

Overcoming challenges
through a firm foundation

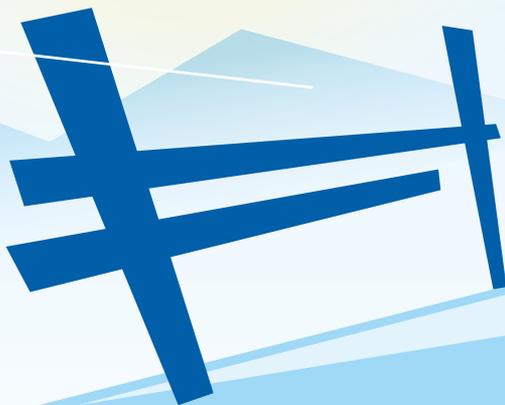
INTERIM REPORT 2014



CHINA VANADIUM
TITANO-MAGNETITE MINING
COMPANY LIMITED

中國鈇鈦磁鐵礦業有限公司

(Incorporated in the Cayman Islands with limited liability)



Stock Code: 00893

Our Presence



Mines

Name	Location	Area	Type of Resources	Resources under the JORC Code as at 1 January 2014 (Mt)	Average Grade	Mining Method
1 Baicao Mine	Huilu County, Sichuan	Mining area: 1.88 sq.km.	Vanadium-bearing titano-magnetite	95.62	25.08% Fe	Open-pit mining
2 Xiushuihe Mine (including expansion area)	Huilu County, Sichuan	Exploration area: 1.73 sq.km. (including a mining area of 0.52 sq.km.)	Vanadium-bearing titano-magnetite	86.02	24.50% Fe	Open-pit mining
3 Yangqueqing Mine	Huilu County, Sichuan	Mining area: 0.25 sq.km.	Vanadium-bearing titano-magnetite	21.18	25.09% Fe	Open-pit mining
4 Cizhuqing Mine	Huilu County, Sichuan	Exploration area: 2.3 sq.km.	Vanadium-bearing titano-magnetite	25.57	21.41% Fe	Open-pit mining
5 Maoling-Yanglongshan Mine	Wenchuan County, Sichuan	Exploration area: 11.6 sq.km. (including a mining area of 1.9 sq.km.)	Ordinary magnetite	60.20	22.82% Fe	Underground mining

* Haibaodang Mine: Acquisition subject to the results of the further exploration works

** Shigou Gypsum Mine: Acquisition pending completion with forecasted 10,369,700 tonnes of gypsum ore resources (Types 331 and 333) with average gypsum grade 90.64%

Iron Pelletising Plant

Name	Location	Capacity
6 Iron Pelletising Plant	Huilu County, Sichuan	1,000.0 Ktpa

Processing Plants

Name	Location	Capacity (wet basis)
7 Xiushuihe Processing Plant	Near Xiushuihe Mine	Vanadium-bearing iron concentrates: 800.0 Ktpa; High-grade titanium concentrates: 100.0 Ktpa
8 Baicao Processing Plant	Near Baicao Mine	Vanadium-bearing iron concentrates: 700.0 Ktpa; High-grade titanium concentrates: 60.0 Ktpa
9 Hailong Processing Plant	Near Cizhuqing Mine	Vanadium-bearing iron concentrates: 300.0 Ktpa
10 Heigutian Processing Plant	Near Yangqueqing Mine	Vanadium-bearing iron concentrates: 800.0 Ktpa; High-grade titanium concentrates: 120.0 Ktpa
11 Maoling Processing Plant	Near Maoling-Yanglongshan Mine	Ordinary iron concentrates: 150.0 Ktpa



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BOARD OF DIRECTORS

Executive Directors

Mr. Jiang Zhong Ping (*Chairman*)
 Mr. Tang Wei (*Chief Executive Officer*)
 Mr. Roy Kong Chi Mo (*Chief Financial Officer*)

Non-executive Directors

Mr. Teo Cheng Kwee
 Mr. Yu Xing Yuan

Independent Non-executive Directors

Mr. Yu Haizong
 Mr. Gu Peidong
 Mr. Liu Yi

AUDIT COMMITTEE

Mr. Yu Haizong (*Chairman*)
 Mr. Gu Peidong
 Mr. Liu Yi

REMUNERATION COMMITTEE

Mr. Gu Peidong (*Chairman*)
 Mr. Yu Haizong
 Mr. Jiang Zhong Ping

NOMINATION COMMITTEE

Mr. Jiang Zhong Ping (*Chairman*)
 Mr. Yu Haizong
 Mr. Liu Yi

COMPANY SECRETARY

Mr. Roy Kong Chi Mo (*FCCA, FCIS, FCS (PE) & MHKIoD*)

AUTHORISED REPRESENTATIVES

Mr. Jiang Zhong Ping
 Mr. Roy Kong Chi Mo (*FCCA, FCIS, FCS (PE) & MHKIoD*)

REGISTERED OFFICE

Cricket Square, Hutchins Drive
 P.O. Box 2681
 Grand Cayman KY1-1111
 Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2201, 22/F, Wheelock House
 20 Pedder Street
 Central
 Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Royal Bank of Canada Trust Company (Cayman) Limited
 4th Floor, Royal Bank House
 24 Shedden Road, George Town
 Grand Cayman KY1-1110
 Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
 17M Floor, Hopewell Centre
 183 Queen's Road East
 Wanchai
 Hong Kong

AUDITORS

Ernst & Young
 22/F, CITIC Tower
 1 Tim Mei Avenue
 Central
 Hong Kong

Corporate Information

COMPLIANCE ADVISER

Guotai Junan Capital Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

LEGAL ADVISERS

as to Hong Kong law
Minter Ellison
Level 25, One Pacific Place
88 Queensway
Hong Kong

as to Cayman Islands law
Conyers Dill & Pearman
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations Limited
Unit A, 29/F, Admiralty Centre I
18 Harcourt Road
Hong Kong
Email: ir@chinavtmmining.com

WEBSITE

www.chinavtmmining.com

STOCK CODE

00893

SHARE INFORMATION

Board lot size: 1,000

Financial Highlights

The Group's revenue amounted to approximately RMB383.9 million for the Reporting Period, representing a decrease of RMB452.8 million or 54.1% as compared to approximately RMB836.7 million for the six months ended 30 June 2013.

The Group's gross profit amounted to approximately RMB17.4 million for the Reporting Period, representing a decrease of RMB310.2 million or 94.7% as compared to approximately RMB327.6 million for the six months ended 30 June 2013. The gross profit margin for the Reporting Period was approximately 4.5% as compared to approximately 39.2% for the six months ended 30 June 2013.

The loss and total comprehensive loss attributable to owners of the Company for the Reporting Period was approximately RMB129.0 million and the profit and total comprehensive income attributable to owners of the Company for the six months ended 30 June 2013 was approximately RMB125.9 million.

The basic and diluted loss per Share attributable to ordinary equity holders of the Company amounted to approximately RMB6 cents for the Reporting Period and the basic and diluted earnings per Share attributable to ordinary equity holders of the Company amounted to approximately RMB6 cents for the six months ended 30 June 2013.

The Board does not recommend the payment of an interim dividend for the Reporting Period.

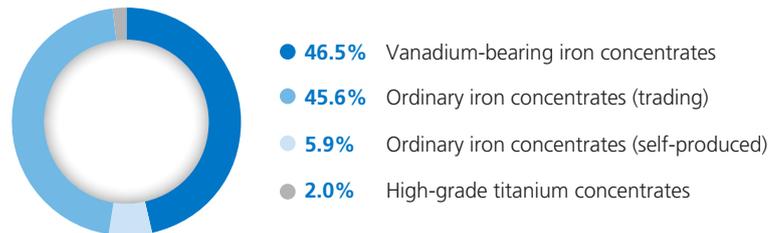
Revenue (RMB million)

for the six months ended 30 June



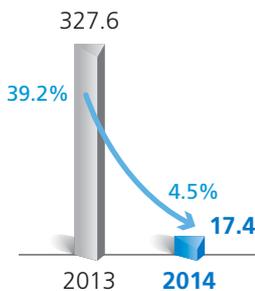
Revenue Breakdown by Product Categories

for the six months ended 30 June 2014



Gross Profit (RMB million) and Gross Profit Margin

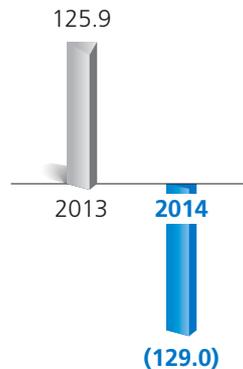
for the six months ended 30 June



→ Gross profit margin

Profit/(Loss) and Total Comprehensive Income/(Loss) Attributable to Owners of the Company (RMB million)

for the six months ended 30 June



Management Discussion and Analysis

MARKET REVIEW

During the Reporting Period, the operating environment in China has remained challenging and complicated. Overcapacity in steel industry continued to be a serious issue. In addition, the country also faced anti-dumping duty sanctions imposed by countries such as the US, Canada and Mexico on steel products originating from China, which has exacerbated the overall operating environment of the market and adversely affected the price of iron ore.

During the Reporting Period, the sluggish sentiment of the downstream market and the excessive production capacity of steel companies in China have dampened market demand and resulted in a decrease in both the sales volume and price of iron ore. The China Iron Ore Price Index compiled by the China Iron & Steel Association (中國鋼鐵工業協會) (the "CISA") fell from 453.37 in early January 2014 to 326.85 in late June 2014, a further decline since the first half of last year. In addition, the China Steel Price Index compiled by the CISA also declined from 107.06 in early January 2013 to 98.93 in early January 2014, and further declined to 92.99 in late June 2014, indicative of the strong downward trend of steel prices during the first half of 2014. Due to the longstanding oversupply, low utilisation, pollution issues and the continued low price of steel, the steel industry has recorded losses for 10 consecutive quarters. The CISA commented that the first quarter of 2014 was the "most difficult quarter for the steel industry". Sichuan, where the Group operates, was inevitably affected.

As for the titanium industry, the overall titanium market was also weak and the Panxi Region recorded both low market prices and reduced utilisation rates. The continued decline in the price of domestic titanium concentrates together with the weak demand in the downstream market has substantially affected the profits of mining companies, many of whom have recorded losses with some forced to suspend production. The price of high-grade titanium concentrates in Panzhihua (packaging and without value added tax) dropped from RMB1,094.0/tonne in early January 2013 to RMB668.0/tonne in January 2014. It further reduced to RMB610.0/tonne in June 2014. However, as the overall titanium market has recently shown signs of recovery, the price in early August 2014 in Panzhihua has slightly increased to RMB640.0/tonne the most.

Earlier this year, the China Banking Regulatory Commission (中國銀行業監督管理委員會) has clearly stated that it will implement strict credit control within industries with overcapacity. Presently the steel industry has a generally higher gearing ratio and the number of companies with a broken capital chain has increased. Related industry statistics reported that 28 listed steel companies in China recorded liabilities of RMB712.8 billion at the end of 2013. The credit tightening by the banks has increased the financing costs of the steel companies and presented obstacles to securing operating capital. The operating environment of the steel industry in general has become even more difficult as a result. In view of the difficult situation that the Group's customers are facing, the Group will timely and closely monitor the recoverability of the trade and bills receivables.

In view of the sluggish market demand, the Group's operation has been substantially affected both in terms of sales volume and selling prices. Production of the Group's Iron Pelletising Plant continued to be suspended during the Reporting Period and hence, a significant suspension expense and an impairment loss on property, plant and equipment were incurred which have adversely affected the Group's results.

BUSINESS AND OPERATIONS REVIEW

During the Reporting Period, due to the severe unfavourable downstream market and the production reduction of steel companies within the Panxi Region, the demand of upstream market declined, which led to the periodic suspension of production and adversely affected our performance. The Group's revenue significantly decreased by 54.1% to approximately RMB383.9 million as compared to the corresponding period of last year. Gross profit of the Group also significantly decreased by 94.7% to approximately RMB17.4 million as compared to the corresponding period of last year. The loss and total comprehensive loss attributable to owners of the Company was approximately RMB129.0 million.

Management Discussion and Analysis

In July 2013, the Group has engaged the Geochemistry Exploration Brigade of Sichuan Bureau of Exploration and Development of Geology and Mineral Resources (四川省地質礦產勘查開發局化探隊) (“Sichuan Geochemistry Exploration Team”) to prepare a geological exploration report and engaged two independent research institutes to prepare beneficiation and metallurgical testing reports on niobium and tantalum ore resources at the Baicao Mine. After considering the results of the beneficiation and metallurgical testing reports, the Board was of the view that it would not be in the best interest of the Company to pursue the exploration work further. As such, the Board decided to terminate all exploration work from 5 March 2014. The normal mining operations at the Baicao Mine resumed on 13 March 2014.

On 17 January 2014, the shareholders of the Joint Venture established for the development of the Dashanshu Section unanimously decided to voluntarily wind-up the Joint Venture due to the uncertainty on the timing to obtain necessary mining permit for its operation and the additional expenses that would be incurred to reach the stage of commercial production.

