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## FINANCIAL INFORMATION

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You should read the following discussion and analysis together with the consolidated financial statements, including the related notes, contained in the Accountants' Report in Appendix I to this prospectus.

We have prepared our consolidated financial information in accordance with Hong Kong Financial Reporting Standards, or HKFRS, issued by the Hong Kong Institute of Certified Public Accountants, or HKICPA.

Certain information contained in the discussion and analysis set forth below and elsewhere in this prospectus includes forward-looking statements relating to our plans, objectives, expectations and intentions, which are based on our current expectations and are subject to risks, uncertainties and changes in circumstances. See "Forward-looking Statements" and "Risk Factors" for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in this prospectus.

### OVERVIEW

We are one of the largest manganese producers in the world and the largest manganese producer in China, according to the CISRIG Report. We are a vertically integrated manganese producer that produces and sells manganese products at all stages of the production chain that are used in a wide range of industries and across diverse end-use markets. We are operating mining, ore processing and downstream processing operations in China, and are developing mining and ore processing operations in Gabon. We derive a significant majority of our revenue from the sale of manganese products, including products from manganese mining and ores processing, and manganese downstream processing. Our revenue generated from the aggregate sales of manganese products produced by our manganese mining, ore processing and downstream processing operations accounted for 70.6%, 66.4%, 80.7% and 83.6%, respectively, of our total revenue for the three years ended December 31, 2009 and six months ended June 30, 2010, respectively. In addition to manganese mining, ore processing and downstream processing, we also operate non-manganese ferroalloy processing and other businesses. Our non-manganese ferroalloy processing operations are conducted at Qinzhou Ferroalloy Plant, which is located near Qinzhou Harbor and produces high carbon ferrochromium. For the three years ended December 31, 2009 and six months ended June 30, 2010, revenue generated from the sales of high carbon ferrochromium accounted for 15.5% 15.6%, 15.3% and 14.7%, respectively, of our total revenue. Our other businesses principally comprise the trading of various commodities such as manganese ore, EMM, chromium ore and sulfur.

We possess abundant ore reserves in China and Gabon. We have two operating manganese mines in Guangxi, China, namely Daxin Mine and Tiandeng Mine. According to the SRK Report, we hold the largest manganese mineral resources and ore reserves in China. As of June 30, 2010, the ore reserves at Daxin Mine were expected to support approximately 75 years of mine production assuming a production rate of one million tpa of ore, and the ore reserves at Tiandeng Mine were expected to support approximately 8.04 years of mine production assuming a production rate of 500,000 tpa of ore. We are currently in the process of developing our manganese mining and ore processing operations in Gabon. CICMHZ, in which we indirectly own a 51% equity interest, holds the exploration and mining rights to Bembélé Manganese Mine in Gabon. We expect to commence mining and ore processing operations at Bembélé Manganese Mine by the end of the first quarter of 2011 and reach a mining production of approximately 1.15 million tpa of ore in 2011. Our Gabon operations will provide us with additional manganese ore and concentrate and support our existing and planned downstream processing operations. We may also sell some of the manganese concentrate produced at Bembélé Manganese Mine directly to customers in China under advantageous market conditions.

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Our integrated manganese production in the PRC currently comprises two concentration plants, one grinding plant and seven downstream processing plants, all of which are located either on-site or near Daxin Mine and Tiandeng Mine, which allows on-site economic operations.

We operate our business in the following four segments:

- manganese mining and ore processing, which produces manganese concentrate and natural discharging manganese;
- manganese downstream processing, which produces EMM, manganese sulfate, silicomanganese alloy and EMD;
- non-manganese ferroalloy processing, which produces non-manganese ferroalloys, including high carbon ferrochromium; and
- other businesses, which principally comprises the trading of various commodities such as manganese ore, EMM, chromium ore and sulfur.

The following table sets out, for the periods indicated, certain items derived from our consolidated statements of comprehensive income and their respective percentages of our total revenue.

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
Revenue . . . . .	1,684,457	100.0	2,862,864	100.0	2,086,364	100.0	922,868	100.0	1,287,350	100.0
Cost of sales . . . . .	(1,093,444)	(64.9)	(2,113,904)	(73.8)	(1,656,641)	(79.4)	(771,786)	(83.6)	(1,030,692)	(80.1)
<b>Gross profit . . . . .</b>	<b>591,013</b>	<b>35.1</b>	<b>748,960</b>	<b>26.2</b>	<b>429,723</b>	<b>20.6</b>	<b>151,082</b>	<b>16.4</b>	<b>256,658</b>	<b>19.9</b>
Other income and gains . . . . .	23,895	1.4	26,752	0.9	23,288	1.1	8,677	0.9	9,364	0.7
Selling and distribution cost . . . . .	(41,448)	(2.5)	(62,904)	(2.2)	(49,491)	(2.4)	(18,566)	(2.0)	(36,168)	(2.8)
Administrative expenses . . . . .	(103,639)	(6.2)	(183,827)	(6.4)	(202,877)	(9.7)	(88,967)	(9.6)	(92,701)	(7.2)
Other expenses . . . . .	(29,132)	(1.6)	(17,917)	(0.6)	(18,123)	(0.8)	(10,697)	(1.1)	(10,616)	(0.7)
Finance costs . . . . .	(24,623)	(1.5)	(79,972)	(2.8)	(107,195)	(5.1)	(57,698)	(6.3)	(42,531)	(3.3)
<b>Profit/(loss) before tax . . . . .</b>	<b>416,066</b>	<b>24.7</b>	<b>431,092</b>	<b>15.1</b>	<b>75,325</b>	<b>3.7</b>	<b>(16,169)</b>	<b>(1.7)</b>	<b>84,006</b>	<b>6.6</b>
Income tax (expense)/credit . . . . .	(22,143)	(1.3)	(31,302)	(1.1)	(11,613)	(0.6)	3,803	0.4	(13,567)	(1.1)
<b>Profit/(loss) for the year . . . . .</b>	<b>393,923</b>	<b>23.4</b>	<b>399,790</b>	<b>14.0</b>	<b>63,712</b>	<b>3.1</b>	<b>(12,366)</b>	<b>(1.3)</b>	<b>70,439</b>	<b>5.5</b>
Total profit/(loss) attributable to:										
Owners of the parent . . . . .	219,796	13.0	239,227	8.4	48,611	2.3	2,013	0.2	50,693	3.9
Non-controlling interests . . . . .	174,127	10.4	160,563	5.6	15,101	0.8	(14,379)	(1.5)	19,746	1.6
	<u>393,923</u>	<u>23.4</u>	<u>399,790</u>	<u>14.0</u>	<u>63,712</u>	<u>3.1</u>	<u>(12,366)</u>	<u>(1.3)</u>	<u>70,439</u>	<u>5.5</u>

### BASIS OF PRESENTATION

In preparation for the Global Offering, our Company underwent the Reorganization, details of which are set out in the section headed “Corporate Structure and History” in this prospectus. Upon the completion of the Reorganization, our Company will wholly own CITIC Dameng Mining indirectly, which in turn holds all of the operating subsidiaries that are engaged in our businesses.

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The basis of the financial information presented in the Accountants' Report are:

- the consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity of our Group have been prepared based on the financial information of the companies now comprising the Group reflected in the consolidated financial statements of CRH Group for the Track Record Period;
- the consolidated statements of financial position of our Group as of December 31, 2007, 2008 and 2009 and June 30, 2010 have been prepared to present the assets and liabilities of the companies now comprising our Group reflected in the consolidated statements of financial position of CRH Group at these dates; and
- all incomes, expenses and unrealized gains and losses resulting from intra-Group transactions and intra-Group balances within the Group are fully eliminated on consolidation.

### KEY FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our business and historical results of operations and financial condition have been, and will continue to be, affected by a number of important factors, including the following:

#### Impact of global economic downturn

The recent global economic downturn that unfolded in the second half of 2008 adversely affected the steel industry and certain other industries which demand manganese products, and reduced demand in these industries caused manganese ore and manganese product prices to fall sharply in 2009. Our revenue decreased to HK\$2,086.4 million in 2009 from HK\$2,862.9 million in 2008. Our gross profit decreased to HK\$429.7 million in 2009 from HK\$749.0 million in 2008, and our net profit decreased to HK\$63.7 million in 2009 from HK\$399.8 million in 2008. Our gross profit margin decreased to 20.6% in 2009 from 26.2% in 2008, and our net profit margin decreased to 3.1% in 2009 from 14.0% in 2008. During the same periods, our average selling prices decreased significantly from 2008 to 2009, partially offset by our expanded sales volumes in 2009 which was primarily due to our expanded production volumes of EMM, silicomanganese alloy and EMD in 2009. It is difficult to predict the depth of the global economic downturn's impact on demand for our manganese products. We expect that it will continue to present risks for an extended period of time.

#### Price volatility of our products

We derive most of our revenue from the sale of manganese products. We are exposed to the risk of fluctuations in the prices of manganese products. The market for manganese products experienced steep drop in demand since the second half of 2008. The prices of manganese products decreased significantly in 2009 from the peak prices reached in 2008. For example, our average selling prices per tonne for EMM, manganese sulfate, silicomanganese alloy and EMD decreased by 30.5% to HK\$12,968 in 2009 from HK\$18,654 in 2008, by 38.6% to HK\$3,583 in 2009 from HK\$5,832 in 2008, by 34.6% to HK\$6,608 in 2009 from HK\$10,108 in 2008, and by 14.2% to HK\$8,408 in 2009 from HK\$9,797 in 2008, respectively. As a result, our revenue decreased to HK\$2,086.4 million in 2009 from HK\$2,862.9 million in 2008. Our gross profit margin decreased to 20.6% in 2009 from 26.2% in 2008, and our net profit margin decreased to 3.1% in 2009 from 14.0% in 2008. Such decreases primarily reflected an overall decrease in manganese prices in the domestic and international markets in such period, primarily attributable to the weakening market demand for manganese products caused by the decline of domestic and international steel manufacturing industry as well as overall economic downturn. Please refer to the section headed "Industry Overview" in this prospectus for the historical fluctuations of the prices for manganese products.

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The prices of manganese products are affected by a number of factors including:

- the demand for manganese products underpinned by the decline or growth of the domestic and international steel manufacturing industry;
- grades and qualities of the manganese products;
- consolidation of key manganese ore suppliers in the international manganese industry; and
- the supply of manganese products in the international market which in turn is partially affected by the availability of transportation capacity.

Similar to our competitors, we have limited ability to anticipate, manage or hedge commodity price fluctuations. Nevertheless, we generally attempt, to the extent possible, to adjust our production volume and product mix to achieve lower production costs and higher average selling prices. There is, however, an inherent lag time for the changes in our production volume and product mix in response to changes in market demand and sales price.

We also produce non-manganese ferroalloys including high carbon ferrochromium. As a result, we expect that our business will also become exposed to fluctuations in market prices for high carbon ferrochromium in the future.

