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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 02623)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

FINANCIAL HIGHLIGHTS

The Group recorded revenue of approximately RMB267.4 million for the six months ended 30 June 2013, representing a decrease of approximately 56.2% over the revenue of approximately RMB611.3 million for the six months ended 30 June 2012.

The Group's total profit attributable to the owners of the Company increased by approximately RMB58.7 million, or approximately 129.7% from approximately RMB45.3 million for the six months ended 30 June 2012 to approximately RMB104.0 million for the six months ended 30 June 2013.

The Group's total comprehensive income increased by approximately RMB56.7 million, or approximately 131.6% from approximately RMB43.1 million for the six months ended 30 June 2012 to approximately RMB99.8 million for the six months ended 30 June 2013.

UNAUDITED INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Director(s)**”) of China Zhongsheng Resources Holdings Limited (the “**Company**”) announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2013 together with the comparative figures for the corresponding period in 2012. The unaudited interim results has not been audited but has been reviewed by the audit committee of the Company (the “**Audit Committee**”).

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		Six months ended 30 June	
		2013	2012
	Note	(Unaudited) RMB'000	(Unaudited) RMB'000
Revenue	4	267,435	611,269
Cost of sales		(175,529)	(499,488)
Gross profit		91,906	111,781
Selling and distribution costs		(3,694)	(7,146)
Administrative expenses		(24,370)	(26,090)
Other gains, net		72,245	7,430
Profit from operations		136,087	85,975
Finance income		206	1,824
Finance costs		(17,293)	(24,263)
Finance costs, net		(17,087)	(22,439)
Profit before income tax		119,000	63,536
Income tax expense	5	(16,168)	(19,378)
Profit for the period		102,832	44,158
Total profit for the period attributable to:			
Owners of the Company		104,044	45,303
Non-controlling interests		(1,212)	(1,145)
		102,832	44,158
Other comprehensive loss			
Items that may be reclassified to profit or loss			
Change in value on available-for-sale financial assets		(1,137)	(896)
Currency translation differences		(1,855)	(159)
Total comprehensive income for the period		99,840	43,103
Total comprehensive income attributable to:			
Owners of the Company		101,953	44,580
Non-controlling interests		(2,113)	(1,477)
		99,840	43,103
Earnings per share attributable to owners of the Company			
Basic and diluted (<i>Expressed in RMB per share</i>)	6	0.14	0.07
Dividends	7	2,297	—

UNAUDITED CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2013

		As at 30 June 2013 (Unaudited) RMB'000	As at 31 December 2012 (Audited) RMB'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		320,267	213,490
Intangible assets		144,510	27,585
Available-for-sale financial assets		995	2,441
Deferred income tax assets		6,155	1,973
		<u>471,927</u>	<u>245,489</u>
Current assets			
Inventories	8	23,877	16,272
Trade receivables	9	223,286	271,716
Notes receivables		258,615	261,739
Prepayments and other receivables		101,513	182,705
Restricted bank deposits	10	–	798
Cash and cash equivalents	10	134,967	82,920
		<u>742,258</u>	<u>816,150</u>
Total assets		<u>1,214,185</u>	<u>1,061,639</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital and share premium	11	382,863	385,160
Reserves		52,597	18,662
Retained earnings		251,216	184,186
		<u>686,676</u>	<u>588,008</u>
Non-controlling interests		<u>7,718</u>	<u>4,568</u>
Total equity		<u>694,394</u>	<u>592,576</u>

		As at 30 June 2013 (Unaudited) RMB'000	As at 31 December 2012 (Audited) RMB'000
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Borrowings	12	35,000	100,000
Provision for close down, restoration and environmental costs		20,694	6,551
Deferred income tax liabilities		<u>30,363</u>	<u>3,635</u>
		<u>86,057</u>	<u>110,186</u>
Current liabilities			
Borrowings	12	335,000	249,900
Trade payables	13	52,515	59,936
Notes payables	14	–	1,180
Accruals and other payables		31,623	42,803
Dividends payables		2,297	–
Current income tax liabilities		<u>12,299</u>	<u>5,058</u>
		<u>433,734</u>	<u>358,877</u>
Total liabilities		<u><u>519,791</u></u>	<u><u>469,063</u></u>
Total equity and liabilities		<u><u>1,214,185</u></u>	<u><u>1,061,639</u></u>
Net current assets		<u><u>308,524</u></u>	<u><u>457,273</u></u>
Total assets less current liabilities		<u><u>780,451</u></u>	<u><u>702,762</u></u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2013 has been prepared in accordance with Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting”. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial information for the year ended 31 December 2012, as described in those annual financial statements.

New and amended standards adopted by the Group:

- Amendment to HKAS 1, ‘Financial statement presentation’ regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in ‘other comprehensive income’ (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.
- HKFRS 10 ‘Consolidated financial statements’. Under HKFRS 10, subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The Group has applied HKFRS 10 retrospectively in accordance with the transition provisions of HKFRS 10. This standard has no material impact on this condensed consolidated interim financial information.
- HKFRS 11, ‘Joint arrangements’. Under HKFRS 11, investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. This standard has no material impact on this condensed consolidated interim financial information.
- HKFRS 12 requires disclosures of interests in unconsolidated structured which were not previously required by HKAS 27 and therefore not available in the most recent annual financial statements. An entity having interests in unconsolidated structured entities would consider providing those disclosures in their 2013 interim report if such information is significant to an understanding of changes in the financial position and performance. This standard has no material impact on this condensed consolidated interim financial information.
- HKFRS 13 ‘Fair value measurement’. HKFRS 13 measurement and disclosure requirements are applicable for the December 2013 year end. These standards have no material impact on the unaudited condensed consolidated interim financial information.

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

3. SEGMENT INFORMATION

(a) General information

The chief operating decision-maker (“CODM”) has been identified as the Senior Executive Management who reviews the Group’s internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments base on these reports.

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

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

The CODM assesses performance of two reportable segments:

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

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

The measurement of profit or loss, assets and liabilities of the operating segments are the same as those described in the summary of significant accounting policies in the annual financial statements for the year ended 31 December 2012. The amounts of segment information of Shandong Ishine and Luxing Titanium are both denominated in Renminbi (“RMB”). The amounts of segment information of Ishine International is denominated in Australian Dollar (“AUD”). The segment information of Ishine International is translated into RMB for the reports used by the CODM.

The segment information provided to the CODM for the reportable segments for the six months ended 30 June 2013:

	Shandong Ishine and Luxing Titanium RMB’000	Ishine International RMB’000	Total RMB’000
Six months ended 30 June 2013			
(Unaudited)			
Revenue	267,435	–	267,435
Tenement and exploration expenses	(15)	(357)	(372)
Gross profit/(loss)	92,263	(357)	91,906
Finance income	158	48	206
Finance costs	(16,752)	(41)	(16,793)
Income tax expense	(16,168)	–	(16,168)
Net profit/(loss)	113,231	(3,601)	109,630
Other information			
Depreciation of property, plant and equipment	16,987	53	17,040
Expenditures for non-current assets	59,589	6	59,595

	Shandong Ishine RMB'000	Ishine International RMB'000	Total RMB'000
Six months ended 30 June 2012 (Unaudited)			
Revenue	611,269	–	611,269
Tenement and exploration expenses	(150)	(804)	(954)
Gross profit/(loss)	113,546	(1,765)	111,781
Finance income	875	5	880
Finance costs	(24,263)	–	(24,263)
Income tax expense	(19,378)	–	(19,378)
Net profit/(loss)	55,793	(3,655)	52,138
Other information			
Depreciation of property, plant and equipment	11,793	63	11,856
Expenditures for non-current assets	36,543	–	36,543

