Notes are 3 years after the date of issue. The Exchangeable Notes were issued by a non-listed company incorporated in the BVI.

The movements in the fair value of the Exchangeable Notes during the years ended 31 December 2012 and 31 December 2011 are as follows:

	<b>2012</b> <i>RMB'000</i>	<b>2011</b> <i>RMB'000</i>
Carrying amount at 1 January	207,942	–
Costs of financial assets acquired	–	193,519
Fair value gains on financial assets at fair value through profit or loss recognised during the year*	<u>31,330</u>	<u>14,423</u>
Carrying amount at 31 December	<u>239,272</u>	<u>207,942</u>

\* Included in the fair value gains on financial assets at fair value through profit or loss recognised during the year was the amortisation of day one profit of RMB3,241,000 (2011: RMB448,000) during the year.

The fair value of the Exchangeable Notes was estimated by an independent professional valuer by using the Binomial Lattice Model. The following table lists the key inputs to the model used:

	At 31 December 2012	At 31 December 2011
<i>Valuation of liability component</i>		
Risk-free interest rate (Indonesia) (% per annum)	1.57	2.80
Credit spread (%)	21.09	22.39
<i>Valuation of embedded derivatives</i>		
Current market capitalisation (US\$ in millions)	469	510
Coupon rate (% per annum)	–	–
Dividend yield (% per annum)	–	–
Equity return volatility (% per annum)	34.58	45.62
Probability of Initial Public Offering (% per month for each Lattice step)	6	2
Maturity date	25 November 2014	25 November 2014
Lattice step	12	30
Non-marketability (%)	20	20

In respect of the financial assets at fair value through profit or loss, the Group uses the valuation technique of the Binomial Lattice Model to determine the fair value of financial instruments that are not traded in an active market. Differences may arise between the fair value at initial recognition (which, in accordance with IAS 39, is generally the transaction price) and the amount determined at initial recognition using this valuation technique. Such differences are not recognised on their initial recognition but are amortised over the lives of the financial instruments using the straight-line method and the amortisation was included in the change in fair value of financial assets through profit or loss.

Such differences yet to be recognised in profit or loss are as follows:

	2012 RMB'000	2011 RMB'000
Carrying amount at 1 January	9,237	–
Income not recognised on initial recognition date	–	9,685
Amortised to profit or loss during the year	(3,241)	(448)
Carrying amount at 31 December	<u>5,996</u>	<u>9,237</u>

## 18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	Group	
		2012 RMB'000	2011 RMB'000
<i>Current portion:</i>			
Prepayments consisting of:			
Advanced stripping fees	(a)	53,987	64,708
Prepaid technical service fee	(b)	4,133	4,133
Purchase of raw materials		3,016	1,669
Utilities		6,764	1,300
Prepayment for the use right of a road	(c)	35	35
Other prepayments		2,286	2,176
Bidding deposit		27,000	30,000
Government grant receivable		–	30,000
Interest income receivable		10,039	9,365
Other receivables from third party independent processing contractors		9,467	–
Compensation receivable		2,452	2,452
Other receivables		3,609	2,301
		122,788	148,139
<i>Non-current portion:</i>			
Advanced stripping fees	(a)	152,750	176,709
Prepaid technical service fee	(b)	45,467	49,600
Prepayment for the use right of a road	(c)	919	954
Long-term environmental rehabilitation deposits	(d)	4,449	3,917
		203,585	231,180
		326,373	379,319

*Notes:*

- (a) The balances represented advanced stripping fees paid by the Group to an independent third party processing contractor for stripping activities of Baicao Mine and Xiushuihe Mine, which will be recognised as part of the production costs once the raw iron ore is extracted.
- (b) The balance represented a technical service support fee for a period of 15 years ending on 31 December 2024 prepaid to Sichuan Nanjiang Mining Co., Ltd. (“Nanjiang”), an independent third party, by Xiushuihe Mining. The prepaid technical support fee is released to profit or loss according to the straight-line method based on the terms of technical service to be provided by Nanjiang with a yearly technical service fee of appropriately RMB4.1 million.
- During the year, the prepaid technical service fee released to profit or loss amounted to RMB4,133,000 (2011: RMB4,133,000).
- (c) The balance represented payment made to Xinqiao Mining Co., Ltd. for the right to use a pavement road connecting to Maoling Mine for 30 years ending 22 August 2040 at a consideration of approximately RMB1,035,000. The prepayment for the right of using the road recorded as the current portion represented the amount to be released to profit or loss in the next 12 months from 31 December 2012.
- (d) The long-term deposits represented environmental deposits made to the government in respect of the Group’s rehabilitation obligations for the closure of mines and are not expected to be refunded within 12 months from 31 December 2012.

None of the above assets is either past due or impaired. The financial assets included in the “Other receivables” above related to receivables for which there was no recent history of default.

#### Company

As at 31 December 2012 and 2011, prepayments, deposit and other receivables of the Company mainly represented prepayments and deposits for the rent of office building.

#### 19. PAYMENTS IN ADVANCE

	<b>Group</b>	
	<b>2012</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<i>In respect of:</i>		
Purchase of machinery and equipment	2,095	15,712
Acquisition of a subsidiary ( <i>note 37(a)</i> )	200,000	150,000
	202,095	165,712
	202,095	165,712

#### 20. GOODWILL

	<b>Group</b>	
	<b>2012</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
At cost	15,318	15,318
	15,318	15,318

Goodwill, which arose from the acquisition of Xiushuihe Mining by the Group, represented the excess of the cost of the business combination over the Company's interest in the fair value of Xiushuihe Mining's identifiable assets and liabilities as at the date of the acquisition.

#### Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the Xiushuihe Mine's cash-generating unit for impairment testing.

The recoverable amount of the Xiushuihe Mining's cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15.65% (2011: 15.5%) and cash flows beyond the five-year period were assumed to be stable.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

*Budgeted gross margins* – The basis used to determine the value assigned to the budgeted gross margins is the average gross margin achieved in the year immediately before the budget year, increased for expected market development.

*Production volumes* – Estimated production volumes are based on the detailed life of mine plans and take into account development plans for the mine agreed by management as part of the long-term planning process.

*Discount rate* – The discount rate used is after tax and reflects specific risks relating to the relevant unit.

The values assigned to key assumptions are consistent with external information sources.

## 21. DEFERRED TAX

Group

The movements in deferred tax assets and liabilities during the year are as follows:

## Deferred tax assets

	Losses available for offsetting against future taxable profits <i>RMB'000</i>	Excess tax depreciation over book value of property, plant and equipment <i>RMB'000</i>	Provision for rehabilitation <i>RMB'000</i>	Unrealised profit from intra-group transactions <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2011	4,999	7,575	1,651	438	1,838	16,501
Deferred tax credited/ (charged) to profit or loss during the year ( <i>note 9</i> )	(1,679)	(1,058)	129	1,488	(1,565)	(2,685)
Gross deferred tax assets at 31 December 2011 and 1 January 2012	3,320	6,517	1,780	1,926	273	13,816
Deferred tax credited/ (charged) to profit or loss during the year ( <i>note 9</i> )	(3,320)	8,027	25	1,288	159	6,179
Gross deferred tax assets at 31 December 2012	–	14,544	1,805	3,214	432	19,995

## Deferred tax liabilities

	Government grants receivable <i>RMB'000</i>	Compensation due from a local government <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2011, 31 December 2011 and 1 January 2012	7,500	2,330	9,830
Deferred tax credited to profit or loss during the year ( <i>note 9</i> )	(7,500)	(932)	(8,432)
Gross deferred tax liabilities at 31 December 2012	–	1,398	1,398

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	<b>2012</b> <i>RMB'000</i>	<b>2011</b> <i>RMB'000</i>
Gross deferred tax assets at 31 December	19,995	13,816
Less: Gross deferred tax liabilities at 31 December	(1,398)	(9,830)
Net deferred tax assets 31 December	<u>18,597</u>	<u>3,986</u>

*Notes:*

- (a) In accordance with IAS 12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Therefore, except for Aba Mining and Xiushuihe Mining, a tax rate of 25% is applied in the calculation of deferred taxes which are expected to be realised or settled after 1 January 2013. Regarding the tax rates applicable to Aba Mining and Xiushuihe Mining, deferred tax assets and deferred tax liabilities are calculated using the tax rates that are expected to apply to the period when the assets is realised or the liability is settled (i.e., 15% for the temporary differences that will be realised or settled prior to 31 December 2020, and 25% thereafter).

The basis for determining the PRC CIT rate is set out in note 9 to the financial statements.

- (b) Pursuant to the income tax rules and regulations of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement has been effective from 1 January 2008 and applied to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The withholding tax rate for the Group is 10%.

According to the articles of association of Huili Caitong, the board of directors of Huili Caitong has the ultimate power to decide Huili Caitong's dividend policy. Pursuant to the resolutions of the board of directors of Huili Caitong on 5 January 2013, the net profit of Huili Caitong for the year ended 31 December 2012, after appropriations to the statutory reserve fund, would be used for business development of Huili Caitong and would not be distributed to its shareholders. As a result, no deferred tax liabilities relating to withholding tax on the distributable profits of Huili Caitong for the year ended 31 December 2012 have been recognised.

## 22. INVENTORIES

	<b>Group</b>	
	<b>2012</b> <i>RMB'000</i>	<b>2011</b> <i>RMB'000</i>
<i>At cost:</i>		
Raw materials	84,065	97,098
Spare parts and consumables	32,354	31,863
Finished goods	63,605	5,321
	<u>180,024</u>	<u>134,282</u>
<i>At net realisable value:</i>		
Finished goods	–	3,051
At the lower of cost and net realisable value	<u>180,024</u>	<u>137,333</u>

During the year ended 31 December 2012, a reversal of provision for write-down of finished goods to net realisable value of RMB24,000 (2011: RMB2,547,000) was made in respect of goods sold during the year.



## 23. TRADE AND BILLS RECEIVABLES

	Group	
	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Trade receivables	109,053	99,348
Bills receivable	—	35,070
	109,053	134,418

The Group's trading terms with its customers are mainly on credit, except for customers of titanium products, where full payment in advance of delivery is required. The credit period is generally 30 days. In view of the fact that the Group sells most of its products to a small number of customers, there is a high level of concentration of credit risk. The Group maintains strict control over the settlements of its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management. The Group does not hold any collateral or other credit enhancements over trade receivables. Trade receivables are non-interest-bearing and unsecured.

Based on the invoice date, all trade receivables of the Group at the end of the reporting period were aged within one month and were neither past due nor impaired.

As at 31 December 2012, the Group endorsed certain bills receivable accepted by banks in the PRC to certain of its suppliers in order to settle the trade payables to these suppliers with a carrying amount in aggregate of RMB346,797,000; furthermore, as at 31 December 2012 the Group discounted certain bills receivable accepted by banks in the PRC, with a carrying amount in aggregate of RMB245,666,000 (collectively referred to as the "Derecognised Bills"). The Derecognised Bills have a maturity from three to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year, the Group has recognised interest expense of RMB15,195,000 (note 6) on discounted bills receivable. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively. The endorsement and discount have been made evenly throughout the year.

## 24. BALANCES WITH RELATED PARTIES

	<i>Notes</i>	<b>Group</b>	
		<b>2012</b>	<b>2011</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<i>Due from related parties:</i>			
Non-trade in nature			
– Yanyuan County Xiwei Mining Company Limited (“Yanyuan Xiwei”)	(a)	286	286
– Trisonic International	(b)	314	314
– Sichuan Xinglian	(c)	133	–
		<u>733</u>	<u>600</u>

	<i>Notes</i>	<b>Group</b>	
		<b>2012</b>	<b>2011</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<i>Due to related parties:</i>			
Trade in nature			
– Chengyu Vanadium Titano Technology Ltd. (“Chengyu Vanadium Titano”)	(d)	–	28,807
Non-trade in nature			
– Chengyu Vanadium Titano	(d)	60	–
– Sichuan Huiyuan Gang Jian Technology Co., Ltd. (“Sichuan Huiyuan”)	(e)	412	6,294
– Longwei Hotel Management Co., Ltd. (“Longwei Hotel”)	(f)	519	460
– Xichang Vanadium Titanium Products Co., Ltd.		–	24
– Sichuan Xinglian	(c)	2,640	85
– Sichuan Chuanwei Group Co., Ltd. (“Chuan Wei”)	(g)	30,104	50,011
		<u>33,735</u>	<u>56,874</u>
		<u>33,735</u>	<u>85,681</u>

*Notes:*

- (a) Yanyuan Xiwei is a company controlled by Chuan Wei and was a subsidiary of Aba Mining, Mining, an indirect subsidiary of the Company, before it was disposed of by Aba Mining in September 2010. The balance represented certain payments made by Aba Mining on behalf of Yanyuan Xiwei when Yanyuan Xiwei was a subsidiary of Aba Mining.
- (b) The balance due from Trisonic International represented the overpayment of listing fees made by the Company to settle the listing expenses paid by Trisonic International on behalf of the Company in 2009.
- (c) Sichuan Xinglian is a jointly-controlled entity of the Group. The balances represented mining service fee prepaid and payable by the respective subsidiaries of the Group to Sichuan Xinglian.
- (d) Chengyu Vanadium Titano is controlled by Prime Empire Limited. Prime Empire Limited and Trisonic International are ultimately controlled by the same beneficial owners.

The balance due to Chengyu Vanadium Titano as at 31 December 2012 represented miscellaneous expenses prepaid by Chengyu Vanadium Titano on behalf of the Group. The balance due to Chengyu Vanadium Titano as at 31 December 2011 represented payments in advance received from Chengyu Vanadium Titano for the purchase of vanadium-bearing iron concentrates from the Group.

- (e) Sichuan Huiyuan is a company controlled by Chuan Wei. The balance due to Sichuan Huiyuan represented design fee payable for the provision of construction services to the Group by Sichuan Huiyuan.
- (f) Longwei Hotel and Trisonic International are ultimately controlled by the same beneficial owners. The balance due to Longwei Hotel represented rental payable to Longwei Hotel for the operating lease of office premises by the Group.
- (g) Chuan Wei and Trisonic International are ultimately controlled by the same beneficial owners. The balance due to Chuan Wei as at the end of the reporting period can be further analysed as follows:

	<b>Group</b>	
	<b>2012</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Payable in respect of acquisition of Aba Mining	30,000	50,000
Others	104	11
	<u>30,104</u>	<u>50,011</u>
	<b>Company</b>	
	<b>2012</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<i>Due from a related party:</i>		
Trisonic International – Non-trade in nature	343	314
	<u>343</u>	<u>314</u>

## 25. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	<b>Group</b>	
	<b>2012</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances	375,346	108,823
Time deposits with original maturity of		
– less than three months	68,000	200,000
– over three months	1,474,583	750,000
	<u>1,917,929</u>	<u>1,058,823</u>
Less: pledged time deposits *	(268,783)	(111,993)
	<u>1,649,146</u>	<u>946,830</u>

- \* As at 31 December 2012, time deposits of RMB100,000,000 and RMB168,783,000 were pledged to secure a short-term bank loan granted to the Group and the Company (note 29 (a)) and the issuance of bills payable (note 26), respectively.

The Group's cash and bank balances are denominated in RMB at the end of each reporting period, except for the following:

	<b>2012</b> <i>RMB'000</i>	<b>2011</b> <i>RMB'000</i>
Cash and bank balances denominated in:		
HK\$	1,451	10,245
US\$	53	1,286
	<u>          </u>	<u>          </u>

The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between three months and one year, and earn interest at the respective deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

#### Company

All cash and cash equivalents of the Company represented the cash and bank balances as at 31 December 2012 and 31 December 2011 of which RMB1,398,000 and RMB51,000 were denominated in HK\$ and US\$, respectively.

#### 26. TRADE AND BILLS PAYABLES

	<b>Group</b>	
	<b>2012</b> <i>RMB'000</i>	<b>2011</b> <i>RMB'000</i>
Trade payables	423,283	318,753
Bills payable	393,275	22,439
	<u>          </u>	<u>          </u>
	<u>816,558</u>	<u>341,192</u>

An aged analysis of the trade and bills payables of the Group as at the end of the reporting period, based on the invoice date or issuance date, where appropriate, is as follows:

	<b>Group</b>	
	<b>2012</b> <i>RMB'000</i>	<b>2011</b> <i>RMB'000</i>
Within 180 days	666,244	284,673
181 to 365 days	76,114	41,173
1 to 2 years	64,616	14,235
2 to 3 years	9,059	665
Over 3 years	525	446
	<u>          </u>	<u>          </u>
	<u>816,558</u>	<u>341,192</u>

Trade payables of the Group are non-interest-bearing and are normally settled within 180 days and the bills payable were with a maturity period of 180 days.

As at 31 December 2012, the Group's bills payable of RMB393,275,000 (2011: RMB22,439,000) were secured by pledged bank balances (note 25).

## 27. OTHER PAYABLES AND ACCRUALS

	Notes	Group	
		2012 RMB'000	2011 RMB'000
<i>Current portion:</i>			
Advances from customers		62,926	6,883
Payables related to:			
Construction in progress		140,515	117,915
Taxes other than income tax		14,898	58,297
Payroll and welfare payable		34,563	14,338
Mining cost and exploration right and assets		4,034	26,357
Huili County Hailong Mining Development Co., Ltd. ("Huili Hailong")	(a)	27,000	27,000
Yanbian County Hongyuan Mining Co., Ltd.	(b)	26,977	14,500
Consultancy and professional fees		5,020	3,681
Deposits received		1,649	1,586
Land occupation compensation payables		9,396	2,370
Accrued government surcharges		12,091	–
Accrued price adjustment fund		3,502	3,502
Other payables		3,183	2,350
		345,754	278,779
<i>Non-current portion:</i>			
Other payables		750	500
		346,504	279,279

*Notes:*

- (a) The balance represented the remaining balance of the consideration payable in respect of the acquisition of the exploration right of Cizhuqing Mine and the production facilities together with the land use right and the right to use a road from Huili Hailong.
- (b) The balance as at 31 December 2012 comprised of (i) compensation for occupying land at Baicao Mine for the construction of tailing storage facilities and electricity expense, aggregating to RMB12.5 million (2011: Nil), which were prepaid by Yanbian County Hongyuan Mining Co., Ltd., an independent third party, on behalf of the Group; (ii) the remaining consideration payable of RMB14.5 million (2011: RMB14.5 million) in respect of the acquisition of a production line of iron concentrates and high-grade titanium concentrates with an annual production capacity of 800 thousand tonnes and 120 thousand tonnes (together with a tailing storage facility), respectively, and the related land use rights, machinery and equipment located at Heigutianshe, Xinjiu Town, Yanbian County, Sichuan.