### **Economic growth globally and in the PRC**

We produce and sell manganese products that are used in a wide range of industries and across diverse end-use markets. The demand for manganese products primarily depends on the state of the global and Chinese economy and the stability of international trade. In recent years, the PRC has become an increasingly important market for manganese products. In 2009, China imported approximately 9.6 Mt of manganese ore, representing 31% of global manganese ore production. The recovery of Chinese economy from the global economic downturn since the second half of 2008 has been relatively strong and resilient. For the two years ended December 31, 2009, the Chinese economy experienced GDP growth of 9.6% and 8.7%, respectively. Sales to our Chinese customers accounted for approximately 63.8%, 68.9%, 88.3% and 85.8% of our total revenue for the three years ended December 31, 2009 and six months ended June 30, 2010, respectively.

### **Demand for manganese from the steel manufacturing industry**

The global demand for manganese in the Track Record Period had been driven mainly by the demand for steel. China dominates global steel production, consumption and trade. According to the AME Report, China's share of global crude steel production has grown significantly from an estimated 23% in 2003 to 47% in 2009. The continued strength in China's steel industry is a key driver for manganese demand given that approximately 90% of manganese produced is used in the steel manufacturing process. The global economic downturn that unfolded in the second half of 2008 precipitated a significant slowdown in the global steel manufacturing industry, which in turn resulted in weaker demands for manganese products and decreases in the prices of manganese products in domestic and international markets. Please refer to the section headed "Risk Factors — Risks Relating to Our Business and Our Industry — Our results of operations are vulnerable to any significant downturn in the steel manufacturing industry" for further details. Due to the recent global economic downturn and its subsequent rebound, China's steel output is expected to increase by 12% in 2010 before stabilizing in 2011, according to the AME Report. Please refer to the section headed "Industry Overview — Overview of the Steel Industry — China Steel Market" in this prospectus for further details.

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### **Production capacity and sales volumes of our products**

Our revenue is also dependent upon the production volumes of our major products, which are constrained by the capacity of relevant stages of our manufacturing process and affected by the market demand for the relevant products. The volume of our output of manganese crude ores is dependent upon the capacities of our mining operations at Daxin Mine, Tiandeng Mine and Bembélé Manganese Mine. Daxin Mine has undergone a number of expansions of its open-pit and underground mining capacity during the Track Record Period. We commenced development of Bembélé Manganese Mine in Gabon in the second half of 2008, and expect to commence open-pit mining and concentrating productions by the end of the first quarter of 2011. Our mining and concentrating capacity at Bembélé Manganese Mine is expected to reach 1,150,000 tpa of ore by the end of 2011. Our EMM production capacity increased by approximately 60,000 tpa during the Track Record Period as a result of the expansion project at the Daxin EMM Plant and development of Tiandong EMM Plant. We are currently constructing Tiandeng EMM Plant which is expected to raise our EMM production capacity to approximately 145,000 tpa by the end of 2011. Please refer to the sections headed “Business — Our PRC Production Processes and Facilities” and “Business — Our Gabon Production Processes and Facilities” in this prospectus for further details. We intend to fund the capital expenditures related to the expansion of our production capacity with cash from operating activities, net proceeds from the Global Offering and short-term and long-term borrowings.

Although our production volumes of major products are the main factor affecting our sales volumes for such products, our sales volumes may include products stored in inventory. We have at times managed the timing and quantity of sales volumes to maximize our average selling prices, and sold products from inventory in response to an anticipated higher market demand.

### **Price volatility of raw materials and utilities**

Fluctuations in the prices of raw materials and utilities consumed for our productions have a direct impact on the results of our operations. The major raw materials and utilities for our productions include, among other things, manganese ore, electricity, sulfuric acid, coke, selenium dioxide, diesel and lubricating oil, ammonia and explosives. Their prices may fluctuate depending on the grade, demand and supply of these raw materials and utilities. To the extent that we cannot pass on all increased cost to our customers, our revenues and profits may be negatively affected.

### **Geographic distribution of sales**

Our financial performance is affected by the geographical distribution of our customers. We sell our products to both Chinese and international customers. Movements in manganese prices in the PRC and the other markets in which we sell our products, changes in the PRC’s foreign exchange regulations and changes to tax policies on imports and exports all have an impact on our financial performance that varies depending on the geographic distribution of our sales. From time to time, we adjust our sales to different geographic areas based on our views of the market trends as well as changes in regulations and tax policies in those geographic areas.

Sales to our international customers accounted for approximately 36.2%, 31.1%, 11.7% and 14.2%, respectively, of our total revenue, for the three years ended December 31, 2009 and six months ended June 30, 2010, respectively. The significant decrease in the sales to international customers in 2009 was primarily due to the decrease in demand from our international customers, primarily reflecting the impact of global economic downturn that started to unfold in the second half of 2008. EMM and manganese sulfate are our principal products for overseas sales, which historically commanded higher selling prices in overseas sales compared to those in domestic sales.

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For the three years ended December 31, 2009 and six months ended June 30, 2010, approximately 79%, 85%, 23% and 23%, respectively, of our EMM in terms of value were exported to international customers, and approximately 41%, 61%, 38% and 47%, respectively, of our manganese sulfate in terms of value were exported to international customers.

### Regulatory environment

We are subject to the laws and regulations in the jurisdictions in which we operate. Changes or uncertainties in applicable laws and regulations could result in substantial increases in compliance costs and other significant adverse effects on our business, financial condition and results of operations.

The PRC Government exercises a substantial degree of influence over the mining and ore processing, downstream processing, and import and export of manganese. Certain laws and regulations involve barriers to entry, setting, amending, or abolishing import tariffs, and limitations and duties on the export of certain manganese products. The PRC Government also levies export tariffs on importers and exporters of manganese products, as well as imposing resource taxes (資源稅) and mineral resources compensation fees (礦產資源補償費) on manganese miners. Changes in the level of PRC Government control could have a direct impact on our business, financial condition and results of operations. We believe the PRC Government will encourage larger and more sophisticated manufacturers, such as us, to acquire smaller manufacturers and introduce more advanced production processes, and to leverage economies of scale to increase operating efficiency. We will attempt to adjust our business strategies and operations to take advantage of this and to respond to any other evolving PRC Government policy.

Our mining and concentrating operations at Bembélé Manganese Mine are subject to the Gabonese laws and regulations relating to the development and administration of a mine and its mineral resources and reserves. Our operations in Gabon are also subject to Gabonese laws and regulations relating to land and ancillary infrastructure, foreign investment, environment, labor, immigration, tax, exchange control and customs.

### PRC income taxation

Certain of our subsidiaries enjoyed preferential tax treatments, in the form of reduced tax rates and tax holidays, provided by the PRC government or its local authorities or bureaus during the Track Record Period. Primarily as a result of these preferential tax treatments, our effective income tax rates for the three years ended December 31, 2009 and six months ended June 30, 2010 were 5.3%, 7.3%, 15.4% and 16.2%, respectively, which were significantly lower than the statutory income tax rate of 33% in 2007, 25% in 2008, 2009 and the six months ended June 30, 2010. Please refer to the section headed “Financial Information — Description of Selected Income Statement Line Items — Taxation” for further details. Termination or revision of any of such preferential tax treatments which our subsidiaries currently enjoy could have a negative impact on our results of operations and financial condition.

### SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are those that require the management to exercise judgment and to make estimates that would yield materially different results if the management applied different assumptions or made different estimates.

Our financial statements have been prepared in accordance with HKFRSs. Our principal accounting policies are set out in Note 3 of Section II to the Accountants’ Report in Appendix I to this prospectus. HKFRS requires that we adopt accounting policies and make estimates that our



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Directors believe are most appropriate in the circumstances for the purposes of giving a true and fair view of our results and financial position. We believe the most complex and sensitive judgments, because of their significance to our financial statements, result primarily from the need to make estimates about the effects of markets that are inherently uncertain. Actual results in these areas could differ from our estimates. We have identified below the accounting policies that we believe are the most critical to our consolidated financial statements and that involve the most significant estimates and judgments.

### Depreciation of property, plant and equipment

Depreciation of buildings, motor vehicles, plant, machinery, tools and equipment, furniture and fixtures and leasehold improvements is calculated on the straight-line basis to write off the cost of each of these items to its residual value over its estimated useful life as follows:

Buildings and mining structures . . . . .	10 – 30 years
Motor vehicles, plants, machinery, tools and equipment . . . .	5 – 10 years
Furniture and fixtures . . . . .	5 years
Leasehold improvements . . . . .	5 – 10 years or over the unexpired lease terms, whichever is shorter

Mining structures mainly comprise the open-pit quarries, auxiliary mine shafts and underground tunnels. Depreciation of mining structures is provided to write off the cost of the mining structures using the unit-of-production, or UOP, method. The UOP rate is based on reserves estimated to be recovered from existing facilities using the current operating method.

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

### Amortization of mining rights

Mining rights are stated at cost less accumulated amortization and impairment losses. The mining rights are amortized over the estimated useful lives of the mines in accordance with the production plan of the entities concerned and the proven and probable reserve of the mine using unit-of-production method. Estimates of proven and probable reserves are inherently imprecise and represent only approximate amounts because of the assumptions involved.

The mining rights to Daxin Mine and Tiandeng Mine were valued at HK\$106.8 million and HK\$17.9 million, respectively when we acquired in February 2006. Guangxi Dameng contributed these mining rights, among other things, to CITIC Dameng Mining in exchange for a 40% equity interest in CITIC Dameng Mining. For each of the three years ended December 31, 2009 and six months ended June 30, 2010, the amortization of our mining rights to Daxin Mine and Tiandeng Mine was HK\$5.9 million, HK\$7.2 million, HK\$5.7 million and HK\$2.9 million.

The mining rights to Bembélé Manganese Mine were valued at HK\$175.5 million when we acquired an indirect 51% equity interest in CICMHZ in August 2008. Subsequent exploration and development costs of HK\$174,000 were capitalized into the mining rights to Bembélé Manganese Mine in 2009.

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### **Impairment of tangible assets**

At each date of the statement of financial position, our Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, provided that the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

### **Allowance for doubtful debts**

A provision for impairment is made for trade and other receivables when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the trade and other receivables is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debts expenses in the year in which such estimate is changed.

### **Deferred tax**

Deferred tax is recognized on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary differences are related to goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited to profit or loss.

### **Provision for rehabilitation**

Provision for the costs of rehabilitation is recognized at the time the obligation arising from the related environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly. The Directors estimate this liability for restoration and mine closure based on detailed calculations of the amount and timing of future cash



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flows to be incurred in performing the required work. The estimate is escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amount of provision reflects the present value of the expenditures expected to be required to settle the obligation.

When the effect of the current mining activities on the land and environment becomes apparent, the estimate of the provision may be subject to revision. The provision is reviewed at least annually to verify that it properly reflects the present value of the obligation arising from the current and past mining activities.

Our other long term liabilities, which represent production safety fund and provision for rehabilitation amounted to HK\$5.8 million, HK\$3.0 million, HK\$2.4 million and HK\$3.7 million as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively.

### Provision for inventories

The Directors review the ageing analysis of the Group's inventories at the end of each reporting period, and make a provision for obsolete and slow moving inventory items. The Directors estimate the net realizable value for such inventory items based primarily on the latest invoice prices and current market conditions.

As of December 31, 2007, 2008 and 2009 and June 30, 2010, the carrying amount of the Group's inventories was approximately HK\$168.8 million, HK\$358.1 million, HK\$354.5 million and HK\$411.9 million, respectively, after netting off the allowance for inventories of approximately HK\$0.4 million, HK\$149.3 million, HK\$92.3 million and HK\$89.0 million, respectively. See Note 20 to Appendix I, "Accountants' Report".