On 22 May 2014, Huili Caitong and Panzhihua Shuhai Construction Co., Ltd.* (攀枝花蜀海建設工程有限公司) (“Panzhihua Shuhai”) entered into an equity transfer agreement pursuant to which Panzhihua Shuhai had conditionally agreed to sell the equity interest, being 51% of the paid-up registered capital of the Target Company to Huili Caitong at a consideration of RMB370.0 million. The Target Company has a wholly-owned subsidiary, namely Hanyuan County Xinjin Mining Co., Ltd.* (漢源縣鑫金礦業有限公司) (“Hanyuan Xinjin”) which currently holds the mining permit of the Shigou Gypsum Mine with an annual output of 300.0 Kt of gypsum raw ore. The consideration was determined based on arm’s length negotiations between the Parties after taking into account primarily comparable transaction analysis of mining company acquisitions, consideration paid per unit of mining resource and discount applied to the prevailing market price of the mining products. Accordingly, the Board was of the view that the acquisition (including the consideration) was fair and reasonable and in the interests of the Company and the Shareholders as a whole.

On 28 May 2014, Lingyu and the Sellers entered into a second supplemental agreement, whereby the Sellers would instruct the independent geological agent (the “Geological Agent”) to carry out further exploration works on the Haibaodang Mine for a period of six months from 1 June 2014. The Board would consider the results of the further exploration works, and also conduct its own analysis of the economic value of the Haibaodang Mine based on such results. For details of the aforesaid events, please refer to the section headed “Other Significant Events” in this report.

As at 30 June 2014, the Group owned the Baicao Mine, the Xiushuihe Mine, the Yangqueqing Mine, the Cizhuqing Mine and the Maoling-Yanglongshan Mine. Furthermore, the Group owned the Baicao Processing Plant, the Xiushuihe Processing Plant, the Hailong Processing Plant, the Heigutian Processing Plant and the Iron Pelletising Plant in the Panxi Region and also owned the Maoling Processing Plant in Aba Prefecture. As at 30 June 2014, the Group’s annual self-production capacity (on a wet basis) of vanadium-bearing iron concentrates, ordinary iron concentrates, iron pellets and high-grade titanium concentrates amounted to 2,600.0 Ktpa, 150.0 Ktpa, 1,000.0 Ktpa and 280.0 Ktpa, respectively.

Management Discussion and Analysis

The following table summarised the breakdown of the total production volume and total sales volume of the Group's products:

	Six months ended 30 June		
	2014 (Kt)	2013 (Kt)	Change (%)
Vanadium-bearing iron concentrates			
Baicao Processing Plant	39.4	223.1	-82.3
Xiushuihe Processing Plant	177.9	319.9	-44.4
Heigutian Processing Plant	164.6	348.9	-52.8
Hailong Processing Plant	58.7	98.5	-40.4
Total production volume	<u>440.6</u>	<u>990.4</u>	-55.5
Total sales volume	<u>363.2</u>	<u>1,112.2</u>	-67.3
Ordinary iron concentrates			
Maoling Processing Plant	40.3	41.3	-2.4
Total production volume	<u>40.3</u>	<u>41.3</u>	-2.4
Total sales volume	<u>22.6</u>	<u>37.8</u>	-40.2
Purchased from an independent third party for trading purpose	<u>227.7</u>	<u>–</u>	100.0
Sale to an independent third party for trading purpose	<u>220.8</u>	<u>–</u>	100.0

Management Discussion and Analysis

	Six months ended 30 June		
	2014 (Kt)	2013 (Kt)	Change (%)
Iron pellets			
Iron Pelletising Plant	–	25.7	-100.0
Total production volume	<u>–</u>	<u>25.7</u>	-100.0
Total sales volume	<u>–</u>	<u>38.3</u>	-100.0
High-grade titanium concentrates			
Baicao Processing Plant	1.5	39.0	-96.2
Xiushuihe Processing Plant	11.6	43.0	-73.0
Heigutian Processing Plant	1.4	26.4	-94.7
Total production volume	<u>14.5</u>	<u>108.4</u>	-86.6
Total sales volume	<u>16.9</u>	<u>118.5</u>	-85.7

The significant decrease in the market demand coupled with the exploration work carried out for the potential niobium and tantalum ore resources at the Baicao Mine before 13 March 2014 led to the significant decline in total production volume and total sales volume for the Group's products. Total production volume and total sales volume of vanadium-bearing iron concentrates decreased by 55.5% and 67.3%, respectively as compared to the corresponding period of last year. Total production volume and total sales volume of ordinary iron concentrates decreased by 2.4% and 40.2%, respectively as compared to the corresponding period of last year. Total production volume and total sales volume of high-grade titanium concentrates decreased by 86.6% and 85.7%, respectively as compared to the corresponding period of last year. There was no output for iron pellets during the Reporting Period.

During the Reporting Period, the Group continued to conduct the trading business with the independent third parties for ordinary iron concentrates, the purchase of ordinary iron concentrates and the sales of ordinary iron concentrates for trading purpose were 227.7 Kt and 220.8 Kt, respectively. The agreements entered into between the Group and the independent third parties entitled the Group to a 5% discount on the purchase price as compared to the prevailing market price with a certain amount of prepayment.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

During the Reporting Period, the Group's revenue was approximately RMB383.9 million (six months ended 30 June 2013: RMB836.7 million), representing a decrease of 54.1% as compared to the corresponding period in 2013. Such decrease was due to the significant decrease in sales volume and average selling prices of the Group's products. The revenue also included the sale of ordinary iron concentrates to an independent third party of approximately RMB175.2 million for trading purpose.

Cost of Sales

The cost of sales primarily included contracting fees for mining and stripping as well as materials, labour, power and other utilities, repair and maintenance, depreciation and amortisation, and the purchase cost of ordinary iron concentrates from an independent third party for trading purpose. During the Reporting Period, the Group's cost of sales was approximately RMB366.5 million (six months ended 30 June 2013: RMB509.1 million), representing a decrease of 28.0% as compared to the corresponding period in 2013. The decrease was primarily due to the significant decrease in sales volume of the Group's products. During the Reporting Period, the unit production costs of vanadium-bearing iron concentrates increased as compared to the corresponding period in 2013 mainly because of the increased stripping costs, depreciation and other miscellaneous expenses and the increase in stripping costs which was primarily due to the higher ratio of waste to raw iron ore during the extraction.

Gross Profit and Margin

As a result of the foregoing, the gross profit during the Reporting Period decreased by 94.7%, from approximately RMB327.6 million to approximately RMB17.4 million. The gross profit margin decreased from approximately 39.2% for the six months ended 30 June 2013 to approximately 4.5% for the Reporting Period. The decrease in gross profit margin was primarily because of the decreased selling prices of the Group's products due to unfavourable market conditions, coupled with the impact of increased unit production costs as explained above.

Other Income and Gains

The other income and gains increased by 51.2%, from approximately RMB46.5 million for the six months ended 30 June 2013 to approximately RMB70.3 million for the Reporting Period. The other income and gains of the Group for the Reporting Period mainly included bank interest income, fair value gains on the Exchangeable Notes and government grant from local government.

Selling and Distribution Expenses

The selling and distribution expenses decreased by 87.9%, from approximately RMB44.5 million for the six months ended 30 June 2013 to approximately RMB5.4 million for the Reporting Period. The selling and distribution expenses primarily consisted of transportation fees, which mainly represented the road transportation costs, goods loading and unloading fees, platform storage and administration fees. The decrease was mainly due to (i) the significant decrease in sales volume of the Group's products and (ii) the decrease in transportation expenses, as the Group's major subsidiary, Huili Caitong stopped to transport the products to the designated railway stations since May 2013.

Administrative Expenses

The administrative expenses increased by 58.4%, from approximately RMB63.2 million for the six months ended 30 June 2013 to approximately RMB100.1 million for the Reporting Period. The increase in administrative expenses was mainly because the suspension expenses during the Reporting Period including staff costs and overheads were recorded in the administrative expenses in aggregate of approximately RMB43.1 million, as a result of (i) the suspension of production of the Iron Pelletising Plant and (ii) the periodic suspension of production in the Baicao Mine and the Xiushuihe Mine.

The equity-settled share option expenses of approximately RMB7.4 million for the Reporting Period (six months ended 30 June 2013: RMB8.9 million) were incurred because three batches of share options were granted to certain Directors, senior management and employees of the Group on 29 December 2009, 1 April 2010 and 15 April 2014, respectively.

Other Expenses

The other expenses decreased by 80.1%, from approximately RMB14.1 million for the six months ended 30 June 2013 to approximately RMB2.8 million for the Reporting Period, mainly representing bank charges.

Impairment Loss

The impairment loss was approximately RMB166.9 million for the Reporting Period, representing the impairment loss on property, plant and equipment of the Iron Pelletising Plant.

Finance Costs

The finance costs decreased by 32.8%, from approximately RMB52.1 million for the six months ended 30 June 2013 to approximately RMB35.0 million for the Reporting Period, primarily due to the decrease in interest on discounted bills receivable.

Income Tax Credit/(Expense)

The income tax credit for the Reporting Period was RMB94.4 million and the income tax expense for the six months ended 30 June 2013 was RMB69.6 million. The income tax credit for the Reporting Period mainly included (i) the over-provision of income tax for Huili Caitong of approximately RMB55.3 million for the years 2012 and 2013, as the local tax bureau informed that Huili Caitong is entitled to the preferential tax rate of 15% in May 2014; (ii) the over-provision of income tax for Xiushuihe Mining of approximately RMB9.7 million for the year 2013, as Xiushuihe Mining obtained the confirmation from the Sichuan Provincial Economic and Information Commission (the "SPEIC") on 30 December 2013 and further obtained the approval document issued by the local tax bureau on 19 March 2014 for its entitlement of the preferential tax rate of 15%; and (iii) the deferred income tax assets of approximately RMB31.4 million for the impairment loss on property, plant and equipment of the Iron Pelletising Plant during the Reporting Period.

Profit/(Loss) and Total Comprehensive Income/(Loss)

As a result of the foregoing, the loss and total comprehensive loss for the Reporting Period was approximately RMB128.4 million and the profit and total comprehensive income for the six months ended 30 June 2013 was approximately RMB128.8 million.

Management Discussion and Analysis

Profit/(Loss) and Total Comprehensive Income/(Loss) Attributable to Owners of the Company

The loss and total comprehensive loss attributable to owners of the Company was approximately RMB129.0 million for the Reporting Period and the profit and total comprehensive income attributable to owners of the Company was approximately RMB125.9 million for the six months ended 30 June 2013.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the Reporting Period.

LIQUIDITY AND CAPITAL RESOURCES

The following table sets out certain information regarding the Group's consolidated statement of cash flows for each of the six months ended 30 June 2014 and 2013:

	Six months ended 30 June			
	2014		2013	
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents as stated in the consolidated statement of cash flows for the year ended 31 December 2013/2012		115,018		375,346
Net cash flows (used in)/from operating activities	(621,461)		72,059	
Net cash flows from/(used in) investing activities	844,033		(311,804)	
Net cash flows (used in)/from financing activities	(5,641)		47,012	
		216,931		(192,733)
Effect of foreign exchange rate changes, net		1,172		(293)
Cash and cash equivalents as stated in the interim consolidated statement of cash flows for the six months ended 30 June 2014/2013		333,121		182,320

Net Cash Flows (Used in)/from Operating Activities

The Group's net cash flows from operating activities were approximately RMB72.1 million for the six months ended 30 June 2013 and the net cash flows used in operating activities were approximately RMB621.5 million for the Reporting Period. It primarily included (i) the loss before tax of approximately RMB222.8 million; (ii) the increase in trade and bills receivables of approximately RMB270.7 million which was mainly due to the extension of credit terms; (iii) the increase in prepayments, deposits and other receivables of approximately RMB112.9 million which was mainly due to a prepayment made for the stripping activities in order to entitle the decrease in unit stripping cost and (iv) the decrease in trade and bills payables of approximately RMB258.1 million due to less procurement of raw materials and settlement to major suppliers. The above factors were partially offset by certain non-cash expenses such as impairment loss, depreciation and amortisation in aggregate of approximately RMB257.7 million.

Net Cash Flows from/(Used in) Investing Activities

The Group's net cash flows used in investing activities were approximately RMB311.8 million for the six months ended 30 June 2013 and the net cash flows from investing activities were approximately RMB844.0 million for the Reporting Period. It primarily included the decrease in time deposits with maturity of over three months of RMB1,180.0 million and the decrease in pledged bank balances of approximately RMB169.5 million for the issuance of bills payable, which were partially offset by the prepayment for the acquisition of the Target Company of approximately RMB354.0 million and the purchase of items of property, plant and equipment and intangible assets in aggregate of approximately RMB151.7 million.

Net Cash Flows (Used in)/from Financing Activities

The Group's net cash flows from financing activities were approximately RMB47.0 million for the six months ended 30 June 2013 and the net cash flows used in financing activities were approximately RMB5.6 million for the Reporting Period. It primarily included the repayment of bank loans of approximately RMB519.6 million and the payment of final dividend of approximately RMB36.3 million, which were partially offset by the proceeds from bank loans of approximately RMB550.3 million.

Analysis of Inventories

The Group's inventories increased by 35.8%, from approximately RMB141.7 million as at 31 December 2013 to approximately RMB192.4 million as at 30 June 2014, primarily due to the decrease in sales volume of vanadium-bearing iron concentrates and high-grade titanium concentrates.