**Company**

As at 31 December 2012 and 2011, other payables and accruals of the Company mainly represented legal and audit fees payable.

All other payables of the Group and the Company are non-interest-bearing and unsecured.

## 28. COMMERCIAL PAPER LIABILITIES

On 7 December 2012, Huili Caitong obtained the approval from the National Association of Financial Market Institutional Investors for the issuance of short-term commercial paper. The registered cap for issuance by Huili Caitong is RMB700 million over a two year period from the date of approval. On 19 December 2012, Huili Caitong issued the first tranche of one-year commercial paper for a total of RMB150 million, maturing on 19 December 2013. The commercial paper bears interest at the rate of 5.8% per annum, repayable at the maturity date. Particulars are included in the Company's announcement dated 27 December 2012.

## 29. INTEREST-BEARING BANK AND OTHER LOANS

		Group	
	Notes	2012 RMB'000	2011 RMB'000
<i>Bank loans:</i>			
Secured	(a)	94,283	94,514
Unsecured	(b)	250,000	275,000
Guaranteed	(c)	48,000	50,000
Other loans, unsecured	(d)	4,000	3,200
		396,283	422,714
<i>Bank loans repayable:</i>			
Within one year or on demand		317,283	319,514
In the second year		25,000	25,000
In the third to fifth years, inclusive		50,000	75,000
		392,283	419,514
<i>Unsecured other loans repayable:</i>			
Within one year or on demand		–	2,000
In the second year		3,200	–
In the third to fifth years, inclusive		800	1,200
		4,000	3,200
Total bank and other loans		396,283	422,714
Balances classified as current liabilities		(317,283)	(321,514)
Balances classified as non-current liabilities		79,000	101,200

*Notes:*

- (a) As at 31 December 2012, the bank loan of the Group and the Company was secured by the pledge of time deposits of RMB100,000,000 (2011: RMB100,000,000) by Huili Caitong and bore interest at the rate of 2% per annum over the prevailing London Inter Bank Offered Rate ("LIBOR") (2011: 3% per annum over the LIBOR).
- (b) As at 31 December 2012, Huili Caitong had unsecured interest-bearing bank loans from China Construction Bank ("CCB") Xichang branch bearing interest at fixed rates ranging from 5.81% to 7.05% (2011: 5.81% to 7.59%) per annum. In accordance with the bank loan agreements entered into between Huili Caitong and CCB Xichang branch, Huili Caitong agreed not to mortgage or pledge Huili Caitong's mining rights of Baicao Mine and the vanadium-bearing iron concentrates production line with an annual production capacity of 500 thousand tonnes to any other parties, and CCB Xichang branch will be entitled to a pre-emption right in the event of such mortgage or pledge.

- (c) As at 31 December 2012, Aba Mining had long-term interest-bearing bank loans from CCB Aba branch of RMB48,000,000 (2011: RMB50,000,000), bearing interest at the fixed rates ranging from 5.76% to 7.59% (2011: 5.4% to 6.64%) per annum which were due for repayment within one year. These long-term bank loans from CCB Aba branch were jointly guaranteed by Chengyu Vanadium Titano and Chuan Wei for nil consideration.
- (d) Other loans represented interest-bearing loans granted by Wenchuan County State Assets Investment Co., Ltd. to Aba Mining for the reconstruction of production plants affected by the earthquake in May 2008. Other loans are unsecured and bear interest at the fixed interest rate of 5.76% (2011: 5.76%) per annum, of which RMB3,200,000 and RMB800,000 are due for repayment in 2014 and 2015, respectively.

### 30. PROVISION FOR REHABILITATION

	Group	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of year	7,664	7,173
Unwinding of discount ( <i>note 6</i> )	524	491
	<hr/>	<hr/>
At the end of year	<u>8,188</u>	<u>7,664</u>

A provision for rehabilitation is mainly recognised for the present value of estimated costs to be incurred for the restoration of tailing ponds and the removal of the processing plants in complying with the Group's obligations for the closure and environmental restoration and clean-up on completion of the Group's mining activities. These costs are expected to be incurred on mine closure, based on the current terms of mining rights for Maoling Mine, Baicao Mine and Xiushuihe Mine, and are discounted at a discount rate of 6.84% (2011: 6.84%). Changes in assumptions could significantly affect these estimates.

Subsequently, the provision for rehabilitation will be increased each year by the accretion of interest due to the passage of time which is recognised as finance costs.

### 31. DEFERRED INCOME

	Group	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of year	9,574	6,600
Received during the year	1,600	11,200
Off-set against property, plant and equipment ( <i>note 12</i> )	(7,174)	(8,226)
	<hr/>	<hr/>
At the end of year	<u>4,000</u>	<u>9,574</u>

Deferred income represented government grants received by the Group in respect of the construction of processing plants. Such deferred income will be deducted from the carrying amount of the assets when the construction of the relevant assets was completed and released to profit or loss by way of a reduced depreciation charge.

**32. SHARE CAPITAL****Shares**

	2012 RMB'000	2011 RMB'000
<i>Authorised:</i>		
10,000,000,000 (2011: 10,000,000,000) ordinary shares of HK\$0.1 each	880,890	880,890
<i>Issued and fully paid:</i>		
2,075,000,000 (2010: 2,075,000,000) ordinary shares of HK\$0.1 each	182,787	182,787

There was no change in the authorised and issued capital of the Company during the two years ended 31 December 2012.

**33. SHARE OPTION SCHEMES**

On 4 September 2009, the Company adopted the Old Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Old Share Option Scheme include the Company's Directors including non-executive Directors, and other employees of the Group.

On 15 April 2010, the Company adopted the New Share Option Scheme, and simultaneously terminated the operation of the Old Share Option Scheme (such that, no further options shall thereafter be offered under the Old Share Option Scheme but in all other respects the provisions of the Old Share Option Scheme shall remain in force and effect). Eligible participants of the New Share Option Scheme include Directors, chief executives, substantial Shareholders or employees (whether full time or part time) of any member of the Group and any persons whom the Directors considers, in its sole discretion, have contributed or will contribute to the development and growth of the Group. The New Share Option Scheme will remain in force for 10 years from that date, unless otherwise cancelled or amended.

The maximum numbers of the Company's Shares in respect of which options may be granted under the New Share Option Scheme and any other schemes of the Company shall not, in aggregate, exceed 207,500,000 shares, being 10% of the total number of Shares of the Company in issue on the adoption date of the New Share Option Scheme. The maximum number of Shares issued and which may fall to be issued upon exercise of the options granted and to be granted under the New Share Option Scheme to each eligible participant in the New Share Option Scheme within any 12-month period is limited to 1% of the Shares of the Company in issue as of the date of grant. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share options granted to Directors, chief executives, substantial Shareholders or any of their respective associates are subject to approval by the independent non-executive Directors (excluding the independent non-executive Directors who are the grantees of the options). In addition, for any grant of share options to substantial Shareholders or independent non-executive Directors or to any of their respective associates, in excess of 0.1% of the Shares of the Company in issue on the date of offer and with an aggregate value (based on the closing price of the Company's Shares quoted on the Stock Exchange at the date of grant) in excess of HK\$5 million, such grant made within any 12-month period from the date of grant (inclusive) would be subject to Shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors that no option may be exercised more than 10 years from the date of grant.



The exercise price of share options is determinable by the board of Directors, but may not be less than the highest of (i) the nominal value of Shares of the Company; (ii) the average closing price of the Company's Shares as stated on the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the share options; and (iii) the closing price of the Company's Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the share options.

The exercise price and exercise period of the share options outstanding as at 31 December 2012 and 31 December 2011 are as follows:

Number of options '000	Exercise price per Share HK\$	Exercise period
10,100	5.05	29 June 2012 to 28 December 2019
10,100	5.05	29 December 2014 to 28 December 2019
4,700	4.99	1 October 2012 to 31 March 2020
4,700	4.99	1 April 2015 to 31 March 2020
27,300	3.60	23 May 2013 to 22 May 2021
<hr/> <hr/> <b>56,900</b>		

The Group has 14,800,000 share options exercisable as at 31 December 2012 (2011: Nil), and the weighted average exercise price was HK\$5.03 per Share (2011: Not applicable).

The Group recognised a share option expense of HK\$32,953,000 (equivalent to approximately RMB28,307,000) during the year ended 31 December 2012 (2011: HK\$33,023,000, equivalent to approximately RMB28,647,000).

The fair values of equity-settled share options granted were estimated and valued by independent professional valuers as at the dates of grant, using the Binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the major inputs to the model used:

	Equity-settled share options granted on		
	23 May 2011	1 April 2010	29 December 2009
Dividend yield (%)	2.07	1.36	1.41
Expected volatility (%)	62.40	66.40	68.56
Risk-free interest rate (%)	2.430	2.788	2.652

At 31 December 2012, the Company had 29,600,000 share options outstanding under the Old Share Option Scheme and 27,300,000 share options outstanding under the New Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 56,900,000 additional Shares of the Company and additional share capital of HK\$5,690,000 and share premium of HK\$241,506,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 56,900,000 share options outstanding, which represented approximately 2.74% of the Company's Shares in issue as at that date.

**34. RESERVES****Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity in the financial statements.

(a) *Share premium account*

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the constitutional documents and the Companies Law of the Cayman Islands, the share premium is distributable as dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

(b) *Statutory reserve funds*

In accordance with the Company Law of the PRC and the respective articles of association of subsidiaries domiciled in the PRC (the "PRC Subsidiaries"), each of the PRC Subsidiaries other than Huili Caitong and Lingyu is required to allocate 10% of its profits after tax, as determined in accordance with the PRC Generally Accepted Accounting Principles (the "PRC GAAP"), to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of its registered capital.

As Huili Caitong is a FIE, allocation to SSR is not required. According to Huili Caitong's articles of association, Huili Caitong is required to allocate 10% of its profit after tax in accordance with the PRC GAAP to the statutory reserve fund (the "SRF").

As Lingyu is a wholly-foreign-owned enterprise, allocation to SSR is not required. According to the Rules for the Implementation of Foreign-funded Enterprise Law of the PRC and articles of association of Lingyu, Lingyu is required to allocate 10% of its profit after tax in accordance with PRC GAAP to the SRF until such reserve reaches 50% of its registered capital.

SSR and SRF are non-distributable except in the event of liquidation and subject to certain restrictions set out in the relevant PRC regulations. They can be used to offset accumulated losses or capitalised as paid-up capital.

(c) *Contributed surplus*

The contributed surplus represented the difference between the nominal value of the Company's Shares issued in exchange of or consideration paid for subsidiaries acquired and the aggregate amount of the nominal value of the paid-up capital of these subsidiaries attributable to the owners of the Company for business combinations under common control.

(d) *Safety fund surplus reserve*

Pursuant to a Notice regarding Safety Production Expenditure jointly issued by the Ministry of Finance and the State Administration of Work Safety of the PRC in February 2012, the Group is required to establish a safety fund surplus reserve based on volume of mineral ore extracted. The safety fund can only be transferred to retained earnings to offset safety related expenses as and when they are incurred, including expenses related to safety protection facilities and equipment improvement and maintenance as well as safety production inspection, appraisal, consultation and training.

(e) *Share option reserve*

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained earnings should the related options expire or be forfeited.

## Company

The movements of the Company's reserves for the current and prior years are as follows:

	Share premium account <i>RMB'000</i>	Share option reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2011	1,998,721	19,136	(96,741)	1,921,116
Total loss for the year ( <i>note 10</i> )	–	–	(120,260)	(120,260)
Proposed final 2011 dividend ( <i>note 35</i> )	(122,425)	–	–	(122,425)
Equity-settled share option arrangements ( <i>note 33</i> )	–	28,647	–	28,647
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2011 and 1 January 2012	1,876,296	47,783	(217,001)	1,707,078
Total loss for the year ( <i>note 10</i> )	–	–	(45,531)	(45,531)
Equity-settled share option arrangements ( <i>note 33</i> )	–	28,307	–	28,307
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2012	<u>1,876,296</u>	<u>76,090</u>	<u>(262,532)</u>	<u>1,689,854</u>

## 35. DIVIDENDS

## (a) Dividends attributable to the year

At a meeting of the Directors held on 28 March 2013, the Directors do not recommend a final dividend for the year ended 31 December 2012.

## (b) Dividends attributable to the previous financial year, declared and paid during the year

*RMB'000*

Final dividend in respect of the financial year ended  
31 December 2011 of RMB0.059 per Share

Declared during the year	122,425
Paid during the year	(122,425)

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## 36. OPERATING LEASE ARRANGEMENTS – THE GROUP AS LESSEE

The Group entered into commercial leases on certain office buildings based on the reason that it is not in the best interest of the Group to purchase these assets. These leases have average lives of one to five years.

At the end of each reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Within one year	1,809	768	1,444	608
In the second to fifth years, inclusive	2,509	182	2,162	–
	<u>4,318</u>	<u>950</u>	<u>3,606</u>	<u>608</u>

## 37. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	Notes	Group	
		2012 RMB'000	2011 RMB'000
Contracted, but not provided for:			
– Acquisition of a subsidiary	(a)	400,000	450,000
– Investment in a jointly-controlled entity	(b)	40,500	–
– Plant and machinery		18,220	39,529
– Exploration rights and assets		12,110	16,910
		<u>470,830</u>	<u>506,439</u>
Authorised, but not contracted for:			
– Plant and machinery		32,774	61,331
– Exploration rights and assets		83,684	87,977
		<u>116,458</u>	<u>149,308</u>
		<u>587,288</u>	<u>655,747</u>

Notes:

- (a) On 28 December 2011, Lingyu, an indirect wholly-owned subsidiary of the Company, entered into an equity purchase agreement to acquire the entire equity interests in Panzhihua Yixingda Industrial Trading Co., Ltd (“Panzhihua Yixingda”) from independent third parties at a consideration of at least RMB600,000,000 (subject to increase depending on the volume of mineral resources and reserves of iron ore), of which RMB150,000,000 and RMB50,000,000 was paid in December 2011 and January 2012, respectively (note 19).

Panzhihua Yixingda is a limited liability company established in the PRC, which currently holds an exploration permit of Haibaodang Mine (the “Target Mine”) located in Panzhihua City, Sichuan, with a legal exploration term runs from 14 November 2011 to 31 December 2013.

Pursuant to the equity purchase agreement, the major condition precedent to the completion of acquisition is the issuance of a mineral resources and reserves report of the Target Mine by an independent geological agent before 30 March 2013 showing that the Target Mine has a minimum of 100 million tonnes of mineral resources and reserves with a minimum average iron content (Type 333 or above) of 15% or above. In the event the acquisition does not proceed to completion, Lingyu will be entitled to full reimbursement of all its prepayments made to the vendor of the transaction.

- (b) In January 2012, Lingyu and two third parties, Pingchuan Iron Mining Company (“Pingchuan”) and Sichuan Nanyu Information Technology Company Limited (“Nanyu”), established a Sino-foreign joint venture, Weichuan Mining, for the development of Dashanshu Section of the Pingchuan Mine. Pursuant to the investment agreement, the registered capital of Weichuan Mining is RMB100 million and Lingyu, Pingchuan and Nanyu hold equity interests of 51%, 34% and 15%, respectively, in Weichuan Mining. Lingyu settled the first tranche of RMB10,500,000 during the year and the remaining RMB40,500,000 should be settled before 1 March 2014.

### 38. RELATED PARTY TRANSACTIONS

- (a) During the year ended 31 December 2012, the Group had the following material transactions with related parties:

Name of related parties	Notes	Group	
		2012 RMB'000	2011 RMB'000
<i>Recurring transactions</i>			
<u>Sales of goods</u>			
Chengyu Vanadium Titano	(i)	137,131	271,685
<u>Office rental</u>			
Longwei Hotel	(ii)	159	150
Non-recurring transactions			
<u>Acquisition of Aba Mining</u>			
Chuan Wei	(iii)	(9,131)	150,000
Bank loans jointly guaranteed by			
Chengyu Vanadium Titano and Chuan Wei	(iv)	48,000	50,000
<u>Construction of property, plant and equipment</u>			
Sichuan Huiyuan	(v)	1,408	45,995
<u>Mineral exploration and evaluation services</u>			
Sichuan Xinglian	(vi)	4,422	–

*Notes:*

- (i) The Directors consider that sales to Chengyu Vanadium Titano were undertaken on commercial terms similar to those offered to unrelated customers in the ordinary course of business.
- (ii) The Directors consider that the office rental expenses paid by the Group to Longwei Hotel as determined under the tenancy agreement are based on market rates for similar premises in similar locations.
- (iii) The consideration for the acquisition of the entire equity interests in Aba Mining during the year ended 31 December 2011 was determined based on negotiations between the Group and Chuan Wei, with reference to the valuation of the entire equity interests in Aba Mining as shown in a valuation report of an independent valuer.

On 19 May 2012, the Group and Chuan Wei entered into a supplemental agreement, pursuant to which the consideration for acquisition of Aba Mining has been reduced from RMB150,000,000 to RMB140,869,000 ("Final Purchase Consideration") as the average iron content of the ore at the Yanglongshan Mine is below that warranted by Chuan Wei, and the reduction in the purchase consideration of RMB9,131,000 has been accounted for in equity during the year.

The Final Purchase Consideration was partially settled by the Group in two separate payments in 2011 and 2012 amounting to RMB100,000,000 and RMB10,869,000, respectively.