### DESCRIPTION OF SELECTED LINE ITEMS OF STATEMENT OF COMPREHENSIVE INCOME

The following summarizes components of selected items of statement of comprehensive income appearing in the Accountants' Report in Appendix I to this prospectus.

#### Revenue

Our revenue is stated as net invoiced value of goods sold after allowances for returns and trade discounts. The following table sets forth our revenue in each business segment and the percentage of sales represented by each segment during the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2007		2008		2009		2009		2010	
	(HK'000)	(%)	(HK'000)	(%)	(HK'000)	(%)	(HK'000)	(%)	(HK'000)	(%)
Manganese mining and ore processing . . . .	274,773	16.3	347,749	12.2	222,412	10.6	103,141	11.2	95,630	7.3
Manganese downstream processing . . . .	914,320	54.3	1,552,435	54.2	1,460,436	70.0	686,657	74.4	980,981	76.3
Non-manganese ferroalloy processing . . . .	260,536	15.5	447,648	15.6	318,295	15.3	120,720	13.1	188,908	14.7
Others . . . . .	234,828	13.9	515,032	18.0	85,221	4.1	12,350	1.3	21,831	1.7
Total . . . . .	<u>1,684,457</u>	<u>100.0</u>	<u>2,862,864</u>	<u>100.0</u>	<u>2,086,364</u>	<u>100.0</u>	<u>922,868</u>	<u>100.0</u>	<u>1,287,350</u>	<u>100.0</u>

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Because a significant majority of our revenue in the Track Record Period was derived from the sales of manganese products and non-manganese ferroalloys, our results of operations for a given period depend primarily on the sales volumes and the average selling prices for such products in that period.

### Cost of sales

Cost of sales mainly includes production costs, such as raw and auxiliary material costs, fuel and power costs, depreciation and amortization, and production labor costs. The following table sets forth our cost of sales in each business segment and the percentage of cost of sales represented by each segment during the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2007		2008		2009		2009		2010	
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
Manganese mining and ore processing . . . . .	80,809	7.4	57,526	2.7	48,193	2.9	18,471	2.4	26,879	2.6
Manganese downstream processing . . . . .	546,393	50.0	1,029,504	48.7	1,201,096	72.5	554,296	71.8	791,315	76.8
Non-manganese ferroalloy processing . . . . .	243,472	22.2	396,128	18.7	309,341	18.7	124,716	16.2	182,653	17.7
Others . . . . .	221,636	20.3	483,877	22.9	62,786	3.8	10,725	1.4	24,004	2.3
Inventory provision . . . . .	1,134	0.1	146,869	7.0	35,225	2.1	63,578	8.2	5,841	0.6
Total . . . . .	<u>1,093,444</u>	<u>100.0</u>	<u>2,113,904</u>	<u>100.0</u>	<u>1,656,641</u>	<u>100.0</u>	<u>771,786</u>	<u>100.0</u>	<u>1,030,692</u>	<u>100.0</u>

The following table sets forth the components of our cost of sales and the percentage of cost of sales represented by such component during the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
Direct material . . . . .	518,353	47.4	957,989	45.3	741,984	44.8	372,144	48.2	474,939	46.1
Direct labor . . . . .	109,843	10.0	84,707	4.0	143,698	8.7	53,360	6.9	83,952	8.2
Subcontracting fee . . . . .	4,945	0.5	76,491	3.6	101,746	6.1	39,916	5.2	36,828	3.6
Electricity and fuel . . . . .	217,095	19.9	368,082	17.4	441,102	26.6	225,694	29.2	308,422	29.9
Depreciation and amortization . . . . .	42,394	3.9	76,372	3.6	112,571	6.8	52,957	6.9	71,580	6.9
Other manufacturing overhead . . . . .	47,401	4.3	67,592	3.3	51,567	3.1	16,989	2.2	30,966	3.0
Purchase directly for trading . . . . .	153,412	14.0	482,671	22.8	63,973	3.9	10,726	1.4	24,005	2.3
Total . . . . .	<u>1,093,444</u>	<u>100.0</u>	<u>2,113,904</u>	<u>100.0</u>	<u>1,656,641</u>	<u>100.0</u>	<u>771,786</u>	<u>100.0</u>	<u>1,030,692</u>	<u>100.0</u>

### Gross profit

Gross profit represents revenue minus the cost of sales. Gross profit margin is equal to gross profit divided by revenue. For the three years ended December 31, 2009 and six months ended June 30, 2010, our gross profit margins from manganese mining and ore processing were generally higher than those from our manganese downstream processing. This is primarily because during the Track Record Period, manganese prices generally increased and were higher than historical averages while

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we were able to effectively manage our upstream mining costs due to the open-pit structures at Daxin Mine and Tiandeng Mine, minimal raw materials required, simple mining process and long history of operations of our manganese mines. For further details, see the section headed “Industry Overview — Manganese market outlook — Manganese ore price outlook” in this prospectus. As a result, our upstream operations enjoyed relatively high gross profit margins during the Track Record Period.

### **Other income and gains**

Other income and gains consist primarily of interest income on bank deposits, excess over the cost of a business combination, net gain realized on the sale of scrap materials, government subsidies, and waivers of certain payables.

### **Selling and distribution costs**

Selling and distribution costs consist primarily of salaries and wages for sales personnel, transportation and freight charges, and packing expenses. The level of our selling and distribution costs may vary with the sales volume of our product, our product mix, market rate of transportation and freight charges and geographic distribution of our customers.

### **Administrative expenses**

Administrative expenses consist primarily of salary and benefits paid to our administrative staff, depreciation charges relating to properties used for administrative purposes, travel and entertainment expenses, rental expenses, and auditors’ and other professional fees.

### **Other expenses**

Other expenses consist primarily of losses realized on the disposal of property, plant and equipment, impairment losses on property, plant and equipment, charitable donations, foreign exchange difference, and impairment losses on trade and other receivables.

### **Finance costs**

Finance costs primarily consist of interest paid on borrowings less amounts capitalized for construction in progress. The capitalized amounts represent borrowing costs directly attributable to the acquisition, construction or production of related assets.

### **Taxation**

Income tax expenses represent the sum of PRC corporate income tax currently payable and deferred tax. We are not subject to any income taxes in Bermuda and BVI. No provision for Hong Kong or Gabon profits tax has been made as we had no assessable profits derived from or earned in Hong Kong or Gabon during the Track Record Period.

For each of our subsidiaries incorporated in China, the corporate income tax is provided at the applicable rate of the profits for the purpose of the PRC statutory financial reporting, adjusted for those items which are not assessable or deductible. The corporate income tax rate generally applicable in China was 33% of taxable income prior to January 1, 2008 and has been 25% commencing on January 1, 2008. Certain of our subsidiaries enjoyed preferential tax treatments, in

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the form of reduced tax rates and tax holidays, provided by the PRC government or its local authorities or bureaus.

- Pursuant to various preferential tax treatments under applicable PRC laws and regulations, no income tax was payable by CITIC Dameng Mining for the two years ended December 31, 2006 and 2007. For the three years ended December 31, 2010, the applicable corporate income tax rate for CITIC Dameng Mining is 7.5%. Commencing on January 1, 2011, the applicable corporate income tax rate for CITIC Dameng Mining will be 25%.
- Pursuant to notice issued by the local tax authority, Guangxi Dabao is entitled to preferential tax treatment and its applicable corporate income tax rate is 15% for the period from January 1, 2007 to December 31, 2010.
- Pursuant to notice issued by the local tax authority, Guangxi Start is entitled to the preferential tax treatment and its applicable corporate income tax rate is 15% for the period from January 1, 2005 to December 31, 2010.

The following table summarizes the applicable tax rates for our major PRC subsidiaries for the periods indicated.

<u>Name of subsidiary</u>	<u>Tax position/applicable tax rate</u>			
	<u>For the year ended December 31,</u>			<u>For the</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>six months</u>
				<u>ended June 30,</u>
				<u>2010</u>
CITIC Dameng Mining	Second year-exemption	7.5%	7.5%	7.5%
Guangxi Start		15%	15%	15%
Guangxi Dabao		15%	15%	15%
Tiandeng Dameng		33%	25%	25%
Qinzhou New Materials		33%	25%	25%
CITIC Dameng Mineral	Not applicable	25%	25%	25%
Tiandong New Materials	Not applicable	25%	25%	25%
Tiandeng New Materials	Not applicable	25%	25%	25%
Chongzuo New Materials	Not applicable	25%	25%	25%
Beibuwan New Materials	Not applicable	25%	25%	25%

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Our effective income tax rate for the three years ended December 31, 2009 and six months ended June 30, 2010 was 5.3%, 7.3%, 15.4% and 16.2%, respectively. The following table sets forth a reconciliation of the income tax charge applicable to profit before tax using the statutory rates for the country in which our Company and our major subsidiaries are principally domiciled to the income tax charge at the effective tax rate.

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Profit/(loss) before tax . . . . .	416,066	431,092	75,325	84,006
Tax at the applicable PRC corporate income tax rate (2007: 33%, 2008, 2009 and 2010: 25%) . . . . .	137,302	107,773	18,831	21,001
Lower tax rate/tax holiday or concessions for specific provinces . . . . .	(111,789)	(83,246)	(19,825)	(16,417)
Income not subject to tax . . . . .	(5,349)	(4,648)	—	(220)
Expenses not deductible for tax . . . . .	7,602	6,311	1,806	2,143
Tax credit for domestic equipment purchases <sup>(1)</sup> . . . . .	—	(14,885)	—	—
Effect of withholding tax at 10% on undistributed profits of our PRC subsidiaries <sup>(2)</sup> . . . . .	—	20,592	6,093	7,535
Tax losses utilized from previous periods . . . . .	(5,623)	(595)	—	(696)
Tax losses not recognized . . . . .	—	—	4,708	221
Tax charge reported in the consolidated statements of comprehensive income . . . . .	<u>22,143</u>	<u>31,302</u>	<u>11,613</u>	<u>13,567</u>
The Group's effective income tax rate . . . . .	<u>5.3%</u>	<u>7.3%</u>	<u>15.4%</u>	<u>16.2%</u>

*Notes:*

- (1) Pursuant to Cai Sui Zi [2000] No. 49 Circular of the Ministry of Finance and the State Administration of Tax Concerning the Issue of Tax Credit for Corporate Income Tax for Purchase of Domestic Equipment by Enterprises with Foreign Investment and Foreign Enterprises issued by the State Administration of Taxation, an additional 40% of the capital expenditures for the purchases of domestic equipment during the years of 2006 and 2007 were deductible in the corporate income tax computation of CITIC Dameng Mining from January 1, 2008 for the excess of tax payable for the year as compared with the immediate preceding years.
- (2) Effective from January 1, 2008, a withholding tax at 10% has been levied on the dividends declared to foreign investors of the foreign invested enterprises established in China. The retained profits of the foreign invested enterprises as of December 31, 2007 are exempted from the withholding tax. Therefore, the Group is subject to the withholding tax at 10% on the dividends distributed by our PRC subsidiaries in respect of earnings generated after January 1, 2008.