(i) Reconciliations of reportable segment's revenue, profit or loss

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Total revenue for reportable segments	267,435	611,269
Elimination of inter-segment revenue	–	–
Group revenue	267,435	611,269
	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net profit for reportable segments	109,630	52,138
Other unallocated expenses	(6,798)	(7,980)
Net profit	102,832	44,158

The segment information provided to the CODM for the reportable segment's assets and liabilities as at 30 June 2013 and 31 December 2012 is as follows:

	Shandong Ishine and Luxing Titanium RMB'000	Ishine International RMB'000	Total RMB'000
As at 30 June 2013 (Unaudited)			
Segment assets	1,182,765	11,121	1,193,886
Segment liabilities	(515,195)	(304)	(515,499)
	Shandong Ishine RMB'000	Ishine International RMB'000	Total RMB'000
As at 31 December 2012 (Audited)			
Segment assets	1,015,609	17,676	1,033,285
Segment liabilities	(531,090)	(267)	(531,357)

(ii) Reconciliations of reportable segment's assets

	As at 30 June 2013 (Unaudited) RMB'000	As at 31 December 2012 (Audited) RMB'000
Total assets for reportable segments	1,193,886	1,033,285
Other unallocated assets	486,400	494,917
Elimination of inter-segment accounts	<u>(466,101)</u>	<u>(466,563)</u>
Group assets	<u><u>1,214,185</u></u>	<u><u>1,061,639</u></u>

(iii) Reconciliations of reportable segment's liabilities

	As at 30 June 2013 (Unaudited) RMB'000	As at 31 December 2012 (Audited) RMB'000
Total liabilities for reportable segments	515,499	531,357
Other unallocated liabilities	11,679	10,587
Elimination of inter-segment accounts	<u>(7,387)</u>	<u>(72,881)</u>
Group liabilities	<u><u>519,791</u></u>	<u><u>469,063</u></u>

4. REVENUE

	Six months ended 30 June 2013 (Unaudited) RMB'000	2012 (Unaudited) RMB'000
Production		
– Sales of iron concentrate	241,807	383,883
– Sales of titanium concentrate	<u>827</u>	<u>–</u>
	242,634	383,883
Trading		
– Sales of coarse iron powder	<u>24,801</u>	<u>227,386</u>
Total	<u><u>267,435</u></u>	<u><u>611,269</u></u>

5. INCOME TAX EXPENSE

	Six months ended 30 June 2013 (Unaudited) RMB'000	2012 (Unaudited) RMB'000
Current income tax – PRC	15,662	17,875
Deferred income tax	<u>506</u>	<u>1,503</u>
	<u><u>16,168</u></u>	<u><u>19,378</u></u>

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

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

Hong Kong profits tax has not been provided for the subsidiaries in Hong Kong as there is no estimated assessable profit arising in or derived from Hong Kong during the six months ended 30 June 2013.

Australia corporate income tax is 30%. Australia corporate income tax has not been provided for the subsidiary in Australia as there is no estimated assessable profit arising in or derived from Australia during the six months ended 30 June 2013.

Corporate income tax ("CIT") in the PRC is calculated at 25% based on the statutory profit of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes.

6. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2013.

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit attributable to owners of the Company	104,044	45,303
Weighted average number of ordinary shares in issue (thousands of shares)	720,872	640,532
Basic and diluted earnings per share (RMB per share)	0.14	0.07

7. DIVIDENDS

On 26 March 2013, a dividend of HKD2,880,000 (equivalent to RMB2,297,000) was recommended by the directors of the Company, and lately approved by the shareholders of the Company at the annual general meeting held on 14 May 2013. It was paid out of the share premium account of the Company.

The directors of the Company resolved not to declare an interim dividend for the six months ended 30 June 2013 (for the six months ended 30 June 2012: nil).

8. INVENTORIES

	As at 30 June 2013	As at 31 December 2012
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Raw materials		
– Iron ore	1,768	238
– Others	8,395	8,612
Finished goods	9,739	3,589
Spare parts and others	3,975	3,833
	23,877	16,272

9. TRADE RECEIVABLES

	As at 30 June 2013 (Unaudited) RMB'000	As at 31 December 2012 (Audited) RMB'000
Trade receivables	<u>223,286</u>	<u>271,716</u>

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

As at 30 June 2013 and 31 December 2012, trade receivables of approximately RMB17,969,000 and RMB109,407,000 respectively, were past due but not impaired. These related to a number of independent customers for whom there was no recent history of default.

Ageing analysis of trade receivables as at 30 June 2013 and 31 December 2012 is as follows:

	As at 30 June 2013 (Unaudited) RMB'000	As at 31 December 2012 (Audited) RMB'000
– Less than 3 months	205,317	162,309
– 3 months to 6 months	17,945	68,648
– 6 months to 1 year	<u>24</u>	<u>40,759</u>
	<u>223,286</u>	<u>271,716</u>

As at 30 June 2013, trade receivables with carrying amounts of RMB146,785,000 (31 December 2012: RMB181,423,000) were pledged as collaterals for the Group's borrowings (Note 12).

10. CASH AND BANK DEPOSITS

	As at 30 June 2013 (Unaudited) RMB'000	As at 31 December 2012 (Audited) RMB'000
Cash and cash equivalents		
– Cash on hand	407	352
– Cash at banks	<u>134,560</u>	<u>82,568</u>
	134,967	82,920
Restricted bank deposits		
– Deposits for issuance of bank acceptance notes	<u>–</u>	<u>798</u>
	<u>134,967</u>	<u>83,718</u>

Cash and bank deposits are denominated in the following currencies:

	As at 30 June 2013 (Unaudited) RMB'000	As at 31 December 2012 (Audited) RMB'000
RMB	102,871	39,110
HKD	25,052	33,181
AUD	6,139	10,524
USD	905	903
	<u>134,967</u>	<u>83,718</u>

11. SHARE CAPITAL AND SHARE PREMIUM

Authorised shares:	Number of authorised shares
As at 1 January 2013 and 30 June 2013	<u>3,000,000,000</u>

Issued shares:

	Number of shares issued and fully paid	Share capital RMB'000	Share premium RMB'000	Total RMB'000
As at 1 January 2012 (Audited)	1,111,112	9	274,760	274,769
Shares issued pursuant to the capitalisation issue (a)	590,000,472	4,775	(4,775)	–
Shares issued for initial public offering (b)	<u>129,760,000</u>	<u>1,050</u>	<u>109,306</u>	<u>110,356</u>
As at 30 June 2012 (Unaudited)	<u>720,871,584</u>	<u>5,834</u>	<u>379,291</u>	<u>385,125</u>
As at 1 January 2013 (Audited)	720,871,584	5,834	379,326	385,160
Dividends declared (c)	<u>–</u>	<u>–</u>	<u>(2,297)</u>	<u>(2,297)</u>
As at 30 June 2013 (Unaudited)	<u>720,871,584</u>	<u>5,834</u>	<u>377,029</u>	<u>382,863</u>

- (a) Pursuant to a shareholder's resolution dated 9 April 2012, and conditional on the share premium account of the Company being credited as a result of the issue of the offer shares pursuant to the proposed share offering described in the Company's prospectus dated 17 April 2012, the Company capitalised an amount of HKD5,900,005, standing to the credit of its share premium account and to appropriate such amount as capital to pay up 590,000,472 shares in full at par.
- (b) On 27 April 2012, the Company issued ordinary shares at HKD1.23 per share as the result of initial public offering.
- (c) On 26 March 2013, a dividend of HKD2,880,000 (equivalent to RMB2,297,000) was recommended by the directors of the Company, and lately approved by the shareholders of the Company at the annual general meeting held on 14 May 2013. It was paid out of the share premium account of the Company.

