

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, 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 announcement.



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 2014

FINANCIAL HIGHLIGHTS

The Group recorded revenue of approximately RMB279.2 million for the six months ended 30 June 2014, representing an increase of approximately 4.4% over the revenue of approximately RMB267.4 million for the six months ended 30 June 2013.

The Group's total profit attributable to the equity holders of the Company decreased by approximately RMB96.9 million, or approximately 93.2% from approximately RMB104.0 million for the six months ended 30 June 2013 to approximately RMB7.1 million for the six months ended 30 June 2014.

The Group's total comprehensive income decreased by approximately RMB92.8 million, or approximately 93% from approximately RMB99.8 million for the six months ended 30 June 2013 to approximately RMB7.0 million for the six months ended 30 June 2014.

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 (the "Group") for the six months ended 30 June 2014 together with the comparative figures for the corresponding period in 2013. The interim results has not been audited but has been reviewed by the audit committee of the Company (the "Audit Committee").

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

(Amounts expressed in thousands of RMB)

		Six months ended 30 June	
	Note	2014 (Unaudited)	2013 (Unaudited)
Revenue	22	279,235	267,435
Cost of sales	23	<u>(234,689)</u>	<u>(175,529)</u>
Gross profit		44,546	91,906
Selling and distribution costs	23	(3,176)	(3,694)
Administrative expenses	23	(21,863)	(24,370)
Other gains, net	24	<u>1,303</u>	<u>72,245</u>
Profit from operations		20,810	136,087
Finance income	25	1,416	206
Finance costs	25	<u>(11,470)</u>	<u>(17,293)</u>
Finance costs, net		<u>(10,054)</u>	<u>(17,087)</u>
Profit before income tax		10,756	119,000
Income tax expense	26	<u>(4,287)</u>	<u>(16,168)</u>
Profit for the period		<u>6,469</u>	<u>102,832</u>
Total profit for the period attributable to:			
Owners of the Company		7,117	104,044
Non-controlling interests		<u>(648)</u>	<u>(1,212)</u>
		<u>6,469</u>	<u>102,832</u>
Other comprehensive loss			
Items that may be reclassified to profit or loss			
Change in value on available-for-sale financial assets	9	–	(1,137)
Currency translation differences		<u>536</u>	<u>(1,855)</u>
Total comprehensive income for the period		<u>7,005</u>	<u>99,840</u>
Total comprehensive income attributable to:			
Owners of the Company		7,490	101,953
Non-controlling interests		<u>(485)</u>	<u>(2,113)</u>
		<u>7,005</u>	<u>99,840</u>
Earnings per share attributable to the owners of the Company			
Basic and diluted (<i>Expressed in RMB per share</i>)	27	0.01	0.14
Dividends	28	<u>–</u>	<u>2,297</u>

UNAUDITED CONDENSED CONSOLIDATED INTERIM BALANCE SHEET*As at 30 June 2014**(Amounts expressed in thousands of RMB)*

		As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	7	376,013	372,452
Intangible assets	8	141,734	142,218
Available-for-sale financial assets	9	1,542	1,442
Deferred income tax assets	10	7,453	5,227
		<u>526,742</u>	<u>521,339</u>
Current assets			
Inventories	11	61,969	35,604
Trade receivables	12	181,216	190,447
Notes receivables	13	96,042	206,188
Prepayments and other receivables	14	134,620	75,702
Restricted bank deposits	15	70,980	68,476
Cash and cash equivalents	15	92,609	64,089
		<u>637,436</u>	<u>640,506</u>
Total assets		<u>1,164,178</u>	<u>1,161,845</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital and share premium	16	382,863	382,863
Reserves		93,341	72,639
Retained earnings		227,309	240,410
		<u>703,513</u>	695,912
Non-controlling interests		<u>5,855</u>	6,291
Total equity		<u>709,368</u>	<u>702,203</u>

		As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
	Note		
LIABILITIES			
Non-current liabilities			
Provision for close down, restoration and environmental costs	18	17,139	16,612
Deferred income tax liabilities	10	<u>34,972</u>	<u>32,614</u>
		<u>52,111</u>	<u>49,226</u>
Current liabilities			
Borrowings	17	265,319	210,000
Trade payables	19	81,523	73,749
Notes payables	20	17,584	14,786
Accruals and other payables	21	35,585	94,622
Dividends payables	28	1,267	2,297
Current income tax liabilities		<u>1,421</u>	<u>14,962</u>
		<u>402,699</u>	<u>410,416</u>
Total liabilities		<u><u>454,810</u></u>	<u><u>459,642</u></u>
Total equity and liabilities		<u><u>1,164,178</u></u>	<u><u>1,161,845</u></u>
Net current assets		<u><u>234,737</u></u>	<u><u>230,090</u></u>
Total assets less current liabilities		<u><u>761,479</u></u>	<u><u>751,429</u></u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Amounts expressed in thousands of RMB)

1. GENERAL INFORMATION

China Zhongsheng Resources Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 8 February 2011 as an exempted company with limited liability under the Companies Law (2010 Revision) of Cayman Islands. The address of its registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively the “Group”) are principally engaged in iron ore mining, iron ore processing, sales of iron concentrate in the People’s Republic of China (the “PRC” or “China”) and exploration of metal reserves in Australia. The Company listed its shares on the Main Board of The Stock Exchange of Hong Kong Limited on 27 April 2012.

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

In January 2013, Shandong Ishine Mining Industry Co., Ltd. (“Shandong Ishine”), an indirectly wholly-owned subsidiary of the Company, acquired 95% of the equity interest of Linyi Luxing Titanium Co., Ltd. (“Luxing Titanium”) at a consideration of RMB20.9 million. Luxing Titanium is a mining company located in Shandong Province, the PRC, and is principally engaged in limonite ore mining and processing to produce iron concentrate and titanium concentrate.

This condensed consolidated interim financial information is presented in Renminbi (“RMB”), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors of the Company on 29 August 2014.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2014 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 2013, 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”).

3. 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 2013, as described in those annual financial statements.

New and amended standards adopted by the Group:

The Group has adopted HK(IFRIC)-Int 21 ‘Levies’. HK(IFRIC)-Int 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of HKAS 37 ‘Provisions’. The interpretation addresses what the obligating event is that gives rise to pay a levy, and when should a liability be recognised. The Group is not currently subject to significant levies.

The adoption of the interpretation has had no significant effect on the financial statements for earlier periods and on the interim financial information for the period ended 30 June 2014. The Group does not expect HK(IFRIC)-Int 21 to have a significant effect on the results for the financial year ending 31 December 2014.

Other amendments to HKFRSs effective for the financial year ending 31 December 2014 are not expected to have a material impact on the Group for the financial year ending 31 December 2014.

4. ESTIMATES

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013, with the exception of changes in estimates that are required in determining the provision for income taxes and disclosure of exception items.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013.

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

5.2 Liquidity Risk

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

5.3 Fair value estimation

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's available-for-sale financial assets are measured at fair value belong to level 1 investment.

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

6. SEGMENT INFORMATION

(a) General information

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

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

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

The CODM assesses performance of two reportable segments:

- i Shandong Ishine and Luxing Titanium, which were both incorporated in the PRC and are engaged in iron ore mining, 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 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 2013. The amounts of segment information of Shandong Ishine and Luxing Titanium are both denominated in 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 2014:

	Shandong Ishine and Luxing Titanium	Ishine International	Total
Six months ended 30 June 2014			
(Unaudited)			
Revenue	276,655	2,580	279,235
Tenement and exploration expenses	(15)	(2,184)	(2,199)
Gross profit	44,150	396	44,546
Finance income	1,399	17	1,416
Finance costs	(11,497)	(6)	(11,503)
Income tax expense	(4,287)	–	(4,287)
Net profit/(loss)	12,407	(1,412)	10,995
Other information			
Depreciation of property, plant and equipment	17,607	69	17,676
Expenditures for non-current assets	21,528	–	21,528

	Shandong Ishine and Luxing Titanium	Ishine International	Total
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

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

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Total revenue for reportable segments	279,235	267,435
Elimination of inter-segment revenue	<u>–</u>	<u>–</u>
Group revenue	<u>279,235</u>	<u>267,435</u>
	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Net profit for reportable segments	10,995	109,630
Other unallocated expenses	<u>(4,526)</u>	<u>(6,798)</u>
Net profit	<u>6,469</u>	<u>102,832</u>

