Please note that Hatch, an experienced consultant in the metals and mining industry, has been engaged to prepare an iron ore industry report, for use in whole or in part in this document. Hatch prepared its report based on Hatch's in-house database, independent third-party reports and publicly available data from reputable industry organisations. Where necessary, Hatch contacts companies operating in the industry to gather and synthesise information about market, prices and other relevant information. Hatch has assumed the completeness and accuracy of the information and data on which it relied. Hatch has provided part of the statistical and graphical information contained in this Industry Overview. Hatch has advised that (i) some information in the Hatch's database is derived from estimates from industry sources or subjective judgments; and (ii) the information in the database of other mining data collection agencies may differ from the information in Hatch's database.

We believe that the sources of the information in this section, which include both official government and non-official sources, are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any part has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, our or their affiliates or advisers or any other party involved in the Global Offering and no representation is given as to its accuracy, completeness or fairness.

SOURCE OF INFORMATION

Hatch Report

Hatch, an experienced consultant in the mining & metals industry, has been engaged to provide the Hatch Report for use in whole or in part in this prospectus.

The research and writing of the Hatch Report was a desktop exercise carried out by experienced Hatch professionals who have extensive knowledge of the iron ore sector. Hatch utilises its in-house database, independent third-party reports and publicly available data from reputable industry organisations to prepare the Hatch Report. Where necessary, Hatch's researchers contact companies operating in the industry to gather and synthesize information about the market, prices and other relevant information.

In preparation of its Hatch Report, Hatch has assumed the completeness and accuracy of the information and data that Hatch has relied on. Hatch has confirmed that it is not aware of anything which could possibly lead it to believe that this assumption is unfair, unreasonable or incomplete.

Hatch operates at strict international standards of moral, legal and professional conduct. Hatch guards its reputation for independence and confidentiality with great care. Hatch has more than 15 years of project experience in the PRC and has successfully undertaken assignments on over 150 projects with a total capital value in excess of US$3.0 billion.

This prospectus contains information extracted from the Hatch Report in sections such as "Summary", "Risk Factors", "Industry Overview", "Business" and "Financial Information". We have paid Hatch a total of RMB640,000 in fees for the preparation and update of the Hatch Report.

Others

We have not engaged WSA, UNCTAD, USGS, the NBSC, CISA, Tex Report, Mysteel or SBB when preparing data quoted in this document.

- WSA is one of the largest industry associations in the world which represents approximately 170 steel producers (including 19 of the world's 20 largest steel companies), national and regional steel industry associations, and steel research institutes.

- UNCTAD is a permanent intergovernmental body that releases information in relation to international trade, foreign direct investment and commodities statistics.

- USGS is a science organization that collects, monitors, analyses and provides scientific understandings on natural resources conditions, issues and problems.

- The NBSC is an agency directly under the State Council that is in charge of statistics and economic accounting in China.

- CISA is a non-profit national association representing the Chinese steel industry with a primary goal of serving as a liaison between the Chinese iron and steel industries and the PRC government.

- Tex Report is a provider of information relating to iron ore, coal and ferro alloy manuals and traces the price movement of raw materials of steel production.

- Mysteel is an independent organization focused on the iron and steel industry in China, which supplies various internet-related services to its users such as up-to-date steel industry information and news and enables access to a global community of steel producers and traders.

- SBB is a global provider of information relating to steel news, prices, research and events.

These sources are Independent Third Parties. Data from these sources were not commissioned by Hatch, our Company and/or the Controlling Shareholders.

INTRODUCTION TO IRON ORE

Iron ore is the mineral substance from which metallic iron (Fe) can be economically extracted when heated in the presence of a reductant. Iron ore is the only known source of primary iron and more than 98% of iron ore products produced are used for iron and steel making. The most commonly found and subsequently most utilised types of iron ore are hematite and magnetite ores. Other iron ore types include limonite and siderite etc.

Iron ore products are graded as fines or lumps according to whether the majority of individual particles have diameter of less than 6.3 millimetres. Fines produced after dressing and preparation have to be agglomerated, either sintered or pelletised, before it can be used in an iron making blast furnace or a direct reduction furnace whilst lump ore is charged directly to a blast furnace.

The two dominant agglomeration processes are sintering and pelletising. Iron ore fines are mainly agglomerated by sintering in China while, in other countries such as the USA, pelletising is more frequently used.

Production of iron from iron ore can be done through one of three methods, namely, blast furnaces (e.g. BFI), direct reduction processes (e.g. DRI, HBI) or direct smelting process (e.g. COREX, HISmelt, and FINEX). The latter two are often grouped together and referred to as "alternative iron making" processes as they are relatively under-developed.

OVERVIEW OF THE IRON ORE INDUSTRY

Global Iron Ore Industry

Iron Ore Products Consumption

According to World Steel Association (WSA) statistics, global BFI and DRI/HBI production increased from 619 Mt to 1,091 Mt between 2001 and 2010, reflecting a CAGR of 6.5%. World crude steel production increased from 851 Mt to 1,395 Mt between 2001 and 2010, reflecting a CAGR of 5.7%. In 2010, world BFI and DRI/HBI output were up by 13.9% and 6.5% year-on-year over 2009, respectively. Similarly, world crude steel output in 2010 was up by 14.5% compared to 2009. For the first half of 2011, world BFI and DRI/HBI production reached 578 Mt. World crude steel output was 758 Mt in the first half of 2011, up by 7.6% from the same period in 2010.