12. BORROWINGS

	As at 30 June 2013 (Unaudited) RMB'000	As at 31 December 2012 (Audited) RMB'000
Non-current		
Bank borrowings	35,000	100,000
Current		
Bank borrowings	270,000	189,900
Short-term portion of non-current borrowings	<u>65,000</u>	<u>60,000</u>
	<u>335,000</u>	<u>249,900</u>
Total borrowings	<u><u>370,000</u></u>	<u><u>349,900</u></u>
Representing:		
Secured -		
Pledged (i)	220,000	329,900
Guaranteed (ii)	<u>150,000</u>	<u>20,000</u>
	<u><u>370,000</u></u>	<u><u>349,900</u></u>

- (i) As at 30 June 2013, a mining right of Shandong Ishine with net book value of RMB3,950,000 (31 December 2012: RMB4,055,000) was pledged as security for bank borrowings of RMB100,000,000 (31 December 2012: RMB160,000,000).

As at 30 June 2013, the Group's trade receivables with carrying amount of RMB146,785,000 (31 December 2012: RMB181,423,000) was pledged as security for bank borrowings of RMB120,000,000 (31 December 2012: RMB150,000,000) (Note 9).

As at 30 June 2013, the Group's notes receivables with carrying amount of nil (31 December 2012: RMB20,000,000) was pledged as security for bank borrowings of nil (31 December 2012: RMB19,900,000).

- (ii) As at 30 June 2013, the following borrowings of the Group were guaranteed by certain third parties and the controlling shareholder:

	As at 30 June 2013 (Unaudited) RMB'000	As at 31 December 2012 (Audited) RMB'000
Guarantee given by the controlling shareholder	–	20,000
Guarantee given by other third parties		
– Yishui Hesheng Minerals Processing Co., Ltd.	<u>150,000</u>	<u>–</u>
	<u><u>150,000</u></u>	<u><u>20,000</u></u>

13. TRADE PAYABLES

	As at 30 June 2013 (Unaudited) RMB'000	As at 31 December 2012 (Audited) RMB'000
Trade payables	52,515	59,936

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

	As at 30 June 2013 (Unaudited) RMB'000	As at 31 December 2012 (Audited) RMB'000
Less than 6 months	48,641	57,103
6 months to 1 year	3,765	2,473
1 year and above	109	360
	52,515	59,936

14. NOTES PAYABLES

	As at 30 June 2013 (Unaudited) RMB'000	As at 31 December 2012 (Audited) RMB'000
Notes payables		
– Bank acceptance notes	–	1,180

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2013 (30 June 2012: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

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

During the six months ended 30 June 2013, total revenue of the Group has decreased by approximately RMB343.9 million, or approximately 56.2% as compared to the six months ended 30 June 2012. The significant decrease in revenue is mainly due to (1) decrease in sales of iron concentrates produced from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder; and (2) the decrease in turnover from trading of coarse iron powder during the six months ended 30 June 2013. Due to the slowdown of China's economy and the sluggish demand from steel makers in Shandong Province, the PRC, the average selling price of iron concentrates decreased by approximately 6.0% from RMB939.9 per tonne for the six months ended 30 June 2013 as compared with RMB1,000.4 per tonne for the six months ended 30 June 2012. In order to reduce the operation risk, the management team strategically decreased the sales volume of iron concentrates produced from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder and the sales volume of the trading of coarse iron powder during the six months ended 30 June 2013.

The total comprehensive income for the six months ended 30 June 2013 has increased by approximately RMB56.7 million, representing an increase of approximately 131.6% as compared with the six months ended 30 June 2012. This was mainly due to (1) the one-off gain on bargain purchase (a negative goodwill of RMB60.3 million) as a result of the Acquisition, which was completed in the first quarter of 2013. The one-off gain on bargain purchase (negative goodwill) was mainly derived from the difference between the fair value of 95% of Luxing Titanium's identifiable net assets and consideration paid by the Group for the Acquisition; and (2) the decrease in finance costs by RMB5.3 million, or 23.7% in the six months ended 30 June 2013 as compared with the corresponding period in 2012 mainly due to the decrease in sales of mixing iron concentrates produced from coarse iron powder which reduced the demand for funds and, hence, reduced the interest paid for the bank borrowings and discount of the bank acceptance notes.

Since April 2012, the entire iron and steel market has demonstrated an ongoing downward moving trend as the economy in China continued to remain sluggish. The price of iron concentrates with 65% iron content also fell from one bottom to another. The average selling price of iron concentrates decreased from RMB939.9 per tonne for the six months ended 30 June 2012 as compared with RMB850.2 per tonne for the six months ended 31 December 2012. With the gradual recovery of the market in the first half of 2013, the average unit selling price of iron concentrates for the six months ended 30 June 2013 amounted to RMB1,000.4 per tonne, which was 10.6% higher as compared with RMB850.2 for the six months ended 31 December 2012.

In response to the unrecovered economy from January to June 2013, the management of the Company performed their duties with adjustment on macroeconomic level and retrenchment on microeconomic level in mind and took the following measures which had better effects:

I. To enhance the business of titanium concentrates and complete the strategic transformation from an iron ore products producer to a titanium-iron company.

1. In the first quarter of 2013, the Company completed the acquisition of Luxing Titanium so that the ilmenite reserves of the Company were increased. Through the effective rationalisation of the management of the personnel, capital and properties of Luxing Titanium, and pertinent research and improvement on the technique and the equipment of the iron-titanium separation technology, the Company completed the strategic transformation from a purely iron ore-company to a titanium-iron company based on iron concentrates with emphasis on titanium concentrates.
2. The Company put greater efforts into the construction of Zhuge Shangyu Ilmenite Mine and Qinjiazhuang Ilmenite Mine. The Company provided personnel and technical support to the construction of Zhuge Shangyu Ilmenite Mine and Qinjiazhuang Ilmenite Mine through rationalising, reasonably allocating and training the technical team for titanium-iron production lines, which paved the way for entering into the business of titanium.

II. To further improve mineral processing techniques, expand the production capacity and reduce production costs.

Facing the fierce market competition, the management determined to further improve the processing techniques, to reduce costs and to improve the existing production process and the equipments of Yangzhuang Iron Mine and Luxing Titanium Mine.

For Yangzhuang Iron Mine:

1. Crushing system:

The facilities were upsized. A new system was designed to replace the two existing crushing systems. The addition of ultra fine crushing and multiple dry separation system separated gangue out on a timely basis so as to reduce the gangue amount in the process of grinding.

2. Grinding system

The Group put more efforts in the pre-processing process before grinding in order to further remove barren rocks to the full extent, and hence improving the grade of the iron concentrates in the process of grinding and reducing the grinding costs.

As barren rocks were removed in the pre-processing process, the grade of the iron concentrates in the processing of grinding improved. Therefore, the iron concentrate amount was increased and the production costs were reduced under the same production conditions.

For Luxing Titanium:

The major equipments of Luxing Titanium production lines were upgraded and the technology of the production process was improved, and hence increased the production capacity. The annual iron concentrates and titanium concentrates processing capacity were increased from the previous annual processing capacity of 1,200,000 tonnes to 1,500,000 tonnes.