Analysis of Trade and Bills Receivables

The Group's trade and bills receivables increased by 70.3%, from approximately RMB385.3 million as at 31 December 2013 to approximately RMB656.0 million as at 30 June 2014. Trade receivable turnover days were approximately 244 days (year ended 31 December 2013: 67 days). The Group has extended its used credit terms to the customers from 90 days to 180 days since April 2014 under such current unfavourable market conditions.

Analysis of Trade and Bills Payables

The Group's trade and bills payables decreased by 27.3%, from approximately RMB944.5 million as at 31 December 2013 to approximately RMB686.4 million as at 30 June 2014, primarily due to (i) less procurement of raw materials as a result of the decrease in production volume of the Group's products and (ii) the increase in settlement to major suppliers.

Analysis of Net Current Assets Position

The Group's net current assets position decreased by 66.9%, from approximately RMB681.9 million as at 31 December 2013 to approximately RMB225.8 million as at 30 June 2014, primarily because of the significant decrease in cash and cash equivalents as a result of the prepayment for the acquisition of the Target Company and the payments made for construction of property, plant and equipment.

Management Discussion and Analysis

Borrowings

As at 30 June 2014, the Group's borrowings mainly included (i) an unsecured long-term bank loan of RMB75.0 million with an annual interest rate of 6.6% from China Construction Bank ("CCB") Xichang Yuecheng branch to Huili Caitong, of which RMB25.0 million is repayable within one year and the unsecured short-term bank loans of RMB150.0 million with an annual interest rate of 6.00% from CCB Xichang Yuecheng branch to Huili Caitong. In accordance with the loan agreements entered into between Huili Caitong and CCB Xichang Yuecheng branch, Huili Caitong agreed not to mortgage or pledge Huili Caitong's mining right of the Baicao Mine and its vanadium-bearing iron concentrates production line with an annual production capacity of 500.0 Ktpa to any parties and CCB Xichang Yuecheng branch will be entitled to a pre-emption right in the event of such mortgage or pledge; (ii) a secured short-term bank loan of RMB20.0 million with an annual interest rate of 6.06% from CCB Xichang Yuecheng branch to Huili Caitong which is pledged by the trade receivable due from the Group's largest customer during the Reporting Period with a carrying amount of approximately RMB31.2 million; (iii) an unsecured short-term bank loan of RMB84.8 million with annual interest rates ranging from 6.00% to 6.60% from China Merchants Bank Co., Ltd. ("CMB") Yingmenkou branch to Huili Caitong; (iv) a secured short-term bank loan of US\$15.5 million (approximately RMB95.5 million) with an annual interest rate of prevailing LIBOR plus 3.10% from CMB to First China and was secured by a deposit of approximately RMB102.4 million pledged by Huili Caitong at CMB Yingmenkou branch; and (v) a short-term bank loan of RMB16.0 million with an annual interest rate of 7.04% from CCB Aba branch to Aba Mining, which was guaranteed by Chuan Wei and Chengyu Vanadium Titano.

Contingent Liabilities

As at 30 June 2014, the Group did not have any material contingent liabilities.

Pledge of Assets

As at 30 June 2014, Huili Caitong pledged its trade receivable due from the Group's largest customer with CCB Xichang Yuecheng branch for its bank loan of RMB20.0 million. Huili Caitong also pledged its deposit of approximately RMB102.4 million at CMB for the bank loan of US\$15.5 million (approximately RMB95.5 million) obtained by First China from CMB as well as the deposits of approximately RMB170.0 million by the Group at banks for the issuance of bills payable.

Foreign Currency Risk

The Group's business is located in the PRC and its operating transactions are conducted in Renminbi. Most of its assets and liabilities are denominated in Renminbi, except for certain payables to professional parties and administrative expenses in Hong Kong office that are denominated in Hong Kong dollars, and the bank loan obtained from CMB as well as the Exchangeable Notes that are denominated in US dollars.

The Renminbi is not freely convertible. There is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends it declares if such dividend is to be exchanged or converted into foreign exchange. The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies. The Group does not consider that it has any significant exposure to the risk of fluctuation in the exchange rate between HK\$, US\$ and RMB, as a possible change of 5% in RMB against HK\$ and US\$ would have no significant financial impact to the Group's financial performance.

Interest Rate Risk

The Group's income and operating cash flows are not substantially affected by changes in market interest rates. We have no significant interest-bearing assets, except for cash and cash equivalents. The Group manages its interest rate exposure arising from all of its interest-bearing loans through the use of mix of fixed and variable rates. In addition, the Group has not used any interest rate swap to hedge against interest rate risk.

Contractual Obligations

As at 30 June 2014, the Group's contractual obligations amounted to approximately RMB408.6 million, and decreased by RMB7.5 million as compared to approximately RMB416.1 million as at 31 December 2013, which was primarily due to the progressive completion of certain construction work at the Baicao Mine and the Xiushuihe Mine during the Reporting Period.

Capital Expenditure

The Group's total capital expenditure decreased by RMB10.3 million from approximately RMB146.4 million for the six months ended 30 June 2013 to approximately RMB136.1 million during the Reporting Period. The capital expenditure consisted of (i) the construction of vanadium-bearing iron concentrates production line at the Xiushuihe Mine of approximately RMB51.0 million; (ii) the exploration activities taken at the adjacent area between the Baicao Mine and the Yangqueqing Mine in order to obtain the consolidated Baicao-Yangqueqing mining permit of approximately RMB4.5 million; (iii) the stripping costs classified as stripping activity assets of approximately RMB72.6 million; and (iv) the development of the construction of miscellaneous projects and acquisition of machinery equipment of approximately RMB8.0 million.

Financial Instruments

As at 30 June 2014, the Group had the Exchangeable Notes in the principal amount of US\$30.0 million. The Exchangeable Notes are accounted for as financial assets at fair value through profit or loss.

Gearing Ratio

Gearing ratio is a measure of financial leverage, which is calculated by net debt divided by "total equity plus net debt". Net debt is defined as interest-bearing bank loans and commercial paper liabilities, net of cash and cash equivalents and it excludes liabilities incurred for working capital purpose. Equity includes equity attributable to owners of the Company and non-controlling interests. As at 30 June 2014, gearing ratio was 7.0% (31 December 2013: nil).

OTHER SIGNIFICANT EVENTS

- (i) In July 2013, the Group has engaged Sichuan Geochemistry Exploration Team to prepare a geological exploration report and engaged two independent research institutes to prepare beneficiation and metallurgical testing reports on niobium and tantalum ore resources at the Baicao Mine. Although the geological exploration report prepared by Sichuan Geochemistry Exploration Team indicated that there may be substantial niobium and tantalum ore resources at the Baicao Mine, the two independent research institutes had concluded in their beneficiation and metallurgical testing reports that the niobium and tantalum ore resources at the Baicao Mine could not be economically recovered from the ore. After considering the results of the beneficiation and metallurgical testing reports, the Board was of the view that it would not be in the best interest of the Company to pursue the exploration work further. As such, the Board decided to terminate all exploration work from 5 March 2014. The normal mining operations at the Baicao Mine resumed on 13 March 2014. Please refer to the Company's announcements on 11 July 2013 and 4 March 2014 for further details.

Management Discussion and Analysis

- (ii) On 17 January 2014, the Board announced that the shareholders of the Joint Venture established for the development of the Dashanshu Section unanimously decided to voluntarily wind-up the Joint Venture due to the uncertainty on the timing to obtain necessary mining permit for its operation and the additional expenses that would be incurred to reach the stage of commercial production. The Board did not foresee that the voluntary winding-up of the Joint Venture would lead to any material adverse impact on the business of the Group. Please refer to the Company's announcement dated 17 January 2014 for further details.
- (iii) On 22 May 2014, Huili Caitong and Panzhihua Shuhai entered into an equity transfer agreement pursuant to which Panzhihua Shuhai had conditionally agreed to sell the equity interest, being 51% of the paid-up registered capital of the Target Company to Huili Caitong at a consideration of RMB370.0 million. The Target Company has a wholly-owned subsidiary, namely Hanyuan Xinjin which currently holds the mining permit of the Shigou Gypsum Mine with an annual output of 300.0 Kt of gypsum raw ore. According to the "Sichuan Hanyuan County Shigou Gypsum Mine Geological Exploration Report* (《四川省漢源縣石溝礦區石膏礦勘探地質報告》)" issued by Brigade 606 of Sichuan Metallurgical and Geological Exploration Bureau* (四川省冶金地質勘查局606大隊) in November 2011, there are 10,369,700 tonnes of gypsum ore resources (Types 331 and 333) with an average gypsum grade 90.64% through gypsum exploration activities. The consideration was determined based on arm's length negotiations between the Parties after taking into account primarily comparable transaction analysis of mining company acquisitions, consideration paid per unit of mining resource and discount applied to the prevailing market price of the mining products. The result of the comparable transaction analysis amounted to approximately RMB467.0 million. The consideration represents an approximately 20.8% discount against the result of the comparable transaction analysis. Accordingly, the Directors were of the view that the acquisition (including the consideration) was fair and reasonable and in the interests of the Company and the Shareholders as a whole. Please refer to the Company's announcements on 22 May 2014 and 27 May 2014 for further details.
- (iv) Pursuant to an equity transfer agreement entered into between Lingyu and the Sellers on 28 December 2011, completion of the acquisition of the equity interest in Panzhihua Yixingda is conditional upon, among other things, the Mineral Resources and Reserves Report issued by the Geological Agent before 30 March 2013 showing that the Haibaodang Mine has a minimum of 100.0 Mt of mineral resources and reserves with a minimum average iron content (Type 333 or above) of 15% or above. As additional time was required by the Geological Agent to prepare Mineral Resources and Reserves Report, on 22 April 2013, Lingyu and the Sellers entered into a supplemental agreement to extend the report date from 30 March 2013 to 30 March 2014 or such later date as Lingyu and the Sellers may agree.

In March 2014, the Geological Agent issued the Mineral Resources and Reserves Report, in which it was estimated that the Haibaodang Mine had approximately 40.0 Mt of mineral resources and reserves with a minimum average iron content (Type 333 or above) of 15% or above, well below the 100.0 Mt required to satisfy the condition precedent to the completion of the acquisition under the equity transfer agreement. After considering the contents of the Mineral Resources and Reserves Report and the extent of the works done by the Geological Agent, the Company was of the view that the bases upon which the volume of the relevant mineral resources and reserves at the Haibaodang Mine were estimated in the Mineral Resources and Reserves Report were not sufficient. As such, it was of the view that further exploration works should be carried out to further confirm the estimated volume of the relevant mineral resources and reserves at the Haibaodang Mine. Therefore, on 28 May 2014, Lingyu and the Sellers entered into a second supplemental agreement, whereby the Sellers would instruct the Geological Agent to carry out further exploration works on the Haibaodang Mine for a period of six months from 1 June 2014. The Board would consider the results of the further exploration works, and also conduct its own analysis of the economic value of the Haibaodang Mine based on such results. Please refer to the Company's announcements on 29 December 2011, 22 April 2013 and 28 May 2014 for further details.

OUTLOOK

The Group expects the market environment to remain challenging in the near future. Market analyses indicate that the steel industry is currently undergoing a difficult transformation and upgrade phase. Thus, the Group is strategically adjusting its production volume as the market prices of its products have yet to recover. However, low utilisation means that the benefit of economies of scale cannot be realised which would affect the Group's overall performance in the short-to-medium term. On the other hand, the Group has formulated medium-to-long term strategies which focus on identifying new opportunities and further enhancing the Group's competitive position building on its own strong business foundation.

On 22 May 2014, Huili Caitong entered into an equity transfer agreement with Panzihua Shuhai to acquire a 51% equity interest of the Target Company. The Target Company, through its wholly-owned subsidiary, currently holds the mining permit of the Shigou Gypsum Mine with an annual capacity of 300.0 Kt of gypsum raw ore, which enables the Group to extend its business into gypsum mine resources and reserves, an area previously outside its scope of operation. Gypsum is a material which is widely used for construction, industrial and medical purposes. The potential gypsum resources in the Shigou Gypsum Mine can also help to enhance the Group's revenue and investment return potential.

As for the long run, the International Iron and Steel Institute (國際鋼鐵協會) forecasts global demand for steel will further increase by 3.3% by 2015 while the increase in demand for steel in China will be a more modest 2.7%. The Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) has a target to eliminate 27.0 Mt of backward production capacity in 2014 to ensure that the country can achieve the goal of phasing out obsolete steel production facilities set out in the 12th Five-Year Plan one year ahead of schedule. According to the "2014 Work Plan on Resolving the Conflict of Rampant Overcapacity and Facilitating Structural Industry Adjustment in Sichuan Province* (《四川省化解產能過剩矛盾促進產業結構調整2014年工作計劃》)", the steel industry there is to strictly limit the production capacity to 36.0 Mt and increase the proportion of high-end products to 40%. These strategies will benefit the performance of the overall industry in the long-term. Meanwhile, the development of the Western China, urbanisation and the country's ongoing infrastructure investment are set to drive the market demand and support the long-term stable development of the steel industry.