Our effective income tax rate increased to 7.3% in 2008 from 5.3% in 2007, primarily reflecting (i) the increase in the PRC corporate income tax rate applicable to CITIC Dameng Mining to 7.5% in 2008 from nil in 2007, and (ii) the withholding tax at 10% on the dividends declared by CITIC Dameng Mining in respect of earnings generated after January 1, 2008, partially offset by the tax credit of HK\$14.9 million for our purchase of domestic equipments in 2008. Our effective income tax rate increased to 15.4% in 2009 from 7.3% in 2008, primarily because there was no tax credit for purchase of domestic equipments in 2009. Our effective income tax rate increased to 16.2% in the first half of 2010 from 15.4% in 2009, primarily attributable to less tax holiday or concessions available to our PRC subsidiaries in the first half of 2010.

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### Total profit attributable to non-controlling interests

Non-controlling interests represent the interests of outside shareholders in the results and net assets of our subsidiaries that we do not wholly own. Other than Guangxi Dameng, the 34.5% shareholder of CITIC Dameng Mining prior to the Reorganization, all the outside shareholders of our non-wholly owned subsidiaries are Independent Third Parties. Please see the section headed “Corporate Structure and History — Our Establishment and Restructuring — Reorganization” for further details.

For the three years ended December 31, 2009 and the six months ended June 30, 2010, the total profit attributable to Guangxi Dameng was approximately HK\$146.4 million, HK\$172.6 million, HK\$37.2 million and HK\$30.3 million, respectively; the total profit or loss attributable to the non-controlling interests other than Guangxi Dameng was approximately HK\$27.7 million, HK\$(12.0) million, HK\$(22.1) million and HK\$(10.6) million, respectively.

### RESULTS OF OPERATIONS

#### Six months ended June 30, 2010 compared to six months ended June 30, 2009

The following table sets out the revenue, sales volume and average selling prices of our products and services in the period indicated.

	Six months ended June 30,							
	2009				2010			
	Sales Volume	Average Selling Price	Revenue	% of Total Revenue	Sales Volume	Average Selling Price	Revenue	% of Total Revenue
(tonnes)	(HK\$/ tonne)	(HK\$'000)	(%)	(tonnes)	(HK\$/ tonne)	(HK\$'000)	(%)	
<b>Manganese mining and ore processing</b>								
Manganese concentrate . . . .	77,181	694	53,528	5.8	71,743	553	39,671	3.0
Natural discharging manganese . . . . .	12,426	3,993	49,613	5.4	23,701	2,361	55,959	4.3
<b>Manganese downstream processing</b>								
EMM . . . . .	35,426	12,620	447,094	48.4	46,212	14,903	688,737	53.5
Manganese sulfate . . . . .	9,187	3,812	35,029	3.8	11,893	3,446	40,992	3.2
Silicomanganese alloy . . . . .	28,806	6,372	183,577	19.9	26,611	7,397	196,864	15.3
EMD . . . . .	2,386	8,783	20,957	2.3	5,191	8,864	46,017	3.6
Other alloys <sup>(1)</sup> . . . . .	—	—	—	—	1,134	7,381	8,371	0.7
<b>Non-manganese ferroalloy processing</b>								
High carbon ferrochromium . . . . .	17,502	6,897	120,720	13.1	19,446	9,714	188,908	14.7
<b>Other business</b>								
Trading . . . . .	794	15,554	12,350	1.3	3,294	6,628	21,831	1.7
<b>Total</b> . . . . .	<u>183,708</u>	<u>—</u>	<u>922,868</u>	<u>100</u>	<u>209,225</u>	<u>—</u>	<u>1,287,350</u>	<u>100</u>

*Note:*

(1) We commenced small-scale production of high carbon ferromanganese alloy at Tiandeng Ferroalloy Plant in the fourth quarter of 2009.



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The following table sets out the cost of sales, unit cost of sales, gross profits and gross profit margins of our products and services in the periods indicated.

	Six months ended June 30,							
	2009				2010			
	Cost of Sales	Unit Cost of Sales	Gross Profit	Gross Profit/ Loss Margin	Cost of Sales	Unit Cost of Sales	Gross Profit	Gross Profit/ Loss Margin
(HK\$'000)	(HK\$/ tonne)	(HK\$'000)	(%)	(HK\$'000)	(HK\$/ tonne)	(HK\$'000)	(%)	
<b>Manganese mining and ore processing</b>								
Manganese								
concentrate . . . . .	9,418	122	44,110	82.4	10,137	141	29,534	74.4
Natural discharging								
manganese . . . . .	9,053	729	40,560	81.8	16,742	706	39,217	70.1
<b>Manganese downstream processing</b>								
EMM . . . . .	340,714	9,618	106,380	23.8	524,628	11,353	164,109	23.8
Manganese sulfate . . . . .	26,493	2,884	8,536	24.4	32,612	2,742	8,380	20.4
Silicomanganese alloy . . . . .	167,869	5,828	15,708	8.6	181,717	6,829	15,147	7.7
EMD . . . . .	19,220	8,055	1,737	8.3	40,666	7,834	5,351	11.6
Other alloys <sup>(1)</sup> . . . . .	—	—	—	—	11,692	10,310	(3,321)	(39.7)
<b>Non-manganese ferroalloy processing</b>								
High carbon								
ferrochromium . . . . .	124,716	7,126	(3,996)	(3.3)	182,653	9,393	6,255	3.3
<b>Other business</b>								
Trading . . . . .	10,725	13,508	1,625	13.2	24,004	7,287	(2,173)	(10)
<b>Inventory provision . . . . .</b>	<b>63,578</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>5,841</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total . . . . .</b>	<b>771,786</b>	<b>—</b>	<b>151,082</b>	<b>16.4</b>	<b>1,030,692</b>	<b>—</b>	<b>256,658</b>	<b>19.9</b>

Notes:

(1) We commenced small-scale production of high carbon ferromanganese alloy at Tiandeng Ferroalloy Plant in the fourth quarter of 2009.

### Revenue

Our revenue increased by 39.5% to HK\$1,287.4 million in the six months ended June 30, 2010 from HK\$922.9 million in the same period in 2009. With the domestic and international steel manufacturing industry in the process of stabilizing and on track for recovery, the prices of many products of our downstream processing operations increased significantly in the six months ended June 30, 2010, but the speed and extent of recovery varied by sectors.

*Manganese mining and ore processing.* Our revenue derived from manganese mining and ore processing decreased to HK\$95.6 million in the six months ended June 30, 2010 from HK\$103.1 million in the same period in 2009.

Our revenue derived from sales of manganese concentrate decreased to HK\$39.7 million in the six months ended June 30, 2010 from HK\$53.5 million in the same period in 2009, primarily due to the decrease of average selling price per tonne of manganese concentrate to HK\$553.0 in the six months ended June 30, 2010 from HK\$693.6 in the same period in 2009. The decrease in average selling price primarily reflected a significantly increased share of metallurgical manganese concentrate sold

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in the six months ended June 30, 2010 than in the same period in 2009, which generally commended a relatively lower price in the market than other manganese concentrates.

Our revenue derived from sales of natural discharging manganese increased to HK\$56.0 million in the six months ended June 30, 2010 from HK\$49.6 million in the same period in 2009, primarily attributable to a significant increase in the sales volume which in turn was mainly due to a higher production volume at Daxin Concentration Plant, and partially offset by a decrease in the average selling price. The average selling price of natural discharging manganese decreased significantly to HK\$2,361.0 in the six months ended June 30, 2010 from HK\$3,992.6 in the same period in 2009. The decrease was mainly attributable to the significantly increased share of lump form in the natural discharging manganese sold in the six months ended June 30, 2010, and the lower selling price of the lump form than natural discharging manganese in powder form because of the additional grinding process required to produce the powder form.

*Manganese downstream processing.* Our revenue derived from manganese downstream processing increased to HK\$981.0 million in the six months ended June 30, 2010 from HK\$686.7 million in the same period in 2009, reflecting increased revenues derived from all of our products produced by this segment.

The average selling prices per tonne of EMM and EMD increased by 18.1% and 0.9%, respectively, primarily reflecting the varying degree of recovery of the markets for manganese downstream processing products in the six months ended June 30, 2010. The significant increases in the sales volumes of EMM and EMD also contributed to the increases in our revenues derived from EMM and EMD. The increased sales volumes of EMM in the six months ended June 30, 2010 compared to the same period in 2009 primarily reflected (i) the additional EMM produced at Tiandong EMM Plant that commenced operation in August 2009, and (ii) higher production volumes at Daxin EMM Plant and Start EMM Plant in response to higher demand from our customers. The increased sales volumes of EMD in the six months ended June 30, 2010 compared to the same period in 2009 primarily reflected the increased production volumes at Daxin EMD Plant.

The average selling prices per tonne of silicomanganese alloy increased by 16.1% in the six months ended June 30, 2010, primarily reflecting the generally recovering market demand. The increase in revenue derived from the increase in average selling price was partially offset by the decrease in the sales volume of silicomanganese alloy in the six months ended June 30, 2010. The decrease in sales volume was mainly due to the volatility in the market price for silicomanganese alloy during this period and our management of the timing and quantity of sales to maximize our average selling price.

The revenue derived from manganese sulfate increased to HK\$41.0 million in the six months ended June 30, 2010, primarily reflecting the increase in sales volume which in turn was mainly due to the higher production volume at Daxin Manganese Sulfate Plant. The increase in revenue attributable to the increase in sales volume of manganese sulfate was partially offset by a decrease by 9.6% in its average selling price per tonne in the six months ended June 30, 2010, primarily reflecting the weak demand in the market for manganese sulfate, which had not commenced to recover as other sectors did.

We continued the small-scale production of high carbon ferromanganese alloy at Tiandong Ferroalloy Plant in the six months ended June 30, 2010, which was commenced in the second half of 2009. The revenue derived from high carbon ferromanganese alloy amounted to HK\$8.4 million, which contributed our increased revenue in the six months ended June 30, 2010 compared with the same period in 2009.

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*Non-manganese ferroalloy processing.* Our revenue derived from non-manganese ferroalloy processing increased to HK\$188.9 million in the six months ended June 30, 2010 from HK\$120.7 million in the same period in 2009. The average selling price per tonne of high carbon ferrochromium increased significantly by 40.8%, to HK\$9,714.5 in the six months ended June 30, 2010 from HK\$6,897.5 in the same period in 2009. Such increase in average selling price primarily reflected the strong recovery of the market demand for high carbon ferrochromium.

*Others.* All of our revenue derived from other businesses in the six months ended June 30, 2010 and 2009 were derived from our trading activities. Our revenue derived from other businesses increased significantly to HK\$21.8 million in the six months ended June 30, 2010 from HK\$12.4 million in the same period in 2009, primarily attributable to the significant increase in the volume of manganese ores traded. The increase in revenue attributable to the increase in volume of manganese ores traded was partially offset by a significant decrease in the average selling price to HK\$6,627.5 in the six months ended June 30, 2010 from HK\$15,554.2 in the same period in 2009. The significant drop in average selling price was primarily due to the significant increase of the volume of manganese ores traded in the six months ended June 30, 2010 compared to the same period in 2009, when no manganese ores were traded because of the weak market demand in 2009. The commodities traded in the six months ended June 30, 2009 primarily comprised EMM, which commanded a significantly higher price in the market than manganese ores.