III. To improve the collection of payments from customers and optimise the ageing structure of trade receivables

To resolve the problem of late payment for goods from steel manufacturers in previous years, the Company, through establishing the customer credit management files, paid close attention to the collection progress of trade receivables and the related changes of the status, prepared the ageing analysis of trade receivables well and effectively carried out the tracking and the management of trade receivables. The Company paid special attention to overdue trade receivables. The relevant customers would be analysed in details and the Company would urge for payments in a timely manner as preventive measures. As at the end of June 2013, trade receivables decreased by RMB48.4 million or 17.8% from RMB271.7 million as at 31 December 2012 to RMB223.3 million as at 30 June 2013. Among them, trade receivables due in 6 months to 1 year were reduced by 99.9% from RMB40.8 million as at 31 December 2012 to RMB0.02 million as at the 30 June 2013 while trade receivables due in 3 months to 6 months were reduced by 73.9% from RMB68.6 million as at 31 December 2012 to RMB17.9 million as at 30 June 2013.

IV. To give a full play to audit function for the supervisory purpose and beef up auditing of construction projects

Targeted on hot spot construction, the Company introduced the auditing process in each construction projects so that the construction funds would be reasonably used. The Company exercised strict control on the auditing process. The Company ensured all construction projects are 100% in strict compliance with the requirements of the audit, thereby effectively preventing construction projects from overestimation, ensuring the quality of construction projects and reasonably using the construction funds.

V. To strengthen supervision over purchasing and to utilise purchase funds properly

The Company strictly controlled the contract management, by examining purchase contracts of raw materials, purchase contracts of external mines and purchase contracts of fixed assets etc. before approval and execution and reviewing contracts to ensure strict compliance with “Measures for Administration of Corporate Contracts”, so that the Company could control contractual risks and performed risk management function effectively. For any bulk purchase of materials and major equipments and any purchase by bidding, the purchase department will compare the price and quality of the products before purchase so that the purchase funds can be utilised properly and effectively.

VI. To repay loans and reduce discounting to reduce the finance cost

The finance cost was reduced by RMB5.3 million from RMB22.4 million for the six months ended 30 June 2012 to RMB17.1 million for the six months ended 30 June 2013, which was mainly due to the fact that:

1. during the six months ended 30 June 2013, the demand for fund was reduced as the Company drove down purchases on iron coarse powder from other suppliers to avoid the risk of falling prices. Discount interest dropped by RMB4.1 million as less bank acceptance bills were discounted.
2. bank loans amounted to RMB370.0 million as at 30 June 2013, which represented a decrease by RMB45.1 million as compared with RMB415.1 million as at 30 June 2012. Interest expense on bank borrowings dropped by RMB3.1 million accordingly.

VII. Priority on social responsibility and to strive for getting grants and support from the government aggressively

During the first half of 2013, the Company had put their greatest effort on green environment, environment protection, safety, recycling of resources and integrated utilisation of resources. The Company had proactively reported to the government for the achievements the Group made on social responsibilities. The Company was granted RMB11.9 million by the PRC government upon recognition of the achievement in the areas of social responsibilities and integrated utilisation of resources.

Resources and reserves of mines

The mines and projects owned by the Group have significant iron and titanium ore reserves and resources. According to the report of the independent technical adviser Micromine Consulting Services, as at November 2011 as disclosed in the prospectus of the Company dated 17 April 2012, the total aggregate proved and probable reserve of ore in the Yangzhuang Iron Mine was approximately 43.93 Mt at an average grade of approximately 24.58% TFe (total iron); the total proved and probable reserve of ore in the Zhuge Shangyu Ilmenite Mine was approximately 546.29 Mt at an average grade of approximately 5.69% TiO₂ and approximately 12.81% TFe (total iron); whereas the total proved and probable reserve of ore in our Qinjiazhuang Ilmenite Project was approximately 86.63 Mt at an average grade of approximately 4.50% TiO₂ and approximately 13.56% TFe (total iron).

Based on (1) the resources and reserves under the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy (“JORC”) for the Yangzhuang Iron Mine, Zhuge Shangyu Ilmenite Mine and Qinjiazhuang Ilmenite Project as at November 2011 as disclosed in the prospectus of the Company dated 17 April 2012, and (2) the estimated amount of ores mined by the Group from November 2011 to June 2013, the Group’s estimated Resources and Reserves as at 30 June 2013 were as follows:

JORC Ore Reserve Estimate as at 30 June 2013:

	Yangzhuang Iron Mine	Zhuge Shangyu Ilmenite Mine	Qinjiazhuang Ilmenite Project
Ore reserves (Mt)			
– proved	7.83	200.08	45.33
– probable	32.94	346.20 ^(Note)	41.30
Total ore reserves	<u>40.77</u>	<u>546.29</u>	<u>86.63</u>

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

Grade of total iron (TFe) (%)			
– proved	24.17	12.78	13.50
– probable	24.72	12.83	13.61
Average grade of total iron (TFe) (%)	24.58	12.81	13.56
Grade of titanium dioxide (TiO ₂) (%)			
– proved	N/A	5.76	4.52
– probable	N/A	5.65	4.48
Average grade of total titanium dioxide (TiO ₂) (%)	N/A	5.69	4.50

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

Luxing Titanium Mine

Luxing Titanium Mine is located in Yishui County, Shandong Province, the PRC. Luxing Titanium holds a mining licence in respect of the Luxing Titanium Mine issued by the Land and Resources Department of Shandong Province (山東省國土資源廳). Luxing Titanium Mine has a mining license which covers a mining area of 0.829 sq.km. According to a resources and reserves verification report in respect of the mine, it was estimated that 0.557 sq.km of the mining area had approximately 46.4 million tonnes of resources and reserves of Type 333 or above of ilmenite ores as at 31 December 2009 under PRC classification standard with an average grading of iron and titanium contents of approximately 14.6% and 6.6% respectively. As at 30 June 2013, the ore reserves of Luxing Titanium is estimated to be 43.2 million tonnes.

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

Gaozhuang Shangyu Ilmenite Project

Gaozhuang Shangyu Ilmenite Project is located in Yishui County and Yinan County of Shandong Province, the PRC. The Company has engaged an independent third party surveying agency to carry out preliminary exploration work in the Gaozhuang Shangyu Ilmenite Project and the work was completed in 2012. It has exploration rights over area of approximately 1.53 sq. km., with the exploration term expiring in March 2015. According to Titanium Mine Detailed Survey report in respect of the mine, it was estimated that the exploration area had approximately 46.0 million tonnes of resources of Type 332 and 333 of ilmenite ores as at 2 September 2012 under PRC classification standard with an average grading of iron and titanium contents of approximately 12.4% and 6.8%. The Group did not have any plan to carry out mining work or other expansion plan.

FINANCIAL REVIEW

For the six months ended 30 June 2013, the Group recorded revenue of approximately RMB267.4 million as compared with approximately RMB611.3 million for the six months ended 30 June 2012, representing a decrease of approximately 56.2%. For the six months ended 30 June 2013, 90.7% of the Group's total sales consisted of the sales of iron concentrates and titanium concentrates produced by the Group's processing plants, while the remaining 9.3% of sales were mainly derived from trading of coarse iron powder. The Group mainly sold iron concentrates and titanium concentrates produced by the Group to iron pellets and steel producers in Shandong Province, the PRC. In addition to the above customers of iron and titanium concentrates, the Group sold coarse iron powder to other customers engaged in trading and manufacturing of iron-related products in the PRC.

Prices of the Group's products

Iron Concentrates

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

The Group's average unit selling price of iron concentrates for the six months ended 30 June 2013 was approximately RMB939.9 per tonne, representing a decrease of approximately 6.0% as compared with the average unit selling price of approximately RMB1,000.4 per tonne for the six months ended 30 June 2012. Such decrease was mainly due to the slowdown of China's economy and the decline in demand from steel makers in Shandong Province.

Titanium Concentrates

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

For the six months ended 30 June 2013, the Group produced 19,500 tonnes of titanium concentrates with approximately 26%-27% titanium content. The average unit selling price was approximately RMB245.6 per tonne. Due to the improvement in mining capacity and processing capacity in Zhuge Shangyu Ilmenite Mine and Luxing Titanium Mine, the Group expects to produce more titanium concentrates in the second half of 2013.