Looking ahead, while the management is wary of the Group's short-term development, it remains cautiously optimistic about its ability to achieve long-term business growth. The Group therefore intends to grasp new opportunities and continue to bolster its resources and reserves in a sustainable manner as it strives to achieve satisfactory results in the coming financial periods.

Other Information

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

As at 30 June 2014, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, are as follows:

Long positions in share options granted by the Company

Number of share options held by the Directors and chief executives of the Company as at 30 June 2014:

Name	Number of share options held	Number of underlying Shares
Mr. Jiang Zhong Ping	17,000,000	17,000,000
Mr. Tang Wei	9,400,000	9,400,000
Mr. Roy Kong Chi Mo	14,500,000	14,500,000
Mr. Teo Cheng Kwee	200,000	200,000
Mr. Yu Xing Yuan	28,300,000	28,300,000
Mr. Yu Haizong	100,000	100,000
Mr. Gu Peidong	100,000	100,000
Mr. Liu Yi	100,000	100,000

Save as disclosed above, as at 30 June 2014, so far as is known to any Directors and chief executives of the Company, none of the Directors and chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SHARE OPTIONS

The Company adopted a share option scheme (the "Old Option Scheme") on 4 September 2009. At the 2010 AGM, the Shareholders approved the adoption of a new share option scheme (the "New Option Scheme") and the termination of the operation of the Old Option Scheme (such that no further options shall thereafter be offered under the Old Option Scheme but in all other respects the provisions of the Old Option Scheme shall remain in full force and effect).

(i) Old Option Scheme

Details of the share options outstanding as at 30 June 2014 which have been granted under the Old Option Scheme are as follows:

Name or category of participant	Date of grant	Exercise period	Exercise price per share option HK\$	No. of share options held as at 01.01.2014	No. of share options exercised during the Reporting Period	No. of share options held as at 30.06.2014
1. Directors/chief executives Mr. Jiang Zhong Ping	29.12.2009	29.06.2012 to 28.12.2019	5.05	1,500,000	–	1,500,000
		29.12.2014 to 28.12.2019	5.05	1,500,000	–	1,500,000
	01.04.2010	01.10.2012 to 31.03.2020	4.99	250,000	–	250,000
		01.04.2015 to 31.03.2020	4.99	250,000	–	250,000
Mr. Tang Wei	29.12.2009	29.06.2012 to 28.12.2019	5.05	200,000	–	200,000
		29.12.2014 to 28.12.2019	5.05	200,000	–	200,000
Mr. Roy Kong Chi Mo	29.12.2009	29.06.2012 to 28.12.2019	5.05	1,500,000	–	1,500,000
		29.12.2014 to 28.12.2019	5.05	1,500,000	–	1,500,000
	01.04.2010	01.10.2012 to 31.03.2020	4.99	250,000	–	250,000
		01.04.2015 to 31.03.2020	4.99	250,000	–	250,000
Mr. Yu Xing Yuan	29.12.2009	29.06.2012 to 28.12.2019	5.05	3,500,000	–	3,500,000
		29.12.2014 to 28.12.2019	5.05	3,500,000	–	3,500,000

Other Information

Name or category of participant	Date of grant	Exercise period	Exercise price per share option HK\$	No. of share options held as at 01.01.2014	No. of share options exercised during the Reporting Period	No. of share options held as at 30.06.2014
Mr. Yu Xing Yuan	01.04.2010	01.10.2012 to 31.03.2020	4.99	1,250,000	–	1,250,000
		01.04.2015 to 31.03.2020	4.99	1,250,000	–	1,250,000
2. Employees (in aggregate)	29.12.2009	29.06.2012 to 28.12.2019	5.05	3,400,000	–	3,400,000
		29.12.2014 to 28.12.2019	5.05	3,400,000	–	3,400,000
	01.04.2010	01.10.2012 to 31.03.2020	4.99	2,950,000	–	2,950,000
		01.04.2015 to 31.03.2020		2,950,000	–	2,950,000
Total				<u>29,600,000</u>	<u>–</u>	<u>29,600,000</u>

(ii) New Option Scheme

Details of the share options outstanding as at 30 June 2014 which have been granted under the New Option Scheme are as follows:

Name or category of participant	Date of grant	Exercise period	Exercise price per share option HK\$	No. of share options held as at 01.01.2014	No. of share options granted during the Reporting Period	No. of share options exercised during the Reporting Period	No. of share options held as at 30.06.2014
1. Directors/chief executives Mr. Jiang Zhong Ping	23.05.2011	23.05.2013 to 22.05.2021	3.60	5,000,000	–	–	5,000,000
	15.04.2014	15.10.2014 to 14.04.2024	1.00	–	4,250,000	–	4,250,000
	15.04.2014	15.04.2015 to 14.04.2024	1.00	–	2,125,000	–	2,125,000
	15.04.2014	15.10.2015 to 14.04.2024	1.00	–	2,125,000	–	2,125,000

Other Information

Name or category of participant	Date of grant	Exercise period	Exercise price per share option HK\$	No. of share options held as at 01.01.2014	No. of share options granted during the Reporting Period	No. of share options exercised during the Reporting Period	No. of share options held as at 30.06.2014
Mr. Tang Wei	23.05.2011	23.05.2013 to 22.05.2021	3.60	1,000,000	–	–	1,000,000
	15.04.2014	15.10.2014 to 14.04.2024	1.00	–	4,000,000	–	4,000,000
	15.04.2014	15.04.2015 to 14.04.2024	1.00	–	2,000,000	–	2,000,000
	15.04.2014	15.10.2015 to 14.04.2024	1.00	–	2,000,000	–	2,000,000
Mr. Roy Kong Chi Mo	23.05.2011	23.05.2013 to 22.05.2021	3.60	4,000,000	–	–	4,000,000
	15.04.2014	15.10.2014 to 14.04.2024	1.00	–	3,500,000	–	3,500,000
	15.04.2014	15.04.2015 to 14.04.2024	1.00	–	1,750,000	–	1,750,000
	15.04.2014	15.10.2015 to 14.04.2024	1.00	–	1,750,000	–	1,750,000
Mr. Wang Jin	15.04.2014	15.10.2014 to 14.04.2024	1.00	–	1,000,000 (Note 1)	–	1,000,000
	15.04.2014	15.04.2015 to 14.04.2024	1.00	–	500,000 (Note 1)	–	500,000
	15.04.2014	15.10.2015 to 14.04.2024	1.00	–	500,000 (Note 1)	–	500,000
Mr. Teo Cheng Kwee	15.04.2014	15.10.2014 to 14.04.2024	1.00	–	100,000	–	100,000
	15.04.2014	15.04.2015 to 14.04.2024	1.00	–	50,000	–	50,000
	15.04.2014	15.10.2015 to 14.04.2024	1.00	–	50,000	–	50,000
Mr. Yu Xing Yuan	23.05.2011	23.05.2013 to 22.05.2021	3.60	5,000,000	–	–	5,000,000
	15.04.2014	15.10.2014 to 14.04.2024	1.00	–	6,900,000	–	6,900,000
	15.04.2014	15.04.2015 to 14.04.2024	1.00	–	3,450,000	–	3,450,000
	15.04.2014	15.10.2015 to 14.04.2024	1.00	–	3,450,000	–	3,450,000

Other Information

Name or category of participant	Date of grant	Exercise period	Exercise price per share option HK\$	No. of share options held as at 01.01.2014	No. of share options granted during the Reporting Period	No. of share options exercised during the Reporting Period	No. of share options held as at 30.06.2014
Mr. Yu Haizong	15.04.2014	15.10.2014 to 14.04.2024	1.00	–	50,000	–	50,000
	15.04.2014	15.04.2015 to 14.04.2024	1.00	–	25,000	–	25,000
	15.04.2014	15.10.2015 to 14.04.2024	1.00	–	25,000	–	25,000
Mr. Gu Peidong	15.04.2014	15.10.2014 to 14.04.2024	1.00	–	50,000	–	50,000
	15.04.2014	15.04.2015 to 14.04.2024	1.00	–	25,000	–	25,000
	15.04.2014	15.10.2015 to 14.04.2024	1.00	–	25,000	–	25,000
Mr. Liu Yi	15.04.2014	15.10.2014 to 14.04.2024	1.00	–	50,000	–	50,000
	15.04.2014	15.04.2015 to 14.04.2024	1.00	–	25,000	–	25,000
	15.04.2014	15.10.2015 to 14.04.2024	1.00	–	25,000	–	25,000
2. Employees (in aggregate)	23.05.2011	23.05.2013 to 22.05.2021	3.60	12,300,000	–	–	12,300,000
	15.04.2014	15.10.2014 to 14.04.2024	1.00	–	1,050,000	–	1,050,000
	15.04.2014	15.04.2015 to 14.04.2024	1.00	–	525,000	–	525,000
	15.04.2014	15.10.2015 to 14.04.2024	1.00	–	525,000	–	525,000
Total				<u>27,300,000</u>	<u>41,900,000</u>	<u>–</u>	<u>69,200,000</u>

Notes:

- These share options were granted to Mr. Wang Jin by the Company under the category of non-executive Director on 15 April 2014. Mr. Wang Jin resigned as a non-executive Director of the Company on 27 June 2014 and the share options granted to Mr. Wang Jin remain exercisable until 26 July 2014 in accordance with the offer letter of the share options.
- The closing price per Share on 14 April 2014, the trading date immediately before the date on which the options were granted on 15 April 2014, was HK\$0.99.

Save as disclosed above, at no time during the Reporting Period was the Company, its holding companies or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

To the best knowledge of the Directors or chief executives of the Company, as at 30 June 2014, persons (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under Section 336 of the SFO are as follows:

Long positions in Shares and underlying Shares under equity derivatives:

Name	Notes	Directly beneficially owned	Through parties acting in concert	Held in the capacity of investment manager	Total	Percentage of the Company's issued share capital
Trisonic International	1,2,4&5	1,006,754,000 (L)	2,000,000 (L)	–	1,008,754,000 (L)	48.61% (L)
Kingston Grand	1,2,3,4&5	–	1,008,754,000 (L)	–	1,008,754,000 (L)	48.61% (L)
Mr. Wang Jin	1,2,3,4&5	2,000,000 (L)	1,006,754,000 (L)	–	1,008,754,000 (L)	48.61% (L)
Mr. Yang Xianlu	1&4	–	1,008,754,000 (L)	–	1,008,754,000 (L)	48.61% (L)
Mr. Wu Wendong	1&4	–	1,008,754,000 (L)	–	1,008,754,000 (L)	48.61% (L)
Mr. Li Hesheng	1,2&4	–	1,008,754,000 (L)	–	1,008,754,000 (L)	48.61% (L)
Mr. Shi Yinjun	1,2&4	–	1,008,754,000 (L)	–	1,008,754,000 (L)	48.61% (L)
Mr. Zhang Yuangui	1,2&4	–	1,008,754,000 (L)	–	1,008,754,000 (L)	48.61% (L)
Templeton Asset Management Limited	1	–	–	234,066,117 (L)	234,066,117 (L)	11.28% (L)

Notes:

- The letter "L" represents the entity's/individual's long positions in the Shares.
- The issued share capital of Trisonic International was owned as to 3% by Mr. Li Hesheng, 42.6% by Mr. Wang Jin, 7.2% by Mr. Shi Yinjun, 7.2% by Mr. Zhang Yuangui and 40% by Kingston Grand.
- The issued share capital of Kingston Grand was owned as to 100% by Mr. Wang Jin.
- As at 30 June 2014, 1,006,754,000 Shares were held by Trisonic International and 2,000,000 underlying Shares (representing share options granted by the Company to Mr. Wang Jin under the New Option Scheme) were held by Mr. Wang Jin. Since Trisonic International, Kingston Grand, Mr. Wang Jin, Mr. Yang Xianlu, Mr. Wu Wendong, Mr. Li Hesheng, Mr. Shi Yinjun and Mr. Zhang Yuangui were parties acting in concert:
 - each of Kingston Grand, Mr. Yang Xianlu, Mr. Wu Wendong, Mr. Li Hesheng, Mr. Shi Yinjun and Mr. Zhang Yuangui was deemed to be interested in 1,006,754,000 Shares held by Trisonic International and 2,000,000 underlying Shares held by Mr. Wang Jin;
 - Trisonic International was deemed to be interested in 2,000,000 underlying Shares held by Mr. Wang Jin; and
 - Mr. Wang Jin was deemed to be interested in 1,006,754,000 Shares held by Trisonic International.
- Mr. Wang Jin was a director of Trisonic International and Kingston Grand.

Save as disclosed above, as at 30 June 2014, the Company had not been notified by any persons (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Other Information

EMPLOYEES AND EMOLUMENT POLICIES

As at 30 June 2014, the number of employees of the Group was 1,918 (31 December 2013: 2,018). During the Reporting Period, employee benefit expense (including Directors' remuneration in the form of salaries, equity-settled share option expenses and other allowances) was approximately RMB53.5 million (six months ended 30 June 2013: RMB67.9 million).

The emolument policies of the Group are based on performance, experience, competence and market comparables. Remuneration package generally comprises salary, housing allowance, contribution to pension scheme and discretionary bonus relating to the performance of the Group. The Group has also adopted share option schemes for its employees, providing incentives and rewards to eligible participants with reference to their contribution.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors, namely Mr. Yu Haizong, Mr. Gu Peidong and Mr. Liu Yi. Mr. Yu Haizong acts as the chairman of the audit committee.