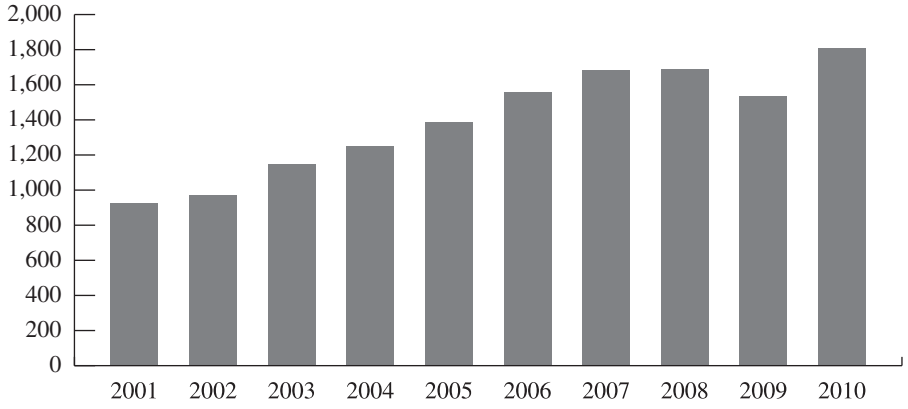
World BFI and DRI/HBI and Crude Steel Production 2001–1H2011

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	1H2011
						(in Mt)					
BFI and DRI/HBI production — China	147	171	214	257	338	408	470	469	544	586	322
BFI and DRI/HBI production — Rest of World	472	485	506	521	513	527	544	526	418	505	256
Total World	**619**	**656**	**720**	**778**	**851**	**935**	**1,014**	**995**	**962**	**1,091**	**578**
Crude Steel production — China	151	182	222	280	353	423	489	500	568	627	351
Crude Steel production — Rest of the world	700	722	748	788	786	828	856	826	651	768	397
Total World	**851**	**904**	**970**	**1,068**	**1,139**	**1,251**	**1,345**	**1,326**	**1,219**	**1,395**	**758**

Source: WSA

According to Hatch, world iron ore products apparent consumption (apparent iron ore products consumption = production + imports – exports) increased from 923 Mt in 2001 to 1,810 Mt in 2010, representing a CAGR of 7.8%.

World Apparent Iron Ore Products Consumption 2001–2010 (Unit: Mt)



Source: United Nations Conference on Trade and Development ("UNCTAD")

China had the highest apparent iron ore products consumption in the world, accounting for more than 51.6% of the world total consumption in 2010. Other countries with high iron ore apparent products consumption include India, Japan, Russia and South Korea.

World Apparent Iron Ore Products Consumption by Country in 2010 (Unit: Mt)

Country	Apparent Consumption	% of Total World
China	934	51.6%
Japan	134	7.4%
India	119	6.5%
Russia	91	5.0%
Brazil	64	3.5%
South Korea	56	3.1%
Ukraine	49	2.7%
USA	45	2.5%
Germany	43	2.4%
Iran	13	0.7%
Others	263	14.5%
Total World	**1,810**	**100.0%**

Source: UNCTAD

Iron Ore Reserve

Global iron ore resources and reserves are abundant. According to the U.S. Geography Survey (USGS), crude iron ore reserves are estimated to be at approximately 140 to 180 billion tons between 2001 and 2010, converting to iron content of approximately 73 to 87 billion tons. In 2010, global crude iron ore reserves were reported to be at approximately 180 billion tons.

In 2010, crude iron ore reserves in Ukraine, Russia, China, Australia and Brazil collectively accounted for 72.8% of the world total iron ore reserves. The table below sets out the distribution of estimated crude iron ore reserves globally.

World Iron Ore Reserves by Country in 2010 (Unit: Mt)

	Crude Iron Ore		Iron Contained	
Country	**Reserves**	**% of World Total**	**Reserves**	**% of World Total**
Ukraine	30,000	16.7%	9,000	10.3%
Brazil	29,000	16.1%	16,000	18.4%
Russia	25,000	13.9%	14,000	16.1%
Australia	24,000	13.3%	15,000	17.2%
China	23,000	12.8%	7,200	8.3%
Kazakhstan	8,300	4.6%	3,300	3.8%
India	7,000	3.9%	4,500	5.2%
USA	6,900	3.8%	2,100	2.4%
Canada	6,300	3.5%	2,300	2.6%
Venezuela	4,000	2.2%	2,400	2.8%
Sweden	3,500	1.9%	2,200	2.5%
Iran	2,500	1.4%	1,400	1.6%
Mauritania	1,100	0.6%	700	0.8%
South Africa	1,000	0.6%	650	0.7%
Mexico	700	0.4%	400	0.5%
Other Countries	7,700	4.3%	5,850	6.8%
World Total	**180,000**	**100.0%**	**87,000**	**100.0%**

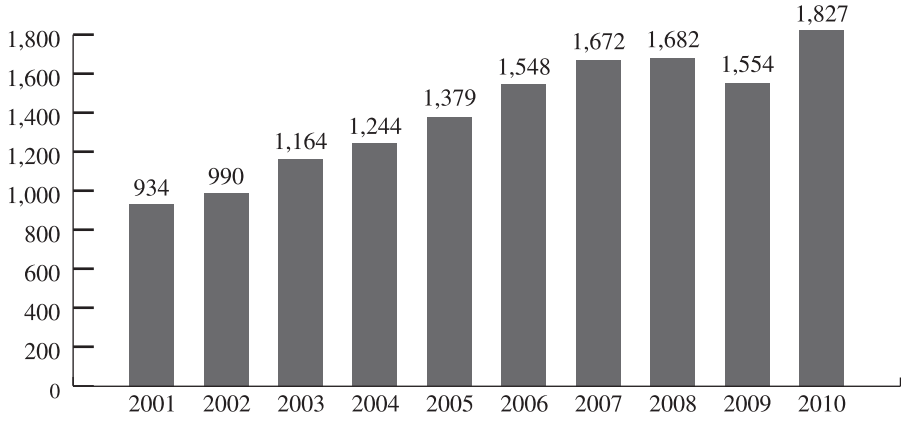
Source: USGS

China accounted for approximately 12.8% of the world total crude iron ore reserves or approximately 23 billion tons in 2010. However, the deposits in China are mostly low-grade ores, and require beneficiation and agglomeration for commercial use.