Revenue

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

	Six months ended 30 June 2013		Six months ended 30 June 2012	
	RMB'000	%	RMB'000	%
Revenue				
Sales of iron concentrates produced by the Group				
– from iron ore of Yangzhuang Iron Mine	150,670	56.3%	160,717	26.3%
– from ilmenite ore of Luxing Titanium Mine	32,291	12.1%	–	–
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder	58,846	22.0%	223,166	36.5%
	241,807	90.4%	383,883	62.8%
Sales of titanium concentrates produced by the Group				
– from ilmenite ore of Luxing Titanium Mine	827	0.3%	–	–
	827	0.3%	–	–
Trading of				
– Coarse iron powder	24,801	9.3%	227,386	37.2%
	267,435	100%	611,269	100%

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

	Six months ended 30 June 2013 (Kt)	Six months ended 30 June 2012 (Kt)
Sales volume of iron concentrates		
Iron concentrates produced by the Group		
– from iron ore of Yangzhuang Iron Mine	158.8	160.0
– from ilmenite ore of Luxing Titanium Mine	47.0	–
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder	64.1	223.7
	269.9	383.7
Sales volume of titanium concentrates		
Titanium concentrates produced by the Group		
– from ilmenite ore of Luxing Titanium Mine	3.4	–
Trading		
– Sales volume of coarse iron powder	36.1	287.3
	309.4	671.0

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

	Six months ended 30 June 2013 (Kt)	%	Six months ended 30 June 2012 (Kt)	%
Amount of iron concentrates produced from iron ore of Yangzhuang Iron Mine	158.8	56.5%	160.0	41.7%
Amount of iron concentrates produced from ilmenite ore of Luxing Titanium Mine	42.9	15.3%	–	–
Amount of iron concentrates produced from coarse iron powder purchased from other suppliers	59.7	21.3%	223.7	58.3%
Amount of titanium concentrates produced from ilmenite ore of Luxing Titanium Mine	19.5	6.9%	–	–
Total	280.9	100%	383.7	100%

Revenue from sales of iron concentrates and titanium concentrates produced by the Group represents approximately 90.4% and 0.3% respectively of the Group's total revenue for the six months ended 30 June 2013. The Group also sourced coarse iron powder for on sale to its trading customers.

The Group's revenue decreased by approximately RMB343.9 million, or 56.2%, to RMB267.4 million in the six months ended 30 June 2013, as compared with RMB611.3 million for the corresponding period in 2012. The decrease in revenue was primarily due to (1) decrease in sales of iron concentrates produced from iron ore of Yangzhuang Iron Mine by approximately RMB10.0 million which was partially offset by the consolidation of sales of iron concentrates produced from ilmenite ore of Luxing Titanium Mine by approximately RMB32.3 million for the six months ended 30 June 2013; (2) decrease in sales of iron concentrates produced from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder by approximately RMB164.3 million, and (3) decrease in turnover by approximately RMB202.6 million from trading of coarse iron powder from approximately RMB227.4 million for the six months ended 30 June 2012 to RMB24.8 million for the six months ended 30 June 2013.

The decrease in sales of iron concentrates produced from iron ore of Yangzhuang Iron Mine was mainly due to (1) a decrease of approximately 6.0% in average unit selling price of iron concentrates from approximately RMB1,000.4 per tonne for the six months ended 30 June 2012 to approximately RMB939.9 per tonne for the six months ended 30 June 2013, and (2) a decrease of approximately 0.8% in sales volume of iron concentrates produced from iron ore of Yangzhuang Iron Mine.

Sales derived from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder dropped by approximately 73.7% from approximately RMB223.2 million for the six months ended 30 June 2012 to approximately RMB58.8 million for the six months ended 30 June 2013, mainly as a result of the risk control measures adopted by the Group in view of the decrease in average unit selling price of iron concentrates by approximately 6.0%. Due to the slowdown of China's economy and the decline in demand from steel makers in Shandong Province, the management strategically decided to decrease production volume and sales volume of the iron concentrates produced from mixing iron concentrates produced from coarse iron powder.

The total sales generated from trading activities significantly dropped by approximately 89.1% which was mainly due to decrease of trading turnover of coarse iron powder from RMB227.4 million for six months ended 30 June 2012 to RMB24.8 million for the six months ended 30 June 2013. The decrease resulted primarily from the decline in average unit selling price of iron concentrates and the management strategically decided to decrease the sales volume of the trading of iron coarse powder in order to reduce the operational risk from trading activities.

Cost of Sales

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

	Six months ended 30 June 2013		Six months ended 30 June 2012	
	RMB'000	%	RMB'000	%
Cost of Sales				
Cost of sales of iron concentrates				
produced by the Group				
– from iron ore of Yangzhuang Iron Mine	76,634	43.7%	85,268	17.1%
– from ilmenite ore of Luxing Ilmenite Mine	27,081	15.4%	–	–
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder	48,842	27.8%	204,749	41.0%
	152,557	86.9%	290,017	58.1%
Cost of sales of titanium concentrates				
produced by the Group				
– from ilmenite ore of Luxing Ilmenite Mine	771	0.4%	–	–
	771	0.4%	–	–
Cost of sales of trading of				
– Coarse iron powder	21,845	12.4%	207,706	41.6%
	21,845	12.4%	207,706	41.6%
Exploration costs incurred by Ishine International	356	0.2%	1,765	0.3%
	175,529	100%	499,488	100%

Cost of sales was mainly incurred during production of iron concentrates and titanium concentrates. For the costs of sales incurred during production activities, it mainly consists of mining contracting fees, blasting contracting fees, cost of other raw materials, power and utilities expenses, employee benefits, depreciation and amortisation, and other overhead costs.

Total cost of sales decreased by 64.9%, to RMB175.5 million for the six months ended 30 June 2013, as compared with RMB499.5 million for the corresponding period in 2012. Such decrease was consistent with the decrease in the Group's revenue during the six months ended 30 June 2013.

Gross profit and gross profit margin

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

	Six months ended 30 June 2013		Six months ended 30 June 2012	
	RMB'000	%	RMB'000	%
Gross profit				
Production				
– Sales of iron concentrates				
– from iron ore of Yangzhuang Iron Mine	74,036	80.6%	75,449	67.5%
– from ilmenite ore of Luxing Ilmenite Mine	5,210	5.7%	–	–
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder	10,004	10.8%	18,417	16.5%
	89,250	97.1%	93,866	84.0%
– Sales of titanium concentrates				
– from ilmenite ore of Luxing Ilmenite Mine	56	0.1%	–	–
	56	0.1%	–	–
Trading				
– Sales of coarse iron powder	2,956	3.2%	19,680	17.6%
	2,956	3.2%	19,680	17.6%
Exploration costs incurred by Ishine International	(356)	(0.4)%	(1,765)	(1.6)%
	<u>91,906</u>	<u>100%</u>	<u>111,781</u>	<u>100%</u>

	Six months ended 30 June 2013 %	Six months ended 30 June 2012 %
Gross profit margin		
Gross profit margin of iron concentrates		
– from iron ore of Yangzhuang Iron Mine	49.1%	46.9%
– from ilmenite ore of Luxing Ilmenite Mine	16.1%	–
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder	17.0%	8.3%
	36.9%	24.5%
Gross profit margin of titanium concentrates		
– from ilmenite ore of Luxing Ilmenite Mine	6.8%	–
Gross profit margin of trading of		
– Coarse iron powder	11.9%	8.7%
	11.9%	8.7%
Overall gross profit margin	34.4%	18.3%

Gross profit decreased by approximately 17.8% from approximately RMB111.8 million for the six months ended 30 June 2012 to approximately RMB91.9 million for the six months ended 30 June 2013. The main reasons for the decline were (1) the slowdown of China's economy and the decline in demand from steel makers in Shandong Province, the PRC, and hence, there is a decrease in the average unit selling price of the iron concentrates by 6.0% from the first half of 2012 to the first half of 2013, and (2) the decrease in sales gross profit of trading of coarse iron powder by approximately RMB16.7 million.