The audit committee has adopted written terms of reference which are in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules. It is mainly responsible for the matters concerning the internal control and financial reporting, reviewing with the senior management of the accounting principles, accounting standards and methods adopted by the Company.

REVIEW OF INTERIM CONDENSED FINANCIAL INFORMATION

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The audit committee has discussed internal control affairs and reviewed the Company's interim report for the Reporting Period, and the audit committee is of the view that the interim report for the Reporting Period is prepared in accordance with applicable accounting standards, rules and regulations, and appropriate disclosures have been duly made.

The external auditors have reviewed the interim condensed financial information for the Reporting Period in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code during the Reporting Period.

CORPORATE GOVERNANCE

The Board is of the view that the Company has complied with all applicable code provisions in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules during the Reporting Period. The Directors are not aware of any information that reasonably reveals that there is any non-compliance with or derivation from applicable code provisions on corporate governance practices set out in Appendix 14 of the Listing Rules by the Company anytime during the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

By order of the Board of
China Vanadium Titano-Magnetite Mining Company Limited
Jiang Zhong Ping
Chairman

Hong Kong, 25 August 2014

Report on Review of Interim Condensed Financial Information



Ernst & Young
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

安永會計師事務所
香港中環添美道1號
中信大廈22樓

電話: +852 2846 9888
傳真: +852 2868 4432

To the Board of Directors

CHINA VANADIUM TITANO-MAGNETITE MINING COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim condensed financial information set out on pages 26 to 50, which comprises the consolidated statement of financial position of China Vanadium Titano-Magnetite Mining Company Limited as at 30 June 2014 and the related consolidated statements of profit or loss and other comprehensive income and changes in equity, and consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

The Directors are responsible for the preparation and presentation of this interim condensed financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim condensed financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

25 August 2014

Interim Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

	Notes	For the six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Revenue	3	383,921	836,672
Cost of sales		(366,514)	(509,117)
Gross profit		17,407	327,555
Other income and gains	4	70,293	46,477
Selling and distribution expenses		(5,430)	(44,457)
Administrative expenses		(100,087)	(63,235)
Other expenses		(2,773)	(14,076)
Impairment loss on property, plant and equipment	9	(166,947)	–
Finance costs	5	(35,001)	(52,082)
Share of profits and losses of joint ventures		(284)	(1,800)
PROFIT/(LOSS) BEFORE TAX	6	(222,822)	198,382
Income tax credit/(expense)	7	94,376	(69,584)
Profit/(loss) and total comprehensive income/(loss) for the period		(128,446)	128,798
Attributable to:			
Owners of the Company		(128,971)	125,938
Non-controlling interests		525	2,860
		(128,446)	128,798
Earnings/(loss) per share attributable to ordinary equity holders of the Company:			
– Basic and diluted	8	RMB(0.06)	RMB0.06

Interim Consolidated Statement of Financial Position

30 June 2014

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	1,565,180	1,745,221
Intangible assets	9	644,539	586,402
Prepaid land lease payments	9	42,835	43,388
Investments in joint ventures	10	3,194	3,390
Financial assets at fair value through profit or loss	11	314,473	275,310
Prepayments and deposits	12	48,590	50,681
Payments in advance	12	554,181	200,577
Goodwill		15,318	15,318
Deferred tax assets		107,346	75,987
Total non-current assets		3,295,656	2,996,274
CURRENT ASSETS			
Inventories		192,430	141,663
Trade and bills receivables	13	656,033	385,339
Prepayments, deposits and other receivables	12	340,092	234,775
Investments in joint ventures	10	9,905	9,993
Due from related parties	14	600	600
Pledged time deposits	15,16 (a)	272,356	441,853
Cash and cash equivalents		333,121	1,295,018
Total current assets		1,804,537	2,509,241
CURRENT LIABILITIES			
Trade and bills payables	15	686,405	944,490
Other payables and accruals		335,227	293,156
Commercial paper liabilities		150,000	150,000
Interest-bearing bank and other loans	16	394,463	362,439
Due to related parties	14	9,048	8,514
Tax payables		1,749	66,950
Dividend payable		1,801	1,801
Total current liabilities		1,578,693	1,827,350
NET CURRENT ASSETS		225,844	681,891
TOTAL ASSETS LESS CURRENT LIABILITIES		3,521,500	3,678,165
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	16	50,800	50,800
Provision for rehabilitation		9,134	8,748
Deferred income		4,000	4,000
Other payable		650	650
Total non-current liabilities		64,584	64,198
Net assets		3,456,916	3,613,967

Interim Consolidated Statement of Financial Position

30 June 2014

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital		182,787	182,787
Reserves		3,240,830	3,362,363
Proposed final dividend		–	36,043
		<hr/>	<hr/>
		3,423,617	3,581,193
Non-controlling interests		33,299	32,774
		<hr/>	<hr/>
Total equity		<u>3,456,916</u>	<u>3,613,967</u>

Jiang Zhong Ping
Director

Tang Wei
Director

Interim Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

	Attributable to owners of the Company												
	Issued capital	Share premium account	Statutory reserves	Safety fund surplus reserve	Contributed surplus	Share option reserve	Difference arising from changes in non-controlling interests	Capital reserve	Retained earnings	Proposed final dividend	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	182,787	1,876,296	203,651	44,571	72,790	76,090	(845,411)	186,200	1,720,062	-	3,517,036	29,437	3,546,473
Effect on change in accounting policy	-	-	-	-	-	-	(14,461)	-	(134,747)	-	(149,208)	-	(149,208)
At 1 January 2013 (restated)	182,787	1,876,296	203,651	44,571	72,790	76,090	(859,872)	186,200	1,585,315	-	3,367,828	29,437	3,397,265
Total comprehensive income for the period (restated)	-	-	-	-	-	-	-	-	125,938	-	125,938	2,860	128,798
Equity-settled share option arrangement	-	-	-	-	-	8,903	-	-	-	-	8,903	-	8,903
Establishment for safety fund surplus reserve	-	-	-	29,665	-	-	-	-	(29,665)	-	-	-	-
Utilisation of safety fund surplus reserve	-	-	-	(1,809)	-	-	-	-	1,809	-	-	-	-
Transfer from/(to) reserves	-	-	14,131	-	-	-	-	-	(14,131)	-	-	-	-
Consideration adjustment in respect of business combination under common control	-	-	-	-	14,448	-	7,052	-	-	-	21,500	-	21,500
At 30 June 2013 (Unaudited)	<u>182,787</u>	<u>1,876,296</u>	<u>217,782</u>	<u>72,427</u>	<u>87,238</u>	<u>84,993</u>	<u>(852,820)</u>	<u>186,200</u>	<u>1,669,266</u>	<u>-</u>	<u>3,524,169</u>	<u>32,297</u>	<u>3,556,466</u>
At 1 January 2014	182,787	1,840,253*	220,176*	90,819*	87,238*	88,820*	(852,820)*	186,200*	1,701,677*	36,043	3,581,193	32,774	3,613,967
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	-	-	(128,971)	-	(128,971)	525	(128,446)
Equity-settled share option arrangement	-	-	-	-	-	7,438	-	-	-	-	7,438	-	7,438
Establishment for safety fund surplus reserve	-	-	-	8,882	-	-	-	-	(8,882)	-	-	-	-
Transfer from/(to) reserves	-	-	115	-	-	-	-	-	(115)	-	-	-	-
Final 2013 dividend declared	-	-	-	-	-	-	-	-	-	(36,043)	(36,043)	-	(36,043)
At 30 June 2014 (Unaudited)	<u>182,787</u>	<u>1,840,253*</u>	<u>220,291*</u>	<u>99,701*</u>	<u>87,238*</u>	<u>96,258*</u>	<u>(852,820)*</u>	<u>186,200*</u>	<u>1,563,709*</u>	<u>-</u>	<u>3,423,617</u>	<u>33,299</u>	<u>3,456,916</u>

* These reserve accounts comprise the consolidated reserves of RMB3,240,830,000 (31 December 2013: RMB3,362,363,000) in the consolidated statement of financial position.

Interim Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Notes	For the six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		(222,822)	198,382
Adjustments for:			
Finance costs		31,249	51,725
Unrealised foreign exchange losses/(gains)		450	(1,767)
Bank interest income	4	(23,003)	(25,156)
Equity-settled share option expense	17	7,438	8,903
Fair value gains on financial assets at fair value through profit or loss	4	(39,163)	(13,857)
Share of profits and losses of joint ventures		284	1,800
Loss on disposal of items of property, plant and equipment	6	910	–
Impairment loss on property, plant and equipment	6	166,947	–
Prepaid technical fee released to profit or loss	6	2,067	2,067
Depreciation	9	71,276	68,013
Amortisation of intangible assets	9	18,964	20,757
Amortisation of prepaid land lease payments	9	553	576
		15,150	311,443
Increase in trade and bills receivables		(270,694)	(74,987)
Decrease/(increase) in inventories		(50,767)	18,297
Increase in prepayments, deposits and other receivables		(112,893)	(176,216)
Increase/(decrease) in trade and bills payables		(258,085)	173,113
Increase/(decrease) in other payables and accruals		51,701	(37,072)
Increase in amounts due from related parties		–	(13,598)
Increase/(decrease) in amounts due to related parties		537	(4,164)
Cash generated from/(used in) operations		(625,051)	196,816
Interest paid		(24,829)	(46,569)
Interest received		30,603	25,053
Income tax paid		(2,184)	(103,241)
Net cash flows from/(used in) operating activities		(621,461)	72,059

Interim Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Notes	For the six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		(74,784)	(100,081)
Proceeds from disposal of items of property, plant and equipment		269	–
Increase in long-term deposits		–	(1,572)
Decrease in time deposits with maturity of over three months		1,180,000	50,000
Purchase of intangible assets		(76,924)	(43,734)
Prepayment for the acquisition of a subsidiary		(354,025)	–
Prepayment for the acquisition of an associate		–	(34,890)
Decrease/(increase) in pledged bank balances		169,497	(181,527)
Net cash flows from/(used in) investing activities		<u>844,033</u>	<u>(311,804)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank loans		550,263	227,012
Repayment of bank loans		(519,581)	(180,000)
Dividends paid		(36,323)	–
Net cash flows from/(used in) financing activities		<u>(5,641)</u>	<u>47,012</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		115,018	375,346
Effect of foreign exchange rate changes, net		1,172	(293)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<u>333,121</u>	<u>182,320</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position		333,121	1,406,120
Time deposits with original maturity of more than three months		–	(1,223,800)
Cash and cash equivalents as stated in the consolidated statement of cash flows		<u>333,121</u>	<u>182,320</u>

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

1. CORPORATE INFORMATION

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

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

In the opinion of the Directors, Trisonic International is the parent and ultimate holding company of the Company.

2.1 BASIS OF PREPARATION

The unaudited interim condensed financial information for the Reporting Period has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

The unaudited interim condensed financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2013.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this interim condensed financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of new and revised International Financial Reporting Standards ("IFRSs") and amendments to IFRSs issued by the International Accounting Standards Board that are effective for annual periods beginning on or after 1 January 2014. The adoption of these new and revised IFRSs and amendments has had no significant financial effect on the financial position or performance of the Group.

3. REVENUE AND OPERATING SEGMENT INFORMATION

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

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

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

3. REVENUE AND OPERATING SEGMENT INFORMATION (continued)

Entity-wide disclosures

Information about products

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

	For the six months ended 30 June			
	2014		2013	
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%
Self-produced products:				
Vanadium-bearing iron concentrates	178,692	46.6	660,970	79.0
Ordinary iron concentrates	22,604	5.9	39,504	4.7
High-grade titanium concentrates	7,462	1.9	103,571	12.4
Iron pellets	–	–	32,627	3.9
Trading of iron ore products	175,163	45.6	–	–
	383,921	100.0	836,672	100.0

Geographical information

All external revenues of the Group during each of the six months ended 30 June 2014 and 2013 were attributable to customers established in the PRC, the place of domicile of the Group's operating entities. Meanwhile, the Group's principal non-current assets are all located in Mainland China.

Information about major customers

Revenue from major customers, each of whom accounted for 10% or more of the total revenue, is set out below:

	For the six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Customer A	179,524	146,281
Customer B	69,944	180,927
Customer C	66,196	126,728
Customer D	*	119,024
Customer E	*	96,599

* Less than 10%

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

4. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	23,003	25,156
Sale of raw materials	116	2,095
Iron pellets processing fee	–	3,239
Government grant*	7,613	300
Foreign exchange gains, net	–	1,767
Fair value gains on financial assets		
at fair value through profit or loss (note 11)	39,163	13,857
Miscellaneous	398	63
	<hr/>	<hr/>
Total other income and gains	70,293	46,477
	<hr/> <hr/>	<hr/> <hr/>

* There were no unfulfilled conditions or contingencies relating to the government grant.