- (iv) The bank loans were jointly guaranteed by related parties for nil consideration.
- (v) The Directors consider that the amount paid for the construction services from a related company was determined based on prices similarly available to the related party's third party customers.
- (vi) The mineral exploration and evaluation services rendered by Sichuan Xinglian to the Group were made according to the published prices and conditions offered by the jointly-controlled entity to third party major customers.

**(b) Outstanding balances with related parties**

Details of the Group and Company's balances with its related parties as at the end of the reporting period are disclosed in note 24 to the financial statements. Balances with the related parties are interest-free, unsecured and have no fixed terms of repayment.

**(c) Compensation of key management personnel of the Group:**

	2012 RMB'000	2011 RMB'000
Fees	754	784
Basic salaries and other benefits	2,563	3,423
Equity-settled share option expense	20,579	26,370
Pension scheme contributions	107	132
	<hr/>	<hr/>
Total compensation paid to key management personnel	<u>24,003</u>	<u>30,709</u>

Further details of Directors' emoluments are included in note 8 to the financial statements.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The financial assets of the Group mainly include cash and bank balances, pledged time deposits, trade and bills receivables, financial assets at fair value through profit or loss, other receivables and amounts due from related parties, which arise directly from its operations. Financial liabilities of the Group mainly include other payables and accruals, trade and bills payables, amounts due to related parties, dividend payable, commercial papers and interest-bearing bank and other loans.

Risk management is carried out by the finance department which is led by the Group's executive Directors. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units. The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, credit risk and foreign currency risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders. The Directors regularly reviews these risks and they are summarised below.

**Liquidity risk**

The Group monitors its exposure to a shortage of funds by considering the maturity of both its financial liabilities and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank loans and its own funding sources.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	<b>2012</b>				<b>Total</b> <i>RMB'000</i>
	<b>On demand</b> <i>RMB'000</i>	<b>Less than 3 months</b> <i>RMB'000</i>	<b>3 to less than 12 months</b> <i>RMB'000</i>	<b>1 to 5 years</b> <i>RMB'000</i>	
Interest-bearing bank and other loans	18,000	153,500	156,607	97,473	425,580
Commercial paper liabilities	–	–	158,700	–	158,700
Trade and bills payables	150,314	557,025	109,219	–	816,558
Other payables and accruals	62,768	205,162	–	–	267,930
Dividend payable	1,801	–	–	–	1,801
Due to related parties	33,735	–	–	–	33,735
	<u>266,618</u>	<u>915,687</u>	<u>424,526</u>	<u>97,473</u>	<u>1,704,304</u>
	<b>2011</b>				<b>Total</b> <i>RMB'000</i>
	<b>On demand</b> <i>RMB'000</i>	<b>Less than 3 months</b> <i>RMB'000</i>	<b>3 to less than 12 months</b> <i>RMB'000</i>	<b>1 to 5 years</b> <i>RMB'000</i>	
Interest-bearing bank and other loans	20,000	150,444	155,881	117,963	444,288
Trade and bills payables	56,519	284,673	–	–	341,192
Other payables and accruals	41,500	170,730	–	–	212,230
Dividend payable	1,801	–	–	–	1,801
Due to related parties	85,681	–	–	–	85,681
	<u>205,501</u>	<u>605,847</u>	<u>155,881</u>	<u>117,963</u>	<u>1,085,192</u>

**Interest rate risk**

The Group's exposure to interest rate risk relates primarily to the Group's bank deposits, interest-bearing bank loans and other loans, commercial paper liabilities and zero-coupon exchangeable notes (which are subject to fair value interest rate risk). The interest rates and terms of repayment of interest-bearing bank loans are disclosed in note 29 to the financial statements.

The Group manages its cash flow interest rate risk exposure arising from all of its interest-bearing loans through the use of a mix of floating and fixed rates. The Group also holds certain borrowings at floating interest rate so as to manage part of fair value interest rate risk. In addition, the Group has not used any interest rate swaps to hedge against interest rate risk.

**Credit risk**

Substantial amounts of the Group's cash and cash equivalents and time deposits are held in major reputable financial institutions located in Mainland China and Hong Kong, which management believes are of high credit quality. The credit risk of the Group's other financial assets, which comprise trade and bills receivables, other receivables and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group has no other financial assets which carry significant exposure to credit risk.

As disclosed in note 4, the Group sells most of the products to a small number of customers. As a result, it faces a high level of concentration of credit risk. The Group manages this risk by offering standardised credit terms to its customers of iron ore products for an approved credit period of 30 days. For the sale of titanium products, the Group generally requires full payment prior to delivery. The Group maintains strict control over its outstanding receivables and senior management regularly reviews the overdue balances. In addition, the Group's exposure to credit risk is also influenced by the individual characteristics of each customer and default risk of the industry in which customers operate. During the year, the Group generated its revenue from the sales of iron ore products to the producers of steel and distributors that purchase the Group's products and resell them to steel producers. In addition, the Group also generated revenue from sales of titanium products to other customers. In this regard, the Group is exposed to the concentration of credit risk in the steel and titanium industries.

**Foreign currency risk**

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB, except for certain items of cash and cash equivalents, financial assets at fair value through profit and loss and bank loans that are denominated in HK\$ and US\$.

The Group does not enter into any hedging transactions to manage the potential fluctuation in foreign currencies. The Group does not consider that it has any significant exposure to the risk of fluctuation in the exchange rate between HK\$/US\$ and RMB as a reasonable possible change of 5% in RMB against HK\$/US\$ would have no significant financial impact to the Group's profit.

**Fair values**

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair value and carrying amount of financial assets at fair value through profit or loss have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the Directors to make estimates about the expected future cash flows including expected future proceeds from repayment of liabilities and on subsequent disposal of the shares of the underlying assets.

The carrying amounts of the Group's long term interest-bearing bank and other loans approximate to their fair values based on the prevailing borrowing rates available for loans with similar terms and maturities during the reporting period.



The carrying amounts of the Group's other financial instruments approximated to their fair values due to the short-term maturity at the end of the reporting period.

#### **Capital management**

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or raise new capital from its investors.

No changes were made in the objectives, policies or processes for managing financial risk during the year.

The Group is currently funding its capital expenditure through internal generated funds from its operations and new bank borrowings. The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Group's policy is to keep the gearing ratio between 20% and 50% over the long term. Net debt is defined as interest-bearing bank loans, net of cash and bank balances and it excludes liabilities incurred for working capital purposes. Equity includes equity attributable to the owners of the Company and non-controlling interests.

As at 31 December 2012 and 2011, the Group's cash and bank balances exceeded the total interest-bearing bank and other loans and commercial papers. As such, no gearing ratio as at 31 December 2012 or 31 December 2011 is presented.

#### **40. SIGNIFICANT EVENT**

In November 2012, the Board received a letter from Trisonic International, in which Trisonic International informed the Board that it is interested in pursuing a proposal for the privatisation of the Company by Keen Talent Holdings Limited ("Keen Talent"), a wholly-owned subsidiary of Trisonic International, with an indicative offer price of HK\$1.72 per share in cash.

On 21 December 2012, Trisonic International, Keen Talent and the Company made a joint announcement regarding the proposed privatisation of the Company by way of a scheme of arrangement and proposed withdrawal of listing. In the proposal, the offer price is further raised to HK\$1.93 per share in cash. In addition, Keen Talent will make an offer to cancel all the outstanding share options upon the scheme of arrangement becoming effective. The amount of the cash offer to cancel an option will be calculated by deducting the exercise price per share payable on exercise of an option from the consideration of HK\$1.93 for every ordinary share cancelled (i.e., the "see-through" price). As all the outstanding share options are out-of-money i.e., the exercise price of all outstanding options is above the offer price of HK\$1.93, the "see-through" price is zero and the offer price under the option offer will be a nominal value of HK\$0.001 for each option. All the option holders have given an irrevocable undertaking to Keen Talent and the Company to not exercise any of his/her outstanding share options during the offer period.

Particulars of the proposed privatisation were set out in the Company's announcements dated 5 November 2012, 5 December 2012 and 21 December 2012, respectively.

#### **41. EVENTS AFTER THE REPORTING PERIOD**

As at the date of approval of the financial statements, the Group has no events after the reporting period that needs to be disclosed.

#### **42. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by Directors on 28 March 2013.

### 3. INDEBTEDNESS STATEMENT

As at the close of business on 31 January 2013, the Group had total outstanding indebtedness of approximately RMB496.28 million, including: (i) an unsecured short-term bank loan of RMB100 million; (ii) unsecured long-term bank loans of RMB100 million (of which RMB25 million is repayable within one year); (iii) a secured short-term bank loan of US\$15 million (approximately RMB94.28 million); (iv) short-term bank loans of RMB48 million jointly guaranteed by Sichuan Chuanwei Group Co., Ltd. and Chengyu Vanadium Titano Technology Ltd., both of which are connected persons of the Group; (v) other loans of RMB4 million; and (vi) short-term commercial papers issued in the amount of RMB150 million. At the same time, the Group had agreed to issue but had yet to issue short-term commercial papers in the amount of RMB550 million.

In addition, bank deposits of approximately RMB368.70 million were pledged as deposits for the secured short-term bank loan of the Group and the issuance of bills payable.

Saved as disclosed in this section, the Group had no other material contingent liabilities or outstanding mortgages, charges, guarantees, loan capital issued and outstanding or agreed to be issued, bank loans and overdrafts or other similar indebtedness as at the close of business on 31 January 2013.

### 4. MATERIAL CHANGES

The Directors confirm that, save as and except for the below, there was no material change in the financial or trading position or outlook of the Company between 31 December 2012, being the date to which the latest audited consolidated financial statements of the Company were made up, up to and including the Latest Practicable Date:

- (i) the Group (as borrower) entered into two loan agreements with the Sichuan Branch of China Construction Bank (as lender) on 15 January 2013 and 18 January 2013 in relation to a one-year revolving facility of up to RMB40 million and a one-year revolving facility of up to RMB60 million, respectively. The Group has drawn down RMB40 million and RMB60 million from the aforesaid loan agreements on their respective dates of agreement; and
- (ii) the Group's advances from customers as at 28 February 2013 (based on the unaudited consolidated management accounts of the Group as at 28 February 2013 prepared in accordance with the PRC accounting standards) increased by around 150% as compared to 31 December 2012 since the customers of the Group had placed more orders and made more prepayments with the Group.

*The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from Cushman & Wakefield Valuation Advisory Services (HK) Limited, an independent valuer, in connection with its valuation as at 31 January 2013 of the property interests of the Group.*

16 April 2013

**Cushman & Wakefield Valuation Advisory Services (HK) Limited**

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The Board of Directors  
China Vanadium Titano-Magnetite Mining Company Limited  
Room 2201, 22/F, Wheelock House  
20 Pedder Street, Central  
Hong Kong

Dear Sirs,

**Preliminary**

In accordance with your instruction to value the properties in which China Vanadium Titano-Magnetite Mining Company Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests in The People’s Republic of China (“The PRC”). We confirm that we have carried out physical inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 31 January 2013 (the “valuation date”).

**Basis of Valuation**

Our valuation of the property interests represents the “market value” which we would define as intended to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

The valuation has been prepared in accordance with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; The Codes on Takeovers and Mergers and Share Repurchases Rule 11 published by Securities and Futures Commission; the International Valuation Standards (2011) published by the International Valuation Standards Council and effective from 1 June 2011; and The HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors effective from 1 January 2013.

**Valuation Assumptions**

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

As the properties in Group I and II are held under long term land use rights, we have assumed that the owner has free and uninterrupted rights to use the properties in Group I and II for the whole of the unexpired term of the land use rights.

No allowance has been made in our report for any charges, mortgages or amounts owing on the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have not carried out detailed site measurement to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and/or official plans handed to us by the Group are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

**Site Inspection**

We have inspected the exterior and, where possible, the interior of the properties unless we have been otherwise instructed. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

**Valuation Methodologies**

We have valued the property interests by the direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant markets.

In valuing the property interests with proper title certificates in Group I – property interests held and occupied by the Group in The PRC, due to the nature of the buildings and structures that were constructed, there are no readily identifiable market comparable transactions. In the course of our valuation, we have considered their values on the basis of their depreciated replacement costs.

The Depreciated Replacement Cost method when used must always subject to adequate potential profitability of the business (or to service potential of the entity from the use of assets as a whole) paying due regard to the total assets employed.

Depreciated Replacement Cost is based on an estimate of the market value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less deduction for physical deterioration and all relevant forms of obsolescence and optimization.

The Depreciated Replacement Cost of the property generally provides the most reliable indication of value for the property in the absence of a known market based on comparable sales.

### **Source of Information**

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, identification of the properties and all other relevant matters.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

### **Title Investigations**

We have been, in some instances, provided by the Group with extracts of the title documents including the State-owned Land Use Rights Certificate and the Building Ownership Certificate relating to the property interests in the PRC, and have made relevant enquiries. However, we have not searched the original documents to verify the existing title to the property interests and any material encumbrances that might be attached to the properties or any lease amendments which may not appear on the copies handed to us. We have relied considerably on the advice given by the Company's PRC legal adviser concerning the validity of the Group's titles to the property interests in the PRC.

### **Potential Tax Liabilities**

The potential tax liabilities for disposal of the property interests held by the Group in the PRC mainly include Business Tax and its surcharges, Stamp Tax, Corporate Income Tax and Land Value Appreciation Tax.

For non-residential properties that are sold in the PRC, a total of 5.6% of the net gains will be charged. The tax rate comprises a 5% business tax and its additional items of 12% of business tax (i.e. city construction surtax at 7%, educational surtax at 3%, and embankment surtax at 2% of the business tax).

Stamp Tax is equal to 0.05% on the value of asset transferred.

Corporate Income Tax is equal to 25% of the net gain during the disposal of the property.

Land appreciation tax is a transaction tax on the transfer of the rights to use state-owned land in the PRC. It is based on the net gain and imposed at progressive rates. The taxable gain is computed by deducting the following from the proceeds of the transfer: the cost of acquiring the property, development expenses, repair and maintenance expenses, relevant tax payments, and other amounts considered by the Ministry of Finance to be deductible. Tax rates start at 30% and can go up to 60% depending on the tax base, which is the valuation of the net gains in connection with the total deductions.

As advised by the Group, it is unlikely that such tax liability will be crystallized in the recent future as the Group has no intention to dispose of or transfer the relevant property interests. According to our established practice, in the course of our valuation, we have neither verified nor taken into account such tax liability.

### **Currency & Exchange Rate**

Unless otherwise stated, all monetary sums stated in this report are in Renminbi (RMB). The exchange rate adopted in our valuations is approximately Renminbi Yuan (RMB)1 = HKD1.247 which was approximately the prevailing exchange rate as at the valuation date.

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,  
for and on behalf of  
**Cushman & Wakefield Valuation Advisory Services (HK) Limited**  
**Vincent K. C. Cheung**  
*Registered Professional Surveyor (GP)*  
*BSc(Hons) MBA MRICS MHKIS*  
*National Director, Valuation & Advisory, Greater China*

*Note: Mr. Vincent K. C. Cheung holds a Master of Business Administration and he is a Registered Professional Surveyor with 16 years' experience in real estate industry and assets valuations sector. His experience on valuations covers Hong Kong, Macau, Taiwan, South Korea, Mainland China, Vietnam, Cambodia and other overseas countries. Mr. Cheung is a member of The Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors. Mr. Cheung is one of the valuers on the "list of property valuers for undertaking valuation for incorporation or reference in listing particulars and circulars and valuations in connection with takeovers and mergers" as well as a Registered Business Valuer of the Hong Kong Business Valuation Forum.*

## SUMMARY OF VALUE

## GROUP I – Property Interests Held and Occupied by the Group in The PRC

Property	Market Value in existing state as at 31 January 2013 <i>RMB</i>	Interest attributable to the Group	Market Value in existing state as at 31 January 2013 attributable to the Group <i>RMB</i>
1. 3 parcels of land, various buildings and structures located at Xinqiao Village, Weizhou Town, Wenchuan County, Aba Tibetan and Qiang Autonomous Prefecture, Sichuan Province, the PRC	1,630,000	100%	1,630,000
2. A mining plant located at Maoling Village, Weizhou Town, Wenchuan County, Aba Tibetan and Qiang Autonomous Prefecture, Sichuan Province, the PRC	No Commercial Value	100%	Nil
3. 5 parcels of land, various buildings and structures located at Xiaoheiqing Town, Huili County, Liangshan Yi Autonomous Prefecture, Sichuan Province, The PRC	60,400,000	100%	60,400,000
4. 3 parcels of land, various buildings and structures located at Xiaoheiqing Town and Ailang Town, Huili County, Liangshan Yi Autonomous Prefecture, Sichuan Province, The PRC	44,300,000	95%	42,085,000

Property	Market Value in existing state as at 31 January 2013 <i>RMB</i>	Interest attributable to the Group	Market Value in existing state as at 31 January 2013 attributable to the Group <i>RMB</i>
5. A parcel of land, various buildings and structures located at Lima River Village, Guanhe Town, Huili County, Liangshan Yi Autonomous Prefecture, Sichuan Province, The PRC	16,100,000	100%	16,100,000
6. 3 parcels of land, various buildings and structures located at Xiaoheiqing Town, Huili County, Liangshan Yi Autonomous Prefecture, Sichuan Province, The PRC	No Commercial Value	100%	Nil
7. A parcel of land, various buildings and structures located at Xiaoheiqing Town, Huili County, Liangshan Yi Autonomous Prefecture, Sichuan Province The PRC	No Commercial Value	100%	Nil
8. 4 parcels of land, various buildings and structures located at Xinjiu Village, Yanbian County, Panzhihua City, Sichuan Province, The PRC	No Commercial Value	100%	Nil
<b>Sub-total:</b>	<b>122,430,000</b>		<b>120,215,000</b>



## GROUP II – Property Interest Held by the Group for future development in The PRC

Property	Market Value in existing state as at 31 January 2013 <i>RMB</i>	Interest attributable to the Group	Market Value in existing state as at 31 January 2013 attributable to the Group <i>RMB</i>
9. A parcel of land located at Qipangou Village, Weizhou Town, Wenchuan County, Aba Tibetan and Qiang Autonomous Prefecture, Sichuan Province, the PRC	No Commercial Value	100%	Nil
<b>Sub-total:</b>	<b>Nil</b>		<b>Nil</b>
<b>Grand-total:</b>	<b>122,430,000</b>		<b>120,215,000</b>