### **Cost of sales**

Cost of sales increased to HK\$1,030.7 million in the six months ended June 30, 2010 from HK\$771.8 million in the same period in 2009, primarily due to the increases in the costs of direct materials, electricity and fuel consumed in our operation, which in turn primarily reflected (i) the increased scale of production in the six months ended June 30, 2010 than in the same period in 2009, and (ii) the increased price of direct materials and fuel primarily due to the recovery of the economy in general.

The unit cost of manganese concentrate increased by 15.6% to HK\$141 per tonne in the six months ended June 30, 2010 from HK\$122 per tonne in the same period in 2009. The increase was primarily due to (i) the significant decrease in the production volume at Tiandeng Mine and Tiandeng Concentration Plant because of the depletion of ore reserves at Tuoren East and Tuoren West sub-regions of Tiandeng Mine, which lead to upward pressures on the unit cost because of the significant fixed portion of our cost structure at Tiandeng Mine and Tiandeng Concentration Plant, and (ii) the increase in unit costs of fuel consumed in our mining and ore processing operations. The unit cost of natural discharging manganese remained relatively stable in the six months ended June 30, 2010 compared to the same period in 2009, because the natural discharging manganese was produced at Daxin Mine and Daxin Concentration Plant, and its unit cost was not subject to the upward pressure in connection with the depletion of ore reserves at two sub-regions of Tiandeng Mine.

The unit cost of EMM increased by 18.0% to HK\$11,353 in the six months ended June 30, 2010 from HK\$9,618 in the same period in 2009. The increase was primarily due to the increase in costs of auxiliary materials such as sulfuric acid and selenium dioxide. The unit cost of silicomanganese alloy increased by 17.2% to HK\$6,829 in the six months ended June 30, 2010 from HK\$5,828 in the same period in 2009. The increase was primarily due to the increase in unit cost of high-grade manganese concentrates imported from third parties and consumed as feeding material for our silicomanganese alloy production, primarily reflecting the recovery of market demand for high-grade manganese ores in the international market. Our silicomanganese alloy production at Tiandeng Ferroalloy Plant and Dabao Ferroalloy Plant expended approximately HK\$52.1 million in the six

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months ended June 30, 2010 and HK\$59.8 million in the same period in 2009 to import high-grade manganese concentrates as feeding materials.

The unit cost of high carbon ferrochromium increased by 31.8% to HK\$9,393 in the six months ended June 30, 2010 from HK\$7,126 in the same period in 2009, primarily due to the increase in unit cost of chromium ores, which in turn primarily reflected the recovering market price for chromium products.

The unit cost of traded commodities decreased by 46.1% to HK\$7,287 in the six months ended June 30, 2010 from HK\$13,508 in the same period in 2009. The decrease was primarily due to the significant increase of the volume of manganese ores traded in the six months ended June 30, 2010 compared to the same period in 2009, and the lower market price commended by manganese ores than by EMM, the main commodity traded in the six months ended June 30, 2009.

### ***Gross profit and gross profit margin***

Our gross profit increased to HK\$256.7 million in the six months ended June 30, 2010 from HK\$151.1 million in the same period in 2009. Our gross profit margin increased to 19.9% in the six months ended June 30, 2010 from 16.4% in the same period in 2009, reflecting, among other things, (i) an increase in the gross profit margin for EMD to 11.6% in the six months ended June 30, 2010 from 8.3% in the same period in 2009, for which we commenced production at Daxin EMD Plant in the end of 2008 and gradually improved the production cost-efficiency, (ii) an increase in the gross profit margin for high carbon ferrochromium to 3.3% in the six months ended June 30, 2010 from a gross loss margin of (3.3)% in the same period in 2009, and (iii) a significant decrease in the write-down of inventories to net realizable values from HK\$63.6 million in the six months ended June 30, 2009 to HK\$5.8 million in the same period in 2010.

The increase in our gross profit margin was partially offset by (i) decreases in the gross profit margins for manganese concentrate and natural discharging manganese, (ii) decreases in the gross profit margins for manganese sulfate and silicomanganese alloy, and (iii) decreases in the gross profit margins for our trading activities. The gross profit margin for our trading activities decreased significantly in the six months ended June 30, 2010 because of the significant share of manganese ores in the commodities traded during this period, which commended a significantly lower margin than EMM, the main commodity traded in the six months ended June 30, 2009.

### ***Other income and gains***

Other income and gains increased to HK\$9.4 million in the six months ended June 30, 2010 from HK\$8.7 million in the same period in 2009. Other income and gains in the six months ended June 30, 2010 primarily included (i) government subsidies and grants of HK\$4.4 million related to certain technology research and development projects, and (ii) interest income of HK\$3.4 million derived from bank deposits.

### ***Selling and distribution expenses***

Selling and distribution expenses increased to HK\$36.2 million in the six months ended June 30, 2010 from HK\$18.6 million in the same period in 2009, primarily due to increases in the transportation and freight charges and advertising expenses. The increases in transportation and freight charges primarily reflected (i) the increases in the sales volumes of all products, and (ii) the increases in toll charges in Guangxi imposed by the transportation authorities since the second half of 2009. The increases in advertising expenses primarily reflected the increased scope and frequency of our advertising activities in the six months ended June 30, 2010.

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### ***Administrative expenses***

Administrative expenses increased to HK\$92.7 million in the six months ended June 30, 2010 from HK\$89.0 million in the same period in 2009, primarily due to the increases in salaries and benefits paid to our administrative staff.

### ***Finance costs***

Finance costs decreased to HK\$42.5 million in the six months ended June 30, 2010 from HK\$57.7 million in the same period in 2009, primarily due to (i) a decrease by HK\$9.0 million in the interest on our bank loans and other loans, and (ii) the capitalized interest of HK\$6.6 million in the first half of 2010 on loans directly attributable to the acquisition of property, plant and equipment mainly in connection with our development projects in PRC and Gabon.

### ***Taxation***

Our tax expenses increased to HK\$13.6 million in the six months ended June 30, 2010 from a tax credit of HK\$3.8 million in the same period in 2009, primarily due to an increase of HK\$16.4 million in corporate income tax currently payable primarily due to an increase in our taxable profit.

### ***Profit attributable to owners of the parent***

As a result of the foregoing factors, profit attributable to owners of the parent increased to HK\$50.7 million in the six months ended June 30, 2010 from HK\$2.0 million in the same period in 2009. Our net profit margin after non-controlling interests increased to 3.9% in the six months ended June 30, 2010 from 0.2% in the same period in 2009.

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### 2009 compared to 2008

The following table sets out the revenue, sales volumes and average selling prices of our products and services in the periods indicated.

	Year ended December 31,							
	2008				2009			
	Sales Volume	Average Selling Price	Revenue	% of Total Revenue	Sales Volume	Average Selling Price	Revenue	% of Total Revenue
(tonnes)	(HK\$/ tonne)	(HK\$'000)	(%)	(tonnes)	(HK\$/ tonne)	(HK\$'000)	(%)	
<b>Manganese mining and ore processing</b>								
Manganese concentrate ..	150,587	1,029	154,899	5.4	153,151	675	103,391	5.0
Natural discharging								
manganese .....	52,695	3,660	192,850	6.8	33,723	3,529	119,021	5.6
<b>Manganese downstream processing</b>								
EMM .....	51,397	18,654	958,768	33.5	70,575	12,968	915,236	43.9
Manganese sulfate .....	24,059	5,832	140,305	4.9	18,390	3,583	65,887	3.2
Silicomanganese alloy ...	44,738	10,108	452,206	15.8	60,672	6,608	400,950	19.2
EMD .....	118	9,797	1,156	— <sup>(1)</sup>	8,687	8,408	73,043	3.5
Other alloys <sup>(2)</sup> .....	—	—	—	—	770	6,908	5,320	0.2
<b>Non-manganese ferroalloy processing</b>								
High carbon								
ferrochromium .....	33,605	13,321	447,648	15.6	41,674	7,638	318,295	15.3
<b>Other business</b>								
Trading .....	118,170	4,358	515,032	18.0	20,745	4,108	85,221	4.1
<b>Total .....</b>	<b>475,369</b>	<b>6,022</b>	<b>2,862,864</b>	<b>100.0</b>	<b>408,387</b>	<b>5,109</b>	<b>2,086,364</b>	<b>100.0</b>

*Notes:*

(1) The revenue contribution of EMD was less than 0.1% of our revenue in 2008.

(2) We commenced small-scale production of high carbon ferromanganese alloy at Tiandeng Ferroalloy Plant in the fourth quarter of 2009.



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The following table sets out the cost of sales, unit cost of sales, gross profits and gross profit margins of our products and services in the periods indicated.

	Year ended December 31,							
	2008				2009			
	Cost of Sales	Unit Cost of Sales	Gross Profit	Gross Profit/Loss Margin	Cost of Sales	Unit Cost of Sales	Gross Profit	Gross Profit/Loss Margin
(HK\$'000)	(HK\$/tonne)	(HK\$'000)	(%)	(HK\$'000)	(HK\$/tonne)	(HK\$'000)	(%)	
<b>Manganese mining and ore processing</b>								
Manganese								
concentrate . . . . .	19,386	129	135,513	87.5	21,317	139	82,074	79.4
Natural discharging								
manganese . . . . .	38,140	724	154,710	80.2	26,876	797	92,145	77.4
<b>Manganese downstream processing</b>								
EMM . . . . .	627,520	12,209	331,248	34.5	708,037	10,032	207,199	22.6
Manganese sulfate . . .	72,068	2,995	68,237	48.6	51,181	2,783	14,706	22.3
Silicomanganese								
alloy . . . . .	328,251	7,337	123,955	27.4	359,862	5,931	41,088	10.2
EMD . . . . .	1,665	14,110	(509)	(44.0)	73,368	8,446	(325)	(0.4)
Other alloys <sup>(1)</sup> . . . . .	—	—	—	—	8,648	11,231	(3,329)	(62.6)
<b>Non-manganese ferroalloy processing</b>								
High carbon								
ferrochromium . . . .	396,128	11,788	51,520	11.5	309,341	7,423	8,954	2.8
<b>Other business</b>								
Trading . . . . .	483,877	4,095	31,155	6.0	62,786	3,027	22,436	26.3
<b>Inventory provision</b> . .	<u>146,869</u>	—	<u>(146,869)</u>	—	<u>35,225</u>	—	<u>(35,225)</u>	—
<b>Total</b> . . . . .	<u><u>2,113,904</u></u>	<u>4,447</u>	<u><u>748,960</u></u>	<u>26.2</u>	<u><u>1,656,641</u></u>	<u>4,057</u>	<u><u>429,723</u></u>	<u>20.6</u>

Note:

(1) We commenced small-scale production of high carbon ferromanganese alloy at Tiandeng Ferroalloy Plant in the fourth quarter of 2009.

### Revenue

Our revenue was HK\$2,086.4 million in 2009 and HK\$2,862.9 million in 2008. The manganese prices in the domestic and international markets decreased significantly in 2009, primarily attributable to a falling market demand for manganese products caused by the contraction of domestic and international steel manufacturing industry, which in turn was triggered by the global financial crisis unfolded since the second half of 2008.