Overall gross profit margin increased from 18.3% to 34.4% for the six months ended 30 June 2013 as compared with that for the six months ended 30 June 2012. This was mainly due to the sale mix of the products was changed. In order to minimize the operational risk, the Company management decided to decrease the sale volume of (1) mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder, and (2) trading of coarse iron powder which have lower gross profit margin compared to the iron concentrates produced from Yangzhuang Iron Mine. The proportion of sales of iron concentrates produced from iron ore of Yangzhuang Iron Mine with a higher gross profit margin, increased from 26.3% for the six months ended 30 June 2012 to 56.3% for the six months ended 30 June 2013 out of total revenue.

Selling and distribution costs

Selling and distribution costs decreased by approximately 48.3% from approximately RMB7.1 million for the six months ended 30 June 2012 to approximately RMB3.7 million for the six months ended 30 June 2013. This was primarily due to the decrease in transportation costs incurred by the Group on behalf of the Group's customers which were added to the contracted sales price.

	Six months ended 30 June 2013 RMB'000	Six months ended 30 June 2012 RMB'000
Transportation costs	3,688	6,849
Other expenses	6	297
	<u>3,694</u>	<u>7,146</u>

Administrative expenses

Administrative expenses mainly comprise employee benefits, depreciation and amortisation, professional fees, travelling expenses, entertainment expenses and other expenses. The following table presents the breakdown of the Group's administrative expenses for the periods indicated:

	Six months ended 30 June 2013 RMB'000	Six months ended 30 June 2012 RMB'000
Employee benefits	7,205	4,391
Other tax and surcharges	591	283
Depreciation and amortisation	4,602	3,835
Professional fees	4,700	10,331
Travelling expenses	791	415
Entertainment expenses	600	433
Vehicle fees	1,074	809
Office fees	409	425
Other expenses	4,398	5,168
Total	<u>24,370</u>	<u>26,090</u>

Administrative expenses decreased from approximately RMB26.1 million for the six months ended 30 June 2012 to approximately RMB24.4 million for six months ended 30 June 2013. This decrease was mainly due to (1) the decrease of professional fees by approximately RMB5.6 million, from approximately RMB10.3 million for the six months ended 30 June 2012 to approximately RMB4.7 million for the six months ended 30 June 2013, due to the decrease in one-off listing professional fees incurred in the first half of 2012; and (2) offset by the increase in administrative expenses incurred due to the Acquisition and consolidation of financial position of Luxing Titanium, which consists part of the reason for (i) an increase in employee benefits for approximately RMB2.8 million; (ii) increase in sales tax and other surcharges for approximately RMB0.3 million; and (iii) increase in depreciation and amortisation of approximately RMB0.8 million.

Other gains, net

The Group made other gain of approximately RMB72.2 million for the six months ended 30 June 2013 as compared with approximately RMB7.4 million for the six months ended 30 June 2012 which was mainly due to (1) the one-off gain on bargain purchase (a negative goodwill of RMB60.3 million) as a result of the Acquisition, which was completed in the first quarter of 2013. The one-off gain on bargain purchase (negative goodwill) was mainly derived from the difference between the fair value of 95% of Luxing Titanium's identifiable net assets and consideration paid by the Group for the Acquisition; and (2) the government grant of RMB11.9 million by the local government in support of the Group's future development.

Finance costs, net

Net finance costs mainly comprised interest expense on bank loans, and on discount of bank's acceptance notes of the Group, offset by interest income of bank deposits. Finance costs decreased from approximately RMB22.4 million for the six months ended 30 June 2012 to approximately RMB17.1 million for the six months ended 30 June 2013 by approximately 23.7%, which was mainly due to (1) the decrease in bank loans balance by approximately 10.9% from approximately RMB415.1 million as at 30 June 2012 to approximately RMB370.0 million as at 30 June 2013; and (2) the decrease in interest expense on discount of bank acceptance notes by approximately RMB4.1 million.

Total comprehensive income

Total comprehensive income increased by approximately RMB56.7 million for the six months ended 30 June 2013, representing an increase of approximately 131.6% as compared with the six months ended 30 June 2012, which was mainly due to (1) the one-off gain on bargain purchase (a negative goodwill of RMB60.3 million) as a result of the acquisition of Luxing Titanium, which was completed in the first quarter of 2013. The one-off gain on bargain purchase (negative goodwill) was mainly derived from the difference between the fair value of 95% of Luxing Titanium's identifiable net assets and consideration paid by the Group for the Acquisition; (2) the decrease in finance costs by approximately RMB5.3 million, or 23.7% in the first six months of 2013 as compared with the corresponding period in 2012 which was mainly due to the decrease in purchase of coarse iron powder for mixing iron concentrates and trading which reduce the demand for funds and, hence interest expense; (3) the decrease in selling and distribution cost by approximately 48.3% from approximately RMB7.1 million for the six months ended 30 June 2012 to approximately RMB3.7 million for the six months ended 30 June 2013; and (4) the decrease in administrative cost by approximately 6.5% from approximately RMB26.1 million for the six months ended 30 June 2012 to approximately RMB24.4 for the six months ended 30 June 2013. The increases from the above factors were offset by the decline in gross margin by approximately 17.8% to RMB91.9 million for the six months ended 30 June 2013, as compared with RMB111.8 million for the corresponding period in 2012.

Property, plant and equipment

Property, plant and equipment as at 30 June 2013 increased by approximately RMB106.8 million, or approximately 50.0% as compared with that at 31 December 2012. Such increase was mainly due to (1) increase in fixed assets of approximately RMB65.6 million due to the acquisition and consolidation of Luxing Titanium; (2) to improve the processing facilities of Yangzhuang Iron Mine; (3) to develop the mining and processing capacities of Zhuge Shangyu Ilmenite Mine, which incurred the costs of (i) building new facility for the dry up tailings; (ii) the construction of relevant infrastructure facilities; and (iii) purchase of manufacturing equipment; and (4) to improve the processing facilities of Luxing Titanium.

Inventories

The Group's inventories consisted of raw materials, finished goods and spare parts and others. Raw materials included iron ores and other raw materials which mainly consisted of coarse iron powder to be processed into iron concentrates. The following table sets forth the Group's balances of inventory as at 31 December 2012 and 30 June 2013:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Raw materials		
– Iron ores	1,768	238
– Other raw materials	8,395	8,612
Finished goods	9,739	3,589
Spare parts and others	3,975	3,833
Total	23,877	16,272

The balance of inventories increased by approximately RMB7.6 million mainly due to the increase in finished goods of approximately RMB6.2 million and the increase in iron ores of approximately RMB1.5 million.

Trade receivables

The Group's sales are generally made on credit terms of 90 days, and trade receivables were settled by either bank transfer or bank acceptance notes with maturity within 6 months. Ageing analysis of trade receivables as at 30 June 2013 and 31 December 2012 is as follows:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Trade receivables		
– Less than 3 months	205,317	162,309
– 3 months to 6 months	17,945	68,648
– 6 months to 1 year	24	40,759
– 1 year and above	–	–
Total	223,286	271,716

Trade receivables decreased from approximately RMB271.7 million as at 31 December 2012 to approximately RMB223.3 million as at 30 June 2013, mainly due to (1) the implementation of appropriate measures by the Group to make sure the trade receivables can be settled by the customers in the sluggish iron and steel market; (2) the decrease in revenue from selling of iron concentrates and trading of coarse iron powder for the six months ended 30 June 2013; and offset by (3) the increase in trade receivables of approximately RMB33.8 million due to the acquisition and consolidation of Luxing Titanium.