## VALUATION CERTIFICATE

## GROUP I – Property Interests Held and Occupied by the Group in The PRC

## Property No. 1 – 3 parcels of land, various buildings and structures located at Xinqiao Village

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2013 RMB
3 parcels of land, various buildings and structures located at Xinqiao Village, Weizhou Town, Wenchuan County, Aba Tibetan and Qiang Autonomous Prefecture, Sichuan Province, the PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 11,729.3 square meters on which are built 9 buildings and various ancillary structures completed in various stages between 1996 and 2011.</p> <p>The total gross floor area of the buildings is approximately 1,669 square meters (Please refer to Note No. 5 below).</p> <p>The buildings include 4 production plants, a bathroom, a water pump room, a laboratory building, a power distribution room and a ground scale room. The structures mainly comprise rain sheds, basins, roads and boundary walls.</p> <p>The land use rights of the property were granted for the same term expiring on 11 December 2053 for industrial uses (Please refer to Note Nos. 2 to 4 below).</p>	The property is currently occupied by the Group for production and ancillary office purposes.	<p>1,630,000 (One million six hundred and thirty thousand)</p> <p><i>(100% interest attributable to the Group: RMB1,630,000)</i> (One million six hundred and thirty thousand)</p>

*Notes:*

1. The property was inspected by Mr. Alton Y. W. Wong on 11 December 2012. Mr. Alton Y. W. Wong is a Member of the Royal Institution of Chartered Surveyors (RICS) with over nine years' experience in real estate valuations.
2. Pursuant to a State-owned Land Use Rights Certificate, A Chuan Guo Yong (2005) Di No. 0381 dated 15 November 2005 and issued by the People's Government of Aba Tibetan and Qiang Autonomous Prefecture, the land use rights of the property with a site area of 7,705.3 square meters were granted to Aba Mining Co., Ltd. [阿壩礦業有限公司] for a term expiring on 11 December 2053 for industrial uses.
3. Pursuant to a State-owned Land Use Rights Certificate, A Chuan Guo Yong (2005) Di No. 0382 dated 15 November 2005 and issued by the People's Government of Aba Autonomous Prefecture, the land use rights of the property with a site area of 165 square meters were granted to Aba Mining Co., Ltd. [阿壩礦業有限公司] for a term expiring on 11 December 2053 for industrial uses.
4. Pursuant to a State-owned Land Use Rights Certificate, A Chuan Guo Yong (2005) Di No. 0383 dated 15 November 2005 and issued by the People's Government of Aba Autonomous Prefecture, the land use rights of the property with a site area of 3,859 square meters were granted to Aba Mining Co., Ltd. [阿壩礦業有限公司] for a term expiring on 11 December 2053 for industrial uses.
5. In the course of our valuation, we have attributed no commercial value to 9 buildings with a total gross floor area of approximately 1,669 square meters and various ancillary structures as they are yet to be granted with proper title certificates as at the valuation date.

Details of the nine buildings are listed as follows:

<b>Building</b>	<b>Gross Floor Area (sqm)</b>	<b>No. of Storey</b>
Production Plant #1	144	2-storey
Production Plant #2	99	1-storey
Production Plant #3	141	1-storey
Production Plant #4	694	1-storey
Bathroom	10	1-storey
Water Pump Room	38	1-storey
Laboratory Building	490	3-storey
Power Distribution Room	32	1-storey
Ground Scale Room	21	1-storey
<b>Total:</b>	<b>1,669</b>	

6. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:
  - a) Aba Mining Co., Ltd. legally obtains the land use rights with a total site area of approximately 11,729.3 square meters; the land use rights have not been subject to any mortgage nor sealed up on any government order. Aba Mining Co., Ltd. has the legal rights to occupy, use, transfer, let or mortgage the land use rights of the property or utilize for other economy activities.
  - b) According to Aba Mining Co., Ltd., they have occupied several buildings with a total gross floor area of approximately 1,669 square meters in Xinqiao Village, Weizhou Town, Wenchuan County, Aba Autonomous Prefecture. The aforesaid buildings are yet to be granted with Building Ownership Certificates as at the valuation date.]

## VALUATION CERTIFICATE

## Property No. 2 – A mining plant located at Maoling Village

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2013 <i>RMB</i>
A mining plant located at Maoling Village, Weizhou Town, Wenchuan County, Aba Tibetan and Qiang Autonomous Prefecture, Sichuan Province, the PRC	<p>The property comprises a mining area of approximately 1,900,000 square meters on which are built 35 buildings and various ancillary structures completed in various stages between 1980 and 2011.</p> <p>The total gross floor area of the buildings is approximately 9,702.26 square meters (Please refer to Note No. 3 below).</p> <p>The buildings mainly include production plants, ancillary office, dormitories, canteens and guardhouses. The structures mainly comprise basins, tailing reservoirs, retaining walls, roads and boundary walls.</p> <p>As advised by the Instructing Party, the Group has obtained the mining rights of the property (Please refer to Note No. 2).</p>	The property is currently occupied by the Group for mining purposes.	No Commercial Value

*Notes:*

1. The property was inspected by Mr. Alton Y. W. Wong on 11 December 2012. Mr. Alton Y. W. Wong is a Member of the Royal Institution of Chartered Surveyors (RICS) with over nine years' experience in real estate valuations.
2. Pursuant to a Mining Rights Certificate No. C5100002010122130097453 dated 28 December 2010 and issued by the State-owned Land Resources Bureau of Sichuan Province, the mining rights with a mining area of 1,900,000 square meters were granted to Aba Mining Co., Ltd. [阿壩礦業有限公司] for a term expiring on 28 October 2034.
3. In the course of our valuation, we have attributed no commercial value to the subject land with a mining area of 1,900,000 square meters; and 35 buildings with a total gross floor area of approximately 9,702.26 square meters and various ancillary structures as they are yet to be granted with proper title certificates as at the valuation date.

Details of the 35 buildings and structures are listed as follows:

<b>Building</b>	<b>Gross Floor Area (sqm)</b>	<b>No. of Storey</b>
Dormitory #1	135	1-storey
Dormitory #2	620.4	2-storey
Dormitory #3	952	2-storey
Dormitory #4	420	3-storey
Dormitory #5	1,124.55	3-storey
Canteen	224	2-storey
Composite Building	1,044	3-storey
Ancillary Office	1,207	3-storey
Plant Guardhouse	79	1-storey
Explosive Storage #1	50.40	1-storey
Explosive Storage #2	30.96	1-storey
Storage #1	31.39	1-storey
Storage #2	15	1-storey
Storage #3	601.5	3-storey
Storage #4	17.22	1-storey
Guardhouse #1	15	1-storey
Guardhouse #2	21.78	1-storey
Guardhouse #3	18.7	1-storey
Police Station	181	1-storey
Plant #1	187.68	1-storey
Plant #2	1,282.5	1-storey
Plant #3	264	1-storey
Plant #4	204	2-storey
Plant #5	157.5	1-storey
Power Distribution Room	55	1-storey
Power Distribution Station x 5	82	1-storey
Corridor #1	74.8	1-storey
Corridor #2	186	1-storey
Corridor #3	173	1-storey
Corridor #4	95.2	1-storey
Storage #5	50.40	1-storey
Storage #6	17.22	1-storey
Storage #7	51.84	1-storey
Storage #8	17.22	1-storey
Garage	15.00	1-storey
<b>Total:</b>	<b>9,702.26</b>	

4. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:

- a) The total mining area for Aba Mining Co., Ltd. in Maoling Village, Wenchuan is approximately 1,900,000 square meters.
- b) According to Aba Mining Co., Ltd., they have occupied several buildings with a total gross floor area of approximately 9,702.26 square meters in Maoling Village, Weizhou Town, Wenchuan County, Aba Tibetan and Qiang Autonomous Prefecture. The aforesaid buildings are yet to be granted with Building Ownership Certificates as at the valuation date.

## VALUATION CERTIFICATE

## Property No. 3 – 5 parcels of land, various buildings and structures located at Xiaoheiqing Town

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2013 RMB
5 parcels of land, various buildings and structures located at Xiaoheiqing Town, Huili County, Liangshan Yi Autonomous Prefecture, Sichuan Province, The PRC	<p>The property comprises 5 parcels of land with a total site area of approximately 249,257.51 square meters on which are built 47 buildings and various ancillary structures completed in various stages between 1999 and 2009.</p> <p>The total gross floor area of the buildings is approximately 15,006.25 square meters (Please refer to Note Nos. 3 to 4 below).</p> <p>The buildings mainly include production plants, ancillary office, dormitories, canteens and guardhouses. The structures mainly comprise rain sheds, basins, tailing reservoirs, tunnels, roads and boundary walls.</p> <p>The land use rights of the property were granted for the same term expiring on 17 February 2059 for industrial uses (Please refer to Note No. 2 below).</p>	The property is currently occupied by the Group for production and ancillary office purposes.	<p>60,400,000 (Sixty million and four hundred thousand)</p> <p><i>(100% interest attributable to the Group: RMB60,400,000)</i> (Sixty million and four hundred thousand)</p>

*Notes:*

1. The property was inspected by Mr. Kit K. H. Cheung on 11 December 2012. Mr. Kit K. H. Cheung is a Member of the Royal Institution of Chartered Surveyors (RICS) and a Member of the Hong Kong Institute of Surveyors (HKIS), with over three years' experience in real estate valuations.
2. Pursuant to 5 State-owned Land Use Rights Certificates issued by the People's Government of Huili County, the land use rights of the property with a total site area of 249,257.51 square meters were granted to Huili County Caitong Iron and Titanium Co., Ltd. [會理縣財通鐵鈦有限責任公司] ("Huili Caitong") for the same term expiring on 17 February 2059 for industrial uses.

Details of the 5 State-owned Land Use Rights Certificates are listed below:

<b>Certificate No.</b>	<b>Date of Issue</b>	<b>Land Use Rights Expiry Date</b>	<b>Permitted Uses</b>	<b>Site Area (sqm)</b>
Hui Guo Yong (2009) Zi Di No. 50800007	18 February 2009	17 February 2059	Industrial	64,469.59
Hui Guo Yong (2009) Zi Di No. 50800008	18 February 2009	17 February 2059	Industrial	3,279.17
Hui Guo Yong (2009) Zi Di No. 50800009	18 February 2009	17 February 2059	Industrial	4,977.19
Hui Guo Yong (2009) Zi Di No. 50800010	18 February 2009	17 February 2059	Industrial	70,930.45
Hui Guo Yong (2009) Zi Di No. 50800011	18 February 2009	17 February 2059	Industrial	105,601.11
			<b>Total:</b>	<b><u>249,257.51</u></b>

3. Pursuant to 6 Building Ownership Certificates issued by the People's Government of Huili County, the building ownership rights of 25 buildings of the property with a total gross floor area of 9,945.24 square meters were vested in Huili Caitong.

Details of the 25 buildings are listed as follows:

<b>Certificate No. (Huili Fang Quan Zheng Huili Zi Di)</b>	<b>Date of Issue</b>	<b>Building</b>	<b>Gross Floor Area (sqm)</b>	<b>No. of Storey</b>
No. 0009687	25 February 2009	Ancillary Office	1,173.70	3-storey
		Dormitory #1	1,847.04	3-storey
		Dormitory #2	576.00	3-storey
		Canteen #1	655.25	3-storey
No. 0009688	25 February 2009	Production Plant #1	155.80	1-storey
		Production Plant #2	41.11	1-storey
		Production Plant #3	78.76	1-storey
		Production Plant #4	68.80	1-storey
		Production Plant #5	126.08	1-storey
No. 0009689	25 February 2009	Production Plant #6	453.72	1-storey
		Production Plant #7	481.54	1-storey
		Dormitory #3	24.29	1-storey
		Storage	55.25	1-storey
		Dormitory #4	323.64	1-storey
No. 0009690	25 February 2009	Toilet	31.51	1-storey
		Canteen #2	472.34	1-storey
		Dormitory #5	118.50	1-storey
		Dormitory #6	54.40	1-storey
		Dormitory #7	175.75	1-storey
No. 0009691	25 February 2009	Guardhouse #1	36.75	1-storey
		Guardhouse #2	9.00	1-storey
		Bathroom #1	30.00	1-storey
No. 0009841	9 June 2009	Production Plant #8	1,578.93	2-storey
		Water Pump Room	1,276.70	2-storey
		Laboratory Building	100.54	2-storey
<b>Total:</b>			<b>9,945.40</b>	

4. In the course of our valuation, we have attributed no commercial value to the remaining 22 buildings with a total gross floor area of approximately 5,060.85 square meters and various ancillary structures as they are yet to be granted with proper title certificates as at the valuation date.
5. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:
- Huili Caitong legally obtains the land use rights with a total site area of approximately 249,257.51 square meters; the land use rights have not been subject to any mortgage nor sealed up on any government order. Huili Caitong has the legal rights to occupy, use, transfer, let or mortgage the land use rights of the property or utilize for other economy activities.
  - Huili Caitong is the legal owner of the buildings with a total gross floor area of approximately 9,945.40 square meters pursuant to the aforesaid 6 Building Ownership Certificates and has the rights to occupy, use, transfer, let, mortgage or utilize other methods to dispose the buildings.
  - According to Huili Caitong, they have occupied several buildings with a total gross floor area of approximately 5,060.85 square meters in Xiaoheiqing Town. The aforesaid buildings are yet to be granted with Building Ownership Certificates as at the valuation date.



## VALUATION CERTIFICATE

**Property No. 4 – 3 parcels of land, various buildings and structures located at Xiaoheiqing Town and Ailang Town**

<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Market Value in existing state as at 31 January 2013 RMB</b>
3 parcels of land, various buildings and structures located at Xiaoheiqing Town and Ailang Town, Huili County, Liangshan Yi Autonomous Prefecture, Sichuan Province, The PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 203,790.73 square meters on which are built 56 buildings and various ancillary structures completed in various stages between 2000 and 2011.</p> <p>The total gross floor area of the buildings is approximately 14,674.04 square meters (Please refer to Note Nos. 3 to 4 below).</p> <p>The buildings mainly include production plants, ancillary offices, dormitories, canteens and storages. The structures mainly comprise rain sheds, basins, tailing reservoirs, tunnels, roads and boundary walls.</p> <p>The land use rights of the property were granted for the same term expiring on 12 November 2058 for industrial uses (Please refer to Note No. 2 below).</p>	<p>The property is currently occupied by the Group for production and ancillary office purposes.</p>	<p>44,300,000 (Forty four million and three hundred thousand)</p> <p><i>(95% interest attributable to the Group: RMB42,085,000)</i> (Forty two million and eighty five thousand)</p>

*Notes:*

1. The property was inspected by Mr. Kit K. H. Cheung on 12 December 2012. Mr. Kit K. H. Cheung is a Member of the Royal Institution of Chartered Surveyors (RICS) and a Member of the Hong Kong Institute of Surveyors (HKIS), with over three years' experience in real estate valuations.
2. Pursuant to 3 State-owned Land Use Rights Certificates issued by the People's Government of Huili County, the land use rights of the property with a total site area of 203,790.73 square meters were granted to Huili County Xiushuihe Mining Co., Ltd. [會理縣秀水河礦業有限公司] ("Xiushuihe Mining") for the same term expiring on 12 November 2058 for industrial uses.

Details of the 3 State-owned Land Use Rights Certificates are listed below:

<b>Certificate No.</b>	<b>Date of Issue</b>	<b>Land Use Rights Expiry Date</b>	<b>Permitted Uses</b>	<b>Site Area (sqm)</b>
Hui Guo Yong (2008) Zi Di No. 50800005	13 November 2008	12 November 2058	Industrial	37,995.25
Hui Guo Yong (2008) Zi Di No. 50700009	13 November 2008	12 November 2058	Industrial	75,868.20
Hui Guo Yong (2008) Zi Di No. 50700010	13 November 2008	12 November 2058	Industrial	89,927.28
			<b>Total:</b>	<b><u>203,790.73</u></b>

3. Pursuant to 9 Building Ownership Certificates issued by the People's Government of Huili County, the building ownership rights of 38 buildings of the property with a total gross floor area of 10,184.36 square meters were vested in Xiushuihe Mining.

Details of the 38 buildings are listed as follows:

<b>Certificate No. (Huili Fang Quan Zheng Huili Zi Di)</b>	<b>Date of Issue</b>	<b>Building</b>	<b>Gross Floor Area (sqm)</b>	<b>No. of Storey</b>
No. 0009697	25 February 2009	Production Plant	464.86	2-storey
		Dormitory	213.00	2-storey
		Dormitory	150.68	2-storey
		Dormitory	36.75	2-storey
		Dormitory	39.55	2-storey
No. 0009698	25 February 2009	Production Plant	207.66	1-storey
		Dormitory	252.96	1-storey
		Dormitory	90.65	1-storey
		Ancillary Office	250.33	1-storey
		Storage	123.75	1-storey
No. 0009699	25 February 2009	Storage	130.00	1-storey
		Storage	181.25	1-storey
		Storage	98.58	1-storey
		Storage	177.50	1-storey
		Storage	339.09	1-storey
No. 0009700	25 February 2009	Production Plant	369.60	1-storey
		Production Plant	216.96	1-storey
		Production Plant	238.92	1-storey
		Production Plant	961.60	1-storey
No. 0009701	25 February 2009	Production Plant	832.39	2-storey
		Production Plant	1,365.79	2-storey
		Dormitory	475.86	2-storey
No. 0009702	25 February 2009	Dormitory	190.47	2-storey
		Production Plant	885.60	2-storey
		Production Plant	807.43	2-storey
No. 0009703	25 February 2009	Production Plant	53.51	1-storey
		Production Plant	53.07	1-storey
		Production Plant	76.25	1-storey
		Production Plant	344.57	1-storey
No. 0009704	25 February 2009	Production Plant	44.95	1-storey
		Production Plant	24.65	1-storey
		Dormitory	24.40	1-storey
		Storage	62.33	1-storey
		Storage	10.56	1-storey
No. 0009705	25 February 2009	Dormitory	40.67	2-storey
		Dormitory	62.84	2-storey
		Dormitory	95.61	2-storey
		Dormitory	189.72	2-storey
<b>Total:</b>			<b>10,184.36</b>	

4. In the course of our valuation, we have attributed no commercial value to the remaining 18 buildings with a total gross floor area of approximately 4,489.68 square meters and various ancillary structures as they are yet to be granted with proper title certificates as at the valuation date.