The segment information provided to the CODM for the reportable segments assets and liabilities as at 30 June 2014 and 31 December 2013 is as follows:

	Shandong Ishine and Luxing Titanium	Ishine International	Total
As at 30 June 2014 (Unaudited)			
Segment assets	1,146,566	8,752	1,155,318
Segment liabilities	449,668	1,035	450,703
As at 31 December 2013 (Audited)			
Segment assets	1,138,662	8,756	1,147,418
Segment liabilities	454,170	324	454,494

(ii) Reconciliations of reportable segment's assets

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Total assets for reportable segments	1,155,318	1,147,418
Other unallocated assets	474,962	480,529
Elimination of inter-segment accounts	<u>(466,102)</u>	<u>(466,102)</u>
Group assets	<u>1,164,178</u>	<u>1,161,845</u>

(iii) Reconciliations of reportable segment's liabilities

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Total liabilities for reportable segments	450,703	454,494
Other unallocated liabilities	10,983	12,024
Elimination of inter-segment accounts	<u>(6,876)</u>	<u>(6,876)</u>
Group liabilities	<u>454,810</u>	<u>459,642</u>

7. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures	Mining infrastructures	Motor vehicles, equipment and others	Construction in progress	Stripping cost	Total
Six months ended 30 June 2014 (Unaudited)						
Opening net book value	78,730	70,937	129,245	76,684	16,856	372,452
Additions	108	1,790	4,609	10,706	4,315	21,528
Transferred from construction in progress	16,370	–	22,294	(38,664)	–	–
Written off or disposals – net	–	–	(274)	–	–	(274)
Depreciation charge	(4,246)	(1,594)	(11,864)	–	–	(17,704)
Effect of foreign exchange rate changes	–	–	11	–	–	11
Closing amount as at 30 June 2014	<u>90,962</u>	<u>71,133</u>	<u>144,021</u>	<u>48,726</u>	<u>21,171</u>	<u>376,013</u>
Six months ended 30 June 2013 (Unaudited)						
Opening net book value	77,402	46,317	77,562	12,209	–	213,490
Acquisition of a subsidiary	9,359	11,885	42,654	1,669	–	65,567
Additions	6,819	6,924	7,107	29,935	7,541	58,326
Depreciation charge	(4,815)	(1,315)	(10,918)	–	–	(17,048)
Effect of foreign exchange rate changes	–	–	(68)	–	–	(68)
Closing amount as at 30 June 2013	<u>88,765</u>	<u>63,811</u>	<u>116,337</u>	<u>43,813</u>	<u>7,541</u>	<u>320,267</u>

8. INTANGIBLE ASSETS

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Opening net book amount	142,218	27,585
Acquisition of a subsidiary	–	119,000
Additions	–	1,269
Amortisation charge	(715)	(2,834)
Effect of foreign exchange gain/(loss)	231	(510)
	<u>141,734</u>	<u>144,510</u>
Closing net book amount	<u>141,734</u>	<u>144,510</u>

As at 30 June 2014, certain mining rights of the Group with net book value of RMB116,914,000 (31 December 2013: RMB117,997,000) in Shandong Province, the PRC, were pledged as security for the Group's borrowings (Note 17(a)).

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Beginning balance	1,442	2,441
Effect of foreign exchange gain/(loss)	100	(309)
Loss from revaluation	–	(1,137)
	<u>1,542</u>	<u>995</u>
Ending balance	<u>1,542</u>	<u>995</u>

10. DEFERRED INCOME TAX ASSETS AND LIABILITIES

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

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Deferred tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	4,411	1,075
– Deferred income tax assets to be recovered within 12 months	3,042	4,152
	<u>7,453</u>	<u>5,227</u>
Deferred tax liabilities:		
– Deferred income tax liabilities to be recovered after more than 12 months	34,972	32,614
– Deferred income tax liabilities to be recovered within 12 months	–	–
	<u>34,972</u>	<u>32,614</u>

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

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Beginning balance of the period	(27,387)	(1,662)
Acquisition of a subsidiary	–	(22,040)
Recognised in the consolidated statements of comprehensive income	<u>(132)</u>	<u>(506)</u>
Ending balance of the period	<u>(27,519)</u>	<u>(24,208)</u>

The movement in deferred income tax assets and liabilities during 2014, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(a) Deferred income tax assets

	Provision for close down, restoration and environmental costs	Tax Losses	Impairment	Others	Total
At 31 December 2013 (Audited)	4,152	–	–	1,075	5,227
Recognised in the consolidated statements of comprehensive income	<u>132</u>	<u>701</u>	<u>188</u>	<u>1,205</u>	<u>2,226</u>
At 30 June 2014 (Unaudited)	<u>4,284</u>	<u>701</u>	<u>188</u>	<u>2,280</u>	<u>7,453</u>

(b) Deferred income tax liabilities

	Depreciation of mining infrastructure	Others	Total
At 31 December 2013 (Audited)	8,648	23,966	32,614
Acquisition of a subsidiary			
Recognised in the consolidated statements of comprehensive income	<u>2,410</u>	<u>(52)</u>	<u>2,358</u>
At 30 June 2014 (Unaudited)	<u>11,058</u>	<u>23,914</u>	<u>34,972</u>

- (i) Pursuant to the PRC corporate income tax (“PRC CIT”), 10% withholding income tax (“WHT”) will be levied on foreign investors for dividend distributions from foreign invested enterprises’ profit earned after 1 January 2008. For qualified investors incorporated in Hong Kong, a treaty rate of 5% will be applied. As at 30 June 2014, the subsidiary of the Group incorporated in the PRC, with total retained earnings amounting to RMB265,062,000 will be subject to this withholding tax. The Group did not recognise the related deferred tax liabilities of approximately RMB13,253,000 as at 30 June 2014, as the Directors of the Company had foreseen that retained earnings up to 30 June 2014 of Shandong Ishine will not be distributed in the future.
- (ii) As at 30 June 2014 and 31 December 2013, the Group did not recognise deferred income tax assets of RMB13,989,000 and RMB13,566,000 in respect of accumulated losses arising from Ishine International amounting to RMB46,631,000 and RMB45,219,000 respectively, which can be carried forward indefinitely to offset against future taxable income.

11. INVENTORIES

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Raw materials		
– Iron ore	3,967	1,406
– Others	6,436	1,431
Finished goods	44,612	26,161
Spare parts and others	6,954	6,606
	<u>61,969</u>	<u>35,604</u>

12. TRADE RECEIVABLES

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Trade receivables	<u>181,216</u>	<u>190,447</u>

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

As at 30 June 2014 and 31 December 2013, trade receivables of approximately RMB100,019,000 and RMB25,833,000 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 2014 and 31 December 2013 is as follows:

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
– Less than 3 months	81,197	164,614
– 3 months to 6 months	55,581	24,249
– 6 months to 1 year	44,438	1,554
– 1 year and above	–	30
	<u>181,216</u>	<u>190,447</u>

As at 30 June 2014, trade receivable with carrying amounts of RMB102,634,000 (31 December 2013: nil) were pledged as collaterals for the Group's borrowings (Note 17(a)(b)).

13. NOTES RECEIVABLES

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Notes receivables		
– bank acceptance notes	96,042	206,188

The ageing of notes receivables is within 6 months.

As at 30 June 2014, bank acceptance notes with carrying amount of RMB32,000,000 (31 December 2013: nil) were pledged as collaterals for the Group's borrowings (Note 17(a)(b)).

14. PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Advance to suppliers	102,415	43,982
Undeducted input VAT	6,194	20,278
Land restoration deposit	4,425	4,425
Advance to employees	889	919
Long-term deferred and prepaid expenses	4,377	1,528
Prepaid taxes	7,681	–
Others	8,639	4,570
	134,620	75,702

15. CASH AND BANK DEPOSITS

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Cash and cash equivalents		
– Cash on hand	404	334
– Cash at banks	92,205	63,755
	92,609	64,089
Restricted bank deposits		
– Fixed date deposits	50,000	50,000
– Deposits for issuance of bank acceptance notes	16,900	18,476
– Deposits for letter of credit	4,080	–
	163,589	132,565

Cash and bank deposits are denominated in the following currencies:

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
RMB	147,022	110,189
HKD	13,487	18,885
AUD	2,196	2,912
USD	884	579
	<u>163,589</u>	<u>132,565</u>

16. SHARE CAPITAL AND SHARE PREMIUM

Authorised shares:	Number of authorised shares
As at 1 January 2014 and 30 June 2014	<u>3,000,000,000</u>

Issued shares:

	Number of shares issued and fully paid	Share capital	Share premium	Total
At 1 January 2013 (Audited)	720,871,584	5,834	379,326	385,160
Dividends declared (a)	—	—	(2,297)	(2,297)
At 30 June 2013 (Unaudited)	<u>720,871,584</u>	<u>5,834</u>	<u>377,029</u>	<u>382,863</u>
At 1 January 2014 (Audited)	720,871,584	5,834	377,029	382,863
Dividends declared	—	—	—	—
At 30 June 2014 (Unaudited)	<u>720,871,584</u>	<u>5,834</u>	<u>377,029</u>	<u>382,863</u>

- (a) On 12 April 2013, a dividend of HKD2,880,000 (equivalent to RMB2,297,000) was declared by the Company, and lately approved by the shareholders in the annual general meeting on 14 May 2013. It was paid out of the share premium account of the Company.