Notes receivables

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

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Notes receivables		
– Bank acceptance notes	<u>258,615</u>	<u>261,739</u>

Note receivables decreased by approximately RMB3.1 million from approximately RMB261.7 million as at 31 December 2012 to approximately RMB258.6 million as at 30 June 2013.

Trade payables

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Trade payables	<u>52,515</u>	<u>59,936</u>

Trade payables decreased from approximately RMB59.9 million as at 31 December 2012 to approximately RMB52.5 million as at 30 June 2013.

Bank borrowings

The following table sets forth the breakdown of bank borrowings as at 31 December 2012 and 30 June 2013:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Non-current		
– Bank borrowings	35,000	100,000
Current		
– Bank borrowings	270,000	189,900
– Short-term portion of non-current borrowings	<u>65,000</u>	<u>60,000</u>
	<u>335,000</u>	<u>249,900</u>
Total	<u>370,000</u>	<u>349,900</u>

Total bank borrowings as at 30 June 2013 increased to approximately RMB370.0 million from approximately RMB349.9 million as at 31 December 2012 mainly as a result of (1) the increase in current bank borrowings of RMB120.0 million as at 30 June 2013 due to the acquisition and consolidation of Luxing Titanium; and (2) the decrease of bank borrowings of Shandong Ishine from RMB349.9 million as at 31 December 2012 to RMB250.0 million as at 30 June 2013.

As at 30 June 2013, the Group's trade receivables with carrying amount of approximately RMB146.8 million was pledged for bank borrowings of approximately RMB120.0 million. A mining right of Shandong Ishine with book value of approximately RMB4.0 million was pledged for bank borrowings of approximately RMB100.0 million.

Borrowings of RMB150.0 million were guaranteed by a third party, Yishui Hesheng Minerals Processing Co. Ltd.

The effective interest rate of the Group's bank borrowings is 6.38% as at 30 June 2013.

Ishine International

Ishine International, the Company's non-wholly owned subsidiary, is principally engaged in the business of the exploration of mineral resources in Australia, and its shares are listed on the Australian Securities Exchange. Net loss incurred by Ishine International for the six months ended 30 June 2013 was approximately RMB3.6 million as compared with net loss of approximately RMB3.7 million for the six months ended 30 June 2012.

CAPITAL STRUCTURE

The Company's issued share capital as at 30 June 2013 is HKD7,208,715.84 divided into 720,871,584 shares of HKD0.01 each.

The Group adopts a prudent treasury policy, and its gearing ratio (calculated as total borrowings divided by the aggregate amount of total equity and total borrowings) as at 30 June 2013 was approximately 34.8% (31 December 2012: approximately 37.1%). The current ratio (calculated as current assets divided by current liabilities) as at 30 June 2013 was approximately 1.7 times (31 December 2012: approximately 2.3 times).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2013, the total amount of the borrowings in the Group was approximately RMB370.0 million which were all fixed rate borrowings and denominated in RMB (31 December 2012: approximately RMB349.9 million). The Group's cash and bank balances amounted to approximately RMB135.0 million (31 December 2012: approximately RMB82.9 million).

MATERIAL ACQUISITIONS OR DISPOSALS

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

Save as disclosed above, there was no material acquisition, disposal or investment by the Group during the six months ended 30 June 2013.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

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

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

PLEDGE OF GROUP ASSETS

As at 30 June 2013, the Group’s trade receivables with carrying amount of approximately RMB146.8 million was pledged for bank borrowings of approximately RMB120.0 million. A mining right of Shandong Ishine with book value of approximately RMB4.0 million was pledged for bank borrowings of approximately RMB100.0 million.

CAPITAL COMMITMENTS AND OPERATING LEASE COMMITMENTS

Ishine International has obligations under its exploration license to spend a minimum amount of exploration expenditures on projects. The obligations may vary from time to time subject to the approval from the relevant government authorities in Australia. Due to the nature of Ishine International’s operations in exploring and evaluating areas of interest, it is difficult to accurately forecast the nature and amount of future expenditure beyond the next year. Expenditures may be reduced by seeking exemption from individual commitments, by relinquishing of tenure or any new joint venture agreements. Expenditure may be increased when new tenements are granted or joint venture agreements amended. The total tenement commitment for Ishine International as at 30 June 2013 is approximately RMB14.9 million (equivalent to approximately AUD2,614,000).

EMPLOYEE BENEFITS AND REMUNERATION POLICIES

As at 30 June 2013, the Group had a total of 664 employees (31 December 2012: 391). The employees of the Group were remunerated based on their experiences, qualifications, the Group’s performance and the market conditions. During the six months ended 30 June 2013, staff costs (including Directors’ remunerations) amounted to approximately RMB17.4 million (six months ended 30 June 2012: approximately RMB14.0 million).

CONTINGENT LIABILITIES

As at 30 June 2013, the Group has no material contingent liabilities.

USE OF THE IPO PROCEEDS

Purpose	Amount allocated as provided in the Prospectus <i>RMB million</i> (approximately)	Amount utilised as at the Announcement date ^(Note) <i>RMB million</i> (approximately)	Amount reallocated to new purposes <i>RMB million</i> (approximately)	Utilised amount as at 30 June 2013 <i>RMB million</i> (approximately)	Unutilised amount as at 30 June 2013 <i>RMB million</i> (approximately)
Purposes disclosed in the Prospectus					
Financing the expansion of mining capacity of Yangzhuang Iron Mine	62.4	36.6	–	36.6	–
Financing the first stage of development plan of Zhuge Shangyu Ilmenite Mine	42.7	4.1	12.6	16.7	–
New Purposes					
Commencement of operation of Zhuge Shangyu Ilmenite Mine	–		22.0	20.1	1.9
Commencement of the Qinjiazhuang Ilmenite Project	–		16.0	3.0	13.0
Technology improvement plan to increase annual processing capacity of Luxing Titanium Ilmenite Mine	–		3.8	3.8	–
General working capital	–		10.0	–	10.0
Total	<u>105.1</u>	<u>40.7</u>	<u>64.4</u>	<u>80.2</u>	<u>24.9</u>

Note: The Company published an announcement dated 7 February 2013 (the “Announcement”) in relation to, among others, change in use of IPO proceeds. On 3 April 2013, the Company published a clarification announcement to clarify the amount utilised for the proposed use of the IPO proceeds as provided in the Prospectus up to the date of the Announcement, the unutilised amount as at the date of the Announcement and the amount to be re-allocated.

CURRENT STATUS AND FUTURE PLAN

Yangzhuang Iron Mine

The Group currently possesses a mining permit of Yangzhuang Iron Mine with an approved annual mining production scale of 2.3Mt. 0.9Mt of iron ore were mined during the first half of 2013 from Yangzhuang Iron Mine.

The Group carried out a technology improvement plan for Yangzhuang Iron Mine which involved replacement of certain parts and machines of the processing line by those with higher efficiency in order to lower the costs of processing of iron ores, and was expected to cost approximately RMB23 million. The technology improvement plan was basically completed during the first half of 2013. The actual expenditure for the first half of the year was RMB11.0 million and the expenditure to be paid for the second half of 2013 was expected to be RMB12.0 million.

There was no exploration activity carried out in this mining area during the first half of 2013.