5. FINANCE COSTS

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank and other loans wholly repayable within five years	13,698	10,035
Interest on short term commercial paper	5,919	4,310
Interest on discounted bills receivable (note 13)	11,247	36,534
Unwinding of discount on provision	385	265
	<hr/>	<hr/>
	31,249	51,144
Less: Interest capitalised to property, plant and equipment (note 9 (a))	–	(276)
	<hr/>	<hr/>
	31,249	50,868
Foreign exchange losses, net	2,071	–
Others	1,681	1,214
	<hr/>	<hr/>
	35,001	52,082
	<hr/> <hr/>	<hr/> <hr/>
Interest rates of borrowing costs capitalised	–	7.04%
	<hr/> <hr/>	<hr/> <hr/>

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

6. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Cost of inventories sold	<u>366,514</u>	<u>509,117</u>
Employee benefit expense (including Directors' remuneration)*	53,529	67,926
Depreciation and amortisation expenses (note 9)	90,793	89,346
Loss on disposal of items of property, plant and equipment	910	–
Impairment loss on property, plant and equipment (note 9)	166,947	–
Minimum lease payments under operating leases:		
– Land	–	27
– Office	869	930
Auditors' remuneration	1,300	1,250
Foreign exchange losses/(gains), net	2,071	(1,767)
Amortisation of prepaid technical service fee (note 12(a))	2,067	2,067
Fair value gains on financial assets at fair value through profit or loss (note 11)	<u>(39,163)</u>	<u>(13,857)</u>

* Total employee benefit expense for the Reporting Period includes equity-settled share option expense of RMB7,438,000 (six months ended 30 June 2013: RMB8,903,000).

7. INCOME TAX

		For the six months ended 30 June	
	Notes	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Current – Mainland China			
Charged for the period	(a)	1,953	54,243
(Over)/Under provision in prior years	(b), (c)	(64,970)	17,361
Deferred		<u>(31,359)</u>	<u>(2,020)</u>
Total tax charge/(credit) for the period		<u>(94,376)</u>	<u>69,584</u>

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

7. INCOME TAX (continued)

Notes:

- (a) Except for Aba Mining, Huili Caitong and Xiushuihe Mining, which enjoyed a preferential tax rate of 15% according to the "Western Development Policy", the other subsidiaries of the Group located in China are liable to PRC corporate income tax ("CIT") at a rate of 25% on the assessable profits generated for the Reporting Period.
- (b) Pursuant to the notice issued by the tax bureau of Huili County on 4 September 2012, Xiushuihe Mining was entitled to a preferential tax rate of 15% in 2012 according to the "Western Development Policy". In May 2013, the tax bureau of Huili County notified Xiushuihe Mining that Xiushuihe Mining could only enjoy the preferential tax rate of 15% if Xiushuihe Mining further obtains a confirmation from the SPEIC that the business operations of Xiushuihe Mining fall within the encouraged industries listed in the catalogue of encouraged industries in the western region of China (the "Catalogue"). As Xiushuihe Mining has not obtained the aforesaid confirmation from the SPEIC in 2013, the PRC CIT was calculated at the rate of 25% on its assessable profits generated during the year ended 31 December 2013.

Pursuant to the approval document issued by the tax bureau of Huili County on 19 March 2014, Xiushuihe Mining is entitled to a preferential tax rate of 15% since 2013 according to "Western Development Policy" as it is engaged in the encouraged industries listed in the Catalogue based on the confirmation obtained from the SPEIC on 30 December 2013 and revenue from such activities during the year ended 31 December 2013 and the Reporting Period accounted for over 70% of its total revenue. Consequently, the overprovided income tax for the year ended 31 December 2013 of RMB9,667,000 was reversed in the income tax expense for the Reporting Period.

- (c) Pursuant to the approval document issued by the tax bureau of Huili County on 9 December 2013, Huili Caitong was entitled to a preferential tax rate of 15% since 2012 according to the "Western Development Policy" as it is engaged in the encouraged industries listed in the Catalogue based on the confirmation obtained from the SPEIC on 8 July 2013. During the years ended 31 December 2012 and 2013, Huili Caitong purchased certain iron concentrates from Xiushuihe Mining and sold to independent third parties customers after the iron concentrates were further processed at the processing plant of Huili Caitong in order to improve the iron concentrates grade. There is no clear guidance as to whether the above processing activities would fall within the Catalogue. If those processing activities do not fall within the Catalogue, the revenue of Huili Caitong from the encouraged industries listed in the Catalogue would fail to meet the 70% of its total revenue, a prerequisite to enjoy a preferential tax rate under the "Western Development Policy". Therefore, Huili Caitong continued to adopt the income tax rate of 25% for its PRC CIT computation for the years ended 31 December 2012 and 2013.

The preferential income tax rate of 15% for the years ended 31 December 2012 and 2013 was confirmed by the tax bureau of Huili County in May 2014 as Huili Caitong submitted a representation to the tax bureau of Huili County based on the communication with the SPEIC, which clarifies the reason of providing the above-mentioned processing activities. Consequently, the overprovided income tax for the years ended 31 December 2012 and 2013 aggregated to RMB55,303,000 was reversed in the income tax expense for the Reporting Period.

- (d) During the Reporting Period, no share of tax attributable to joint ventures was included in "Share of profits and losses of joint ventures" in profit or loss (six months ended 30 June 2013: RMB557,000).

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of loss per share is based on the loss attributable to owners of the Company for the Reporting Period of RMB128,971,000 (six months ended 30 June 2013: profit attributable to owners of the Company of RMB125,938,000), and the weighted average number of ordinary shares of 2,075,000,000 (six months ended 30 June 2013: 2,075,000,000) in issue during the Reporting Period.

No adjustment has been made to the basic earnings per share amounts presented for each of the six months ended 30 June 2013 and 2014 in respect of a dilution as the exercise prices of the Company's outstanding share options were higher than the average market price for the Company's shares during each of the six months ended 30 June 2013 and 2014.

9. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND PREPAID LAND LEASE PAYMENTS

Movements in property, plant and equipment, intangible assets and prepaid land lease payments during the Reporting Period are as follows:

	Property, plant and equipment RMB'000 (Unaudited) (notes (a), (b) &(c))	Intangible assets RMB'000 (Unaudited)	Prepaid land lease payments RMB'000 (Unaudited)
Carrying amounts at 1 January 2014	1,745,221	586,402	43,388
Additions	59,361	77,101	–
Disposals	(1,179)	–	–
Impairment (note 6)	(166,947)	–	–
Depreciation/amortisation charged for the period (note 6)	(71,276)	(18,964)	(553)
Carrying amounts at 30 June 2014	<u>1,565,180</u>	<u>644,539</u>	<u>42,835</u>

Notes:

- (a) No interest capitalised in respect of bank loans was included in additions to property, plant and equipment during the Reporting Period (six months ended 30 June 2013: RMB276,000).
- (b) As at 30 June 2014, the Group was in the process of obtaining the relevant building ownership certificates ("BOCs") for certain buildings with an aggregate net carrying amount of RMB5,270,000 (31 December 2013: RMB5,425,000). The Group's buildings can be sold, transferred or mortgaged when the relevant BOCs have been obtained.
- (c) An impairment loss of RMB166,947,000 (31 December 2013: Nil) was recognised during the Reporting Period to write down the carrying amounts of the production machinery in the Iron Pelletising Plant to their recoverable amounts. The recoverable amounts were determined with reference to the best information available to reflect amount that the Group could obtain from the disposal of the production machinery in the Iron Pelletising Plant at the end of the useful life of the production machinery with a discount rate of 12%.

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

10. INVESTMENTS IN JOINT VENTURES

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000
Unlisted investments, at cost:		
– Sichuan Xinglian Mining and Technology Construction Co., Ltd. (“Sichuan Xinglian”)	550	550
– Liangshan Prefecture Weichuan Mining Co., Ltd. (“Weichuan Mining”)	<u>10,500</u>	<u>10,500</u>
	11,050	11,050
Share of profits and losses		
– Sichuan Xinglian	2,644	2,840
– Weichuan Mining	<u>(595)</u>	<u>(507)</u>
	<u>2,049</u>	<u>2,333</u>
Share of net assets	<u>13,099</u>	<u>13,383</u>
Balances classified as non-current portion	<u>3,194</u>	<u>3,390</u>
Balances classified as current portion*	<u>9,905</u>	<u>9,993</u>

* On 17 January 2014, the shareholders of Weichuan Mining decided to terminate the cooperative agreement and voluntarily wind up Weichuan Mining, winding up Weichuan Mining is expected to be completed in September 2014. Therefore, the investment in Weichuan Mining is classified as a current asset.

Particulars of the Company’s joint ventures (“JVs”), both of which are indirectly held by the Company, are as follows:

Name	Paid-up capital RMB'000	Place of establishment	Percentage of ownership interest
Sichuan Xinglian	1,000	PRC	55%
Weichuan Mining	20,500	PRC	51%

In the opinion of the Directors, according to the articles of association of the above JVs, neither the Group nor the other shareholders has the controlling power over these JVs to affect the amount of the investor’s returns. Accordingly, investments in these JVs are accounted for as investments in joint ventures.

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The balance represented Exchangeable Notes acquired by the Group in 2011 and designated by the Group as financial assets at fair value through profit or loss upon initial recognition. The movements in the fair value of the Exchangeable Notes during each of the six months ended 30 June 2013 and 2014 are as follows:

	For the six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Carrying amount at 1 January	275,310	239,272
Fair value gains on financial assets at fair value through profit or loss recognised during the period*	39,163	13,857
Carrying amount at 30 June	314,473	253,129

* Included in the fair value gains on financial assets at fair value through profit or loss recognised during the Reporting Period is the amortisation of day one profit of RMB1,546,000 during the Reporting Period (six months ended 30 June 2013: RMB1,659,000).

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

	30 June 2014	31 December 2013
<i>Valuation of liability component</i>		
Risk-free interest rate (Indonesia) (% per annum)	0.51	1.85
Credit spread (%)	18.65	20.28
<i>Valuation of embedded derivatives</i>		
Current market capitalisation (USD in millions)	119	343
Coupon rate (% per annum)	–	–
Dividend yield (% per annum)	–	–
Equity return volatility (% per annum)	41.30	47.28
Probability of Initial Public Offering (% per month for each Lattice step)	0	6
Maturity date	25 November 2014	25 November 2014
Lattice step	5	12
Non-marketability (%)	20	20

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

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

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

	For the six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Carrying amount at 1 January	2,997	5,996
Amortised to profit or loss during the period	(1,546)	(1,659)
Carrying amount at 30 June	<u>1,451</u>	<u>4,337</u>

12. PAYMENTS IN ADVANCE, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000
Current portion:			
Prepayments consist of:			
Prepaid technical service fee		4,133	4,133
Purchase of raw materials and services		2,585	1,240
Purchase of iron concentrates	(a)	191,407	148,677
Utilities		6,304	4,263
Prepayment for the use right of a road		45	45
Prepayment for acquisition of an associate	(b)	4,890	34,890
Prepaid stripping fees	(c)	108,214	–
Other prepayments		7,818	3,994
Deposits		–	14,000
Interest income receivable		11,477	19,077
Consideration in respect of disposal of the old iron pelletising plant		–	1,266
Other receivables		3,219	3,190
		<u>340,092</u>	<u>234,775</u>
Non-current portion:			
Prepaid technical service fee		39,267	41,334
Prepayment for the use right of a road		850	874
Compensation receivable		2,452	2,452
Long-term environmental rehabilitation deposits		6,021	6,021
		<u>48,590</u>	<u>50,681</u>
		<u>388,682</u>	<u>285,456</u>
Payments in advance in respect of:			
Purchase of plant and equipment		156	577
Acquisition of subsidiaries	(d)	554,025	200,000
Total payments in advance		<u>554,181</u>	<u>200,577</u>

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

12. PAYMENTS IN ADVANCE, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Notes:

- (a) The balance represented a prepayment made to an independent third party in respect of the purchase of ordinary iron concentrates which entitled the Group to a 5% discount on the purchase price as compared to the prevailing market price of the ordinary iron concentrates.
- (b) The balance represented a prepayment made for acquiring the 30% equity interests in Liangshan Yuechuan Mining Co., Ltd. ("Yuechuan Mining"). On 3 March 2014, Huili Caitong and the shareholders of Yuechuan Mining decided to wind-up Yuechuan Mining due to the uncertainty on the mining to obtain necessary mining permit for its operation and the additional expenses that would be incurred to reach the stage of commercial production. Consequently, the Group collected RMB30,000,000 from Yuechuan Mining in March 2014.
- (c) The balance represented prepaid stripping fees made to an independent third party contractor for stripping and mining activities at Xiushuihe Mine so as to entitle lower stripping and mining rates offered by the said contractor.
- (d) The balance consisted of (i) the prepayment of RMB354,025,000 made to Panzhihua Shuhai, an independent third party in respect of the acquisition of 51% equity interests in the Target Company at a consideration of RMB370,000,000, pursuant to an equity purchase agreement entered between Huili Caitong and Panzhihua Shuhai on 22 May 2014; and (ii) the prepayment of RMB200,000,000 made to the Sellers, all of whom are independent third parties, in respect of the acquisition of 100% equity interests in Panzhihua Yixingda at a consideration of at least RMB600,000,000 (subject to increase depending on the volume of mineral resources and reserves of iron ore), pursuant an equity purchase agreement entered between Lingyu and the Sellers on 28 December 2011.