17. BORROWINGS

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Current		
Bank borrowings	230,319	110,000
Short-term portion of non-current borrowings	<u>35,000</u>	<u>100,000</u>
Total borrowings	<u><u>265,319</u></u>	<u><u>210,000</u></u>

Movements in borrowings is analysed as follows:

Six months ended 30 June 2014

Opening amount as at 1 January 2014	210,000
Proceeds of new borrowings	386,123
Repayments of borrowings	<u>(330,804)</u>
Closing amount as at 30 June 2014	<u><u>265,319</u></u>

Six months ended 30 June 2013

Opening amount as at 1 January 2013	349,900
Acquisition of subsidiary	150,000
Proceeds of new borrowings	30,000
Repayments of borrowings	<u>(159,900)</u>
Closing amount as at 30 June 2013	<u><u>370,000</u></u>

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Representing:		
Secured -		
Pledged (a)	74,300	130,000
Pledged and Guaranteed (b)	118,300	—
Guaranteed (c)	50,000	80,000
Unsecured	<u>22,719</u>	<u>—</u>
	<u><u>265,319</u></u>	<u><u>210,000</u></u>

(a) Pledged Borrowings

- (i) As at 30 June 2014, bank borrowings of RMB65,000,000 (31 December 2013: RMB130,000,000) were pledged by a mining right of Shandong Ishine and Luxing Titanium with net book value of RMB116,914,000 (31 December 2013: RMB117,997,000) (Note 8).
- (ii) As at 30 June 2014, bank borrowings of RMB9,300,000 (31 December 2013: nil) were pledged by the Group's trade receivables with carrying amount of RMB5,000,000 (31 December 2013: nil) (Note 12) and the Group's notes receivables with carrying amount of RMB5,000,000 respectively (31 December 2013: nil) (Note 13).

(b) Pledged and Guaranteed borrowings

- (i) As at 30 June 2014, bank borrowings of RMB16,500,000 (31 December 2013: nil) were pledged by the Group's trade receivables with carrying amount of RMB2,000,000 (31 December 2013: nil) (Note 12) and the Group's notes receivables with carrying amount of RMB15,000,000 respectively (31 December 2013: nil) (Note 13) and guaranteed by Mr. Li Yunde.
- (ii) As at 30 June 2014, bank borrowings of RMB11,800,000 (31 December 2013: nil) were pledged by the Group's notes receivables with carrying amount of RMB12,000,000 (31 December 2013: nil) (Note 13) and guaranteed by Mr. Li Yunde.
- (iii) As at 30 June 2014, bank borrowings of RMB90,000,000 (31 December 2013: nil) were pledged by the Group's trade receivables with carrying amount of RMB95,634,000 (31 December 2013: nil) (Note 12) and guaranteed by Yishui Hesheng Minerals Processing Co., Ltd, Ms. Zhang Limei and Mr. Li Yunde.
- (c) As at 30 June 2014 and 31 December 2013, the following borrowings of the Group were guaranteed by certain third parties and the Controlling Shareholder:

	As at 30 June 2014 (Unaudited) RMB'000	As at 31 December 2013 (Audited) RMB'000
Joint guarantee given by third parties and the Controlling Shareholder		
– Shandong Ishine, Linyi Runxing Investment Co., Ltd and Mr. Li Yunde	<u>20,000</u>	<u>20,000</u>
Guarantee given by other third parties		
– Yishui Hesheng Minerals Processing Co., Ltd	–	30,000
– Shandong Zhonglian Steel Co., Ltd	<u>30,000</u>	<u>30,000</u>
	<u>50,000</u>	<u>80,000</u>

18. PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS

	Six months ended 30 June 2014 (Unaudited)	2013 (Unaudited)
At the beginning of period	16,612	6,551
Acquisition of a subsidiary	–	13,488
Utilised during the period	(16)	–
Unwinding of discount (Note 25)	<u>543</u>	<u>655</u>
At the end of period	<u>17,139</u>	<u>20,694</u>

19. TRADE PAYABLES

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Trade payables	81,523	73,749

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

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Less than 6 months	71,319	43,487
6 Months to 1 year	8,333	21,574
1 year and above	1,871	8,688
	81,523	73,749

20. NOTES PAYABLES

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Notes payables		
– Bank acceptance notes	17,584	14,786

21. ACCRUALS AND OTHER PAYABLES

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Deposits and receipts in advance	4,742	52,334
Employee benefit payables	7,937	6,376
Guarantee deposits	8,080	9,096
Other tax payable	6,829	18,679
Accrued land compensation cost	947	3,365
Others	7,050	4,772
	35,585	94,622

22. REVENUE

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Production		
– Sales of iron concentrate	230,140	241,807
– Sales of titanium concentrate	<u>2,909</u>	<u>827</u>
	233,049	242,634
Trading		
– Sales of coarse iron powder	43,606	24,801
Other income	<u>2,580</u>	<u>–</u>
Total	<u><u>279,235</u></u>	<u><u>267,435</u></u>

23. EXPENSE BY NATURE

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Changes in inventories of finished goods, iron ore and ilmenite ore	(21,012)	(7,680)
Payment to mining contractors	20,718	26,266
Cost of raw materials	170,047	69,698
Spare parts and others	9,165	14,889
Employee benefits	12,575	17,432
Depreciation and amortisation	13,898	19,882
Utilities and electricity	15,855	17,850
Repairs and maintenance	691	1,398
Transportation expenses	4,118	4,767
Professional fees	2,147	4,700
Resources tax	6,648	8,502
Sales tax surcharges	1,690	3,349
Land compensation expenses	4,864	2,593
Travelling expenses	528	798
Entertainment expenses	1,246	600
Tenement and exploration expenses	2,199	372
Other expenses	<u>14,351</u>	<u>18,177</u>
Total cost of sales, selling and distribution costs and administrative expenses	<u><u>259,728</u></u>	<u><u>203,593</u></u>

24. OTHER GAINS, NET

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Government grants	958	11,928
Negative goodwill generated from the acquisition of a subsidiary	–	60,323
Gain on disposal of property, plant and equipment	405	–
Others	(60)	(6)
	<u>1,303</u>	<u>72,245</u>
Other gains, net	<u>1,303</u>	<u>72,245</u>

25. FINANCE COSTS, NET

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Finance income		
– Interest income of bank deposits	<u>1,416</u>	<u>206</u>
Finance costs		
– Interest expense on bank borrowings	(11,172)	(16,059)
– Interest charge on unwinding of discounts (<i>Note 18</i>)	(543)	(655)
– Exchange gain/(losses)	406	(493)
– Bank surcharges and others	<u>(161)</u>	<u>(86)</u>
	<u>(11,470)</u>	<u>(17,293)</u>
Finance costs, net	<u>(10,054)</u>	<u>(17,087)</u>

26. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Current income tax – PRC	4,155	15,662
Deferred income tax	<u>132</u>	<u>506</u>
	<u>4,287</u>	<u>16,168</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 Acts of the British Virgin Islands is exempted from payment of British Virgin Islands income tax.

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

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 2014.

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.

27. 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 period.

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company	7,117	104,044
Weighted average number of ordinary shares in issue (thousands of shares)	720,872	720,872
Basic and diluted earnings per share (<i>RMB per share</i>)	0.01	0.14

28. DIVIDENDS

The directors of the Company resolved not to declare dividend for the six months ended 30 June 2014 (for the six months ended 30 June 2013: nil).

29. SIGNIFICANT RELATED PARTY TRANSACTIONS

Set out below is a summary of significant related party transactions during the six months ended 30 June 2014 and 2013.