*Manganese mining and ore processing.* Our revenue derived from manganese mining and ore processing decreased to HK\$222.4 million in 2009 from HK\$347.7 million in 2008. Our revenue derived from sales of manganese concentrate decreased to HK\$103.4 million in 2009 from HK\$154.9 million in 2008. The average selling price per tonne of manganese concentrate decreased significantly to HK\$675 in 2009 from HK\$1,029 in 2008. Such decrease in average selling price primarily reflected an overall decrease in manganese prices in the domestic and international markets in 2009. Our revenue derived from sales of natural discharging manganese decreased to HK\$119.0 million in 2009 from HK\$192.9 million in 2008. Such decrease was primarily due to a significant decrease in the sales volume in 2009. The decrease in sales volume primarily reflected our strategic management of the production scale for natural discharging manganese, which requires

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mineral reserves of special grade, quality and form. We manage the production scale to maintain the long-term sustainability of our production for this product. The average selling price of natural discharging manganese remained relatively stable despite an overall decrease in manganese prices in the domestic and international markets in 2009, primarily reflecting (i) the relatively resilient market demand for natural discharging manganese, and (ii) the increasing share of powder form in all natural discharging manganese sold in 2009 compared to 2008, and the higher selling price of the powder form than natural discharging manganese in lump form primarily due to the additional grinding process required to produce the powder.

*Manganese downstream processing.* Our revenue derived from manganese downstream processing decreased to HK\$1,460.4 million in 2009 from HK\$1,552.4 million in 2008. The average selling prices per tonne of EMM, manganese sulfate, silicomanganese alloy and EMD decreased by 30.5%, 38.6%, 34.6% and 14.2% respectively, primarily reflecting an overall decrease in manganese prices in the domestic and international markets in 2009.

The decrease in revenue attributable to the decrease in average selling prices was partially offset by the increases in the sales volumes of EMM, silicomanganese alloy and EMD, as we expanded our production scale and customer base in PRC to mitigate the impact of global financial and economic downturn unfolded in the second half of 2008. The increase in the sales volume of EMM was primarily due to an increase in our production of EMM in 2009, which primarily reflected the full-scale operation of Daxin EMM Plant's expanded capacity of 65,000 tpa in 2009. Daxin EMM Plant's production capacity was gradually ramped up during the course of 2008 to 65,000 tpa by the end of 2008. The increase in the sales volume of silicomanganese alloy was primarily due to the higher production volume at Tiandeng Ferroalloy Plant and Dabao Ferroalloy Plant in 2009, reflecting the higher utilization rate of the production capacities compared with that of 2008 at these two plants. The increase in the sales volume of EMD was primarily due to an increase in our production volume of EMD in 2009, reflecting the longer operation period of Daxin EMD Plant in 2009 than in 2008 since we commenced to produce EMD at Daxin EMD Plant in November 2008. We commenced to sell high carbon ferromanganese alloy at Tiandeng Ferroalloy Plant in 2009, which also partially offset the decrease in revenue derived from manganese downstream processing in 2009.

*Non-manganese ferroalloy processing.* Our revenue derived from non-manganese ferroalloy processing decreased to HK\$318.3 million in 2009 from HK\$447.6 million in 2008. The average selling price per tonne of high carbon ferrochromium decreased significantly to HK\$7,638 in 2009 from HK\$13,321 in 2008. Such decrease in average selling price primarily reflected the falling market demand for high carbon ferrochromium caused by the contraction of domestic and international stainless steel production, which in turn was triggered by the global financial crisis unfolded since the second half of 2008. The decrease in revenue attributable to the decrease in average selling prices was partially offset by the increase in the sales volume of high carbon ferrochromium, which was primarily due to the higher utilization of the production capacity and consequential increase in the production volume at Qinzhou Ferroalloy Plant in 2009.

*Others.* Our revenue derived from other businesses decreased significantly to HK\$85.2 million in 2009 from HK\$515.0 million in 2008. All of our revenue derived from other businesses in 2009 and 2008 were derived from our trading activities. The revenue from our trading activities decreased significantly primarily because the sales volume of EMM dropped significantly and we made no sales of manganese ores in 2009, reflecting the falling market demand and our reduced scale of trading activities in 2009.

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### **Cost of sales**

Cost of sales decreased to HK\$1,656.6 million in 2009 from HK\$2,113.9 million in 2008, primarily due to (i) the decrease by HK\$418.7 million in the purchases for trading activities in 2009 reflecting the significantly reduced scale of trading activities, and (ii) the decrease in the costs of direct materials consumed in our operation in 2009 primarily reflecting the impact of the global economic downturn.

The unit cost of manganese concentrate increased by HK\$10, or 7.8%, to HK\$139 per tonne in 2009 from HK\$129 per tonne in 2008. The increase in 2009 was primarily due to an increase in the costs of mining operations at Daxin Mine and Tiandeng Mine, which in turn was primarily caused by (i) the decreasing mining production at Tiandeng Mine, reflecting the gradual reserves depletion of its Tuoren East and Tuoren West sub-regions, and (ii) the increasing share of ores mined from our underground mining operations at Daxin Mine, to compensate for the decreasing scale of mining production at Tiandeng Mine. The cost of our underground mining was higher than the cost of open pit mining, primarily reflecting the more complicated mining techniques required for underground mining operations. The falling mining production at Tiandeng Mine also contributed to the higher unit cost of manganese concentrate, reflecting the reduced economies of scale.

The unit cost of natural discharging manganese increased by HK\$73, or 10.1%, to HK\$797 per tonne in 2009 from HK\$724 per tonne in 2008. The increase in 2009 was primarily due to (i) the increase in the costs of mining operations at Daxin Mine, and (ii) the increasing share of powder form in all natural discharging manganese sold in 2009 compared to 2008, and the higher unit cost of the powder form than that of natural discharging manganese in lump form primarily due to the additional costs attributable to the grinding process required to produce the powder.

The unit cost of EMM decreased by HK\$2,177, or 17.8%, to HK\$10,032 per tonne in 2009 from HK\$12,209 per tonne in 2008, primarily due to (i) a decrease in costs of auxiliary materials, including primarily sulfuric acid, selenium dioxide and ammonia, and (ii) economies of scale resulting from the expanded production volume of EMM in 2009.

The unit cost of manganese sulfate decreased by HK\$212, or 7.1%, to HK\$2,783 per tonne in 2009 from HK\$2,995 per tonne in 2008, primarily due to the decrease in costs for auxiliary materials, including sulfuric acid and coal, partially offset by (i) an increase in the unit cost of manganese concentrate which is produced by our mining and ore processing operation and consumed at Daxin Manganese Sulfate Plant as the feeding material, and (ii) an increase in the unit cost of production labor and depreciation charges at Daxin Manganese Sulfate Plant, which are primarily attributable to the reduced economies of scale caused by the decrease in the production volume in 2009.

The unit cost of silicomanganese alloy decreased by HK\$1,406, or 19.2%, to HK\$5,931 per tonne in 2009 from HK\$7,337 per tonne in 2008, primarily due to (i) a decrease in unit cost of high-grade manganese concentrates which are imported from third parties and consumed as our feeding material for silicomanganese alloy production, primarily reflecting the weak market demand in the international manganese market in 2009, and (ii) decreases in unit costs of cathode and coke. For each of the three years ended December 31, 2009, and the six months ended June 30, 2010, our silicomanganese alloy production at Tiandeng Ferroalloy Plant and Dabao Ferroalloy Plant expended approximately HK\$44.0 million, HK\$100.0 million, HK\$88.2 million and HK\$52.1 million, respectively, to import high-grade manganese concentrates as feeding materials for their production.

The unit cost of EMD decreased by HK\$5,664, or 40.1%, to HK\$8,446 per tonne in 2009 from HK\$14,110 per tonne in 2008, primarily due to (i) the higher cost of sales in 2008 because of the

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trial runs at Daxin EMD Plant when it commenced production in October 2008, and (ii) a decrease in costs of auxiliary materials, primarily including sulfuric acid.

The unit cost of high carbon ferrochromium decreased by HK\$4,365, or 37.0%, to HK\$7,423 per tonne in 2009 from HK\$11,788 per tonne in 2008, primarily due to (i) a decrease in unit cost of chromium ores, which in turn was primarily caused by the lower market price for chromium products in 2009, (ii) decreases in unit costs of auxiliary materials, primarily including coke, and (iii) a decrease in electricity tariff.

### ***Gross profit and gross profit margin***

Our gross profit decreased to HK\$429.7 million in 2009 from HK\$749.0 million in 2008. Our gross profit margin decreased to 20.6% in 2009 from 26.2% in 2008, reflecting, among other things, (i) a significant decrease in the profit margin for manganese downstream processing, in particular EMM, the profit margin of which decreased to 22.6% in 2009 from 34.5% in 2008, and silicomanganese alloy, the profit margin of which decreased to 10.2% in 2009 from 27.4% in 2008, and (ii) a significant decrease in the profit margin for high carbon ferrochromium, the profit margin of which decreased to 2.8% in 2009 from 11.5% in 2008, partially offset by (i) a decrease in the gross loss margin for EMD, for which we commenced production at Daxin EMD Plant in October 2008 and gradually improved the production cost-efficiency, (ii) a decrease by HK\$111.6 million in the inventory provision recorded in 2009 compared with 2008, and (iii) an increase in the profit margin for our trading business to 26.3% in 2009 from 6.0% in 2008.

The profit margins of manganese downstream processing and high carbon ferrochromium significantly decreased because average selling prices of such products decreased at a higher rate than that of the unit costs of such products. The profit margin for our trading business increased primarily because (i) EMM, which has a relatively high margin, constituted a significantly increased share in our traded commodities in 2009 compared to 2008, and (ii) manganese ores, which have a relatively low margin, constituted a significant share of our traded commodities in 2008 and no manganese ores for trading were sold in 2009.

### ***Other income and gains***

Other income and gains decreased to HK\$23.3 million in 2009 from HK\$26.8 million in 2008. Other income and gains in 2009 primarily included (i) government subsidy income of HK\$11.3 million, including returned value added tax of HK\$5.5 million relating to Qinzhou New Materials, which is qualified as a welfare enterprise for disabled and is therefore entitled to certain value-added-tax refund pursuant to relevant PRC laws and regulations, government grants of HK\$2.8 million related to certain technology research and development projects, and government subsidies of HK\$3.0 million related to certain approved expansion and renovation projects, and (ii) a gain on disposal of depleted anode sheets used in the electrolysis processes of our EMM and EMD productions in the amount of HK\$3.7 million.

### ***Selling and distribution expenses***

Selling and distribution expenses decreased to HK\$49.5 million in 2009 from HK\$62.9 million in 2008, primarily due to decreases in transportation and freight charges, advertising expenses and packing expenses, reflecting (i) a general decrease in the price of services related to the selling and distribution of our products resulted from the impact of global economic downturn that started to unfold in the second half of 2008, and (ii) the decrease in transportation, freight and packing

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expenses resulting from the increased share of our domestic sales and corresponding decreased share of our export sales in 2009.

### ***Administrative expenses***

Administrative expenses increased to HK\$202.9 million in 2009 from HK\$183.8 million in 2008, primarily due to the increases in salaries and benefits paid to our administrative staff, which primarily reflected the increase in the number of our administrative staff due to our expanding scale of operations.