13. TRADE AND BILLS RECEIVABLES

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000
Trade receivables	615,933	381,535
Bills receivable	40,100	3,804
	<u>656,033</u>	<u>385,339</u>

The Group's trading terms with its customers are mainly on credit, except for customers of titanium products, where full payment in advance of delivery is required. The Group temporarily extended the credit term offered to the existing customers from one month to three months since July 2013, which is further extended to six months since 1 April 2014 given the unfavourable market conditions. Trade receivables are non-interest-bearing and unsecured.

An aged analysis of the trade receivables as at the end of each reporting period, based on the invoice date, is as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000
Within 3 months	282,100	381,535
3 to 6 months	132,332	–
6 to 9 months	201,501	–
	<u>615,933</u>	<u>381,535</u>

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

13. TRADE AND BILLS RECEIVABLES (continued)

As at 30 June 2014, trade receivables with a carrying amount of RMB31,240,000 (31 December 2013: Not applicable) were pledged to secure certain bank loans granted to the Group (note 16(a)).

The aged analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000
Neither past due nor impaired	414,432	381,535
Less than 6 months past due	201,501	–
	<u>615,933</u>	<u>381,535</u>

Receivables that were past due but not impaired relate to the Group's certain customers that have a good record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at 30 June 2014, the Group endorsed certain bills receivable accepted by banks in the PRC to certain of its suppliers in order to settle the trade payables to these suppliers with a carrying amount in aggregate of RMB36,906,000 (31 December 2013: RMB226,480,000); furthermore, as at 30 June 2014 the Group discounted certain bills receivable accepted by banks in the PRC, with a carrying amount in aggregate of RMB101,090,000 (31 December 2013: RMB410,342,000) (collectively referred to as the "Derecognised Bills"). The Derecognised Bills have a maturity from three to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equals to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the Reporting Period, the Group has recognised interest expense of RMB11,247,000 (six months ended 30 June 2013: RMB36,534,000) (note 5) on discounted bills receivable. No gains or losses were recognised from the Continuing Involvement, both during the Reporting Period or cumulatively. The endorsement and discount have been made evenly throughout the Reporting Period.

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

14. BALANCES WITH RELATED PARTIES

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000
<i>Due from related parties:</i>		
– Non-trade in nature	<u>600</u>	<u>600</u>
<i>Due to related parties:</i>		
– Non-trade in nature	<u>9,048</u>	<u>8,514</u>

All the balances with related parties are unsecured, non-interest-bearing and have no fixed terms of repayment.

15. TRADE AND BILLS PAYABLES

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000
Trade payables	293,791	287,070
Bills payable	<u>392,614</u>	<u>657,420</u>
	<u>686,405</u>	<u>944,490</u>

An aged analysis of the trade payables and bills payable as at 30 June 2014 and 31 December 2013, based on the invoice date or issuance date, is as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000
Within 180 days	514,559	807,852
181 to 365 days	75,413	62,974
1 to 2 years	71,821	61,449
2 to 3 years	20,427	11,545
Over 3 years	<u>4,185</u>	<u>670</u>
	<u>686,405</u>	<u>944,490</u>

Trade payables are non-interest-bearing and are normally settled in 60 to 180 days and the bills payable were with maturity period of 90 or 180 days.

As at 30 June 2014, the Group's bills payable of RMB382,613,000 (31 December 2013: RMB657,420,000) were secured by pledged time deposits of RMB169,888,000 (31 December 2013: RMB291,835,000).

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

16. INTEREST-BEARING BANK AND OTHER LOANS

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000
Bank loans:			
Secured	(a)	115,463	138,239
Unsecured	(b)	309,800	255,000
Guaranteed	(c)	16,000	16,000
Other loans, unsecured	(d)	4,000	4,000
		445,263	413,239
Bank loans repayable:			
Within one year or on demand		391,263	359,239
In the second year		25,000	25,000
In the third to fifth years, inclusive		25,000	25,000
		441,263	409,239
Other loans repayable:			
Within one year or on demand		3,200	3,200
In the second year		800	800
		4,000	4,000
Total bank and other loans		445,263	413,239
Balances classified as current liabilities		(394,463)	(362,439)
Balances classified as non-current liabilities		50,800	50,800

Notes:

- (a) As at 30 June 2014, the bank loans of RMB95,463,000 and RMB20,000,000 were secured by the pledge of time deposits of RMB102,468,000 and trade receivables of RMB31,240,000 (note 13), respectively and bear interest at the rate of 3.10% per annum above LIBOR Rate and fixed rate of 6.06% per annum, respectively.
- (b) As at 30 June 2014, Huili Caitong had unsecured interest-bearing bank loans of RMB225,000,000 at fixed rates ranging from 6.0% to 6.55% per annum. In accordance with the bank loan agreements entered into between Huili Caitong and the lender, Huili Caitong agreed not to mortgage or pledge Huili Caitong's mining rights to Baicao Mine and the iron concentrates production line with an annual production capacity of 500,000 tonnes to any other parties, and lender will be entitled to a pre-emption right in the event of such mortgage or pledge.

In addition, as at 30 June 2014, Huili Caitong had unsecured interest-bearing bank loans of RMB84,800,000 at fixed rates ranging from 6.0% to 6.6% per annum and were guaranteed by the Company at nil consideration.

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

16. INTEREST-BEARING BANK AND OTHER LOANS (continued)

Notes: (continued)

- (c) As at 30 June 2014, Aba Mining had long-term interest-bearing bank loans of RMB16,000,000, bearing interest at the fixed rate of 7.04% per annum which are due for repayment within one year. These long-term bank loans were jointly guaranteed by related parties for nil consideration (note 21 (a) (iii)).
- (d) As at 30 June 2014, other loans represented interest-bearing loans granted by Wenchuan County State Assets Investment Co., Ltd. to Aba Mining for the reconstruction of production plants affected by the earthquake in May 2008. Other loans are unsecured and bear interest at the fixed rate of 5.76% per annum.

17. SHARE OPTION SCHEMES

On 4 September 2009, the Company adopted the Old Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Old Option Scheme include the Company's Directors, including non-executive Directors, and other employees of the Group. On 15 April 2010, the Company adopted the New Option Scheme, and simultaneously terminated the operation of the Old Option Scheme (such that, no further options shall thereafter be offered under the Old Option Scheme but in all other respects the provisions of the Old Option Scheme shall remain in force and effect). Eligible participants of the New Option Scheme include Directors, chief executives, substantial Shareholders or employees (whether full time or part time) of any member of the Group and any persons whom the Board considers, in its sole discretion, have contributed or will contribute to the development and growth of the Group. The New Option Scheme will remain in force for 10 years from that date, unless otherwise cancelled or amended.

On 15 April 2014, the Company granted options to subscribe for a total of 41,900,000 new Shares in the share capital of the Company to the eligible participants under the New Option Scheme adopted in 2010. Eligible participants include the Company's Directors, including non-executive Directors, and other employees of the Group. The options will remain in force for 10 years from the date of grant.

The following share options were outstanding under the Old Option Scheme and the New Option Scheme during the Reporting Period:

	Notes	Weighted average exercise price HK\$ per Share	Number of options '000
As at 1 January 2014	(a)	4.34	56,900
Granted during the Reporting Period	(b)	1.00	41,900
As at 30 June 2014		<u>2.93</u>	<u>98,800</u>

Notes:

- (a) The share options outstanding as at 1 January 2014 represented share options granted under the Old Option Scheme and the New Option Scheme by the Company on 29 December 2009, 1 April 2010 and 23 May 2011 at the exercise prices of HK\$5.05, HK\$4.99 and HK\$3.60 per Share, respectively.
- (b) On 15 April 2014, options to subscribe for a total of 41,900,000 new Shares in the share capital of the Company were granted under the New Option Scheme at the exercise price of HK\$1.00 per Share.

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

17. SHARE OPTION SCHEMES (continued)

The exercise prices and exercise periods of the share options outstanding as at 30 June 2014 are as follows:

Number of options '000	Exercise price per Share HK\$	Exercise period
10,100	5.05	29 June 2012 to 28 December 2019
10,100	5.05	29 December 2014 to 28 December 2019
4,700	4.99	1 October 2012 to 31 March 2020
4,700	4.99	1 April 2015 to 31 March 2020
27,300	3.60	23 May 2013 to 22 May 2021
20,950	1.00	15 October 2014 to 14 April 2024
10,475	1.00	15 April 2015 to 14 April 2024
10,475	1.00	15 October 2015 to 14 April 2024
98,800		

The Group has 42,100,000 share options exercisable as at 30 June 2014, and the weighted average exercise price was HK\$2.56 per Share.

The fair value of share option granted during the Reporting Period was HK\$15,832,000 (equivalent to approximately RMB12,572,000) or HK\$0.38 each (equivalent to approximately RMB0.30 each). The Group recognised a share option expense of HK\$9,367,000 (equivalent to approximately RMB7,438,000) during the Reporting Period (six months ended 30 June 2013: HK\$11,000,000, equivalent to approximately RMB8,903,000)

The fair value of equity-settled share options granted was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	Equity-settled share options granted on			
	15 April 2014	23 May 2011	1 April 2010	29 December 2009
Dividend yield (%)	2.17	2.07	1.36	1.41
Expected volatility (%)	49.47	62.40	66.40	68.56
Risk-free interest rate (%)	2.270	2.430	2.788	2.652

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

As at 30 June 2014, the Company had 29,600,000 share options outstanding under the Old Option Scheme and 69,200,000 share options outstanding under the New Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 98,800,000 additional Shares of the Company and additional share capital of HK\$9,880,000 and share premium of HK\$279,216,000 (before issue expenses).

At the date of approval of this interim condensed financial information, the Company had 98,800,000 share options outstanding, which represented approximately 4.76% of the Company's Shares in issue as at that date.

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

18. DIVIDENDS

At a meeting of the Board held on 25 August 2014, the Directors resolved not to pay an interim dividend to Shareholders (six months ended 30 June 2013: nil).

The proposed final dividend of HK\$0.022 per Share (equivalent to approximately RMB0.017 per Share) for the year ended 31 December 2013 was declared and paid during the Reporting Period.

19. OPERATING LEASE ARRANGEMENTS

As lessee

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

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

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000
Within one year	1,291	1,413
In the second to fifth years, inclusive	638	903
	<u>1,929</u>	<u>2,316</u>

20. COMMITMENTS

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

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000
Contracted, but not provided for:		
– Acquisition of a subsidiary	415,948	400,000
– Plant and machinery	6,286	8,547
– Exploration and evaluation assets	2,300	7,525
	<u>424,534</u>	<u>416,072</u>
Authorised, but not contracted for:		
– Plant and machinery	1,192,644	1,195,376
– Exploration and evaluation assets	78,093	78,093
	<u>1,270,737</u>	<u>1,273,469</u>
Total capital commitments	<u>1,695,271</u>	<u>1,689,541</u>

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

21. RELATED PARTY TRANSACTIONS

(a) During the Reporting Period, the Group had the following material transactions with related parties:

Name of related parties	Notes	For the six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Recurring transactions			
<i>Sale of goods</i>			
Chengyu Vanadium Titano	(i)	–	63,404
<i>Office rental</i>			
Longwei Hotel	(ii)	–	79
Non-recurring transactions			
<i>Bank loans jointly guaranteed by related parties</i>			
Chuan Wei and Chengyu Vanadium Titano	(iii)	16,000	18,000
<i>Mineral exploration and evaluation services</i>			
Sichuan Xinglian	(iv)	–	10,155
<i>Acquisition of Aba Mining</i>			
Chuan Wei	(v)	–	(28,670)
<i>Construction of property, plant and equipment</i>			
Sichuan Huiyuan	(vi)	2,770	–

Notes:

- (i) The Directors consider that the sales to Chengyu Vanadium Titano were undertaken on terms similar to those offered to unrelated customers in the ordinary course of business.
- (ii) The Directors consider that the office rental expenses paid by the Group to Sichuan Longwei Hotel Management Co., Ltd ("Longwei Hotel") were determined under the tenancy agreement which are based on the rate for similar premises in the similar location.
- (iii) The bank loans were jointly guaranteed by Chuan Wei and Chengyu Vanadium Titano for nil consideration.
- (iv) The Directors consider that the mineral exploration and evaluation services provided for the Group were undertaken on terms similar to those offered to independent third parties in the ordinary course of business.

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

21. RELATED PARTY TRANSACTIONS (continued)

- (a) During the Reporting Period, the Group had the following material transactions with related parties: (continued)

Notes: (continued)

- (v) According to the acquisition agreement entered into between the Group and Chuan Wei on 30 May 2011, the estimated net profits (after taxation and extraordinary items) of Aba Mining attributable to the equity holders in 2012 will be at least RMB40.0 million (the "Guaranteed Net Profit"). Chuan Wei is obliged to reimburse to the Group any amount representing the shortfall between the Guaranteed Net Profit and the audited net profit.