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Guarantee given by the Controlling Shareholder	138,300	—

30. COMMITMENTS

(a) Exploration commitments

Ishine International has obligations under the exploration license to spend a minimum amount of exploration expenditures on the projects. The obligations may vary from time to time subject to the approval from the relevant government authorities in Australia. Due to the nature of Ishine International's operations in exploring and evaluating areas of interest, it is difficult to accurately forecast the nature and amount of future expenditure beyond a 12 months period. Expenditure may be reduced by seeking exemption from relevant government authorities, by relinquishing of tenure or entering into any new joint venture agreements. Expenditure may be increased when new tenements are granted or joint venture agreements are amended.

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

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
No later than 1 year	4,483	4,883
1 to 3 years	4,076	8,239
3 to 5 years	28	1,281
Greater than 5 years	—	—
	<u>8,587</u>	<u>14,403</u>

(b) Capital commitments

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

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Property, plant and equipment	<u>6,851</u>	<u>8,556</u>

31. SUBSEQUENT EVENTS

On 17 July 2014, the Company issued 144,000,000 warrants to nine placees at the placing price of HKD0.01 per warrant. The subscription price is HKD1.69 per warrant share. The subscription period is from the date of issue of the warrants to the expiry of 12 months of the issue of the warrants.

Upon exercise in full of the subscription rights attaching to the warrants at the initial subscription price of HKD1.69, a maximum of 144,000,000 warrant shares will be issued and allotted, representing approximately 19.98% of the then existing issued share capital of the Company as at 17 July 2014 and approximately 16.65% of the issued share capital of the Company as enlarged by the issue and allotment of the warrant shares.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2014 (30 June 2013: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The principal activities of the Group are iron and ilmenite ore exploration, mining and processing and sales of iron concentrates and titanium concentrates in Shandong Province, the PRC. 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, steel manufacturers located in close proximity.

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 Luxing Titanium (臨沂魯興鈦業股份有限公司) at a consideration of RMB20.9 million (the "Acquisition"). The Acquisition was completed in the 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.

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 ("Luxing Titanium Mine"), and owns the exploration rights over Yangzhuang Iron Mine, Qinjiazhuang Ilmenite Project, an ilmenite ore project located in Qinjiazhuang District, Yishui County, Shandong Province, the PRC ("Qinjiazhuang Ilmenite Project"), Zhuge Shangyu Ilmenite Mine and Gaozhuang Shangyu Ilmenite Project, an ilmenite ore project located in Shangyu District, Yishui County, Shandong Province, the PRC ("Gaozhuang Shangyu Ilmenite Project").

During the six months ended 30 June 2014, total revenue of the Group has increased by approximately RMB11.8 million, or approximately 4.4% as compared to the six months ended 30 June 2013. The increase in revenue is mainly due to (1) the increase in turnover by approximately RMB18.8 million from trading of coarse iron powder; (2) the sales of titanium concentrates by approximately RMB2.9 million produced from Zhuge Shangyu Ilmenite Mine; and (3) the increase in sales of 65% iron concentrates by approximately RMB17.0 million, which was partially offset by the decrease of sales of 57% iron concentrates produced from ilmenite ore of Luxing Titanium by approximately RMB28.7 million for the six months ended 30 June 2014. Under the government's macroeconomic control, there is a downturn on real estate and steel industries in Shandong Province, the PRC. The average selling price of 57% and 65% iron concentrates decreased by approximately 5.5% and 4.7% to RMB649.3 and RMB895.6 per tonne respectively for the six months ended 30 June 2014 as compared with RMB687.0 and RMB939.9 per tonne respectively for the six months ended 30 June 2013. In order to reduce the operation risk, the management team strategically decreased the sales volume of iron concentrates produced by Yangzhuang Iron Mine and increased the sales volume of iron concentrates produced from coarse iron powder purchased from other suppliers during the six months ended 30 June 2014.

The total comprehensive income for the six months ended 30 June 2014 has decreased by approximately RMB92.8 million, representing a decrease of approximately 93.0% as compared with the six months ended 30 June 2013. This was mainly due to (1) the one-off gain on bargain purchase of 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 gross profit by approximately RMB47.4 million, or approximately 51.6% for the six months ended 30 June 2014 as compared with the six months ended 30 June 2013. The decrease in gross profit was mainly due to (i) the decrease in sales gross profit of iron concentrates produced from Yangzhuang Iron Mine and iron concentrates from Ilmenite Mine of Luxing Titanium by approximately RMB41.9 million from approximately RMB79.2 million for the six months ended 30 June 2013 to approximately RMB37.3 million for the six months ended 30 June 2014; (ii) the decrease in sales gross profit of iron concentrates produced from mixing iron concentrates purchased from the other suppliers and/or produced from the coarse iron powder by approximately RMB5.8 million from approximately RMB10.0 million for the six months ended 30 June 2013 to approximately RMB4.2 million for the six months ended 30 June 2014. The decrease in total comprehensive income for the six months ended 30 June 2014 was partially offset by (1) the decrease in finance costs by approximately RMB7.0 million, or 41.2% for the six months ended 30 June 2014 as compared with the corresponding period in 2013 due to the decrease in interest expense on bank borrowings by approximately RMB4.9 million and the increase in interest income by approximately RMB1.2 million from term deposit and finance management; (2) the decrease in administrative expenses by approximately RMB2.5 million or 10.3% for the six months ended 30 June 2014 as compared with the corresponding period in 2013 due to the cost control measures adopted by the management in 2014.

Since April 2012, the entire iron and steel market has demonstrated an ongoing downward moving trend as the economy in China continued to remain sluggish. The price of iron concentrates with 65% iron content also fell from one bottom to another. The average selling price of iron concentrates with 65% iron content decreased to RMB895.6 per tonne for the six months ended 30 June 2014 as compared with RMB939.9 per tonne for the six months ended 30 June 2013.

Measures adopted by the management in the first half of 2014

In response to the global iron concentrate market downturn in 2014, the management of the Group (the “Management”) carried out their work with the concept of improving technological competitiveness, strengthening internal control and broadening sources of income and reducing expenditures and took the following measures:

I. With global horizons: to strengthen cooperation with scientific and research institutions, improve titanium processing techniques and enhance the Group’s core competitiveness.

1. The Group cooperated with the Institute of Process Engineering of the Chinese Academy of Sciences on researching and developing new mineral processing techniques of Zhuge Shangyu Ilmenite Mine of the Group through various experiments and has been making periodic results. If such results are implemented successfully, it will improve the average grade of concentrates produced by Zhuge Shangyu Ilmenite Mine and reduce product cost.
2. The Group entered into a Letter of Intent with the Siberian Division of the Russian Academy of Science in relation to the plan to introduce a new technique of efficiently extracting titanium from ilmenite mines. The preliminary work of such technique has been reviewed by the Ministry of Science and Technology of the PRC and such plan was expected to be implemented in March 2015. Such plan is a technology cooperation between nations in respect of tackling key problems of raising the metallurgy recovery rate of 80% of the titanium of the industry to 95% or above.

II. Market-oriented: to timely grasp information on market prices to avoid a decrease in operating profit as a result of lower market prices and to maximise the conservation of resources

The iron concentrates market has continued to remain sluggish since 2014. Despite no sign of a decline in market demand, the low product prices results in low profitability. The business department of the Group delivered daily market briefs by collecting market information through internet and customer channels in order to keep up with market changes and conduct market analysis and guide production and sales. For this purpose, it reduced production capacity moderately while keeping inventories at an appropriate level if the cash flow of the Company are sufficient and protected crude ores resources.

III. *To improve labor productivity of all employees, to reduce wastes while exploiting potentials, and to lower operation cost.*

In response to economic downturn, the Management adopted certain counter measures in respect of internal control:

1. To effectively control human resource cost at approximately RMB4.8 million by planned layoffs and salary reduction of all employees.
2. To reduce expenses by approximately RMB0.4 million by taking measures on travelling expenses and vehicles.
3. To reduce professional services cost by approximately RMB2.6 million.

Though the amount of savings achieved by the above measures is limited, under the strong leadership of the Management, which signaled its philosophy of broadening sources of income and reducing expenditures to the enterprises under the Group, the Group as a whole achieved significant results by practising economy and reducing costs throughout each process from procurement to production and sales.