Iron Ore Production

According to UNCTAD, world iron ore products production increased from approximately 934 Mt in 2001 to 1,827 Mt in 2010 at a CAGR of 7.7%. Due to the global financial crisis, world iron ore products production decreased 7.6% year on year to 1,554 Mt in 2009; however, world iron ore production quickly rebounded in 2010, recording a year-on-year increase of 17.6%.

World Iron Ore Products Production 2001–2010 (Unit: Mt)

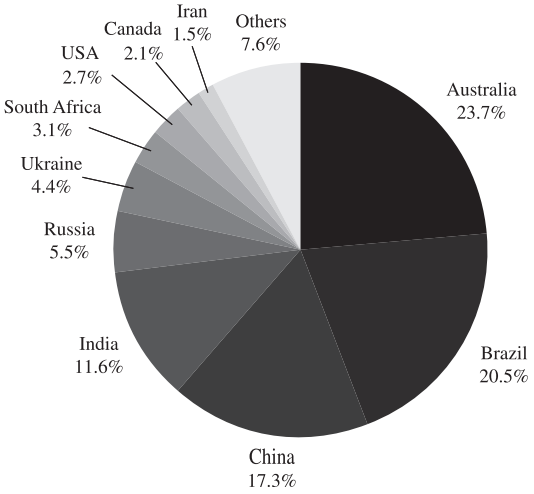


Source: UNCTAD

Note: China's iron ore products production is converted by UNCTAD on a comparable grade basis

The top four iron ore producing countries in 2010 were Australia, Brazil, China and India. Collectively, they produced approximately 73.1% of world total iron ore products production in 2010.

World Iron Ore Products Production by Country in 2010



Source: UNCTAD

Iron Ore Products Trade

Since the majority of iron ore deposits are located in countries different from where most steelmaking production facilities are situated, more than 1,000 Mt of iron ore products (or approximately 58% of iron ore products produced) were traded internationally in 2010.

China is the world's largest importer of iron ore products. In 2010, Chinese iron ore imports reached approximately 619 Mt or 66.8% of the world's total iron ore products imports, reflecting a CAGR of 23.5% during 2001 to 2010. This was primarily the result of strong growth in domestic demand and limited domestic supply.

Australia and Brazil are the two largest exporters of iron ore products. Collectively, the two countries accounted for approximately 64.1% of the global export market in 2010.

World iron ore products imports and exports by major countries (Unit: Mt)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Imports										
China	92	112	148	208	275	326	383	444	628	619
Japan	126	129	132	135	132	134	139	140	105	314
South Korea	46	43	43	44	44	44	46	50	42	56
Germany	40	44	39	46	42	45	46	45	29	43
China Taiwan	16	15	16	16	15	16	16	16	12	19
France	17	19	19	21	20	20	20	18	10	15
Exports										
Australia	175	174	197	221	239	247	267	309	363	403
Brazil	156	170	184	201	223	248	269	274	266	311
India	37	55	57	63	81	89	94	106	117	96
South Africa	24	24	23	25	27	26	30	33	45	48
Canada	22	26	28	23	28	28	28	28	31	33

Source: UNCTAD

Competition

The iron ore industry has been consolidating continuously since the 1970s. The top ten iron ore products producers controlled 47.1% of the world's total iron ore products production in 2009, compared to 48.4% in 2008. The top three world largest iron ore products producers collectively produced 564 Mt or 35.5% of world total iron ore products in 2009, compared to 33.7% in 2008.

PRC Iron Ore Industry

Iron Ore Products Consumption

China is the largest iron and steel producing country in the world. According to Hatch, China's BFI and crude steel production in 2010 accounted for 53.7% and 44.9% of the world total production respectively. China's BFI production increased to 590 Mt in 2010 from 147 Mt in 2001, representing a CAGR of 16.7%. China's crude steel production increased from 151 Mt in 2001 to 627 Mt in 2010, representing a CAGR of 17.1%. In 2010, China's BFI production and crude steel production were up by 7.4% and 9.3% year-on-year over 2009, respectively. For the first half of 2011, China's BFI production and crude steel production reached 325 Mt and 351 Mt, up by 8.4% and 8.1% over the same period in 2010.