Details of the 18 buildings are listed as follows:

<b>Building</b>	<b>Gross Floor Area (sqm)</b>	<b>No. of Storey</b>
Ancillary Office	744.48	2-storey
Dormitory	587.52	2-storey
Canteen	46.70	1-storey
Water Pump Room	32.00	2-storey
Power Distribution Room	30.00	2-storey
Bathroom	46.00	1-storey
Kitchen	35.00	1-storey
Production Plant	588.00	1-storey
Production Plant	728.00	1-storey
Repairing Room	150.78	2-storey
Production Plant	546.00	1-storey
Water Storage	254.34	1-storey
Water Pump Room	117.00	1-storey
Power Distribution Room	205.00	1-storey
Storage	35.50	1-storey
Laboratory Building	18.96	1-storey
Dormitory	295.50	2-storey
Power Distribution Room	28.90	1-storey
<b>Total:</b>	<b>4,489.68</b>	

5. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:
- Xiushuihe Mining legally obtains the land use rights with a total site area of approximately 203,790.73 square meters; the land use rights have not been subject to any mortgage nor sealed up on any government order. Xiushuihe Mining has the legal rights to occupy, use, transfer, let or mortgage the land use rights of the property or utilize for other economy activities.
  - Xiushuihe Mining is the legal owner of the buildings with a total gross floor area of approximately 10,184.36 square meters pursuant to the aforesaid 9 Building Ownership Certificates and has the rights to occupy, use, transfer, let, mortgage or utilize other methods to dispose the buildings.
  - According to Xiushuihe Mining, they have occupied several buildings with a total gross floor area of approximately 4,489.68 square meters in Xiushuihe Mining Plant. The aforesaid buildings are yet to be granted with Building Ownership Certificates as at the valuation date.

## VALUATION CERTIFICATE

## Property No. 5 – A parcel of land, various buildings and structures located at Lima River Village

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2013 RMB
<p>A parcel of land, various buildings and structures located at Lima River Village, Guanhe Town, Huili County, Liangshan Yi Autonomous Prefecture, Sichuan Province, The PRC</p>	<p>The property comprises a parcel of land with a site area of approximately 45,372.01 square meters, on which are built 30 buildings and various ancillary structures completed in various stages between 2005 and 2011.</p> <p>The total gross floor area of the buildings is approximately 6,804.62 square meters (Please refer to Note Nos. 3 and 4 below).</p> <p>The buildings mainly include guardhouses, production plants and storages. The structures mainly comprise rain sheds, basins, roads and boundary fences.</p> <p>The land use rights of the property were granted for a term expiring on 28 May 2058 for industrial uses (Please refer to Note No. 2 below).</p>	<p>The property is currently occupied by the Group for production purpose.</p>	<p>16,100,000 (Sixteen million and one hundred thousand)  (100% interest attributable to the Group: RMB16,100,000) (Sixteen million and one hundred thousand)</p>

## Notes:

- The property was inspected by Mr. Nick W. Yeung on 5 March 2013. Mr. Nick W. Yeung is a Member of the Royal Institution of Chartered Surveyors (RICS), with over five years' experience in real estate valuations.
- Pursuant to a State-owned Land Use Rights Certificate, Hui Guo Yong (2008) Zi Di No. 30200048 dated 2 June 2008 and issued by the People's Government of Huili County, the land use rights of the property with a site area of 45,372.01 square meters were granted to Huili County Caitong Iron and Titanium Co., Ltd. [會理縣財通鐵鈦有限責任公司] ("Huili Caitong") for a term expiring on 28 May 2058 for industrial uses.

3. Pursuant to 10 Building Ownership Certificates issued by the People's Government of Huili County, the building ownership rights of 25 buildings of the property with a total gross floor area of 13,431.17 square meters were vested in Huili Caitong.

Details of the 25 buildings are listed as follows:

<b>Certificate No. (Huili Fang Quan Zheng Huili Zi Di)</b>	<b>Date of Issue</b>	<b>Building</b>	<b>Gross Floor Area (sqm)</b>	<b>No. of Storey</b>
No. 0009692	25 February 2009	Production Plant	954.72	2-storey
		Production Plant	154.38	2-storey
		Production Plant	1,195.20	2-storey
		Production Plant	143.82	2-storey
		Production Plant	328.27	2-storey
No. 0009693	25 February 2009	Production Plant	61.44	2-storey
		Production Plant	92.00	2-storey
		Production Plant	105.20	2-storey
		Production Plant	311.25	2-storey
		Production Plant	28.25	2-storey
No. 0009694	25 February 2009	Production Plant	1,233.96	2-storey
		Production Plant	330.24	2-storey
		Production Plant	91.53	2-storey
		Production Plant	108.99	2-storey
		Production Plant	205.44	2-storey
No. 0009695	25 February 2009	Production Plant	96.50	1-storey
		Production Plant	64.96	1-storey
		Production Plant	42.90	1-storey
		Production Plant	207.01	1-storey
		Production Plant	155.31	1-storey
No. 0009696	25 February 2009	Storage	61.86	2-storey
		Production Plant	190.09	2-storey
		Toilet	50.00	2-storey
		Storage	245.59	2-storey
		Storage	256.71	2-storey
<b>Total:</b>			<b>6,715.62</b>	

4. In the course of our valuation, we have attributed no commercial value to the remaining 5 buildings with a total gross floor area of approximately 89 square meters and various ancillary structures as they are yet to be granted with proper title certificates as at the valuation date.

Details of the 5 buildings are listed as follows:

<b>Building</b>	<b>Gross Floor Area (sqm)</b>	<b>No. of Storey</b>
Guardhouse #1	15.00	1-storey
Guardhouse #2	13.00	1-storey
Storage	10.00	1-storey
Guardhouse #3	25.00	1-storey
Power Distribution Room	26.00	1-storey
<b>Total:</b>	<b>89.00</b>	

5. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:
- Huili Caitong legally obtains the land use rights with a total site area of approximately 45,372.01 square meters; the land use rights have not been subject to any mortgage nor sealed up on any government order. Huili Caitong has the legal rights to occupy, use, transfer, let or mortgage the land use rights of the property or utilize for other economy activities.
  - Huili Caitong is the legal owner of the buildings with a total gross floor area of approximately 6,715.62 square meters pursuant to the aforesaid 5 Building Ownership Certificates and has the rights to occupy, use, transfer, let, mortgage or utilize other methods to dispose the buildings.
  - According to Huili Caitong, they have occupied several buildings with a total gross floor area of approximately 89 square meters in Lima River Village, Guanhe Town. The aforesaid buildings are yet to be granted with Building Ownership Certificates as at the valuation date.

## VALUATION CERTIFICATE

## Property No. 6 – 3 parcels of land, various buildings and structures located at Xiaoheiqing Town

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2013 RMB
3 parcels of land, various buildings and structures located at Xiaoheiqing Town, Huili County, Liangshan Yi Autonomous Prefecture, Sichuan Province, The PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 376,355.22 square meters on which are built 24 buildings and various ancillary structures completed in various stages between 2008 and 2012.</p> <p>The total gross floor area of the buildings is approximately 5,448.32 square meters (Please refer to Note No. 3 below).</p> <p>The buildings mainly include production plants, ancillary offices, and storages. The structures mainly comprise rain sheds, basins, roads and boundary walls.</p> <p>As advised, the subject land and 24 buildings are yet to be granted with proper title certificates as at the valuation date.</p>	The property is currently occupied by the Group for production and ancillary office purposes.	No Commercial Value

*Notes:*

- The property was inspected by Mr. Kit K. H. Cheung on 12 December 2012. Mr. Kit K. H. Cheung is a Member of the Royal Institution of Chartered Surveyors (RICS) and a Member of the Hong Kong Institute of Surveyors (HKIS), with over three years' experience in real estate valuations.
- Pursuant to an Asset Transfer Agreement dated 3 February 2010 entered into between Huili County Hailong Mining Development Co., Ltd. [會理縣海龍礦業開發有限責任公司] and Huili County Caitong Iron and Titanium Co., Ltd. [會理縣財通鐵鈦有限責任公司] ("Huili Caitong"), the land use rights of the property and the building ownership rights, plant and machinery ownership rights, mining rights and highway use rights thereon were agreed to transfer to Huili Caitong at a total consolidation of RMB310,000,000.



3. In the course of our valuation, we have attributed no commercial value to the subject land with a total site area of 376,355.22 square meters; and 24 buildings with a total gross floor area of approximately 5,448.32 square meters and various ancillary structures as they are yet to be granted with proper title certificates as at the valuation date.

Details of the 24 buildings are listed as follows:

<b>Building</b>	<b>Gross Floor Area (sqm)</b>	<b>No. of Storey</b>
Production Plant #1	22.09	1-storey
Production Plant #2	97.50	1-storey
Production Plant #3	520.00	1-storey
Production Plant #4	167.20	1-storey
Production Plant #5	36.26	1-storey
Ancillary Office #1	451.25	2-storey
Ancillary Office #2	361.40	2-storey
Laboratory Building	104.00	1-storey
Storage #1	38.35	1-storey
Ground Scale Room	34.50	1-storey
Power Distribution Room #1	68.90	1-storey
Bathroom	42.00	1-storey
Guardhouse	18.00	1-storey
Production Plant #6	120.60	1-storey
Main Production Plant*	1,931.75	3-storey
Dormitory*	474.50	3-storey
Ancillary Office #3*	377.00	2-storey
Staff Canteen*	141.75	1-storey
Storage #2*	76.80	1-storey
Scale Room	42.77	1-storey
Laboratory Room*	31.24	1-storey
Power Distribution Room #2*	152.92	1-storey
Toilet*	72	1-storey
Water Pump Room*	65.54	1-storey
<b>Total:</b>	<b>5,448.32</b>	

\* As advised by the Company, the above 10 buildings with a total gross floor area of approximately 3,366.27 square meters have been demolished in February 2013.

4. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:
- According to Huili Caitong, they have occupied 3 parcels of forest land with a total site area of approximately 376,355.22 square meters. The aforesaid forest land occupy rights have been expired and the extension of forest land occupy rights is under application.
  - According to Huili Caitong, they have occupied several buildings with a total gross floor area of approximately 5,448.32 square meters in Xiaoheiqing Town. The aforesaid buildings are yet to be granted with Building Ownership Certificates as at the valuation date.

## VALUATION CERTIFICATE

## Property No. 7 – A parcel of land, various buildings and structures located at Xiaoheiqing Town

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2013 RMB
A parcel of land, various buildings and structures located at Xiaoheiqing Town, Huili County, Liangshan Yi Autonomous Prefecture, Sichuan Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 40,666.87 square meters on which are built 41 buildings and various ancillary structures completed in 2010.</p> <p>The total gross floor area of the buildings is approximately 14,480.19 square meters (Please refer to Note No. 2 below).</p> <p>The buildings mainly include production plants, ancillary office, dormitories and storages. The structures mainly comprise rain sheds, roads and boundary walls.</p> <p>As advised, the subject land and 41 buildings are yet to be granted with proper title certificates as at the valuation date.</p>	The property is currently occupied by the Group for production and ancillary office purposes.	No Commercial Value

*Notes:*

1. The property was inspected by Mr. Kit K. H. Cheung on 12 December 2012. Mr. Kit K. H. Cheung is a Member of the Royal Institution of Chartered Surveyors (RICS) and a Member of the Hong Kong Institute of Surveyors (HKIS), with over three years' experience in real estate valuations.
2. In the course of our valuation, we have attributed no commercial value to the subject land with a site area of 40,666.87 square meters; and 41 buildings with a total gross floor area of approximately 14,480.19 square meters and various ancillary structures as they are yet to be granted with proper title certificates as at the valuation date.

Details of the 41 buildings are listed as follows:

<b>Building</b>	<b>Gross Floor Area (sqm)</b>	<b>No. of Storey</b>
Dormitory #1	675.84	3-storey
Dormitory #2	557.04	3-storey
Conference Room	42.64	1-storey
Water Storage #1	608.20	1-storey
Ground Scale Room #1	48.59	1-storey
Kitchen	48.06	1-storey
Production Plant #1	3,012.82	2-storey
Production Plant #2	1,210.00	1-storey
Production Plant #3	522.72	2-storey
Production Plant #4	635.55	1-storey
Repairing Room	134.46	1-storey
Production Plant #5	161.50	1-storey
Production Plant #6	45.90	1-storey
Production Plant #7	108.55	2-storey
Production Plant #8	198.76	2-storey
Production Plant #9	51.52	1-storey
Production Plant #10	39.10	1-storey
Storage #1	2,175.00	1-storey
Water Storage #2	169.32	1-storey
Production Plant #11	55.13	1-storey
Storage #2	88.00	1-storey
Production Plant #12	179.63	1-storey
Power Production Station	418.20	2-storey
Production Plant #13	104.72	2-storey
Production Plant #14	15.30	1-storey
Storage #3	112.00	2-storey
Production Plant #15	14.40	1-storey
Production Plant #16	31.95	2-storey
Ancillary Office	316.20	1-storey
Guardhouse #1	42.00	2-storey
Ground Scale Room #2	42.00	1-storey
Bathroom	93.00	1-storey
Guardhouse #2	86.40	1-storey
Toilet	24.32	1-storey
Power Distribution Room #1	103.40	1-storey
Canteen	270.32	2-storey
Laboratory Building	107.06	1-storey
Medical Room	61.44	1-storey
Power Distribution Room #2	384.00	1-storey
Power Distribution Room #3	175.15	1-storey
Storage #4	1,310.00	1-storey
<b>Total:</b>	<b>14,480.19</b>	

3. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:

- a) According to Huili Caitong, they have occupied a parcel of land with a site area of approximately 40,666.87 square meters in Xinqiutuan Mining Plant. The aforesaid land is yet to be grated with Land Use Rights Certificate as at the valuation date.
- b) According to Huili Caitong, they have occupied several buildings with a total gross floor area of approximately 14,480.19 square meters in Xinqiutuan Mining Plant. The aforesaid buildings are yet to be granted with Building Ownership Certificates as at the valuation date.

## VALUATION CERTIFICATE

## Property No. 8 – 4 parcels of land, various buildings and structures located at Xinjiu Town

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2013 RMB
4 parcels of land, various buildings and structures located at Xinjiu Village, Yanbian County, Panzhihua City, Sichuan Province, The PRC	<p>The property comprises 4 parcels of land with a total site area of approximately 224,598.09 square meters on which are built 31 buildings and various ancillary structures completed in various stages between 2004 and 2011.</p> <p>The total gross floor area of the buildings is approximately 21,499.73 square meters (Please refer to Note No. 3 below).</p> <p>The buildings mainly include production plants, ancillary office and storages. The structures mainly comprise rain sheds, roads, basins and boundary walls.</p> <p>As advised, the property was acquired from an independent third party in 2010. The relevant Land Use Rights Certificate and Building Ownership Certificate were under application as at the valuation date.</p>	The property is currently occupied by the Group for production and ancillary office purposes.	No commercial value

*Notes:*

- The property was inspected by Mr. Kit K. H. Cheung on 13 December 2012. Mr. Kit K. H. Cheung is a Member of the Royal Institution of Chartered Surveyors (RICS) and a Member of the Hong Kong Institute of Surveyors (HKIS), with over three years' experience in real estate valuations.
- Pursuant to an Asset Transfer Agreement dated 11 March 2010 entered into between Yanbian County Hongyuan Mining Co., Ltd. [鹽邊縣宏緣礦業有限責任公司] ("Yanbian Hongyuan") and Yanbian County Caitong Iron and Titanium Co., Ltd. [鹽邊縣財通鐵鈦有限責任公司] ("Yanbian Caitong"), the land use rights of the property with a total site area of 224,598.09 square meters, and the building ownership rights, plant and machinery ownership rights and highway use rights thereon were agreed to transfer to Yanbian Caitong at a total consideration of RMB550,000,000.

3. In the course of our valuation, we have attributed no commercial value to the subject land with a total site area of 224,598.09 square meters; and 31 buildings with a total gross floor area of approximately 21,499.73 square meters and structures as they are yet to be granted with proper title certificates as at the valuation date.

Details of the 31 buildings are listed as follows:

<b>Building</b>	<b>Gross Floor Area (sqm)</b>	<b>No. of Storey</b>
Ancillary Office #1	2,661.10	3-storey
Kitchen	80.56	1-storey
Guardhouse #1	13.00	1-storey
Production Plant #1	5,777.00	2-storey
Guardhouse #2	133.00	1-storey
Power Distribution Room #1	71.50	1-storey
Power Distribution Room #2	39.00	1-storey
Ground Scale Room #1	195.00	2-storey
Power Distribution Room #3	40.32	1-storey
Production Plant #2	7,597.00	2-storey
Production Plant #3	2,200.00	3-storey
Storage #1	235.20	2-storey
Storage #2	185.60	1-storey
Power Distribution Room #4	70.40	1-storey
Storage #3	198.70	1-storey
Ancillary Office #2	864.00	3-storey
Canteen	90.00	1-storey
Production Plant #4	160.00	1-storey
Laboratory Building	105.00	1-storey
Toilet #1	72.00	1-storey
Toilet #2	35.00	1-storey
Toilet #3	72.00	1-storey
Power Distribution Room #5	78.00	1-storey
Bathroom	129.00	1-storey
Ground Scale Room #2	87.10	1-storey
Power Distribution Room #6	55.00	1-storey
Power Distribution Room #7	57.75	1-storey
Power Distribution Room #8	22.50	1-storey
Power Distribution Room #9	55.00	1-storey
Storage #4	42.00	1-storey
Ground Scale Room #3	78.00	1-storey
<b>Total:</b>	<b>21,499.73</b>	

4. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:
- The land use rights of the property with a site area of approximately 41,934.09 square meters were granted to Yanbian Hongyuan. As advised by the group, the aforesaid land use rights are currently under the process of being transferred to Huili Caitong.
  - As advised by the Group, Huili Caitong has also occupied another land with a site area of approximately 182,664 square meters in Xinjiu Village, Yanbian County. The aforesaid land is yet to be granted with Land Use Rights Certificate as at the valuation date.
  - According to Huili Caitong, they have occupied several buildings with a total gross floor area of approximately 21,499.73 square meters in Xinjiu Village, Yanbian County. As advised by the Group, Huili Caitong is currently applying the Building Ownership Certificates for the aforesaid buildings.