IV. *To strengthen supervision and management and to perform the functions of risk control.*

The Group strengthened supervision and management over each session of its business. In particular, it controlled its contract management by seriously examining and strictly checking all agreements and contracts of the Group, including examining and countersigning all of the Group's purchase contracts of raw materials and accessories, purchase contracts of external mines and purchase contracts of fixed assets and infrastructural project, etc., auditing material or large economic contracts and agreements of the Group and monitoring the performance of such contracts. The audit and supervision department tracked and participated in the monitoring work in relation to bulk purchase of equipment and materials and price enquiries and comparisons during the entire process, regulated the execution and examination of contracts in strict compliance with "Measures for Administration of Corporate Contracts" so as to avoid potential risks. No default of contracts have occurred since this year and risk control functions were well performed.

V. *To attach importance to the culture of safe production of mines and to accelerate supporting infrastructure construction.*

1. A safety culture corridor, staff education rooms and propaganda signs were established in the mines to strengthen education and improve the overall quality of the staff.
2. A monitoring and testing system was established to achieve a real-time supervision over the whole production process, in order to better eliminate rule violations and enhance management and production safety;
3. An underground workers positioning system, underground dual-circuit communication system and underground voice alarm system were established to provide further guarantee for production safety; and
4. A Dispatching Office and Dispatching Stations were established with designated persons on duty 24 hours to timely dispatch safety production at each session of production in order to ensure production safety.

VI. To realise a unified coordination between resource, environment and social benefit in mining development

1. The effort on technology innovation was increased and the comprehensive utilisation rate of tailings and recycling rate of iron ore mining were improved;
2. The Group focused on greening in mining area and ecological environment recovery and management of mines, striving to strike a balance between resources development and environmental protection, ensuring a high greening rate in mining area and maintaining a pleasant ecological environment; and
3. Through establishing a good enterprise-local cooperation relationship and seeking a win-win cooperation model, the enterprise made development while driving the local social and economic development, creating a harmonious and stable mining environment.

By comprehensively improving resources utilisation rate and technology innovation, conserving energy and reducing emissions, protecting ecological environment and establishing corporate culture, the Group continued to maintain sustainable national green mines with proper structure, sound management and function systems, and significant social, economic and environment benefits.

Resources and reserves of mines

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

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

Yangzhuang Iron Mine

1. Resource reporting cutoff grade: 15% Tfe.
2. An mFe grade cut-off of 8.0% was applied to each mining block based on the breakeven analysis.
3. The Ore Reserve depletion for the Yangzhuang project was 4.6Mt @ 24.6% TFe and 10.6% mFe compared to reported production of 4.5Mt @ 24.1% TFe and 10.5% mFe for the period from November 2011 to December 2013 inclusive.
4. Stope design parameters are 50 metres in length by approximately 16 metres wide (matching the thickness of the orebody) with a 6 metre wide pillar between stopes as well as a crown pillar of 6 metres.

5. It is assumed that there are no significant geotechnical difficulties.
6. Inferred Resources were excluded from the mine design used to determine the reserves.
7. Parameters for Short Hole Shrinkage mining method:

Length of Block: 48m
 Minimum width of Block: 8m
 Pillar between Blocks: 6m
 Crown Pillar: 5m
 Distance between levels: 60m

Reason for the changes in the resources and reserves estimates:

During the period from November 2011 to December 2013, reserves is reduced by 4.6 million tonnes due to the mining activities.

Zhuge Shangyu Ilmenite Mine

1. Resource reporting cutoff grade: 9.2% TiO₂ equivalent.
2. Underground resources and reserves remain unchanged from the previous (2012) Micromine estimate.
3. Mineral resources are inclusive of the ore reserve.
4. The reserve includes diluting material with an assumed diluent grade of 0%, total dilution used was 9%.
5. The MCS reserve is stated based on titanium with an iron credit.
6. The Open Pit Ore Reserve block model depletion for the Zhuge Shangyu resource was 0.27Mt grading 5.69% TiO₂ and 12.78% TFe compared to reported production of 0.26Mt grading 6.75% TiO₂ and 13.44% TFe for the period from September 2013 to December 2013 inclusive.
7. The underground mining height is 50m to 60m.

Reason for the changes in the resources and reserves estimates:

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

Qinjiashuang Ilmenite Project

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

Based on (1) the resources and reserves under the 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 December 2013, the Group's estimated resources and reserves as at 30 June 2014 were as follows:

JORC Mineral Resources as of 30 June 2014: (Note: JORC mineral resources as of 31 December 2013 less exploration during January to June 2014)

	Yangzhuang Iron Mine	Zhuge Shangyu Ilmenite Mine	Qinjiazhuang Ilmenite Project
Ore reserves (Mt)			
– proved	7.3	199.6	45.33
– probable	31.2	346.20^(Note)	41.30
Total ore reserves	38.5	545.8	86.63
Grade of total iron (Tfe) (%)			
– proved	24.15	12.78	13.50
– probable	24.65	12.83	13.61
Average grade of total iron (Tfe) (%)	24.55	12.82	13.56
Grade of titanium dioxide (TiO ₂) (%)			
– proved	N/A	5.76	4.52
– probable	N/A	5.65	4.48
Average grade of total titanium dioxide (TiO ₂) (%)	N/A	5.69	4.50

JORC Ore Reserve Estimate as of 31 December 2013:

	Yangzhuang Iron Mine	Zhuge Shangyu Ilmenite Mine	Qinjiazhuang Ilmenite Project
Ore reserves (Mt)			
– proved	8.1	199.8	45.33
– probable	31.2	346.2^(Note)	41.30
Total ore reserves	39.3	546.0	86.63

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

Yangzhuang Iron Mine Resource Estimate as of 31 December 2013:

Resource Category	Resources (Mt)	SG (t/m ³)	TFe (%)	mFe (%)
Measured	13.5	3.25	26.0	10.6
Indicated	<u>50.1</u>	<u>3.25</u>	<u>26.8</u>	<u>10.4</u>
Total Measured and Indicated	63.6	3.25	26.6	10.4
Inferred	<u>17.6</u>	<u>3.22</u>	<u>24.6</u>	<u>8.7</u>
Total resource	<u><u>81.2</u></u>	<u><u>3.24</u></u>	<u><u>26.2</u></u>	<u><u>10.0</u></u>

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

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

Zhugue Shangyu Ilmenite Mine Resource Estimate as of 31 December 2013:

Resource Category	Resource Tonnes (Mt)	SG (t/m ³)	TiO ₂ (%)	TFe (%)
Measured	373	3.19	6.23	14.04
Indicated	<u>261</u>	<u>3.13</u>	<u>6.14</u>	<u>14.18</u>
Total Measured and Indicated	633	3.17	6.19	14.10
Inferred	<u>4</u>	<u>3.13</u>	<u>5.92</u>	<u>15.03</u>
Total Resources	<u><u>637</u></u>	<u><u>3.16</u></u>	<u><u>6.19</u></u>	<u><u>14.10</u></u>

Qinjiashuang Ilmenite Project Resource Estimate as of 31 December 2013:

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

Luxing Titanium

Luxing Titanium 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 31 December 2013, we engaged 8th Institute of Geology and Mineral Exploration of Shandong Province to complete an updated verification report and it was estimated that 0.829 sq. km of the mining area had approximately 57.2 million tonnes of resources and reserves of Type 333 or above of ilmenite ores with an average grading of iron and titanium contents of approximately 14.5% and 6.6% respectively.

Reasons for the changes in the resources and reserves estimates:

1. The mining area is increased from 0.557 sq. km to 0.829 sq. km; and the mining depth is changed from +254.7 meters +150 meters to +255 meters +68 meters, which lead to an increase in the reserve by 12.8 million tonnes.
2. The resource estimation of 4-wire sectional S4-2a area is increased from 3,723.46 square meters to 10,396.22 square meters, which lead to an increase in the reserves by 2.17 million tonnes.
3. During the years from 2010 to 2013, reserves is reduced by 4.13 million tonnes due to the mining activities.

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.