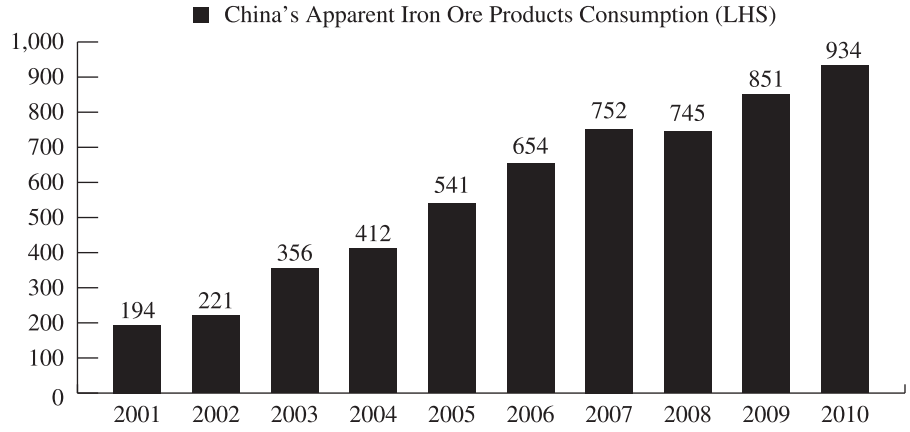
China's BFI and Crude Steel Production 2001–1H2011 (Unit: Mt)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	1H2011
BFI Production — Northeastern China	19	22	25	30	37	44	49	51	62	67	34
BFI Production — Rest of China	128	147	178	228	300	364	422	419	487	523	291
Total China	**147**	**169**	**203**	**258**	**337**	**408**	**471**	**469**	**549**	**590**	**325**
Crude Steel Production — Northeastern China	19	23	27	32	39	47	52	52	62	67	35
Crude Steel Production — Rest of China	132	158	194	248	315	376	443	449	511	560	316
Total China	**151**	**182**	**221**	**280**	**353**	**423**	**495**	**500**	**574**	**627**	**351**

*Source: National Bureau of Statistics of China (*中華人民共和國國家統計局*)*

China's apparent consumption of iron ore products was approximately 934 Mt in 2010, up by 9.8% from 2009. The CAGR of China's iron ore products consumption was 19.1% between 2001 and 2010.

China Apparent Iron Ore Products Consumption 2001–2010 (Unit: Mt)



Source: UNCTAD, General Administration of Customs of PRC

According to the NBSC, Hebei was the largest iron ore products consuming province of China in 2010, accounting for 23.2% of national total consumption, followed by Liaoning province and Shandong province, which both consumed 88 Mt, respectively, in 2010.

Top 5 China's Iron Ore Products Consumption Provinces in 2010

Province	Iron Ore Products Consumption (Unit: Mt)	% of National Total
Hebei	219	23.2%
Liaoning	**88**	**9.3%**
Shandong	88	9.3%
Jiangsu	83	8.8%
Shanxi	54	5.7%

Source: NBSC and Hatch

Iron Ore Reserve

According to the NBSC, China's crude iron ore reserve base was approximately 21,300 Mt in 2009. Liaoning, Hebei and Sichuan are the top three provinces in terms of iron ore reserve base, which collectively accounted for 63.3% of the national total reserve base in 2009.

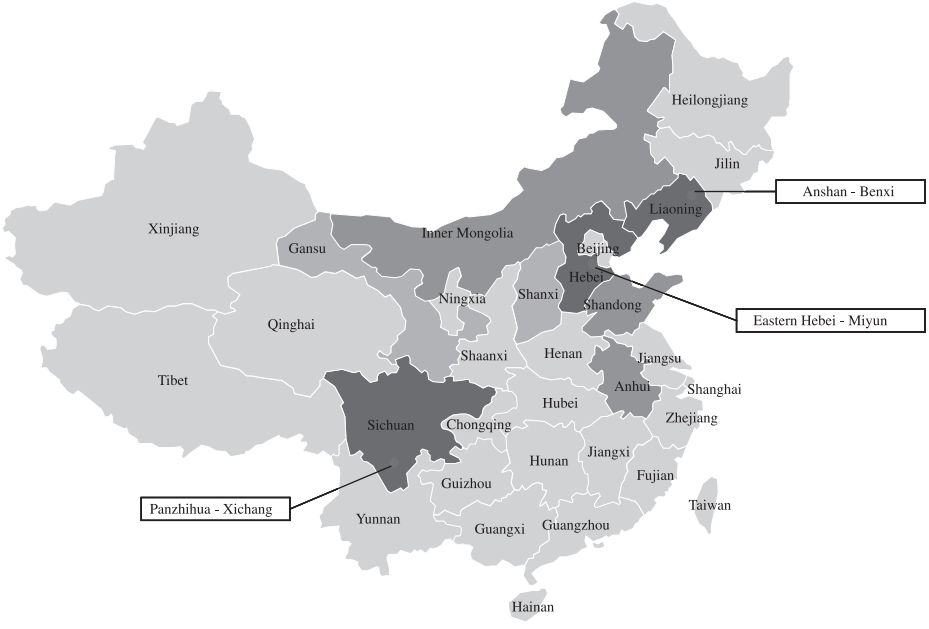
China's Top 5 Crude Iron Ore Reserve Base Provinces in 2009 (Unit: Mt)

Province	Reserve Base	% of National Total
Liaoning	**7,020**	**33.00%**
Hebei	3,570	16.80%
Sichuan	2,890	13.60%
Inner Mongolia	1,580	7.40%
Shandong	970	4.60%

Source: NBSC

According to the Information Center of Ministry of Land and Resources of People's Republic of China (中華人民共和國國土資源部信息中心) ("**ICMLR**"), Anshan-Benxi area in Liaoning Province, Eastern Hebei area in Hebei Province, Panzhihua-Xichang area in Sichuan Province are the three most concentrated areas of abundant iron ore resources.

Distribution of Iron Ore Mineralization Belts



Source: ICMLR

Iron Ore Production

According to the NBSC, China's crude iron ore production reached 575 Mt in the first half of 2011, up 22.0% compared to the same period in 2010. China's crude iron ore production has steadily increased since 2001. Crude iron ore output in the PRC increased to 1,072 Mt in 2010 from 218 Mt in 2001, reflecting a CAGR of 19.4%.

According to UNCTAD, China's iron ore products production was approximately 315 Mt in 2010, up 41.2% year-on-year over 2009. For the first half of 2011, China's iron ore products production reached 185 Mt.