## VALUATION CERTIFICATE

## GROUP II – Property Interest Held by the Group for future development in The PRC

## Property No. 9 – A parcel of land located at Qipangou Village

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2013 RMB
A parcel of land located at Qipangou Village, Weizhou Town, Wenchuan County, Aba Autonomous Prefecture, Sichuan Province, the PRC	<p>The property comprises a parcel of land with a site area of approximately 11,350.69 square meters for residential and garden uses (Please refer to Note No. 2 and 3).</p> <p>According to the Construction Planning and Design Requirement issued by the Wenchuan County Urban and Rural Planning and Administrative Bureau, a portion of site area approximately 5,832.75 square meters is designated for residential uses while the remaining portion of site area approximately 5,517.94 square meters is designated for garden uses.</p>	The property is currently vacant.	No commercial value

*Notes:*

1. The property was inspected by Mr. Alton Y. W. Wong on 11 December 2012. Mr. Alton Y. W. Wong is a Member of the Royal Institution of Chartered Surveyors (RICS) with over nine years' experience in real estate valuations.
2. According to the Construction Planning and Design Requirement issued by the Wenchuan County Urban and Rural Planning and Administrative Bureau [汶川縣城鄉規劃管理局建設工程規劃設計要求通知書], the salient details of the construction planning and design requirements of the subject site/proposed development are listed below:

<b>Particulars</b>	<b>Details</b>
Total site area	11,350.69 square metres
Uses	Residential 5,832.75 square metres/Garden 5,517.94 square metres
Plot Ratio	Residential $\leq 2.0$ /Garden $\leq 0.05$
Site Coverage	Residential $\leq 30\%$ /Garden $\leq 10\%$
Height	Residential $\leq 45\text{m}$ /Garden $\leq 6\text{m}$
Greenery Area	Residential $\geq 35\%$ /Garden $\geq 90\%$

3. Pursuant to a Construction Project Location Selection Opinion Letter [建設項目選址意見書] No. 481532011024 issued by Wenchuan County Urban and Rural Planning and Administrative Bureau dated 15 May 2011, the proposed development was approved to be located at Qipangou Village, Weizhou Town, Wenchuan County, with a site area of 11,350.69 square meters (among a portion of site area approximately 5,832.75 square meters is designated for residential uses while the remaining portion of site area approximately 5,517.94 square meters is designated for garden uses).
4. In the course of our valuation, we have attributed no commercial value to the property with a site area of approximately 11,350.69 square meters as the property was yet to be granted with proper title certificates as at the valuation date.
5. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:
  - a) The proposed office and residence project of Aba Mining Co., Ltd. was approved to be located at Qipangou Village, Weizhou Town with a site area of approximately 11,350.69 square meters

**1. RESPONSIBILITY STATEMENTS**

The information contained in this Scheme Document relating to the Group has been supplied by the Company. The issue of this Scheme Document has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Offeror Group or Sapphire), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

The information contained in this Scheme Document relating to the Offeror Group and Sapphire has been supplied by the Offeror. The issue of this Scheme Document has been approved by the Offeror Director, who accepts full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Group) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Scheme Document have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

**2. SHARE CAPITAL OF THE COMPANY**

As at the Latest Practicable Date:

- (a) the authorised share capital of the Company was HK\$1,000,000,000 divided into 10,000,000,000 Shares;
- (b) the issued share capital of the Company was HK\$207,500,000 divided into 2,075,000,000 Shares;
- (c) the Company has not issued any new Shares pursuant to the exercise of outstanding Options since 31 December 2012, being the end of the last financial year of the Company, up to the Latest Practicable Date;
- (d) all of the Shares rank *pari passu* in all respects as regards rights to capital, dividends and voting;
- (e) as at the Latest Practicable Date, there were 29,600,000 outstanding Options under the Old Share Option Scheme and 27,300,000 outstanding Options under the New Share Option Scheme. Of these: (i) 3,000,000 outstanding Options with an Exercise Price of HK\$5.05 per Share and 500,000 outstanding Options with an Exercise Price of HK\$4.99 per Share under the Old Share Option Scheme, and 5,000,000 outstanding Options with an Exercise Price of HK\$3.60 per Share under the New Share Option Scheme, were held by Mr. Jiang Zhong Ping, an executive Director; (ii) 4,000,000 outstanding Options with an Exercise Price of HK\$5.05 per Share and 2,500,000 outstanding Options with an Exercise Price of HK\$4.99 per Share under the Old Share Option Scheme, and 4,500,000 outstanding Options with an Exercise Price of HK\$3.60 per Share under the New Share Option Scheme, were held by Mr. Liu Feng, an executive Director; (iii) 7,000,000 outstanding Options with an Exercise Price



of HK\$5.05 per Share and 2,500,000 outstanding Options with an Exercise Price of HK\$4.99 per Share under the Old Share Option Scheme, and 5,000,000 outstanding Options with an Exercise Price of HK\$3.60 per Share under the New Share Option Scheme, were held by Mr. Yu Xing Yuan, an executive Director; and (iv) the remaining 6,200,000 outstanding Options with an Exercise Price of HK\$5.05 per Share and 3,900,000 outstanding Options with an Exercise Price of HK\$4.99 per Share under the Old Share Option Scheme, and the remaining 12,800,000 outstanding Options with an Exercise Price of HK\$3.60 per Share under the New Share Option Scheme, were held by employees of the Group. For the vesting period of the outstanding Options, please refer to the section headed “The Share Option Schemes and Option Offer” in the Explanatory Memorandum. In the event that any of the outstanding Options are exercised on or before 4:30 p.m. on Friday, 24 May 2013 in accordance with the relevant provisions of the Share Option Schemes, any Shares issued as a result of the exercise of such outstanding Options will be subject to and eligible to participate in the Scheme. If all of such outstanding Options are exercised, a total of 56,900,000 new Shares will be issued; and

- (f) other than the Shares and the outstanding Options as disclosed in paragraphs (b) and (e) above, there are no other options, derivatives, warrants or other securities convertible or exchangeable into the Shares which were issued by the Company as at the Latest Practicable Date.

### 3. MARKET PRICES OF THE SHARES

The table below sets out the closing price of the Shares on the Stock Exchange on: (i) the last Business Day of each of the calendar months during the period commencing six months preceding the Pre-Announcement Date; (ii) the Pre-Announcement Date; (iii) the Last Trading Date; and (iv) the Latest Practicable Date:

	<b>Closing price for each Share</b> (HK\$)
31 May 2012	1.34
29 June 2012	1.25
31 July 2012	1.15
31 August 2012	1.12
28 September 2012	1.20
31 October 2012	1.49
1 November 2012 (Pre-Announcement Date)	1.59
30 November 2012	1.70
19 December 2012 (Last Trading Date)	1.67
31 December 2012	1.83
31 January 2013	1.77
28 February 2013	1.81
28 March 2013	1.79
12 April 2013 (Latest Practicable Date)	1.78

During the period commencing six months preceding the Pre-Announcement Date and ending on the Latest Practicable Date, the highest closing price and the lowest closing price of the Shares as quoted on the Stock Exchange were HK\$1.85 per Share on 27 December 2012 and 8 January 2013 and HK\$1.08 per Share on 26 July 2012 and 5 September 2012, respectively.

#### 4. IRREVOCABLE UNDERTAKINGS

Your attention is drawn to the sections headed “Irrevocable Undertakings to Accept the Proposal” and “Irrevocable Undertakings to Not Exercise the Outstanding Options” in the Explanatory Memorandum set out on page 52 of this Scheme Document.

#### 5. DISCLOSURE OF INTERESTS

For the purpose of this paragraph: (i) “interested” and “interests” have the same meanings as given to them in the appropriate part of the SFO; (ii) the “Offer Period” means the period from 5 November 2012 (being the date on which the Company first announced the possible proposal for the privatisation of the Company) to the Effective Date, both dates inclusive; and (iii) the “Disclosure Period” means the period beginning from the date which is six months prior to the commencement of the Offer Period (from 5 November 2012) and ending on the Latest Practicable Date, both dates inclusive.

##### (a) Interests and dealings in the Shares

- (i) As at the Latest Practicable Date: (1) the Offeror Director had no interest in the Shares; and (2) the Offeror and the following persons acting in concert with the Offeror had the following interests in the Shares:

Shareholder	Number of Shares held	Approximate percentage of total issued share capital of the Company (%)
Parent <sup>(1)</sup>	1,023,557,072	49.33
Sapphire <sup>(2)</sup>	1,023,557,072	49.33
Mr. Wang <sup>(1) (2)</sup>	1,023,557,072	49.33
Aggregate number of Shares of the Offeror and persons acting in concert with the Offeror	1,023,557,072	49.33

*Notes:*

- (1) As at the Latest Practicable Date, 1,006,754,000 Shares were directly held by the Parent which was owned as to, inter alia, 42.6% by Mr. Wang and 40% by Kingston Grand Limited which in turn was owned as to 100% by Mr. Wang. Since the Parent, Kingston Grand Limited and Mr. Wang were parties acting in concert, Mr. Wang was deemed to be interested in 1,006,754,000 Shares held by the Parent and the Parent is deemed to be interested in 16,803,072 Shares held by Sapphire.
  - (2) As at the Latest Practicable Date, Sapphire was interested in 16,803,072 Shares. Since Mr. Wang and Sapphire were deemed as parties acting in concert, Mr. Wang was deemed to be interested in 16,803,072 Shares held by Sapphire, and Sapphire is deemed to be interested in 1,006,754,000 Shares held by Mr. Wang.
  - (3) As at the Latest Practicable Date, there were 29,600,000 outstanding Options under the Old Share Option Scheme and 27,300,000 outstanding Options under the New Share Option Scheme. Each outstanding Option, on exercise, will entitle the Optionholder to be allotted with one Share. As at the Latest Practicable Date, neither the Offeror nor the parties acting in concert with the Offeror held any Options.
- (ii) None of the Directors had conducted any dealings in the Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.
  - (iii) None of the Offeror, the Offeror Director and the parties acting in concert with the Offeror had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.
  - (iv) As at the Latest Practicable Date, save for the Shares held and dealt for the accounts of the non-discretionary clients by the brokerage division of Guangdong Securities, no subsidiary of the Company, pension fund of the Company or of any subsidiary of the Company or adviser of the Company as specified in class (2) of the definition of associate under the Takeovers Code owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares. During the period commencing on 5 November 2012 and up to the Latest Practicable Date, no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.
  - (v) As at the Latest Practicable Date, no person had any indemnity or other arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror (or with any person acting in concert with the Offeror) and no such person owned or controlled any Shares or dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.
  - (vi) As at the Latest Practicable Date, no person had any indemnity or other arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company (or with any person who is an associate of the Company by virtue of class (1) to (4) of the definition of “associate” under the Takeovers Code). During the period commencing on 5 November 2012 and up to the Latest Practicable Date, no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

- (vii) As at the Latest Practicable Date, save as disclosed in paragraph 5(a)(i) of this section and the table set out in section headed “The Share Option Schemes and Option Offer” in the Explanatory Memorandum (set out on pages 45 to 48 of this Scheme Document), none of the Directors had any interest in the Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.
- (viii) Save as disclosed in paragraph 5(a)(i) of this section, the Offeror did not own or control any Shares or convertible securities, warrants, options or derivatives in respect of the Shares.
- (ix) Save as disclosed in paragraph 5(a)(i) of this section, none of the parties acting in concert with the Offeror owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of the Shares.
- (x) As at the Latest Practicable Date, there are no Shares or convertible securities, warrants, options or derivatives in respect of the Shares or any other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror, the Concert Parties, the Company or the Directors had borrowed or lent, save for any borrowed shares which have been either on-lent or sold.
- (xi) During the period commencing on 5 November 2012 and up to the Latest Practicable Date, no fund managers connected with the Company who managed funds on a discretionary basis had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares. As at the Latest Practicable Date, no such fund managers owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of the Shares.
- (xii) As at the Latest Practicable Date, none of the non-exempt discretionary fund managers and principal traders connected with the Offeror owned or controlled any Shares or dealt for value in any Shares or convertible securities, warranties, options or derivatives in respect of Shares during the Disclosure Period.

**(b) Interests and dealings in the Offeror’s shares**

The Offeror is a wholly-owned subsidiary of the Parent, which in turn is 82.6% beneficially owned by Mr. Wang, a non-executive Director. Accordingly, Mr. Wang is deemed to be interested in the Offeror’s shares held by the Parent.

Save as disclosed in the above paragraph, none of the other Directors or the Company had any interest in the Offeror’s shares or convertible securities, warranties, options or derivatives in respect of the Offeror’s shares as at the Latest Practicable Date. None of the Directors or the Company dealt for value in the Offeror’s shares or convertible securities, warranties, options or derivatives in respect of the Offeror’s shares during the Disclosure Period.

**(c) Arrangements with the Offeror and the Concert Parties in respect of the Proposal**

As at the Latest Practicable Date:

- (i) there were no indemnities or other arrangements of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code exist between the Offeror or any person acting in concert with the Offeror and any other person;
- (ii) there was no agreement or arrangement to which the Offeror is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Scheme;
- (iii) there was no agreement, arrangement or understanding between the Offeror and any other person in relation to the transfer, charge or pledge of the Shares to be issued to the Offeror (or any of its wholly-owned subsidiaries) upon completion of the Scheme; and
- (iv) save for the Shares that may be mortgaged and/or otherwise secured to Bank of America, N.A. as security agent for the benefit of the other finance parties in accordance with the terms of the Facility and any Shares that may be mortgaged and/or otherwise secured to any financier for the purpose of refinancing the Facility, the Offeror has no intention to transfer, charge or pledge any securities in the Company acquired pursuant to the Scheme to any other person, and has no agreement, arrangement or understanding with any third party to do so.

Scheme Shareholders that are not Independent Shareholders will be required to abstain from voting at the Court Meeting for the purposes of Rule 2.10 of the Takeovers Code. The Parent, being 82.6% beneficially owned by Mr. Wang who is a person acting in concert with the Offeror, is not an Independent Shareholder and will therefore be required to abstain from voting at the Court Meeting in accordance with the Takeovers Code.

**(d) Other interests**

As at the Latest Practicable Date:

- (i) no benefit is or will be paid/given to any Director as compensation for loss of office or otherwise in connection with the Proposal and the Scheme;
- (ii) save for the Proposal and the Scheme, there was no agreement, arrangement or understanding between the Offeror or parties acting in concert with it on the one hand and any of the Directors, recent Directors, Shareholders or recent Shareholders on the other hand; or between any Directors and any other person which is conditional on or dependent upon the outcome of the Proposal and the Scheme or otherwise in connection with the Proposal and the Scheme;
- (iii) no material contract has been entered into by the Offeror in which any Director has a material personal interest; and

- (iv) save for the service contracts set out below, no other Directors has a service contract with any member of the Group in force which (i) (including both continuous and fixed term contracts) has been entered into or amended within six months before the Pre-Announcement Date; or (ii) is continuous contract with a notice period of 12 months or more; or (iii) is a fixed term contract that has more than 12 months to run irrespective of the notice period:

Name of Director	Date of service contract	Expiry date of service contract	Fixed remuneration (no variable component)
Jiang Zhong Ping	8/10/2012	7/10/2013	RMB80,000/annum
Liu Feng	8/10/2012	7/10/2013	RMB80,000/annum
Yu Xing Yuan	8/10/2012	7/10/2013	RMB80,000/annum
Wang Jin	8/10/2012	7/10/2013	HK\$150,000/annum
Teo Cheng Kwee	8/10/2012	7/10/2013	HK\$120,000/annum
Yu Haizong	8/10/2012	7/10/2013	HK\$120,000/annum
Gu Peidong	8/10/2012	7/10/2013	HK\$120,000/annum
Liu Yi	8/10/2012	7/10/2013	HK\$120,000/annum

## 6. MATERIAL LITIGATION

As at the Latest Practicable Date, there was no material litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

## 7. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried or by the Company or any of its subsidiaries) have been entered into by the Company or any of its subsidiaries after the date two years before the Pre-Announcement Date up to and including the Latest Practicable Date:

- (a) On 15 November 2010, the Group entered into the acquisition agreement in which the Group agreed to acquire, and Sichuan Chuanwei Group Co., Limited (四川省川威集團有限公司) (“Chuan Wei”) agreed to transfer, at a consideration of RMB445.4 million, 7.23% equity interest in Huili County Caitong Iron and Titanium Co., Limited (會理縣財通鐵鈦有限責任公司) held by Chuan Wei.