Resources and Reserves Estimate as of 30 June 2014:

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

Resources and Reserves Estimate as of 31 December 2013:

Resources and Reserves category	Luxing Titanium
Resources and reserves of Type 333 or above of ilmenite ores (Mt) (under PRC classification standard)	57.2
Average grade of total iron (TFe) (%)	14.5
Average grade of total titanium dioxide (TiO ₂) (%)	6.6

Gaozhuang Shangyu Ilmenite project

Gaozhuang Shangyu Ilmenite Project is located in Yishui County and Yinan County of Shandong Province, the PRC. The Company has engaged an independent third party surveying agency to conduct preliminary exploration work in 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 on September 2012 under PRC classification standard with an average grading of iron and titanium contents of approximately 12.4% and 6.8%. There is no change in resources and reserves. 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 2014, the Group recorded revenue of approximately RMB279.2 million as compared with approximately RMB267.4 million for the six months ended 30 June 2013, representing an increase of approximately 4.4%. For the six months ended 30 June 2014, 83.5% of the Group's total sales consisted of the sales of iron concentrates and titanium concentrates while the remaining 16.5% of sales were mainly derived from trading of coarse iron powder and other income from Ishine International. The Group mainly sold iron concentrates and titanium concentrates produced by the Group to iron pellets and steel producers in Shandong Province, the PRC. In addition to the above customers of iron and titanium concentrates, the Group sold coarse iron powder to other customers engaged in trading and manufacturing of iron-related products in the PRC.

Prices of the Group's products

Iron Concentrates

The unit price of approximately 57% and 65% 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 57% and 65% iron concentrates for the six months ended 30 June 2014 was approximately RMB649.3 and RMB895.6 per tonne respectively, representing a decrease of approximately 5.5% and 4.7% as compared with the average unit selling price of approximately RMB687.0 and RMB939.9 per tonne for the six months ended 30 June 2013 respectively. Such decrease was mainly due to the continuous slowdown of China's economy in the first half year of 2014.

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 six months ended 30 June 2014, the Group produced approximately 4.1 ktons and approximately 5.7 ktons of titanium concentrates with approximately 20%-30% and 46% titanium concentrates respectively. The average unit selling price of the 46% titanium concentrates was approximately RMB786.2 per tonne. The Group did not sell any titanium concentrates with approximately 20%-30% titanium content.

Revenue

Revenue was generated from the sale of the Group's products to external customers net of value added tax as well as from the Group's trading activities. The Group's revenue from the sales of the Group's products is mainly affected by the Group's total sales volume which in turn is subject to the Group's mining and processing capacity 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 2014		Six months ended 30 June 2013	
	RMB'000	%	RMB'000	%
Revenue				
Sales of iron concentrates produced by the Group				
– from iron ore of Yangzhuang Iron Mine (65% iron concentrates)	103,118	36.9%	150,670	56.3%
– from ilmenite ore of Luxing Titanium Mine (57% iron concentrates)	3,636	1.3%	32,291	12.1%
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder (65% iron concentrates)	123,386	44.2%	58,846	22.0%
	230,140	82.4%	241,807	90.4%
Sales of titanium concentrates produced by the Group				
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine (46% titanium concentrates)	2,909	1.1%	–	–
– from ilmenite ore of Luxing Titanium Mine (20%-30% titanium concentrates)	–	–%	827	0.3%
	2,909	1.1%	827	0.3%
Sales of trading activities				
– from coarse iron powder	43,606	15.6%	24,801	9.3%
Other income from Ishine International	2,580	0.9%	–	–
	279,235	100%	267,435	100%

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

	Six months ended 30 June 2014 (Kt)	Six months ended 30 June 2013 (Kt)
Sales volume of iron concentrates produced by the Group		
– from iron ore of Yangzhuang Iron Mine (65% iron concentrates)	115.3	158.8
– from ilmenite ore of Luxing Titanium Mine (57% iron concentrates)	5.6	47.0
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder (65% iron concentrates)	137.6	64.1
	258.5	269.9
Sales volume of titanium concentrates produced by the Group		
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine (46% titanium concentrates)	3.7	–
– from ilmenite ore of Luxing Titanium Mine (20%-30% titanium concentrates)	–	3.4
Sales volume of trading activities		
– from coarse iron powder	61.5	36.1
	323.7	309.4

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

	Six months ended 30 June 2014		Six months ended 30 June 2013	
	(Kt)	%	(Kt)	%
Iron concentrates produced by the Group				
Amount of iron concentrates produced from iron ore of Yangzhuang Iron Mine (65% iron concentrates)	104.8	37.8%	158.8	60.8%
Amount of iron concentrates produced from ilmenite ore of Zhuge Shangyu Ilmenite Mine (57% iron concentrates)	3.8	1.4%	—	—
Amount of iron concentrates produced from ilmenite ore of Luxing Titanium Mine (57% iron concentrates)	16.6	5.9%	42.9	16.4%
Amount of iron concentrates produced from coarse iron powder purchased from other suppliers (65% iron concentrates)	152.4	54.9%	59.7	22.8%
Total of iron concentrates produced	277.6	100%	261.4	100%
Titanium concentrates produced by the Group				
Amount of titanium concentrates produced from ilmenite ore of Zhuge Shangyu Ilmenite Mine (46% titanium concentrates)	5.7	58.2%	—	—
Amount of titanium concentrates produced from ilmenite ore of Luxing Titanium Mine (20%-30% titanium concentrates)	4.1	41.8%	19.5	100.0%
Total	9.8	100%	19.5	100%

Revenue from sales of iron concentrates and titanium concentrates produced by the Group represents approximately 82.4% and 1.1% respectively of the Group's total revenue for the six months ended 30 June 2014. The Group also sourced coarse iron powder for on sale to its trading customers.

The Group's revenue has increased by approximately RMB11.8 million, or approximately 4.4% in the six months ended 30 June 2014 as compared to the six months ended 30 June 2013. The increase in revenue is mainly due to (1) the increase in turnover by approximately RMB18.8 million from trading of coarse iron powder during the six months ended 30 June 2014 (2) the increase in sales of titanium concentrates by approximately RMB2.9 million produced from ilmenite ore of Zhuge Shangyu; and (3) the increase in sales of 65% iron concentrates by approximately RMB17.0 million, which was partially offset by the decrease in sales of 57% iron concentrates produced from ilmenite ore of Luxing Titanium Mine by approximately RMB28.7 million for the six months ended 30 June 2014. Under the government's macroeconomic control, there is a continuous downturn on real estate and steel industries in Shandong Province, the PRC. The average selling price of 57% and 65% iron concentrates decreased by approximately 5.5% and 4.7% to RMB649.3 and RMB895.6 per tonne respectively for the six months ended 30 June 2014 as compared with RMB687.0 and RMB939.9 per tonne respectively for the six months ended 30 June 2013. In order to reduce the operation risk, the management team strategically decreased the sales volume of iron concentrates produced Yangzhuang Iron Mine and increased the sales volume of iron concentrates produced from coarse iron concentrates purchased from other suppliers during the six months ended 30 June 2014.

The decrease in sales of iron concentrates produced from iron ore of Yangzhuang Iron Mine and Ilmenite ore of Luxing Titanium was mainly due to (1) the decrease of approximately 27.4% and 88.1% in sales volume of iron concentrates produced from iron ore of Yangzhuang Iron and Ilmenite ore of Luxing Titanium respectively. Due to the slowdown of China's economy and the decline in demand from steel makers in Shandong Province, the management strategically decided to protect the resources of the Group by reducing the sales volume and production volume of the iron concentrates produced from iron ore of Yangzhuang Iron Mine and increasing the sales volume and production volume of iron concentrates produced from coarse iron powder purchase from other suppliers; and (2) a decrease of approximately 5.5% and 4.7% in average unit selling price of 57% iron concentrates and 65% iron concentrates from approximately RMB687.0 and RMB939.9 per tonne for the six months ended 30 June 2013 to approximately RMB649.3 and RMB895.6 per tonne for the six months ended 30 June 2014 respectively.

The entire iron and steel market has demonstrated an ongoing downward moving trend as the economy in China continued to remain sluggish. The management has restructured the sales mix of products which increased the purchase of coarse iron powder for processing to produce 65% iron concentrates. Sales derived from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder increased by approximately 109.9% from approximately RMB58.8 million for the six months ended 30 June 2013 to approximately RMB123.4 million for the six months ended 30 June 2014, mainly as a result of the risk control measures adopted by the Group.

The total sales generated from trading activities significantly increased by approximately 75.8% which was mainly due to (1) the increase of trading turnover of coarse iron powder from approximately RMB24.8 million for six months ended 30 June 2013 to approximately RMB43.6 million for the six months ended 30 June 2014. Since the quality of the purchased coarse iron powder is better, the average unit selling price is increased from approximately RMB687.0 per tonne for the six months ended 2013 to approximately RMB709.2 per tonne for the six months ended 30 June 2014, and (2) the increase in the sales volume of coarse iron powder by approximately 70.4% to approximately 61.5 ktonne for the six months ended 30 June 2014.