China's Iron Ore Production 2001–1H2011 (Unit: Mt)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	1H2011	CAGR (2001–2010) (%)
Crude Iron Ore	218	229	253	335	426	599	682	808	880	1,072	575	19.4%
Iron Ore Products	102	109	208	204	266	328	369	301	223	315	185	13.3%

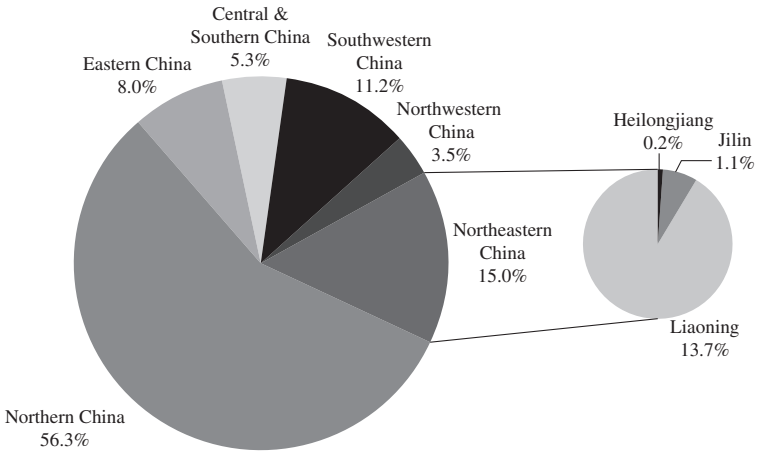
Source: NBSC, UNCTAD

Note: China's iron ore products production is calculated by UNCTAD.

According to Hatch, the average Fe content of China's crude iron ore production has been declining in recent years. According to UNCTAD, although the crude ore production continuously increased to record highs, the actual iron ore products production peaked in 2007 at approximately 369 Mt and then declined in 2008 and 2009. This development trend has been observed throughout the iron ore mining industry in China and illustrates the difficulty of discovering high grade domestic iron ore resources in China, as the iron ore resources in China consist of mostly lean ores.

Northern, Northeastern and Southwestern China are the major crude iron ore producing regions in China, collectively producing approximately 884 Mt of crude iron ore in 2010, accounting for 82.5% of the national total, of which Liaoning province represents approximately 13.7% of total national output, second only to Hebei province.

China's Crude Iron Ore Production by Region in 2010



Source: NBSC

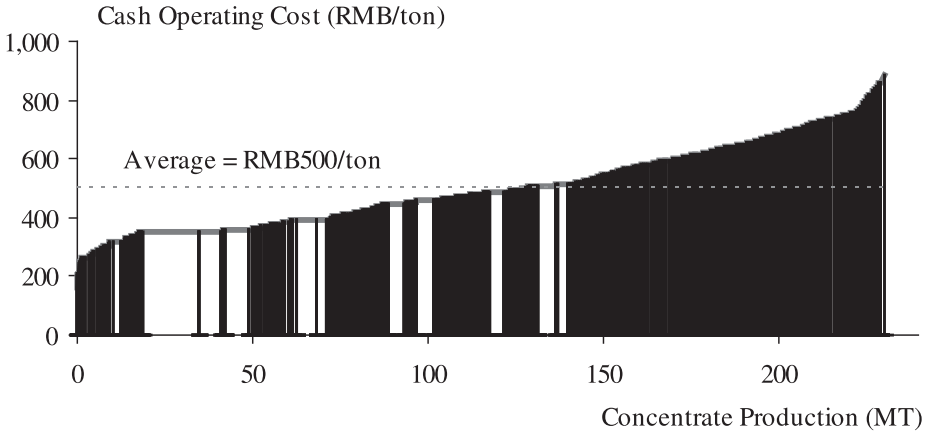
Cash Operating Cost

The iron ore products cash operating cost (excluding the general mining administration cost, tax and financial cost) varies significantly from mine to mine in China due to the variety of iron ore mines with differences in iron ore types, grades, geology, mining scales, mining methods and efficiency.

According to the China Iron and Steel Association (中國鋼鐵工業協會) ("**CISA**") and annual reports of iron ore companies, the 34 major iron ore companies (including those that are members of CISA and some listed iron ore companies) produced approximately 73 Mt of iron ore products in 2009, accounting for 31.2% of the national total. The average cash operating cost of these companies was approximately RMB380 per ton.

According to Hatch, the iron ore products cash operating cost in China ranges from RMB200 to RMB880 per ton. The industry average level of iron ore products cash operating cost in China was about RMB500 per ton in 2009.

China's Iron Ore Concentrate Cash Operating Cost in 2009
(Unit: Mt, RMB/ton)



Source: CISA, Company reports, Hatch

Iron Ore Products Trade

As the largest iron ore products importer in the world, China's imported 619 Mt of iron ore products in 2010, slightly down by 1.5% year-on-year. The decrease was mainly due to an increase in domestic iron ore production. China's iron ore imports increased at a CAGR of 23.5% from 2001 to 2010.

Competition

According to the MLR, there were 4,230 iron ore enterprises registered in China in 2008, of which around 93.5% were of small size (with annual iron ore products production below 600 Kt). Large and medium sized mining enterprises, which refer to enterprises with annual production above 600 Kt of iron ore products, accounted for merely 6.5%.

Northeastern China and Liaoning Iron Ore Industry

Iron Ore Products Consumption

Iron and crude steel production in Northeastern China grew at CAGRs of 15.2% and 14.9%, respectively, between 2001 and 2010. Northeastern China BFI production increased from 19 Mt to 67 Mt between 2001 and 2010. Crude steel production in this region increased from 19 Mt to 67 Mt between 2001 and 2010. For the first half of 2011, Northeastern China's BFI and crude steel production accounted for 10.5% and 10.0% of the national total, respectively.