### ***Finance costs***

Finance costs increased to HK\$107.2 million in 2009 from HK\$80.0 million in 2008, primarily due to an increase of HK\$31.9 million in interest paid on bank borrowings in 2009 as we significantly increased our bank borrowings in the last quarter of 2008 to finance our working capital and new plants and projects.

### ***Taxation***

Tax expenses decreased to HK\$11.6 million in 2009 from HK\$31.3 million in 2008, primarily due to (i) a decrease of HK\$39.7 million in corporate income tax currently payable primarily reflecting a decrease in our taxable profit, and (ii) a decrease of HK\$11.3 million in deferred tax liabilities charged to our consolidated statements of comprehensive income, primarily reflecting a decrease in the withholding tax at 10% on undistributed profits of the Group's PRC subsidiaries, partially offset by a decrease of HK\$31.3 million in deferred tax assets credited to our consolidated statements of comprehensive income. This decrease in our deferred tax assets in 2009 is mainly attributable to (i) the decreases in tax credit for purchases of domestic equipment, (ii) utilization of deferred tax credit in relation to impairment of assets, partially offset by losses available for offsetting against future taxable profits. See Note 19 to Appendix I, "Accountants' Report".

### ***Profit attributable to owners of the parent***

As a result of the foregoing factors, profit attributable to owners of the parent decreased to HK\$48.6 million in 2009 from HK\$239.2 million in 2008. Our net profit margin after non-controlling interests decreased to 2.3% in 2009 from 8.4% in 2008.

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### 2008 compared to 2007

The following table sets out the revenue, sales volumes and average selling prices of our products and services in the periods indicated.

	Year ended December 31,							
	2007				2008			
	Sales Volume	Average Selling Price	Revenue	% of Total Revenue	Sales Volume	Average Selling Price	Revenue	% of Total Revenue
(tonnes)	(HK\$/ tonne)	(HK\$'000)	(%)	(tonnes)	(HK\$/ tonne)	(HK\$'000)	(%)	
<b>Manganese mining and ore processing</b>								
Manganese								
concentrate . . . . .	288,094	455	131,044	7.8	150,587	1,029	154,899	5.4
Natural discharging								
manganese . . . . .	85,289	1,685	143,729	8.5	52,695	3,660	192,850	6.8
<b>Manganese downstream processing</b>								
EMM . . . . .	39,020	15,976	623,369	37.0	51,397	18,654	958,768	33.5
Manganese								
sulfate . . . . .	22,314	2,629	58,665	3.5	24,059	5,832	140,305	4.9
Silicomanganese								
alloy . . . . .	38,690	6,004	232,286	13.8	44,738	10,108	452,206	15.8
EMD . . . . .	—	—	—	—	118	9,797	1,156	— <sup>(1)</sup>
<b>Non-manganese ferroalloy processing</b>								
High carbon								
ferrochromium . . .	31,687	8,222	260,536	15.5	33,605	13,321	447,648	15.6
<b>Other business</b>								
Trading . . . . .	132,964	1,766	234,828	13.9	118,170	4,358	515,032	18.0
<b>Total . . . . .</b>	<b>638,058</b>	<b>2,640</b>	<b>1,684,457</b>	<b>100.0</b>	<b>475,369</b>	<b>6,022</b>	<b>2,862,864</b>	<b>100.0</b>

Note:

(1) We commenced to produce EMD at Daxin EMD Plant in October 2008. Its revenue contribution was less than 0.1% of our revenue in 2008.



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The following table sets out the cost of sales, unit cost of sales, gross profits and gross profit margins of our products and services in the periods indicated.

	Year ended December 31,							
	2007				2008			
	Cost of Sales	Unit Cost of Sales	Gross Profit	Gross Profit Margin	Cost of Sales	Unit Cost of Sales	Gross Profit	Gross Profit/Loss Margin
(HK\$'000)	(HK\$/tonne)	(HK\$'000)	(%)	(HK\$'000)	(HK\$/tonne)	(HK\$'000)	(%)	
<b>Manganese mining and ore processing</b>								
Manganese								
concentrate . . . . .	34,229	119	96,815	73.9	19,386	129	135,513	87.5
Natural discharging								
manganese . . . . .	46,580	546	97,149	67.6	38,140	724	154,710	80.2
<b>Manganese downstream processing</b>								
EMM . . . . .	344,106	8,819	279,263	44.8	627,520	12,209	331,248	34.5
Manganese sulfate . . . .	45,586	2,043	13,079	22.3	72,068	2,995	68,237	48.6
Silicomanganese								
alloy . . . . .	156,701	4,050	75,585	32.5	328,251	7,337	123,955	27.4
EMD . . . . .	—	—	—	—	1,665	14,110	(509)	(44.0)
<b>Non-manganese ferroalloy processing</b>								
High carbon								
ferrochromium . . . . .	243,472	7,684	17,064	6.5	396,128	11,788	51,520	11.5
<b>Other business</b>								
Trading . . . . .	221,636	1,667	13,192	5.6	483,877	4,095	31,155	6.0
<b>Inventory provision . . .</b>	<b>1,134</b>	<b>—</b>	<b>(1,134)</b>	<b>—</b>	<b>146,869</b>	<b>—</b>	<b>(146,869)</b>	<b>—</b>
<b>Total . . . . .</b>	<b><u>1,093,444</u></b>	<b><u>1,714</u></b>	<b><u>591,013</u></b>	<b><u>35.1</u></b>	<b><u>2,113,904</u></b>	<b><u>4,447</u></b>	<b><u>748,960</u></b>	<b><u>26.2</u></b>

### Revenue

Our revenue was HK\$2,862.9 million in 2008 and HK\$1,684.5 million in 2007. The manganese prices in the domestic and international markets increased significantly in 2008, primarily attributable to a strong market demand for manganese products driven by the growth of domestic and international steel manufacturing industry as well as overall economic growth.

*Manganese mining and ore processing.* Our revenue derived from manganese mining and ore processing was HK\$347.7 million in 2008 and HK\$274.8 million in 2007. Our revenue derived from sales of manganese concentrate was HK\$154.9 million in 2008 and HK\$131.0 million in 2007. The average selling price per tonne of manganese concentrate increased significantly to HK\$1,029 in 2008 from HK\$455 in 2007. Such increase in average selling price primarily reflected an overall increase in manganese prices in the domestic and international markets in 2008. The decrease in the sales volume of manganese concentrate was primarily due to the expansion of our manganese downstream processing during the same year that consumed more of our manganese concentrate produced. Our revenue derived from sales of natural discharging manganese was HK\$192.9 million in 2008 and HK\$143.7 million in 2007. The average selling price per tonne of natural discharging manganese increased significantly to HK\$3,660 in 2008 from HK\$1,685 in 2007, which was primarily due to (i) the strong market demand for natural discharging manganese in 2008 and (ii) the increasing share of powder form in all natural discharging manganese sold in 2008 compared to 2007. The decrease in the sales volume of natural discharging manganese primarily reflected our strategic management of the production scale for natural discharging manganese to maintain the long-term sustainability of our production for this product.

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*Manganese downstream processing.* Our revenue derived from manganese downstream processing was HK\$1,552.4 million in 2008 and HK\$914.3 million in 2007. The average selling prices per tonne of EMM, silicomanganese alloy and manganese sulfate increased by 16.8%, 68.4% and 121.8%, respectively, primarily reflecting an overall increase in manganese prices in the domestic and international markets in 2008. The average selling prices of EMM and silicomanganese increased at lower rates than that of manganese sulfate primarily reflecting a stronger market demand for manganese sulfate in 2008. The increase in the sales volume of EMM was primarily due to an increase in our production of EMM in 2008, which primarily reflected the expansion project at Daxin EMM Plant that increased its production capacity from 25,000 tpa in 2007 to 65,000 tpa by the end of 2008. The increases in the respective sales volumes of manganese sulfate and silicomanganese alloy were primarily due to the increases in our productions of these products in 2008, which primarily reflected the increased market demand during the same period. We also commenced the production of EMD at Daxin EMD Plant in October 2008. We sold approximately 118 tonnes of EMD at an average selling price of HK\$9,797 per tonne and generated a revenue of HK\$1.2 million in 2008.

*Non-manganese ferroalloy processing.* Our revenue derived from high carbon ferrochromium increased to HK\$447.6 million in 2008 from HK\$260.5 million in 2007. The average selling price per tonne of high carbon ferrochromium increased to HK\$13,321 in 2008 from HK\$8,222 in 2007, which primarily reflected the strong market demand mainly from the domestic and international steel-making industry.

*Others.* Our revenue derived from other businesses increased to HK\$515.0 million in 2008 from HK\$234.8 million in 2007. Substantially all of our revenue derived from other businesses were derived from our trading business. The increase in the average selling price per tonne of our trading commodities in 2008 was primarily attributable to overall price increases for these commodities in the domestic and international markets, which in turn primarily reflected the strong commodity demand and higher production costs during this period. We traded more manganese ores and EMM in 2008 to meet their increased demand of our customers which exceeded our existing production capacities.

### **Cost of sales**

Cost of sales increased to HK\$2,113.9 million in 2008 from HK\$1,093.4 million in 2007, primarily due to the increase in unit costs for our manganese products in 2008, reflecting, among other things, increases in raw and auxiliary material, fuel and power costs, depreciation charges and production labor costs.

The unit cost of manganese concentrate increased by HK\$10, or 8.4%, to HK\$129 per tonne in 2008 from HK\$119 per tonne in 2007. The unit cost of natural discharging manganese increased by HK\$178, or 32.6%, to HK\$724 per tonne in 2008 from HK\$546 per tonne in 2007. These increases were primarily due to (i) an increase in fuel costs and (ii) an increase in production labor costs resulting from overall pay rise.

The unit cost of EMM increased by HK\$3,390, or 38.4%, to HK\$12,209 per tonne in 2008 from HK\$8,819 per tonne in 2007, primarily due to (i) an increase in costs of auxiliary materials, primarily including sulfuric acid and selenium dioxide, and (ii) an increase in the unit cost of manganese concentrate, which is produced by our mining and ore processing operation and consumed as the feeding material for our EMM production.

The unit cost of manganese sulfate increased by HK\$952, or 46.6%, to HK\$2,995 per tonne in 2008 from HK\$2,043 per tonne in 2007, primarily due to (i) an increase in the unit cost of manganese

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concentrate which is produced by our mining and ore processing operation and consumed at Daxin Manganese Sulfate Plant as the feeding material, and (ii) an increase in costs for auxiliary materials, including sulfuric acid and coal.

The unit cost of silicomanganese alloy increased by HK\$3,287, or 81.2%, to HK\$7,337 per tonne in 2008 from HK\$4,050 per tonne in 2007, primarily due to (i) an increase in the unit cost of manganese concentrate, which is produced by our mining and ore processing operation and consumed as the feeding material for our silicomanganese alloy production, (ii) increases in unit costs of cathode and coke, and (iii) an increase in electricity tariff.

The unit cost of high carbon ferrochromium increased by HK\$4,104, or 53.4%, to HK\$11,788 per tonne in 2008 from HK\$7,684 per tonne in 2007, primarily due to (i) an increase in the unit cost of chromium ores, which is purchased from third parties and consumed as the feeding material for our high carbon ferrochromium production, (ii) increase in unit cost of coke, and (iii) an increase in electricity tariff.