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 2014		Six months ended 30 June 2013	
	RMB'000	%	RMB'000	%
Cost of Sales				
Cost of sales of iron concentrates produced by the Group				
– from iron ore of Yangzhuang Iron Mine (65% iron concentrates)	65,042	27.7%	76,634	43.7%
– from ilmenite ore of Luxing Ilmenite Mine (57% iron concentrates)	4,369	1.9%	27,081	15.4%
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder (65% iron concentrates)	119,159	50.8%	48,842	27.8%
	188,570	80.4%	152,557	86.9%
Cost of sales of titanium concentrates produced by the Group				
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine (46% titanium concentrates)	2,876	1.2%	–	–
– from ilmenite ore of Luxing Ilmenite Mine (20%-30% titanium concentrates)	–	–	771	0.4%
	2,876	1.2%	771	0.4%
Cost of sales of trading activities – from coarse iron powder	41,059	17.5%	21,845	12.4%
	41,059	17.5%	21,845	12.4%
Exploration costs incurred by Ishine International	2,184	0.9%	356	0.2%
	<u>234,689</u>	<u>100%</u>	<u>175,529</u>	<u>100%</u>

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 increased by approximately 33.7%, to approximately RMB234.7 million for the six months ended 30 June 2014, as compared with approximately RMB175.5 million for the corresponding period in 2013. The increase in cost of sales is mainly due to the following factors: (1) in order to reduce the operation risk, the management restructured the sales mix of products which increased the import of coarse iron powder for processing to produce 65% iron concentrates. The sales volume of the iron concentrates from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder has increased from 64.1kt for the six months ended 30 June 2013 to 137.6kt for the six months ended 30 June 2014; and (2) the total sales generated from trading activities significantly increased by approximately 75.8% which was mainly due to increase of trading turnover of coarse iron powder from approximately RMB24.8 million for six months ended 30 June 2013 to approximately RMB43.6 million for the six months ended 30 June 2014. The increase in cost of sales for the six months ended 30 June 2014 was partially offset by the decrease in cost of sales of iron concentrates produced from iron of Yangzhuang Iron Mine and Ilmenite ore of Luxing Titanium.

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 2014		Six months ended 30 June 2013	
	RMB'000	%	RMB'000	%
Gross profit				
– Gross profit of iron concentrates produced by the Group				
– from iron ore of Yangzhuang Iron Mine (65% iron contents)	38,076	85.5%	74,036	80.6%
– from ilmenite ore of Luxing Ilmenite Mine (57% iron contents)	(733)	(1.7)%	5,210	5.7%
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder (65% iron contents)	4,227	9.5%	10,004	10.8%
	41,570	93.3%	89,250	97.1%
– Gross profit of titanium concentrates produced by the Group				
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine (46% titanium contents)	33	0.1%	–	–
– from ilmenite ore of Luxing Ilmenite Mine (20%-30% titanium contents)	–	–%	56	0.1%
	33	0.1%	56	0.1%
– Gross profit of trading activities				
– from coarse iron powder	2,547	5.7%	2,956	3.2%
	2,547	5.7%	2,956	3.2%
– Gross profit of exploration activities	396	0.9%	(356)	(0.4)%
	44,546	100%	91,906	100%

Six months ended 30 June 2014 %	Six months ended 30 June 2013 %
--	--

Gross profit margin

Gross profit margin of iron concentrates

– from iron ore of Yangzhuang Iron Mine (65% iron contents)	36.9%	49.1%
– from ilmenite ore of Luxing Ilmenite Mine (57% iron contents)	(20.2)%	16.1%
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder (65% iron contents)	3.4%	17.0%
	18.1%	36.9%

Gross profit margin of titanium concentrates

– from ilmenite ore of Zhuge Shangyu Ilmenite Mine (46% titanium contents)	1.1%	–
– from ilmenite ore of Luxing Ilmenite Mine (20%-30% titanium contents)	–%	6.8%

Gross profit margin of trading activities

– from coarse iron powder	5.8%	11.9%
---------------------------	-------------	-------

Gross profit margin of exploration activities

15.3%	11.9%
--------------	-------

Overall gross profit margin

16.0%	34.4%
--------------	--------------

Gross profit decreased by approximately 51.6% from approximately RMB91.9 million for the six months ended 30 June 2013 to approximately RMB44.5 million for the six months ended 30 June 2014. The main reasons for the decline were (1) the decrease in gross profit of iron concentrates produced from the iron ore of Yangzhuang Iron Mine and ilmenite ore of Luxing Titanium by approximately RMB41.9 million from approximately RMB79.2 million for the six months ended 30 June 2013 to approximately RMB37.3 million for the six months ended 30 June 2014; (2) the decrease in gross profit of iron concentrates produced from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder by approximately RMB5.8 million from approximately RMB10.0 million for the six months ended 30 June 2013 to approximately RMB4.2 million for the six months ended 30 June 2014.

Overall gross profit margin decreased from 34.4% to 16.0% for the six months ended 30 June 2014 as compared with that for the six months ended 30 June 2013. This was mainly due to the change of the sale mix of the products. In order to minimise the operational risk, the Company management decided to decrease the sale volume of iron concentrates produced from the iron ore of Yangzhuang Iron Mine and increase the sale volume of (i) iron concentrates produced from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder; and (ii) 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 concentrates produced from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder and trading of coarse iron powder with a lower gross profit margin, increased from 31.3% for the six months ended 30 June 2013 to 59.8% for the six months ended 30 June 2014 out of total revenue.

Other gains, net

The Group made other gain of approximately RMB1.3 million for the six months ended 30 June 2014 as compared with approximately RMB72.2 million for the six months ended 30 June 2013 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 during the six months ended 30 June 2013, as compared to RMB1.0 million during the six months ended 30 June 2014.

Finance costs, net

Net finance costs mainly comprised interest expense on bank loans of the Group, offset by interest income of bank deposits. Finance costs decreased by approximately 41.2% from approximately RMB17.1 million for the six months ended 30 June 2013 to approximately RMB10.1 million for the six months ended 30 June 2014, which was mainly due to (1) the decrease in weighted average bank loans by approximately RMB65.0 million during the six months ended 30 June 2014 which decreased the interest expense by approximately RMB4.9 million; and (2) the increase in interest income by approximately RMB1.2 million from term deposits and finance management to approximately RMB1.4 million during the six months ended 30 June 2014.

Total comprehensive income

The total comprehensive income for the six months ended 30 June 2014 has decreased by approximately RMB92.8 million, representing a decrease of approximately 93.0% as compared with the six months ended 30 June 2013. This was mainly due to (1) the one-off gain on bargain purchase of 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; (2) the decrease in gross profit by RMB47.4 million, or 51.6% for the six months ended 30 June 2014 as compared with the six months ended 30 June 2013. The decrease in total comprehensive income for the six month ended 30 June 2014 was partially offset by (1) the decrease in finance costs by approximately RMB7.0 million, or 41.2% for the six months ended 30 June 2014 as compared with the corresponding period in 2013 due to the decrease in interest expense on bank borrowings by approximately RMB4.9 million, and the increase in interest income by approximately RMB1.2 million from term deposit and finance management; (2) the decrease in administrative expense by approximately RMB2.5 million or 10.3% for the six months ended 30 June 2014 as compared with the corresponding period in 2013 due to the cost control measures adopted by the management in 2014.

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 2014 was approximately RMB1.4 million as compared with net loss of approximately RMB3.6 million for the six months ended 30 June 2013.

CAPITAL STRUCTURE

The Company's issued share capital as at 30 June 2014 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 net debt divided by total capital) as at 30 June 2014 was approximately 19.6% (31 December 2013: approximately 17.2%). The current ratio (calculated as current assets divided by current liabilities) as at 30 June 2014 was approximately 1.6 times (31 December 2013: approximately 1.6 times).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2014, the total amount of the borrowings in the Group was approximately RMB265.3 million which were all fixed rate borrowings and denominated in RMB (31 December 2013: approximately RMB210.0 million). The Group's cash and bank balances amounted to approximately RMB92.6 million (31 December 2013: approximately RMB64.1 million), which were denominated in RMB.

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 the 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.