- (b) On 15 November 2010, the Group entered into the acquisition agreement in which the Group agreed to acquire, and Chuan Wei agreed to transfer, at a consideration of RMB150.0 million, the entire equity interest in Aba Mining Co., Limited (阿壩礦業有限公司) (“Aba Mining”).
- (c) On 2 May 2011, the Group entered into the agreement with the Rui Tong Limited (“Rui Tong”) to subscribe for the exchangeable note in the principal amount of US\$20.0 million which is exchangeable for a minority stake in Oriental Mining and Mineral Resources Co., Limited (“Oriental Mining”) in accordance with the terms of the exchangeable note. The final maturity date of the exchangeable note is 3 years after the issue date or such other later date agreed by the Group and Rui Tong. If the exchangeable note is redeemed on the final maturity date, the yield to maturity shall be 20% per annum, but if the exchangeable note is redeemed upon an event of default, the yield to maturity shall be 25% per annum. Meanwhile, the Group entered into the agreement with Oriental Mining in connection with the purchase by the Group of iron concentrates of the exploration and mining operation to be conducted by Oriental Mining and its subsidiaries for a period up to the expiry of the mining service period. On 17 November 2011, the Group made a further subscription of the Exchangeable Note by payment of a further US\$10.0 million, and the aggregate principal amount of the Exchangeable Note subscribed by the Group amounted to US\$30.0 million. On 25 November 2011, the final maturity date of the Exchangeable Note extended from 11 May 2014 to 25 November 2014.
- (d) On 30 August 2011, the Group entered into a cooperative agreement with Sichuan Province Yanyuan County Pingchuan Iron Mine (四川省鹽源縣平川鐵礦) and Sichuan Nanyu Information Technology Company Limited (四川南譽信息技術有限公司) in relation to the development of the Dashanshu Section (大杉樹礦段), which is part of the Pingchuan Mine and has an area of approximately 5 sq.km. with an estimated resources of approximately 50.0 Mt of iron ore of types 331, 332 and 333.
- (e) On 28 December 2011, the Group entered into an acquisition agreement with Sichuan Haokun Trading Co., Limited (四川省昊坤貿易有限公司), Sichuan Haihuitian Trading Co., Limited (四川省海匯天貿易有限公司), Chengdu Jiashide Trading Co., Limited (成都佳士德貿易有限公司) and Chongqing Xinzhou Metallic Material Co., Limited (重慶市鑫宙金屬材料有限公司) (the “Sellers”), pursuant to which the Sellers have conditionally agreed to sell the entire paid-up registered capital of Panzhihua Yixingda Industrial Trading Co., Limited (攀枝花易興達工貿有限責任公司) to the Group for a consideration of at least RMB600.0 million (subject to increase depending on the volume of mineral resources with minimum average iron content (Type 333 or above) of 15% or above in the Haibaodang Mine (海保函鈦鐵礦)).

## 8. EXPERTS

The following are the qualifications of each of the experts who has given opinions or advice which are contained in this Scheme Document:

<b>Name</b>	<b>Qualifications</b>
Merrill Lynch (Asia Pacific) Limited	A registered institution under the SFO, registered to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the SFO
Guangdong Securities	A licensed corporation to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Cushman & Wakefield Valuation Advisory Services (HK) Limited	Chartered surveyors

## 9. CONSENT

Each of: (i) Merrill Lynch (Asia Pacific) Limited; (ii) Guangdong Securities; and (iii) Cushman & Wakefield Valuation Advisory Services (HK) Limited has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of the opinions and/or letters and/or the references to its name and/or opinions and/or letters in the form and context in which they respectively appear.

## 10. MISCELLANEOUS

(a) The Directors are:

*Executive Directors*

Mr. Jiang Zhong Ping

Mr. Liu Feng

Mr. Yu Xing Yuan

*Non-executive Directors*

Mr. Wang Jin

Mr. Teo Cheng Kwee

*Independent Non-executive Directors:*

Mr. Yu Haizong

Mr. Gu Peidong

Mr. Liu Yi



- (b) The Company Secretary of the Company is Mr. Kong Chi Mo, Roy.
- (c) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands.
- (d) The principal place of business of the Company in Hong Kong is at Room 2201, 22/F, Wheelock House, 20 Pedder Street, Central, Hong Kong.
- (e) The headquarters of the Company is situated at 7/F, Longwei Mansion, 198 Longdu South Road, Longquanyi District, Chengdu 610100, Sichuan, the PRC.
- (f) The principal share registrar and transfer office of the Company is Royal Bank of Canada Trust Company (Cayman) Limited, 4th Floor, Royal Bank House, 24 Shedden Road, George Town, Grand Cayman KY1-1110, the Cayman Islands.
- (g) The Hong Kong branch share registrar of the Company is Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (h) The sole director of the Offeror is Mr. Wang Jun Lin.
- (i) The registered office of the Offeror is 9th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.
- (j) The directors of the Parent are Mr. Shi Yin Jun, Mr. Yang Jian, Mr. Wang Jin, Mr Wang Jun Lin and Mr. He Fa Rong.
- (k) The registered office of the Parent is 9th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.
- (l) The Offeror is a wholly-owned subsidiary of the Parent. The Parent is an investment holding company incorporated in Hong Kong with limited liability and 82.6% beneficially owned by Mr. Wang, a non-executive Director. The remaining of the entire issued share capital of the Parent is owned by Mr. Shi Yinjun as to 7.20%, Mr. Zhang Yuangui as to 7.20% and Mr. Li Hesheng as to 3.00% as at the Latest Practicable Date.
- (m) The directors of Sapphire are Dr. Tan Eng Liang, Mr. Teo Cheng Kwee, Mr. Foo Tee Heng, Mr. Chan Kum Onn Roger, Mr. Wei Jian Ping, Mr. Duan Bing, Mr. Yang Jian, Mr. Cheung Kam Wa Emma and Mr. Dai Bin.
- (n) The registered office of Sapphire is 1 Sophia Road, #05-03 Peace Centre, Singapore 228149.

- (o) Mr. Wang, a non-executive Director, owns or controls approximately 27.2% of the entire issued share capital of Sapphire. The remaining of the entire issued share capital of Sapphire is owned by Mr. Shi Yin Jun as to 12.43% and by the public as to 60.37%.
- (p) The registered office of BofA Merrill Lynch is 15/F, Citibank Tower, 3 Garden Road, Central, Hong Kong.

#### **11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of the Company, Room 2201, 22/F, Wheelock House, 20 Pedder Street, Central, Hong Kong from 9:30 a.m. to 5:30 p.m., Monday to Friday and on the website of the Company at [www.chinavtmmining.com](http://www.chinavtmmining.com) and the website of SFC at [www.sfc.hk](http://www.sfc.hk) from Tuesday, 16 April 2013 until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier:

- (a) the memorandum and articles of association of the Company;
- (b) the memorandum and articles of association of the Offeror;
- (c) the memorandum and articles of association of the Parent;
- (d) the annual reports of the Company for the years ended 31 December 2011 and 2012;
- (e) the letter from the Board, the text of which is set out on pages 11 to 24 of this Scheme Document;
- (f) the letter from the IBC, the text of which is set out on pages 25 to 26 of this Scheme Document;
- (g) the letter from Guangdong Securities, the text of which is set out on pages 27 to 42 of this Scheme Document;
- (h) the letter, summary of values and valuation certificates from Cushman & Wakefield Valuation Advisory Services (HK) Limited, the text of which is set out in “Appendix II — Property Valuation” to this Scheme Document;
- (i) written consents referred to in the section headed “Consent” in “Appendix III — General Information” to this Scheme Document;
- (j) the material contracts referred to in the section headed “Material Contracts” in “Appendix III — General Information” to this Scheme Document;

- (k) the service contracts referred to in the section headed “ Disclosure of Interests — (d) Other Interests” in “Appendix III — General Information” to this Scheme Document; and
- (l) the irrevocable undertakings in relation to the Options dated 20 December 2012 from each of Liu Feng, Wang Hu, Tang Wei, Wu Wei, Yu Xing Yuan, Liu Yuan Jun, Wang Yun Jian, Zhang Yi Liang, Jiang Zhong Ping, Huang Zhong Qing and Kong Chi Mo, Roy.

IN THE GRAND COURT OF THE CAYMAN ISLANDS  
FINANCIAL SERVICES DIVISION

Cause No. FSD 6 of 2013

IN THE MATTER of sections 15 and 86 of the Companies Law (2012 Revision)  
AND IN THE MATTER of the Grand Court Rules 1995 Order 102  
AND IN THE MATTER of China Vanadium Titano-Magnetite Mining Company LimitedPRELIMINARY

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set opposite them:

“acting in concert”	has the same meaning ascribed to it in the Takeovers Code
“Business Day”	a day on which The Stock Exchange of Hong Kong Limited is open for the transaction of business
“Cash Consideration”	the consideration payable under the terms of the Scheme of Arrangement by the Offeror to the Scheme Shareholders in an amount of HK\$1.93 in cash for every Scheme Share cancelled
“Company”	China Vanadium Titano-Magnetite Mining Company Limited, an exempted company incorporated in the Cayman Islands on 28 April 2008 with limited liability, the ordinary shares of which are currently listed on the Main Board of the Stock Exchange
“Companies Law”	the Companies Law (2012 Revision) of the Cayman Islands (as amended)
“Effective Date”	the date on which the Scheme of Arrangement, if approved and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the Order of the Grand Court sanctioning the Scheme of Arrangement is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law
“Grand Court”	the Grand Court of the Cayman Islands
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the board of directors of the Company established by the board of directors of the Company to make a recommendation to the Scheme Shareholders in respect of, amongst other things, the Proposal and the Option Offer, comprising Mr. Yu Haizong, Mr. Gu Peidong and Mr. Liu Yi

<b>“Independent Financial Adviser” or “Guangdong Securities”</b>	the independent financial adviser to the Independent Board Committee appointed pursuant to Rule 2.1 of the Takeovers Code in relation to, amongst other things, the Proposal and the Option Offer, being a licensed corporation to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
<b>“Latest Practicable Date”</b>	12 April 2013, being the latest practicable date prior to the printing of the composite scheme document containing the Scheme of Arrangement for ascertaining certain information contained herein
<b>“Mr. Wang Jin”</b>	a non-executive Director, a director and the controlling shareholder of the Parent and a person acting in concert with the Offeror (as defined in the Takeovers Code)
<b>“Offeror”</b>	Keen Talent Holdings Limited, a company incorporated in Hong Kong, being a wholly-owned subsidiary of the Parent
<b>“Parent”</b>	Trisonic International Limited, a company incorporated in Hong Kong and the controlling shareholder of the Company
<b>“Proposal”</b>	the privatisation of the Company by the Offeror by way of the Scheme of Arrangement and the restoration of the share capital of the Company to the amount immediately before the cancellation of the Scheme Shares, on the terms and subject to the conditions set out in this Scheme of Arrangement
<b>“Record Date”</b>	28 May 2013 or such other time and date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlements of the Scheme Shareholders to the Cash Consideration upon the Scheme of Arrangement becoming effective
<b>“Register”</b>	the register of members of the Company
<b>“Sapphire”</b>	Sapphire Corporation Limited, a company incorporated in Singapore and listed on the Singapore Stock Exchange
<b>“Scheme of Arrangement”</b>	the scheme of arrangement between the Company and the Scheme Shareholders under Section 86 of the Companies Law (subject to any modifications or additions or conditions approved or imposed by the Grand Court and agreed to by the Offeror) involving the cancellation of all the Scheme Shares
<b>“Scheme Share(s)”</b>	Share(s) other than those held by the Parent

“Scheme Shareholder(s)”	the Shareholders other than the Parent
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	registered holder(s) of Shares
“Takeovers Code”	the Code on Takeovers and Mergers of Hong Kong

- (B) The Company was incorporated as an exempted company on 28 April 2008 with limited liability in the Cayman Islands under the Companies Law.
- (C) The authorised share capital of the Company as at the Latest Practicable Date was HK\$1,000,000,000 divided into 10,000,000,000 Shares of par value HK\$0.10.
- (D) The Parent, through its indirect wholly-owned subsidiary, the Offeror, has proposed the privatisation of the Company by way of the Scheme of Arrangement.
- (E) The primary purpose of the Scheme of Arrangement is to privatise the Company by cancelling and extinguishing all of the Scheme Shares in consideration for the Cash Consideration so that thereafter, the Parent and the Offeror will own 100% of the Company. Simultaneously with the cancellation of the Scheme Shares, the issued share capital of the Company will be restored to its former amount by the issue to the Offeror at par credited as fully paid such number of Shares as is equal to the number of Scheme Shares cancelled and extinguished at the Record Date.
- (F) As of the Latest Practicable Date, Mr. Wang Jin owns or controls approximately 82.6% of the entire issued share capital of the Parent and approximately 27.2% of the entire issued share capital of Sapphire.
- (G) Pursuant to the Takeovers Code, the Parent and Sapphire are deemed to be associated companies of Mr. Wang Jin and each other, and the Parent, Sapphire and Mr. Wang Jin are presumed to be parties acting in concert with the Offeror. The Parent holds approximately 48.52% of the entire issued share capital of the Company and Sapphire holds approximately 0.81% of the entire issued share capital of the Company as at the Latest Practicable Date. Accordingly, the Offeror and parties acting in concert with it hold an aggregate of approximately 49.33% of the entire issued share capital of the Company as at the Latest Practicable Date.
- (H) The Parent and the Offeror have agreed to appear by Counsels at the hearing of the petition to sanction the Scheme of Arrangement and to undertake to the Grand Court (whether at the hearing or before-hand) to be bound by the Scheme of Arrangement and will execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable for the purpose of giving effect to and satisfying their respective obligations under the Scheme of Arrangement.

- (I) The Offeror and parties acting in concert with the Offeror held as at the Latest Practicable Date 1,023,557,072 Scheme Shares in aggregate. In accordance with the Takeovers Code, parties holding those Scheme Shares will not be entitled to be counted in the vote required for the purposes of the Takeovers Code at the meeting to be convened by order of the Grand Court for the purpose of considering and, if thought fit, approving (with or without modification) the Scheme of Arrangement.

**SCHEME OF ARRANGEMENT**

**PART I**

**Cancellation of the Scheme Shares and issue of new Shares credited as fully paid at par to the Offeror**

- 1. On the Effective Date:
  - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares and the Scheme Shareholders shall cease to have any right with respect to the Scheme Shares except the right to receive the Cash Consideration; and
  - (b) the Company shall apply the credit arising in its books of account as a result of the cancellation of the Scheme Shares by paying up in full at par such number of Shares as is equal to the number of Scheme Shares cancelled at the Record Date, which shall be allotted and issued and credited as fully paid to the Offeror.

**PART II**

**Consideration for the cancellation and extinguishment of the Scheme Shares**

- 2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall pay (or procure that there shall be paid) to each person who is a holder of the Scheme Shares (as appears in the Register on the Record Date);

**for each Scheme Share cancelled . . . . . HK\$1.93 in cash**

**PART III****General**

3. (a) Not later than five (5) days after the Effective Date, on request the Company shall issue a share certificate to the Offeror.
- (b) Not later than seven (7) Business Days after Effective Date, the Offeror shall send or cause to be sent cheques representing the Cash Consideration to the Scheme Shareholders.
- (c) Unless otherwise indicated in writing to the Hong Kong branch share registrar of the Company, being Computershare Hong Kong Investor Services Limited, all cheques to be despatched to Scheme Shareholders shall be sent by ordinary post in pre-paid envelopes addressed to Scheme Shareholders at their respective addresses as appearing in the Register at the Record Date or, in the case of joint holders, at the address appearing in the Register at the Record Date of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.
- (d) Cheques shall be posted at the risk of the addressees and neither the Offeror nor the Company shall be responsible for any loss or delay in receipt.
- (e) Cheques shall be in favour of the person to whom, in accordance with the provisions of this Clause 3, the envelope containing the same is addressed and the encashment of any such cheques shall be a good discharge to the Offeror for the monies represented thereby.
- (f) On or after the day being six calendar months after the posting of the cheques pursuant to this Clause 3, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in the Company's name with a licensed bank in Hong Kong selected by the Company. The Company shall hold such monies on trust for those entitled under the terms of the Scheme of Arrangement until the expiration of six years from the Effective Date and shall prior to such date pay out of such monies the sums payable pursuant to the Scheme of Arrangement to persons who satisfy the Company that they are entitled thereto. Any payments made by the Company shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to this Scheme of Arrangement. The Company shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Company to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
- (g) On the expiration of six years from the Effective Date, the Offeror and the Company shall be released from any further obligation to make any payments under the Scheme of Arrangement and the Company shall transfer to the Offeror the balance (if any), of the sums standing to the credit of the deposit account referred to in this Clause 3 including accrued interest subject, if applicable, to the deduction of interest or any withholding tax or other tax or any other deductions required by law and subject to the deduction of any expenses.



- (h) Paragraph (g) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
4. As from the Effective Date, any instruments of transfer relating to and all certificates representing, the Scheme Shares shall cease to have effect as documents of title and every Scheme Shareholder shall be bound on the request of the Company to deliver up to the Company the certificates relating to the Scheme Shares for cancellation.
  5. All mandates or relevant instructions to or by the Company in force at the Record Date relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.
  6. The Scheme of Arrangement shall become effective as soon as a copy of the Order of the Grand Court sanctioning the Scheme of Arrangement has been delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law.
  7. Unless the Scheme of Arrangement shall have become effective on or before 10 June 2013 or such later date, if any, as the Offeror and the Company may agree or as the Grand Court on application of the Offeror or the Company may allow, the Scheme of Arrangement shall lapse and be no effect.
  8. The Company and the Offeror may jointly consent for and on behalf of all concerned to any modification of or addition to the Scheme of Arrangement or to any condition which the Grand Court may think fit to approve or impose.
  9. All costs, charges and expenses of and incidental to the Scheme of Arrangement and the costs of carrying the Scheme of Arrangement into effect will be borne by the Offeror if the Independent Board Committee or the Independent Financial Adviser do not recommend the Scheme and the Scheme of Arrangement is not approved at the Court Meeting.

Date 16 April 2013

**IN THE GRAND COURT OF THE CAYMAN ISLANDS  
FINANCIAL SERVICES DIVISION****Case No. FSD 6 of 2013**

IN THE MATTER of section 15 and 86 of the Companies Law (2012 Revision)

AND IN THE MATTER of the Grand Court Rules 1995 Order 102

AND IN THE MATTER of China Vanadium Titano-Magnetite Mining Company Limited

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**NOTICE OF COURT MEETING**

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**NOTICE IS HEREBY GIVEN** that, by an order dated 11 April 2013 (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Court Meeting**”) to be convened of the registered holders of the ordinary shares of HK\$0.10 each in the capital of China Vanadium Titano-Magnetite Mining Company Limited (the “**Company**”) (apart from Trisonic International Limited) (the “**Scheme Shareholders**”) for the purpose of considering and, if thought fit, approving, with or without modifications, a scheme of arrangement (the “**Scheme of Arrangement**”) proposed to be made between the Company and the Scheme Shareholders and that the Court Meeting will be held at Taishan Room, Level 5, Island Shangri-la Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Wednesday, 15 May 2013 at 9:30 a.m. at which place and time all Scheme Shareholders are invited to attend.