Northeastern China BFI and Crude Steel Production 2001–1H2011 (Unit: Mt)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	1H2011
BFI Production — Liaoning Province	16	19	21	25	31	37	40	41	51	55	27
BFI Production — Other Provinces in Northeastern China	3	3	4	5	6	7	9	10	11	12	7
Total Northeastern China	**19**	**22**	**25**	**30**	**37**	**44**	**49**	**51**	**62**	**67**	**34**
Crude Steel Production — Liaoning Province	17	19	22	26	32	38	41	41	49	52	27
Crude Steel Production — Other Provinces in Northeastern China	3	4	5	6	7	8	10	11	14	15	8
Total Northeastern China	**19**	**23**	**27**	**32**	**39**	**47**	**52**	**52**	**62**	**67**	**35**

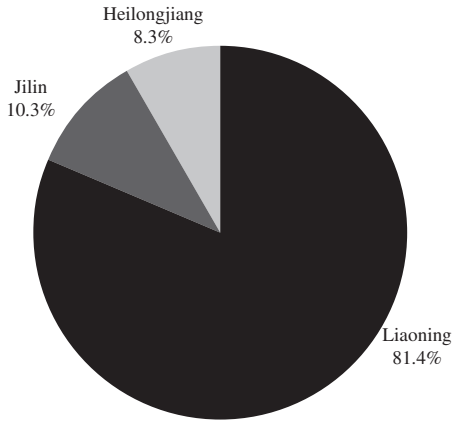
Source: NBSC

China's domestically produced iron ore products are usually consumed within a 500 km radius of production due to the high cost associated with transporting iron ore over long distances. It is therefore approximated that local supply is the same as local production.

In 2010, Northeastern China's iron ore consumption (calculated from BFI production, where approximately 1.6 tons of iron ore products to produce 1 ton of BFI) reached 107 Mt (or 11.5% of the nation total iron ore products consumption), up by 8.3% year-on-year, representing a CAGR of 15.2% since 2001.

Liaoning is the largest iron ore product consuming province in Northeastern China. Liaoning's iron ore product consumption was approximately 88 Mt in 2010, accounting for 81.4% of Northeastern China's total iron ore product consumption. As the third largest BFI producing province in China, Liaoning accounted for approximately 9.3% of the national total iron ore product consumption.

Iron Ore Product Consumption by Province in Northeastern China in 2010



Source: NBSC, China Customs, Hatch

Despite being the key iron ore product producing province in China, the local iron ore product output in Liaoning is still unable to satisfy the local demand. Iron ore products are imported from elsewhere to meet the supply shortfall.

Iron Ore Reserve

According to the NBSC, the iron ore reserve base in Northeastern China was 7,300 Mt in 2009, accounting for 34.3% of the national total. Liaoning province possesses the largest iron ore reserves in China. The NBSC's data shows that Liaoning's iron ore reserve base was 7,020 Mt in 2009. The Liaoning reserve base represents 33.0% of the national total and 96.2% of the Northeastern China's reserve base.

Iron ore deposits in Northeastern China are mainly found in the Anshan area, which possesses the largest iron ore reserves in China.

Iron Ore Production

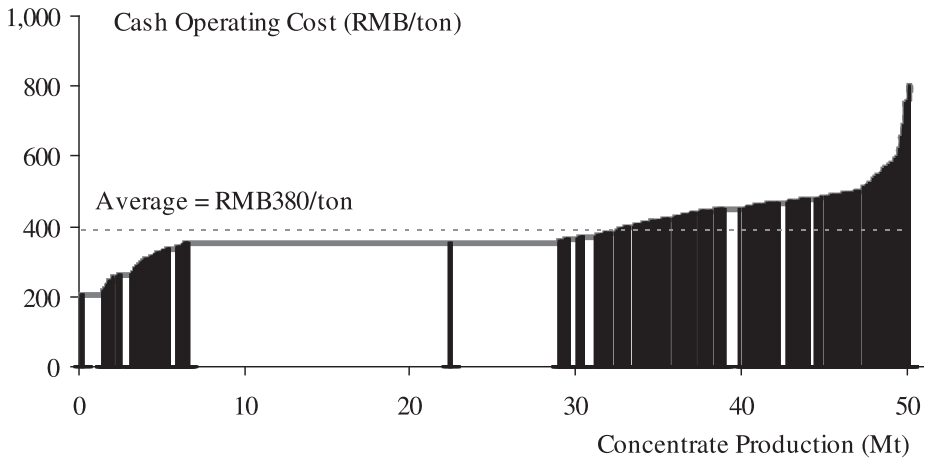
According to the NBSC, Northeastern China produced approximately 160 Mt of crude iron ore, or 15.0% of the national total crude iron ore in 2010, representing a CAGR of 11.4% since 2001. In 2010, Liaoning's crude iron ore production was approximately 147 Mt, accounting for 91.3% of that of Northeastern China and 13.7% of that of China, respectively.

In 2010, crude iron ore production in Northeastern China was up by 12.7% year-on-year, and crude ore production in Liaoning was up by 12.2% year-on-year.

Cash Operating Cost

According to Hatch, the average cash operating cost in Liaoning and Northeastern China was approximately RMB380 per ton in 2009, which was 24% lower than RMB500 per ton, the average cash operating cost of China.

Northeastern China's Iron Ore Concentrate Cash Operation Cost in 2009
(Unit: Mt, RMB/ton)



Source: CISA, Company reports, Hatch

Iron Ore Trade

According to the General Administration of Customs of PRC, Northeastern China's iron ore imports were approximately 40 Mt in 2010, down by 4.3% compared to 2009, representing a CAGR of 26.7% since 2001.