Zhuge Shangyu Ilmenite Mine

The Group currently possesses a mining permit of Zhuge Shangyu Ilmenite Mine with an approved annual mining production scale of 400,000 cubic metres (or approximately 1.2Mt). In order to commence the operation of Zhuge Shangyu Ilmenite Mine as soon as reasonably practicable, the Group has rented a piece of land in the mining area covered by the current mining permit of Zhuge Shangyu Ilmenite Mine. It is expected that ilmenite ores output from mining can reach approximately 1.5Mt per annum. During the first half of 2013, the road construction and the preliminary mining preparatory work in Zhuge Shangyu Ilmenite Mine were basically completed. There will be ores output during the second half of the year.

The Group has rented an iron ore processing plant and commenced the expansion of the processing capacity of Zhuge Shangyu Ilmenite Mine to first reach approximately 1.5Mt per annum (subject to obtaining the mining permit with an approved annual mining production scale of 8Mt) through the new titanium processing line installed at the said plant, which will allow the Group to produce approximately 60,000 tonnes of 57% iron concentrates and approximately 60,000 tonnes of 46% titanium concentrates per annum. The expansion was basically completed during the first half of 2013. The Group plans to mine and process approximately 0.15Mt of ilmenite ores, and produce approximately 6,000 tonnes of 57% iron concentrates and approximately 6,000 tonnes of 46% titanium concentrates in 2013 as it takes much more time to adjust and test the processing line in order to achieve the most efficient working conditions.

It is estimated that total investment amount for the aforesaid plans would be approximately RMB22 million. The actual expenditure for the first half of 2013 amounted to RMB20.1 million and the expenditure for the second half of the year was expected to be RMB1.9 million.

There was no exploration activity carried out in this mining area during the first half of 2013.

Since March 2013, the Group has carried out the construction of the processing and production line with an annual capacity of 2Mt in Zhuge Shangyu Ilmenite Mine. As at 30 June 2013, the infrastructural project of crushing in the processing and production line with an annual capacity of 2Mt was completed and other infrastructural projects were still under construction. The actual expenditure for the first half of the year amounted to RMB19.1 million and the expenditure for the second half of the year was expected to be RMB5.0 million.

Qinjiazhuang Ilmenite Project

The Group plans to apply for a mining permit for the Qinjiazhuang Ilmenite Project with an approved annual mining production scale of 2Mt. The Group plans to invest for the mining preparatory work to reach a mining capacity of 1.5Mt per annum. During the first half of 2013, the road construction and the preliminary mining preparatory work in Qinjiazhuang Ilmenite Mine were completed. There will be ores output in the second half of the year. The Group intends to use the redundant parts and machines from the processing line of Yangzhuang Iron Mine and to further invest to construct an ilmenite ore processing line with an annual processing capacity of 1.5Mt. The processing line is currently under installation after the replacement of equipment selection during the first half of 2013 and is expected to be basically completed in the third quarter of 2013. The total investment amount for the aforesaid plan is expected to be approximately RMB16 million. The actual expenditure for the first half of the year amounted to RMB3.0 million. Estimated expenditure to be incurred in the second half of 2013 is approximately RMB13.0 million. The Group plans to mine and process approximately 0.1Mt of ilmenite ores, and produce approximately 10,000 tonnes of 20%-30% titanium concentrates in 2013 there will be more time needed to adjust and test the processing line to the most efficient working conditions.

There was no exploration activity carried out in this mining area during the first half of 2013.

Luxing Titanium Ilmenite Mine

Luxing Titanium has obtained a new mining licence with an approved annual mining production scale of 1.5 Mt. 0.8Mt of ilmenite ore were mined during the first half of 2013.

Luxing Titanium possesses a processing line with a processing capacity of 1.2Mt ilmenite ores per annum. The Group intends to invest a total sum of approximately RMB3.8 million into a technology improvement plan. The said technology improvement plan will enlarge the annual processing capacity of ilmenite ores of the processing line of Luxing Titanium Ilmenite Mine as well as enable the processing line to process the tailings with titanium content currently possessed by Luxing Titanium. The annual processing capacity for ilmenite ores of the processing line of Luxing Titanium Ilmenite Mine will be increased to approximately 1.5Mt ilmenite ores, which will allow the Group to produce approximately 100,000 tonnes of 57% iron concentrates and approximately 16,000 tonnes of 46% titanium concentrates per annum and the processing capacity for tailings of the said processing line will allow the Group to produce approximately 20,000 tonnes of 46% titanium concentrates per annum. The Group basically completed the said technology improvement plan with the actual expenditure of 4.3 million in the first half of 2013. The Group expects to produce approximately 85,000 tonnes of 57% iron concentrates, approximately 3,000 tonnes of 46% titanium concentrates and approximately 35,000 tonnes of 20%-30% titanium concentrates in 2013.

There was no exploration activity carried out in this mining area during the first half of 2013.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2013 (30 June 2012: nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (“**Listing Rules**”) as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors had complied with the required standards as set out in the Model Code during the six months ended 30 June 2013.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (“**CG Code**”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

In the opinion of the Directors, save for the following deviation, the Company was in compliance with all the relevant code provisions set out in the CG Code throughout the six months ended 30 June 2013.

Under code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing. Before the appointment of Mr. Geng Guohua (“**Mr. Geng**”) (“**Mr. Geng’s Appointment**”), an executive Director and the Chief Operating Officer of the Company, as the Chief Executive Officer of the Company on 14 May 2013, the Company did not appoint any chief executive. Mr. Li Yunde (“**Mr. Li**”), an executive Director and the Chairman of the Company, and Mr. Geng were both responsible for overseeing the general operations of the Group. The Board met regularly to consider major matters affecting the operations of the Group. Since Mr. Geng’s Appointment, Mr. Li has been responsible for the management of the Board by providing leadership for the Board and has taken primary responsibility for ensuring that good corporate governance practices and procedures are established and that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the Board as a whole; and Mr. Geng has been responsible for the day-to-day management of business of the Group.

Therefore, in the opinion of the Directors, the Company was in compliance with all the relevant code provisions set out in the CG Code since 14 May 2013.

AUDIT COMMITTEE

The Company established the Audit Committee on 9 April 2012 with written terms of reference in compliance with the CG Code. It currently comprises three independent non-executive Directors, namely Mr. Lin Chu Chang (as chairman), Mr. Li Xiaoyang and Mr. Zhang Jingsheng. The main objective of the Audit Committee is to be responsible for the relationship with the Company’s auditor, review of the Company’s financial information and monitoring of the Company’s financial reporting system and internal control procedures. The Audit Committee had reviewed the interim results and the unaudited interim financial information for the six months ended 30 June 2013 before such documents were tabled at a meeting of the Board held on 28 August 2013 for the Board’s review and approval, and was of the opinion that such documents had complied with the applicable accounting standards, the Listing Rules and other applicable legal requirements and that adequate disclosures had been made.

AMENDMENTS TO THE TERMS OF REFERENCE OF THE NOMINATION COMMITTEE OF THE COMPANY

The terms of reference of the nomination committee of the Company (“**Nomination Committee**”) was amended on 28 August 2013 to include the review of the Company’s board diversity policy and the progress on achieving the objectives set for implementing the said policy as part of the duties of the Nomination Committee.

By order of the Board
China Zhongsheng Resources Holdings Limited
Li Yunde
Chairman

Hong Kong, 28 August 2013

As at the date of this announcement, the executive Directors are Mr. Li Yunde (Chairman), Mr. Geng Guohua (Chief Executive Officer and Chief Operating Officer) and Mr. Lang Weiguo; and the independent non-executive Directors are Mr. Zhang Jingsheng, Mr. Li Xiaoyang and Mr. Lin Chu Chang.