Voting will be by way of poll. To be approved, the Scheme of Arrangement requires as a matter of Cayman Islands law approval by a majority in number of Scheme Shareholders representing not less than 75% in value of the holders of Scheme Shares (as defined in the Scheme of Arrangement) held by Scheme Shareholders present and voting, whether in person or by proxy, at the Court Meeting.

A copy of the Scheme of Arrangement and a copy of an explanatory memorandum explaining the effect of the Scheme of Arrangement are incorporated in the composite scheme document of which this Notice forms part. A copy of the composite scheme document can also be obtained by the Scheme Shareholders from the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

**Voting Procedures**

Scheme Shareholders may vote in person at the Court Meeting or they may appoint one or more proxies, whether a member of the Company or not, to attend, speak and vote on their behalf. A pink form of proxy for use at the Court Meeting is enclosed with the composite scheme document dated 16 April 2013 despatched to members of the Company on 16 April 2013. Completion and return of the proxy form will not prevent a Scheme Shareholder from attending and voting at the Court Meeting, or any adjournment thereof, in person if he/she wishes to do so.

In the case of joint holders of a share, the vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

It is requested that forms appointing proxies be deposited at the Hong Kong branch share registrar of the Company in Hong Kong at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 9:30 a.m. on Monday, 13 May 2013, but if forms are not so lodged they may be handed to the chairman of the Court Meeting before the taking of the poll, who has absolute discretion as to whether or not to accept them, at the Court Meeting pursuant to the Order.

**Chairman**

By the Order, the Court has appointed Jiang Zhong Ping, a director of the Company, or failing him, Liu Feng, also a director of the Company, or failing him, any other person who is a director of the Company as at the date of the Order, to act as the chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme of Arrangement will be subject to a subsequent application seeking the sanction of the Court.

By order of the Court  
**China Vanadium Titano-Magnetite Mining Company Limited**

Hong Kong, 16 April 2013

*Registered office*  
Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Principal Place of Business in Hong Kong*  
Room 2201, 22/F, Wheelock House  
20 Pedder Street  
Central  
Hong Kong



## China Vanadium Titano-Magnetite Mining Company Limited

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 00893)

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an Extraordinary General Meeting of China Vanadium Titano-Magnetite Mining Company Limited (the “**Company**”) will be held at Taishan Room, Level 5, Island Shangri-la Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Wednesday, 15 May 2013 at 10:00 a.m. (Hong Kong time) (or immediately after the conclusion and the adjournment of the meeting of the registered holders of the ordinary shares of HK\$0.10 each in the capital of China Vanadium Titano-Magnetite Mining Company Limited (the “**Company**”) (apart from Trisonic International Limited) (the “**Scheme Shareholders**”) convened by direction of the Grand Court of the Cayman Islands for the same day and place), for the purpose of considering and, if thought fit, passing the following resolutions:

#### SPECIAL RESOLUTIONS

1. **THAT:**

- (a) pursuant to the scheme of arrangement dated 16 April 2013 (the “**Scheme of Arrangement**”) between the Company and Scheme Shareholders in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved or imposed by the Grand Court of the Cayman Islands, on the Effective Date (as defined in the Scheme of Arrangement), the issued share capital of the Company shall be reduced by the cancellation and extinguishment of the Scheme Shares (as defined in the Scheme of Arrangement); and
- (b) the directors of the Company be and are hereby authorised to do all acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme of Arrangement and the reduction of capital pursuant to the Scheme of Arrangement, including (without limitation) giving consent to any modification of, or addition to, the Scheme of Arrangement or the reduction of capital which the Grand Court of the Cayman Islands may see fit to impose.

#### ORDINARY RESOLUTIONS

2. **THAT:**

- (a) subject to and simultaneously with the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) taking effect, the issued share capital of the Company be restored to its former amount by allotting and issuing to the Offeror (as defined in the Scheme of Arrangement), credited as fully paid at par, the same number of ordinary shares

of HK\$0.10 each in the share capital of the Company as the number of Scheme Shares cancelled and extinguished; and

- (b) the credit arising in the books of account of the Company consequent upon the reduction of its issued share capital resulting from the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) shall be applied in paying up in full at par the shares allotted and issued to the Offeror, pursuant to resolution 2(a) above.

**ORDINARY RESOLUTION**

*(to be passed only by the Independent Shareholders (as defined in the Scheme of Arrangement))*

3. **THAT** the deposit and maintenance of the Deposit Amount (as defined in the Scheme of Arrangement) by the Company in the Bank Accounts (as defined in the Scheme of Arrangement) as referred to in Condition (e) (as defined in the Scheme of Arrangement) be and is hereby approved.

By order of the board of  
**China Vanadium Titano-Magnetite Mining Company Limited**  
**Jiang Zhong Ping**  
*Chairman*

Hong Kong, 16 April 2013

*Registered office*

Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Principal Place of Business in Hong Kong*

Room 2201, 22/F, Wheelock House  
20 Pedder Street  
Central  
Hong Kong

*Notes*

- (1) A member entitled to attend and vote at the extraordinary general meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company, but must attend the extraordinary general meeting in person to represent him.
- (2) A **white** form of proxy for use at the extraordinary general meeting is enclosed with the composite document containing the Scheme of Arrangement dated 16 April 2013 despatched to members of the Company.
- (3) In order to be valid, the **white** form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be lodged with Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time for holding the extraordinary general meeting or any adjournment thereof failing which the form of proxy will not be valid. Completion and return of the form of proxy will not preclude a member from attending the extraordinary general meeting and voting in person if he so wishes. In the event that a member attends and votes at the extraordinary general meeting after having lodged his form of proxy, his form of proxy will be revoked by operation of law.

- (4) In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
- (5) Voting at the extraordinary general meeting will be taken by poll as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Code on Takeovers and Mergers.
- (6) The register of members of the Company will be closed from Friday, 10 May 2013 to Wednesday, 15 May 2013 (both days inclusive) and during such period no transfer of shares will be registered. In order to be entitled to attend and vote at the extraordinary general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, Hong Kong not later than 4:30 p.m. on Thursday, 9 May 2013.

The following is a sample of the Option Offer Letter being sent to the relevant Optionholders in connection with the Option Offer.

**BofA Merrill Lynch**  
Financial Adviser to Keen Talent Holdings Limited

16 April 2013

*To the Optionholders*

Dear Sir or Madam,

**OPTION OFFER IN RELATION TO PROPOSED PRIVATISATION OF  
CHINA VANADIUM TITANO-MAGNETITE MINING COMPANY LIMITED  
BY KEEN TALENT HOLDINGS LIMITED  
TO BE EFFECTED BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 86 OF THE COMPANIES LAW OF THE CAYMAN ISLANDS)  
WITH CANCELLATION CONSIDERATION IN CASH  
OF HK\$1.93 FOR EVERY SCHEME SHARE  
AND  
PROPOSED CASH OFFER TO CANCEL ALL OUTSTANDING OPTIONS**

A composite scheme document dated the same date as this letter issued jointly by the Offeror, Trisonic International Limited (“**Trisonic**”) and China Vanadium Titano-Magnetite Mining Company Limited (the “**Company**”) (the “**Scheme Document**”) is enclosed with this letter. Terms used but not defined in this letter shall have the same meanings and construction as in the Scheme Document. This letter should be read in conjunction with the Scheme Document.

On 21 December 2012, the Offeror, Trisonic and the Company jointly announced that the Offeror, an indirect wholly-owned subsidiary of Trisonic, had requested the Board to put forward the Proposal to the Scheme Shareholders regarding a privatisation of the Company by way of the Scheme. As stated in the Announcement, the Offeror will make an appropriate offer to the holders of the outstanding Options in accordance with the Takeovers Code, subject to and conditional upon the Scheme becoming effective.

This letter explains the actions you may take in relation to your outstanding Options. You are advised to refer to the Scheme Document when considering them.

Your attention is also drawn to the terms and conditions of the Old Share Option Scheme and the New Share Option Scheme.

**TERMS OF THE OPTION OFFER**

On behalf of the Offeror, we are making an offer, which is conditional on the Scheme becoming effective, to you pursuant to the terms of the Old Share Option Scheme and the New Share Option Scheme.

You may accept the Option Offer by lodging a completed form of acceptance in relation to the Option Offer (the “**Option Form of Acceptance**”) by 4:30 p.m. (*Hong Kong time*) on Monday, 10 June 2013. The Option Amount to cancel an Option is calculated by deducting the Exercise Price payable on exercise of an Option from the Cash Consideration (ie, the “see-through” price). As the Exercise Price of all the Options is above the Cash Consideration, the “see-through” price is zero and the Option Amount under the Option Offer is a nominal value of HK\$0.001 per Option.

The Option Offer is conditional upon the Scheme becoming effective. The Conditions of the Proposal are set out in the section headed “Conditions of the Proposal” in the Explanatory Memorandum on pages 49 to 51 of the Scheme Document. In addition, all payments in respect of the Option Amount will be made by cheque in Hong Kong dollars, save that the Offeror and the Company will take steps to procure that Optionholders resident in the PRC will receive payments in respect of the Option Amount by bank transfer in RMB at the prevailing exchange rate at the time of conversion of the Option Amount from HK\$ to RMB. Payments made under the Option Offer to Optionholders in the PRC will be made after deduction of all applicable taxes that the Offeror and/or the Company are obliged to withhold.

You may face delays or obstacles in changing Hong Kong dollars to other currency or cashing such cheque in certain locations or situations. You are further advised to refer to the section headed “Overseas Shareholders and Overseas Optionholders” set out on page 58 of the Scheme Document.

Your attention is drawn to the letter from the IBC to the Scheme Shareholders and the Optionholders set out on pages 25 to 26 of the Scheme Document and the letter from Guangdong Securities, the Independent Financial Adviser, set out on pages 27 to 42 of the Scheme Document which contain the recommendation of the IBC and of Guangdong Securities, respectively, in relation to the Proposal and the Option Offer.

#### **COURSES OF ACTION AVAILABLE TO OPTIONHOLDERS**

In summary, the choices available to you in respect of your outstanding Options are:

- (a) you may accept the Option Offer in accordance with its terms in respect of such outstanding Options, as set out in this letter and in the Scheme Document, by electing on the enclosed Option Form of Acceptance, by not later than 4:30 p.m. (*Hong Kong time*) on Monday, 10 June 2013 (or such later date as may be notified to you by BofA Merrill Lynch or the Offeror), to receive the Option Amount if the Scheme becomes effective; or
- (b) do nothing, in which case, conditional on the passing of the resolutions to be proposed at the Court Meeting and the EGM to approve the Scheme, and the Scheme becoming effective, your outstanding Options will lapse automatically on 10 June 2013, and you will not hold the outstanding Options or receive the Option Amount.

Each outstanding Option you hold is independent and you should make a separate decision for each one.

For further details, please refer to the remaining sections of this letter, the Scheme Document and the terms of the Share Option Schemes.



**OUTSTANDING OPTIONS HELD AS AT THE LATEST PRACTICABLE DATE**

Information on the outstanding Options held by you as at the Latest Practicable Date is available from the Company Secretary of the Company.

**LAPSED OPTIONS**

Please note that nothing in this letter or the Scheme Document serves to extend the life of an Option which lapses, will lapse, or has already lapsed, under the terms of the Share Option Schemes. You cannot accept the Option Offer in respect of an Option which has lapsed.

**INDEPENDENT FINANCIAL ADVICE**

The information provided in this letter is intended to give you factual details on which to base your decision as to the action you wish to take.

If you are in any doubt as to any aspect of this letter, the Scheme Document or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**DECLARATION**

By returning the enclosed Option Form of Acceptance, you thereby:

- (a) warrant and confirm that each outstanding Option in respect of which you make an election is valid and subsisting, not subject to any outstanding exercise notice, free from all liens, charges, mortgages and third party interests of any nature whatsoever;
- (b) acknowledge that any outstanding option certificate in respect of such outstanding Option shall become void once that outstanding Option has been cancelled as a result of your acceptance of the Option Offer pursuant to your decisions shown on the Option Form of Acceptance;
- (c) confirm that the decisions which you have made on the Option Form of Acceptance cannot be withdrawn or altered;
- (d) authorise the Company and the Offeror, jointly and severally, or any director or officer of the Company or the Offeror or any agent of such person to do all acts and things and to execute any document as may be necessary or desirable to give effect to, or in consequence, of the acceptance you have made on the Option Form of Acceptance, and you hereby undertake to execute any further assurance that may be required in respect of such acceptance;
- (e) undertake to confirm and ratify any action properly or lawfully taken on your behalf by any attorney appointed by or pursuant to this letter and the Option Form of Acceptance;

- (f) confirm you have read, understood and agreed to the terms and conditions of the Option Offer (including without limitation those set out in this letter and the Option Form of Acceptance), and that you have received the Scheme Document and this letter; and
- (g) acknowledge and accept that, if you are a resident of the PRC, you will receive the Option Amount by bank transfer in RMB at the prevailing exchange rate at the time of the conversion of the Option Amount from Hong Kong dollars to RMB. You further acknowledge and accept that payments made to Optionholders resident in the PRC under the Option Offer will be made after the deduction of all applicable taxes that the Offeror and/or the Company are obliged to withhold.

### **GENERAL**

All communications, notices, Option Forms of Acceptance, cheques, certificates and other documents of any nature to be delivered by or sent to or from Optionholders will be delivered by or sent to or from them, or their designated agents, at their risk, and none of BofA Merrill Lynch, the Offeror Group or the Company accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.

The provisions set out in the Option Form of Acceptance form part of the terms of the Option Offer.

The Option Offer and all acceptances are governed by and construed in accordance with the laws of Hong Kong.

Due execution of the Option Form of Acceptance in respect of the Option Offer will constitute an authority to BofA Merrill Lynch, the Offeror, the Offeror Director or their respective agents to complete and execute on behalf of the accepting Optionholder, the Option Form of Acceptance and any document and to do any other act that may be necessary or expedient for the purpose of cancelling, or vesting in the Offeror or such person(s) as the Offeror shall direct, all rights of the Optionholders in respect of the outstanding Options which are the subject of such acceptance.

The delivery of the Option Form of Acceptance, duly signed, may, if the Offeror determines it appropriate, be as effective as if it were duly completed and received notwithstanding that it is not completed or received strictly in accordance with the Option Form of Acceptance and this letter, including the date specified for receipt.

By completing the Option Form of Acceptance in respect of a particular outstanding Option, you irrevocably and at your own risk elect to authorise the Offeror to send to you (or to any other payee you specify in the Option Form of Acceptance), or procure the sending to you (or to any such payee) of, the cash to which you are entitled.

### **ACTIONS TO BE TAKEN**

You should return the duly completed Option Form of Acceptance together with the relevant certificate(s) or other documents evidencing the grant of the outstanding Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Company at Room 2201, 22/F, Wheelock House, 20 Pedder Street, Central, Hong Kong

(marked for the attention of the “Company Secretary”), by no later than 4:30 p.m. (Hong Kong time) on Monday, 10 June 2013 (or such other date and time as may be notified to you by BofA Merrill Lynch or the Offeror). If you do not complete an Option Form of Acceptance, subject to and conditional upon the Scheme becoming effective, your outstanding Options will lapse.

Before forwarding the Option Form of Acceptance to the Company, please ensure that you have signed the Option Form of Acceptance and that your signature has been witnessed.

As stated above, the Option Offer is conditional upon the Scheme becoming effective. Unless the Scheme becomes effective, and therefore the Option Offer becomes unconditional, on or before Monday, 10 June 2013 (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Grand Court may direct), the Option Offer will lapse.

Assuming the Option Offer becomes unconditional on Monday, 27 May 2013 (Cayman Islands time), payments (by cheque or by bank transfer) for the Option Amount are expected to be despatched within 7 Business Days of the later of : (i) the Option Offer becoming unconditional; and (ii) the receipt of each validly completed Option Form of Acceptance.

No acknowledgment of receipt of any Option Form of Acceptance or other document evidencing the grant of the outstanding Options or other documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

#### **RECOMMENDATION OF GUANGDONG SECURITIES AND THE IBC**

In the letter from Guangdong Securities set out on pages 27 to 42 of the Scheme Document, Guangdong Securities states that it considers the terms of the Option Offer to be fair and reasonable and advises the IBC to recommend the Optionholders to accept the Option Offer.

The full text of the letter from Guangdong Securities is set out on pages 27 to 42 of the Scheme Document.

The IBC, having considered the terms of the Option Offer and having taken into account the opinion of Guangdong Securities, and in particular the factors, reasons and recommendations set out in its letter on pages 27 to 42 of this Scheme Document considers that the terms of the Option Offer are fair and reasonable.

**Accordingly, the IBC recommends the Optionholders to accept the Option Offer.**

#### **RESPONSIBILITY STATEMENTS**

The information contained in this Option Offer Letter relating to the Group has been supplied by the Company. The issue of this Option Offer Letter has been approved by the directors of the Company, who jointly and severally accept full responsibility for the accuracy of the information contained in this Option Offer Letter (other than that relating to the Offeror Group or Sapphire), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Option Offer Letter have been arrived at after due and careful consideration and there are no other facts not contained in this Option Offer Letter, the omission of which would make any statement in this Option Offer Letter misleading.

The information contained in this Option Offer Letter relating to the Offeror Group has been supplied by the Offeror. The issue of this Option Offer Letter has been approved by the Offeror Director, who accepts full responsibility for the accuracy of the information contained in this Option Offer Letter (other than that relating to the Group) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Option Offer Letter have been arrived at after due and careful consideration and there are no other facts not contained in this Option Offer Letter, the omission of which would make any statement in this Option Offer Letter misleading.

Yours faithfully,  
For and on behalf of  
**Merrill Lynch (Asia Pacific) Limited**  
**Benny Chung**  
*Director*