Pursuant to the audited financial statements of Aba Mining for the year ended 31 December 2012, the audited net profit (after taxation and extraordinary items) attributable to equity holders of Aba Mining in 2012 was approximately RMB11,333,000 and the shortfall to the Guaranteed Net Profit was RMB28,670,000 (the "Net Profit Difference"). On 7 May 2013, the Group and Chuan Wei entered into a supplemental agreement, pursuant to which the consideration balance payable to Chuan Wei as at 31 December 2012 of RMB30,000,000 has been reduced by the Net Profit Difference to RMB1,330,000, which had been fully settled by the Group in November 2013. Accordingly, the adjusted total consideration for the Acquisition of Aba Mining of RMB140,870,000 has been further reduced by the Net Profit Difference to approximately RMB112,200,000. The Net Profit Difference after tax impact of RMB21,500,000 has been accounted for in equity during 2013.

- (vi) The Directors consider that the amount paid for construction services from Sichuan Huiyuan Gang Jian Technology Co., Ltd. ("Sichuan Huiyuan") was determined based on prices similarly available to the related party's third customers.

Longwei Hotel, Chuan Wei and Trisonic International are ultimately controlled by the same beneficial owners. Sichuan Huiyuan is a company controlled by Chuan Wei.

- (b) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fees	414	374
Basic salaries and other benefits	807	2,191
Equity-settled share option expense	3,579	7,602
Pension scheme contributions	73	96
	<hr/>	<hr/>
Total compensation paid to key management personnel	4,873	10,263
	<hr/>	<hr/>

Notes to Interim Condensed Financial Information

For the six months ended 30 June 2014

22. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair value measurement hierarchy of the Group's financial assets at fair value through profit or loss have been estimated using a valuation technique based on assumptions that require significant unobservable inputs (Level 3). The valuation requires the Directors to make estimates about the expected future cash flows including expected future proceeds from recoverability of the financial assets and on subsequent disposal of the shares of the underlying assets.

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

The carrying amounts of the Group's other financial instruments approximate to their fair values due to the short-term maturity of these financial instruments.

The fair value measurement hierarchy of the Group's interest-bearing bank loans requires significant observable inputs (Level 2).

23. APPROVAL OF THE INTERIM CONDENSED FINANCIAL INFORMATION

The interim condensed financial information was approved and authorised for issue by the Board of Directors on 25 August 2014.

Glossary

“12 th Five-Year Plan”	the Twelfth Five-Year Plan for the National Economic and Social Development of the PRC
“2010 AGM”	the Shareholders’ annual general meeting held on 15 April 2010
“Aba Mining”	Aba Mining Co., Ltd.* (阿壩礦業有限公司), a limited liability company established in the PRC on 27 February 2004 and an indirect wholly-owned subsidiary of the Company
“Aba Prefecture”	阿壩藏族自治州, Aba Tibetan and Qiang Autonomous Prefecture
“Baicao Mine”	白草鐵礦, the vanadium-bearing titano-magnetite mine located in Xiaoheiqing Townlet, Huili County, Sichuan and operated by Huili Caitong, with a mining area of 1.88 sq.km.
“Baicao Processing Plant”	the ore processing plant located at the Baicao Mine and operated by Huili Caitong
“Board”	our board of Directors
“Chengyu Vanadium Titano”	Chengyu Vanadium Titano Technology Ltd.* (成渝鈦鈦科技有限), formerly known as Weiyuan Steel Co., Ltd.* (威遠鋼鐵有限), a sino-foreign equity joint venture established in the PRC on 3 April 2001 and a connect person to the Group
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this report, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Chuan Wei”	Sichuan Chuanwei Group Co., Ltd.* (四川省川威集團有限), a limited liability company established in the PRC on 29 March 1998 and a connected person to the Group
“Cizhuqing Mine”	茨竹箐鐵礦, the vanadium-bearing titano-magnetite mine located in Xiaoheiqing Townlet, Huili County, Sichuan, with an exploration area of 2.3 sq.km.
“Company”, “we” or “us”	China Vanadium Titano-Magnetite Mining Company Limited (中國鈦鈦磁鐵礦業有限公司), a limited liability company incorporated in the Cayman Islands on 28 April 2008
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“concentrate(s)”	the product(s) of ore processing plants that contain higher concentrations of the minerals and are suitable for smelting
“Controlling Shareholder(s)”	has the meaning ascribed thereto in the Listing Rules and in the context of this report, refers to Trisonic International, Kingston Grand, Messrs. Wang Jin, Shi Yinjun, Yang Xianlu, Wu Wendong, Zhang Yuangui and Li Hesheng

“Dashanshu Section”	the Dashanshu section* (大杉樹礦段) of the Pingchuan Mine which has an exploration area of approximately 5 sq.km. within the exploration area set out in the exploration permit of the Pingchuan Mine
“Director(s)”	director(s) of the Company or any one of them
“Exchangeable Note(s)”	the exchangeable note(s) in the principal amount due on 25 November 2014 issued by the Issuer in accordance with the Secured Exchangeable Note Purchase Agreement with its terms and conditions set out in the Note Certificate
“First China”	First China Limited (三民有限公司), a company incorporated in Hong Kong on 5 March 2008 and a direct wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“Haibaodang Mine”	海保函鈦鐵礦, the vanadium-bearing titano-magnetite mine located in Renhe District, Panzhihua City, Sichuan, currently under exploration with an exploration area of 20.37 sq.km.
“Hailong Processing Plant”	the ore processing plant located at Huili County and operated by Huili Caitong
“Heigutian Processing Plant”	the ore processing plant located at Yanbian County and operated by Yanbian Caitong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Huili Caitong”	Huili County Caitong Iron and Titanium Co., Ltd.* (會理縣財通鐵鈦有限責任公司), established in the PRC on 7 July 1998 and has been a foreign equity joint venture in the PRC since 29 December 2010, an indirect wholly-owned subsidiary of the Company
“iron”	a silvery-white, lustrous, malleable, ductile, magnetic or magnetisable, metallic element occurring abundantly in combined forms, notably in hematite, limonite, magnetite, and taconite, and alloyed for use in a wide range of important structural materials
“iron concentrate(s)”	concentrate(s) whose main mineral content (by value) is iron
“iron ore”	compounds of iron and oxygen (iron oxides) mixed with impurities (gangue); it is a mineral which when heated in the presence of a reductant will yield metallic iron
“iron pellet(s)”	a round hardened clump of iron-rich material suitable for application in blast furnaces
“Iron Pelletising Plant”	the plant that produces iron pellets and is located in Ailang Townlet, Huili County, Sichuan, which is approximately 5.5 km from the Xiushuihe Mine

Glossary

“Issuer”	Rui Tong Limited, a private company incorporated in the British Virgin Islands with limited liability, being the issuer of the Exchangeable Notes under the Secured Exchangeable Note Purchase Agreement and a third party independent of the Company and its connected persons
“Joint Venture”	Liangshan Weichuan Mining Co., Ltd.* (涼山州威川礦業有限公司), a joint venture formed pursuant to the cooperative agreement dated 30 August 2011 entered into between the Company, Sichuan Province Yanyuan County Pingchuan Iron Mine* (四川省鹽源縣平川鐵礦) and Sichuan Nanyu Information Technology Company Limited* (四川南譽信息技術有限公司)
“JORC Code”	the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia in 1989 and revised and updated in 1992, 1996, 1999, 2004 and 2012, that sets out minimum standards, recommendations and guidelines for public reporting
“Kingston Grand”	Kingston Grand Limited, a company incorporated in the British Virgin Islands on 20 February 2007, holder of 40% of the issued share capital of Trisonic International
“km.”	kilometre(s), a metric unit measure of distance
“Kt”	thousand tonnes
“Ktpa”	thousand tonnes per annum
“LIBOR”	the London Inter Bank Offered Rate, as determined by the bank for interest periods of up to 12 months or such other interest periods at may be agreed by the bank
“Lingyu”	Sichuan Lingyu Investment Co., Ltd.* (四川省凌御投資有限公司), a limited liability company established in the PRC on 9 June 2010 and an indirect wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maoling Extended Exploration Area”	formerly an independent exploration region with an area of 2.83 sq.km. covered under the extended exploration permit of the Maoling Mine (covering 1.9 sq.km. of the mining area of the Maoling Mine), has been consolidated with the Yanglongshan Mine since September 2012 to form the Maoling-Yanglongshan Mine
“Maoling Mine”	毛嶺鐵礦, an ordinary magnetite mine owned by Aba Mining and located in Wenchuan County, Sichuan, with a mining area of 1.9 sq.km.
“Maoling Processing Plant”	the ore processing plant located at the Maoling-Yanglongshan Mine and operated by Aba Mining

“Maoling-Yanglongshan Mine”	an exploration region with an area of 11.6 sq.km. covered under the exploration permit of the Maoling-Yanglongshan Mine (the mining area covered is owned by the Maoling Mine), formed from the combination of the original Maoling Extended Exploration Area and the Yanglongshan Mine since September 2012
“Mineral Resources and Reserves Report”	the Mineral Resources and Reserves Report in respect of the Haibaodang Mine issued by the Geological Agent
“mining right(s)”	the right(s) to mine mineral resources and obtain mineral products in areas where mining activities are licensed
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“Mt”	million tonnes
“Note Certificate”	the note certificate of the Exchangeable Notes with the terms and conditions of the Exchangeable Notes set out therein
“ore processing”	the process which in general refers to the extraction of usable portions of ores by using physical and chemical extraction methods
“Panxi Region”	a region in Sichuan located at southwest of Chengdu reaching from Panzhihua to Xichang
“Panzhihua Yixingda”	Panzhihua Yixingda Industrial Trading Co., Ltd.* (攀枝花易興達工貿有限責任公司), a limited liability company registered in the PRC on 9 July 2009
“Parties”	Huili Caitong and Panzhihua Shuhai, being the parties to the equity transfer agreement in relation to the transfer of the 51% paid-up registered capital of the Target Company
“pelletising”	a process to compress the iron ore into the shape of a pellet
“Pingchuan Mine”	the Pingchuan iron mine which is located in Yanyuan County, Liangshan Prefecture, Sichuan, which has an exploration area of 69.09 sq.km. as set out in the exploration permit
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reporting Period”	the six months ended 30 June 2014
“Secured Exchangeable Note Purchase Agreement”	the secured exchangeable note purchase agreement dated 2 May 2011 entered into between the Group and the Issuer pursuant to which the Issuer has conditionally agreed to issue and the Group has conditionally agreed to subscribe the Exchangeable Note on the terms and subject to the conditions set out therein

Glossary

"Sellers"	collectively, Sichuan Haokun Trading Co., Ltd.* (四川省昊坤貿易有限公司), Sichuan Haihuitian Trading Co., Ltd.* (四川省海匯天貿易有限公司), Chengdu Jiashide Trading Co., Ltd.* (成都佳仕德貿易有限公司) and Chongqing Xinzhou Metallic Material Co., Ltd.* (重慶鑫宙金屬材料有限公司)
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the share capital of the Company, with a nominal value of HK\$0.1 each
"Shareholder(s)"	holder(s) of the Share(s)
"Shigou Gypsum Mine"	Shigou gypsum mine located in Hanyuan County, Ya'an City, Sichuan and operated by Hanyuan Xinjin, with a mining area of 0.1228 sq.km.
"Sichuan"	the Sichuan province of the PRC
"sq.km."	square kilometres
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Sichuan Haoyuan New Materials Co., Ltd.* (四川省浩遠新材料有限公司), a limited liability company established in the PRC on 18 July 2011
"titanium"	a light, strong, lustrous, corrosion-resistant transition metal with a white-silvery-metallic colour
"titanium concentrate(s)"	concentrate(s) whose main content (by value) is titanium dioxide
"Trisonic International"	Trisonic International Limited (合創國際有限公司), a company incorporated in Hong Kong on 19 July 2006 and a Controlling Shareholder
"Type 331"	measured intrinsic economic resources (探明的內蘊經濟資源量) (Type 331) as defined in the Classification of Solid Mineral Resources and Reserves
"Type 333"	inferred intrinsic economic resources (推斷的內蘊經濟資源量) (Type 333) as defined in the Classification of Solid Mineral Resources and Reserves
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US dollars" or "US\$"	the lawful currency of the United States
"Xiushuihe Mine"	秀水河鐵礦, the vanadium-bearing titano-magnetite mine located in Ailang Townlet, Huili County, Sichuan and operated by Xiushuihe Mining, with a mining area of 0.52 sq.km.

“Xiushuihe Mining”	Huili County Xiushuihe Mining Co., Ltd.* (會理縣秀水河礦業有限公司), a limited liability company established in the PRC on 26 June 2007 and an indirect subsidiary of the Company that owns 95.0% equity interest
“Xiushuihe Processing Plant”	the ore processing plant located at the Xiushuihe Mine and operated by Xiushuihe Mining
“Yanbian Caitong”	Yanbian County Caitong Iron and Titanium Co., Ltd.* (鹽邊縣財通鐵鈦有限責任公司), established in the PRC on 26 January 2010 and an indirect wholly-owned subsidiary of the Company
“Yanglongshan Mine”	羊龍山鐵礦, the iron mine located at Yanglongshan in Wenchuan County, Sichuan, formerly an independent exploration region with an area of 8.79 sq.km. covered under the exploration permit of the Yanglongshan Mine, and has been consolidated as the Maoling-Yanglongshan Mine with the original Maoling Extended Exploration Area since September 2012
“Yangqueqing Mine”	陽雀箐鐵礦, the vanadium-bearing titano-magnetite mine located in Huili County, Sichuan, with a mining area of 0.25 sq.km.

* For identification purpose only