PLACING OF UNLISTED WARRANTS UNDER GENERAL MANDATE

On 24 June 2014, the Company entered into a placing agreement (the "Placing Agreement") with Guangdong Securities Limited (the "Placing Agent") pursuant to which the Company has agreed to issue, and the Placing Agent has agreed to procure not less than six placees to subscribe for, up to 144,000,000 unlisted warrants (each entitling the holder to subscribe for one share of the Company at the subscription price of HK\$1.69 (subject to adjustment) per share) (the "Warrants"), on a best effort basis, at the placing price of HK\$0.01 per Warrant during 24 June 2014 to 23 July 2014 (the "Placing"). The Placing was completed on 17 July 2014. For details of the Placing, please refer to the announcements of the Company dated 24 June 2014, 11 July 2014 and 17 July 2014.

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 2014, the Group's trade receivables and notes receivables with carrying amount of approximately RMB134.6 million was pledged for bank borrowings of approximately RMB127.6 million. Mining rights of Shandong Ishine and Luxing Titanium with book value of approximately RMB116.9 million was pledged for bank borrowings of approximately RMB65 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 2014 is approximately RMB8.6 million (equivalent to approximately AUD1.5 million).

EMPLOYEE BENEFITS AND REMUNERATION POLICIES

As at 30 June 2014, the Group had a total of 478 employees (31 December 2013: 649). 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 2014, staff costs (including Directors' remunerations) amounted to approximately RMB12.6 million (six months ended 30 June 2013: approximately RMB17.4 million).

CONTINGENT LIABILITIES

As at 30 June 2014, the Group has no material contingent liabilities.

USE OF THE IPO PROCEEDS

Purpose	Amount allocated as provided in the Prospectus <i>RMB million (approximately)</i>	Amount utilised up to the date of Announcement ^(Note) <i>RMB million (approximately)</i>	Unutilised amount as at the date of the Announcement <i>RMB million (approximately)</i>	Amount to be reallocated to new purposes <i>RMB million (approximately)</i>	Amount utilised up to 31 December 2013 <i>RMB million (approximately)</i>	Unutilised amount as at 30 June 2014 <i>RMB million (approximately)</i>
Purposes disclosed in the Prospectus						
Financing the expansion of mining capacity of Yangzhuang Iron Mine	62.4	36.6	25.8	–	36.6	–
Financing the first stage of development plan of Zhuge Shangyu Ilmenite Mine	42.7	4.1	38.6	12.6	16.7	–
New Purposes						
Commencement of operation of Zhuge Shangyu Ilmenite Mine	–	–	–	22.0	22.0	–
Commencement of the Qinjiazhuang Ilmenite Project	–	–	–	16.0	16.0	–

Purpose	Amount allocated as provided in the Prospectus RMB million (approximately)	Amount utilised up to the date of Announcement ^(Note) RMB million (approximately)	Unutilised amount as at the date of the Announcement RMB million (approximately)	Amount to be reallocated to new purposes RMB million (approximately)	Amount utilised up to 31 December 2013 RMB million (approximately)	Unutilised amount as at 30 June 2014 RMB million (approximately)
Technology improvement plan to increase annual processing capacity of Luxing Titanium Ilmenite Mine	-	-	-	3.8	3.8	-
General working capital	-	-	-	10.0	10.0	-
Total	105.1	40.7	64.4	64.4	105.1	-

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

CURRENT STATUS AND FUTURE PLAN

After comprehensive market investigation and overall analysis, the Group has the following development plans as to the mines currently owned by the Group in 2014:

Yangzhuang Mine

The Group currently possesses a mining permit of Yangzhuang Iron Mine with an approved annual mining production scale of 2.3Mt. 0.8Mt of iron ores were actually mined during the first half of 2014 from Yangzhuang Iron Mine.

Normally, the Group plans to mine and process approximately 2.0 Mt of iron ores and produce approximately 330 Kt of 65% iron concentrates. Due to a market downturn and the price of iron powders dropped in 2014, the Group exercised appropriate control on the production and processing, maintained storage of ores, further strengthened mining engineering work and provided proper maintenance to the mines, in order to be well-prepared for the production in a boom market. Meanwhile, the Group continued to enhance the comprehensive utilisation of tailing resources, so as to improve the overall benefits from maintaining green mines. During the first half of 2014, approximately 0.7 Mt of iron ores were processed and 105 Kt of 65% iron concentrates were produced.

The technology improvement plan for Yangzhuang Iron Mine, which started from 2013 and aimed to reduce the processing cost of iron ores, was finished during the first half of 2014.

There was no exploration activity carried out in this mining area during the first half of 2014.

Zhuge Shangyu Ilmenite Mine

Zhuge Shangyu Ilmenite Mine currently possesses a mining permit with an approved annual mining production scale of 400,000 cubic metres (or approximately 1.2Mt). 0.2Mt of ores were actually mined during the first half of 2014 from Zhuge Shangyu Ilmenite Mine.

The Group plans to mine and process approximately 0.7Mt of ilmenite ores, and produce approximately 16 Kt of 57% iron concentrates and approximately 18 Kt of 46% titanium concentrates in 2014.

In 2013, the Group rented an iron ore processing plant and installed in it a titanium processing line, which is now put into production and operation. During the first half of 2014, approximately 0.2 Mt of titanium ores were processed and approximately 4 Kt of 57% iron concentrates and approximately 6 Kt of 46% titanium concentrates were produced. Through strengthening further cooperation with national scientific and research institutes under the platform of this production line, the Group improved titanium processing techniques and controlled production cost.

If the market recovers, the Group will increase its investment in the 2.0Mt processing line and production line in Zhuge Shangyu Ilmenite Mine, which was carried out in 2013; if it is less profitable or not profitable at all, the Group will slow down its investments. The Group will first install a processing and production line by utilising idle equipment in other areas and mines, and will determine if it will process with part of coarse powders purchased from other suppliers based on profitability. Then the Group will decide to mine and process its own mines if the price recovers. Due to a market downturn since 2014, the 2.0Mt processing line and production line in Zhuge Shangyu Ilmenite Mine, which was carried out by the Group with an investment amount of approximately RMB5.2 million in 2013, has yet to be finished.

There was no exploration activity carried out in Zhuge Shangyu Ilmenite Mine during the first half of 2014.

Qinjiazhuang Ilmenite Project

In 2014, the Group will determine the investment and production activities in Qinjiazhuang Ilmenite according to the changes in market conditions and the effectiveness and the cost of the titanium selection test conducted by Luxing Titanium. Due to a market downturn since 2014, Qinjiazhuang Ilmenite Project, which was invested by the Group with an amount of RMB0.6 million, has yet to be put into production.

There was no exploration activity carried out in this mining area during the first half of 2014.

Luxing Titanium

Luxing Titanium Mine currently possesses a mining permit with an approved annual mining production scale of 1.5Mt. Approximately 0.3Mt ores were actually mined by Luxing Titanium during the first half of 2014.

The Company plans to mine and process approximately 1.0Mt ilmenite ores and to produce 60 Kt of 57% iron concentrates and 30 Kt of 20-30% titanium concentrates in 2014.

In 2014, under a possible downturn market, the Company may adjust the processing and production of ilmenite ores depending on market changes. The Company may focus on ilmenite tailings purification technology test and studies of reducing the production cost in order to achieve new breakthroughs in cost-saving. Meanwhile, under a good market environment, the production plans of the mine for the year will not be affected. During the first half of 2014, the Group invested an amount of approximately RMB2.8 million in line with a downturn market, processed approximately 0.3 Mt of titanium ores and produced approximately 17 Kt of 57% iron concentrates and approximately 4 Kt of 20% to 30% titanium concentrates.

There was no exploration activity carried out in Luxing Titanium during the first half of 2014.

In conclusion, during 2014, the Group will timely adjust the production plans in line with the market situation and protect its resources and strive for long and sustainable economic benefits of the Group, and ensure to maximise the long and sustainable interests of the investors.

SEGMENTAL INFORMATION

Details of segmental information of the Group as at 30 June 2014 are set out in note 6 in this interim results announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2014, 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 of Hong Kong Limited ("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 2014.

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 code provisions set out in the CG Code throughout the six months ended 30 June 2014.

Pursuant to code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Zhang Jingsheng, being an independent non-executive Director, did not attend the 2014 annual general meeting of the Company held 30 May 2014 due to his engagement in his own official business.

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 this interim results announcement and the unaudited interim financial information for the six months ended 30 June 2014 before such documents were tabled at a meeting of the Board held on 29 August 2014 for the Board's review and approval, and was of the opinion that such documents had complied with the applicable accounting standards, the Listing Rules and other applicable legal requirements and that adequate disclosures had been made.

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

Hong Kong, 29 August 2014

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