Iron ore imports in Liaoning province were approximately 33 Mt in 2010, up by 1.3% year-on-year, accounting for 82.5% of Northeastern China's total ore imports, or 5.3% of China total iron ore imports. From 2001 to 2010, Liaoning's iron ore imports grew by seven times, presenting a CAGR of 24.1%, similar to the national growth rate.

Competition

According to Hatch, we are the largest private iron ore products producer in Liaoning province and also the largest independent iron ore products producer in Northeastern China. Hanking's iron ore products production was 1,315 Kt in 2010.

Iron Ore Products Production of Liaoning's producers in 2010
(Unit: Kt)

Producer	Iron Ore Products Output	% of Total Liaoning
Anshan and Benxi Iron & Steel Group (SOE) (鞍本鋼鐵集團)	22,120	40.4%
Our Company	1,315	2.4%
Lingyuan Steel Group Beipiao Baoguo Mining Co. (SOE) (凌鋼股份北票保國鐵礦有限公司)	837	1.5%
Benxi Beiying Iron & Steel Group (SOE) (本溪北營鋼鐵集團股份有限公司)	700*	1.3%
Fushun Laihe Mining Co., Ltd. (SOE) (撫順萊河礦業有限公司)	672	1.2%
Other Producers	29,096	53.2%
Total Liaoning province	**54,740**	**100.0%**

* Hatch estimate based on field research

Source: CISA, Company Report

SOE: State-owned Enterprise

No independent and reliable source for industry data on the ore concentration, mining method, mine life and ore recovery rate, bargaining power, transportation and delivery, and operating environment of the Company's major local or overseas competitors can be obtained. In addition, in the iron ore mining industry, products are not marketed based on brand recognition.

Iron Ore Pricing

International Iron Ore Products Prices

Before 2009, most iron ore products were sold under long term volume contracts at annually negotiated prices globally. The international iron ore products contract prices were stable before 2004 and have undergone a continuously upward trend at the back of China's booming economy and the country's strong iron ore demand growth.

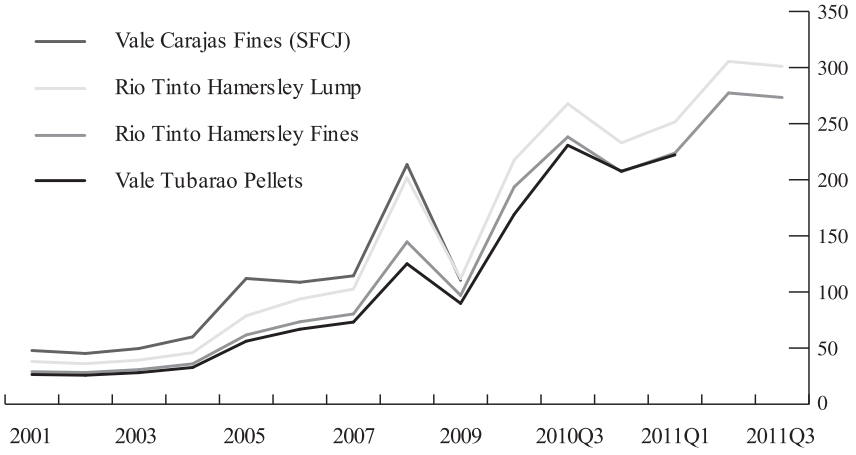
FOB price of Hamersley fines (63.5% Fe), for example, increased from US35.99 cents/dmtu or US$22.8/dmt in 2004 to US144.66 cents/dmtu or US$91.9/dmt in 2008, representing a CAGR of 41.6%.

The global economic downturn during late 2008 has led to a decrease in iron ore products demand and consequently iron ore products prices in 2009.

However, with the strong recovery in iron ore demand led by China and the change in contract pricing mechanism, the iron ore products benchmark prices marked a historical high in the second quarter of 2011.

From the end of 2009, China's iron ore products demand recovered surprisingly fast and led to soaring prices in spot market which severely shook the annual benchmark pricing mechanism. A quarterly semi-negotiated pricing mechanism has become the standard since the second quarter of 2010.

International Iron Ore Product Contract Prices in Asia 2001–2011 (Unit: US cent/dmtu)



Source: Tex Report, SBB, Hatch

Note:

(1) FOB prices for Asia (excluding China in 2009 and 2010).

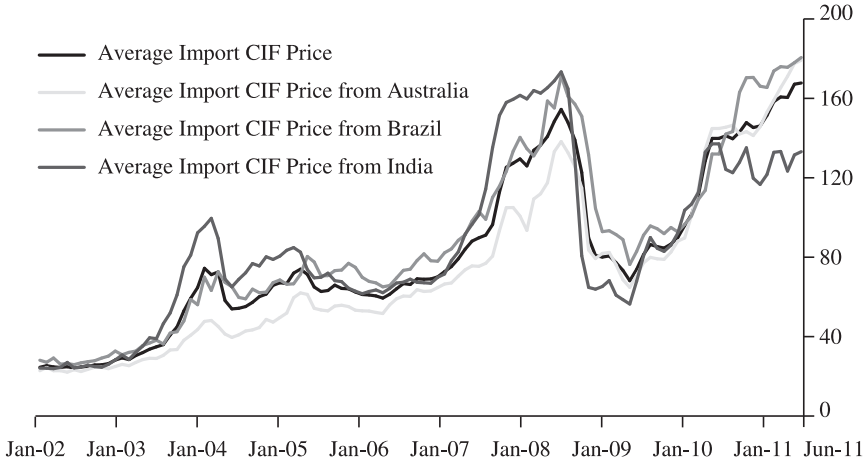
(2) 2010 and 2011 pellet price is not available.

(3) In terms of prices per DLTU before 2003, and in prices per DMTU for 2004 and beyond.

China's Imported Iron Ore Products Price

China's monthly average imported iron ore products prices peaked in the second quarter of 2011. As Indian iron ore products have been traded mainly on the spot market, the prices fluctuate more than those from Brazil and Australia.

Average CIF Monthly Prices of China's Imported Iron Ore Products by Source 2002–2011
(Unit: US$/ton)

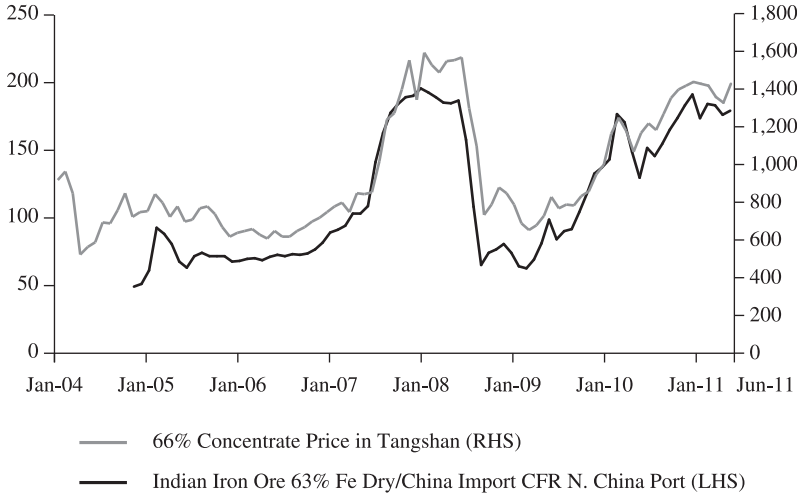


Source: China Customs, Hatch

China's Domestic and Liaoning's Iron Ore Products Price

The price trend of domestic iron ore products prices and imported iron ore products spot prices are basically in line with each other. As China is quite dependent on iron ore products imports, domestic iron ore products prices often reflect the change of imported iron ore products prices closely.

China's Domestic Iron Ore Product Price and Iron Ore Products Import Price 2004–2011
(Unit: RMB/ton, US$/ton)



Source: Mysteel, SBB, Hatch

Note: Tangshan in Hebei province: 66% Fe, dry base, ex-work price, incl. VAT.

Hebei province and Liaoning province are the representative spot markets of iron ore products in China. Since Hebei is the largest iron ore products producing and consuming province in China, iron ore product prices of Hebei are usually viewed as a key reference of domestic spot market.

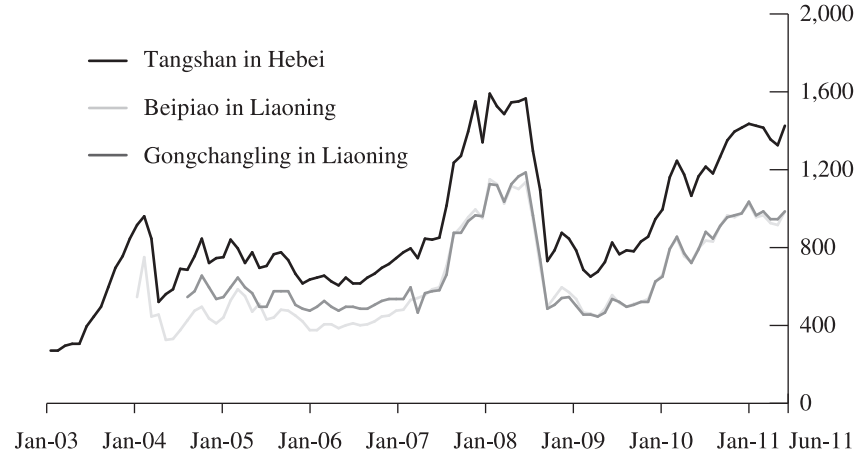
Since the second quarter of 2009, China's domestic iron ore product prices have shown a continuous upward trend.

According to Hatch, iron ore product prices in Tangshan, Hebei fluctuated between RMB600 to RMB800 per ton during 2004 to 2006. Since the second quarter of 2007, the product prices began to increase and peaked at around RMB1,570 per ton in July 2008, driven by robust steel demand from the infrastructure and real estate industries. The average iron ore product price in Hebei, represented by Tangshan, was approximately RMB1,440 per ton for the six year period ended February 2011.

In general, the iron ore price is benchmarked against a reference price (international and/or domestic) with consideration of the iron content/grade of the concentrate and the level of its impurities (Si, S, P,etc.). The level of impurities should comply with the stated requirement, normally provided by the supply agreement between iron ore sellers and buyers. Levels of impurities exceeding the agreed amount will usually be penalised in the form of a discount to the selling price as agreed between the producer and the seller. Similar to other common commodities, branding carries minimal or even no value-added to the material price of the iron ore concentrates.

In Liaoning, the price of iron ore in Beipiao is an important reference and guidance for iron ore markets in Northeastern China and East Inner Mongolia.

Iron Ore Products Prices in China's Domestic Market 2003–2011 (Unit: RMB/ton)



Source: Mysteel, Hatch

Notes:

(1) Tangshan in Hebei province: 66% Fe, dry base, ex-work price, including VAT.

(2) Beipiao in Liaoning province: 66% Fe, wet base, ex-work price, excluding VAT.

(3) Gongchangling in Liaoning province: 65% Fe, wet base, ex-work price, excluding VAT.

(4) The VAT is 13% before Jan.1st, 2009 and 17% thereafter.