### ***Gross profit and gross profit margin***

Our gross profit increased to HK\$749.0 million in 2008 from HK\$591.0 million in 2007. Our gross profit margin decreased to 26.2% in 2008 from 35.1% in 2007, reflecting, among other things, (i) a significant increase in the inventory provision to HK\$146.9 million in 2008 from HK\$1.1 million in 2007, primarily reflecting the significantly lower net realizable value of our inventories at the end of 2008 due to global economic downturn that unfolded in the second half of 2008, and (ii) a significant decrease in the profit margin for manganese downstream processing, in particular EMM, the profit margin of which decreased to 34.5% in 2008 from 44.8% in 2007, and silicomanganese alloy, the profit margin of which decreased to 27.4% in 2008 from 32.5% in 2007, partially off set by (i) an increase in the profit margin for manganese mining and ore processing, in particular manganese concentrate, the profit margin of which increased to 87.5% in 2008 from 73.9% in 2007, and natural discharging manganese, the profit margin of which increased to 80.2% in 2008 from 67.6% in 2007, and (ii) an increase in the profit margin for non-manganese ferroalloy processing business to 11.5% in 2008 from 6.5% in 2007.

The profit margins of EMM and silicomanganese decreased in 2008 because the unit costs of such products increased at a higher rate than that of the average selling prices of such products.

### ***Other income and gains***

Other income and gains increased to HK\$26.8 million in 2008 from HK\$23.9 million in 2007. Other income and gains in 2008 primarily included (i) interest income on bank deposits of HK\$2.3 million, (ii) government subsidy income of HK\$17.8 million, including returned value added tax in the amount of HK\$6.4 million relating to Qinzhou New Materials, government grants in the amount of HK\$9.5 million related to certain projects to improve our production technologies and technology renovations, and government subsidies of HK\$1.9 million for electricity tariff and (iii) write-off of previous estimates for payables in an aggregate amount of HK\$3.6 million. Other income and gains in 2007 primarily included (i) a one-time gain of HK\$11.9 million, reflecting the amount of the fair value of the 70% interest in Qinzhou New Materials we acquired over the consideration we paid in exchange, and (ii) government subsidy income of HK\$8.0 million, including returned value added tax in the amount of HK\$5.4 million relating to Qinzhou New Materials, and government grants in the amount of HK\$2.6 million related to certain projects to improve our production technologies.

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### ***Selling and distribution expenses***

Selling and distribution expenses increased to HK\$62.9 million in 2008 from HK\$41.4 million in 2007, primarily due to increases in (i) transportation and freight charges and packing expenses partially resulting from our increased sales volume, and (ii) advertising expenses to promote of the brand recognition and market awareness for our products.

### ***Administrative expenses***

Administrative expenses increased to HK\$183.8 million in 2008 from HK\$103.6 million in 2007, partially due to increases in (i) salaries and benefits paid to our administrative staff, (ii) travel and entertainment expenses, (iii) consultancy and audit fees, and (iv) depreciation charges relating to properties used for administrative purposes. These increases reflected, among other things, the expansion of our operations in 2008.

### ***Other expenses***

Other expenses decreased by HK\$11.2 million to HK\$17.9 million in 2008 from HK\$29.1 million in 2007, primarily due to decreases in (i) losses realized on disposal of property, plants and equipment and (ii) losses on trade and other receivables.

### ***Finance costs***

Finance costs increased by HK\$55.4 million to HK\$80.0 million in 2008 from HK\$24.6 million in 2007, primarily due to an increase of HK\$48.0 million in interest paid on bank borrowings to finance our working capital and new plants and projects, reflecting an increase in our interest-bearing bank borrowings in 2008.

### ***Taxation***

Our tax expenses increased by HK\$9.2 million to HK\$31.3 million in 2008 from HK\$22.1 million in 2007, primarily due to (i) an increase of HK\$39.2 million in corporate income tax currently payable primarily due to an increase in our taxable profit, and (ii) an increase of HK\$17.7 million in deferred tax liabilities charged to our consolidated statements of comprehensive income, mainly arising from the withholding tax at 10% on the undistributed profits of the Group's PRC subsidiaries, partially offset by an increase of HK\$47.7 million in deferred tax assets credited to our consolidated statements of comprehensive income. This increase in our deferred tax assets in 2008 is mainly attributable to (i) an increase in tax credit for purchases of domestic equipment, (ii) an increase in deferred tax credit in relation to impairment of assets, and (iii) a decrease in utilization of losses available for offsetting against future taxable profits. See Note 19 to Appendix I, "Accountants' Report".

### ***Profit attributable to owners of the parent***

As a result of the foregoing factors, profit attributable to owners of the parent increased by HK\$19.4 million to HK\$239.2 million in 2008 from HK\$219.8 million in 2007. Our net profit margin after non-controlling interests decreased to 8.4% in 2008 from 13.0% in 2007.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Overview**

Our liquidity requirements are primarily related to investments in property, plant and equipment, costs and expenses relating to operating activities, and repayment of bank loans. We have

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historically generated our cash resources from capital contributions from our Shareholders, short-term and long-term bank loans, and operating activities.

As of June 30, 2010, we had HK\$711.4 million in cash and bank balances. We had net cash inflows from operating activities of HK\$202.2 million, HK\$210.8 million, HK\$280.7 million and HK\$171.1 million for the three year ended December 31, 2009 and six months ended June 30, 2010, respectively.

We expect to finance our working capital requirements for the 12 months following the date of this prospectus with the following sources of funding:

- cash inflows generated from our operating activities;
- proceeds from bank loans, including short-term and long-term bank loans;
- the cash and bank balances on hand, which were HK\$711.4 million as of June 30, 2010; and
- HK\$1,661.0 million, being the estimated net proceeds to be received by our Group from the Global Offering (assuming an Offer Price of HK\$2.425 per Share and the Over-allotment Option is not exercised).

Based on the above, our Directors believe that we will have sufficient funds for 125% of our present working capital requirements for at least the next 12 months from the date of this prospectus.

### Cash flow data

The following table sets out certain historical information regarding our consolidated cash flows for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Net cash flows from operating activities . .	202,191	210,763	280,658	64,357	171,111
Net cash flows used in investing activities . . . . .	(284,881)	(667,240)	(520,294)	(211,801)	(243,785)
Net cash flows from/(used in) financing activities . . . . .	<u>208,703</u>	<u>1,064,737</u>	<u>(106,637)</u>	<u>221,337</u>	<u>320,927</u>
Increase/(decrease) in cash and cash equivalents . . . . .	126,013	608,260	(346,273)	73,893	248,253
Cash and cash equivalents at beginning of year/period . . . . .	115,753	253,066	884,192	884,192	538,230
Effect of foreign exchange rate changes, net . . . . .	<u>11,300</u>	<u>22,866</u>	<u>311</u>	<u>(796)</u>	<u>(15,092)</u>
Cash and cash equivalents at end of year/ period . . . . .	<u><u>253,066</u></u>	<u><u>884,192</u></u>	<u><u>538,230</u></u>	<u><u>957,289</u></u>	<u><u>771,391</u></u>

### Cash flows from operating activities

In the six months ended June 30, 2010, we had a net cash inflow from operating activities of HK\$171.1 million. This net cash inflow was primarily attributable to our operating cash flows before movements in working capital of HK\$216.2 million, as adjusted by (i) an increase in trade payables of HK\$100.8 million, primarily due to our effort to obtain gradual extension of credit terms provided by our suppliers, and (ii) a decrease in trade and notes receivables of HK\$47.9 million, primarily reflecting a significant portion of the promissory notes issued by our customers

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becoming due and payable on or shortly before June 30, 2010, the effect of which was partially offset by (i) an increase in prepayments, deposits and other receivables of HK\$67.0 million, primarily due to increase in prepayments to suppliers for purchase of EMM, raw materials for production of EMM to meet increasing market demand and (ii) an increase in inventories of HK\$64.2 million, primarily due to our management of the timing and quantity of the sales of our finished goods as of June 30, 2010 to maximize our average selling price.

In the six months ended June 30, 2009, we had a net cash inflow from operating activities of HK\$64.4 million. This net cash inflow was primarily attributable to our operating cash flows before movements in working capital of HK\$176.3 million, as adjusted by (i) an increase in trade payables of HK\$25.6 million, primarily due to the increase in our customers who opted to pay us with promissory notes, (ii) a decrease in trade payables of HK\$30.0 million, primarily due to the slow in payment of balance since the fourth quarter of 2008 attributable to the outbreak of financial crisis which had been gradually settled over the six months ended June 30, 2009, and (iii) a decrease in other payables and accruals of HK\$38.0 million, primarily due to less advance from customers received.

In the year ended December 31, 2009, we had a net cash inflow from operating activities of HK\$280.7 million. This net cash inflow was primarily attributable to our operating cash flows before movements in working capital of HK\$367.1 million, as adjusted by (i) an increase in trade and notes receivables of HK\$99.5 million, primarily due to the significant increase in our customers who opted to pay us with promissory notes, and (ii) an increase in amounts due from related companies of HK\$16.8 million, the effect of which was partially offset by (i) a decrease in prepayments, deposits and other receivables of HK\$44.2 million, primarily due to more frequently but less quantities of raw materials purchased in 2009 to prevent the anticipated upwards costs trend of raw materials for production of EMM and (ii) an increase in other payables and accruals of HK\$48.1 million, primarily due to more advance from customers received in December 2009 attributable to the recovery of manganese market.

In the year ended December 31, 2008, we had a net cash inflow from operating activities of HK\$210.8 million. This net cash inflow was primarily attributable to our operating cash flows before movements in working capital of HK\$747.4 million, as adjusted by (i) an increase in inventories of HK\$321.5 million, primarily reflecting the impact of the rapidly declining demand in the second half of 2008 for manganese products, and (ii) an increase in trade and notes receivables of HK\$103.9 million, primarily reflecting the impact of the global financial and economic downturn on our overall collection cycle in the second half of 2008, the effect of which was partially offset by (i) a decrease in amounts due from related companies of HK\$51.7 million, and (ii) an increase in amounts due a minority shareholder of a subsidiary of HK\$29.5 million.

In the year ended December 31, 2007, we had a net cash inflow from operating activities of HK\$202.2 million. This net cash inflow was primarily attributable to our operating cash flows before movements in working capital of HK\$497.9 million, as adjusted by an increase in other payables and accruals of HK\$105.6 million, the effect of which was partially offset by (i) an increase in trade and notes receivables of HK\$185.2 million, primarily reflecting our expanded scale of operations and the longer credit terms granted to some customers to promote our market share, (ii) an increase in amounts due from related companies of HK\$133.9 million, and (iii) an increase in inventories of HK\$77.5 million, primarily reflecting our expanded scale of operations in 2007.



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### ***Cash flows from investing activities***

In the six months ended June 30, 2010, we had a net cash outflow from investing activities of HK\$243.8 million. This net cash outflow was primarily attributable to (i) a cash outflow of HK\$232.7 million for purchases of property, plant and equipment primarily in connection with our projects or plants under construction, and (ii) a cash outflow of HK\$45.6 million for land lease payments primarily in connection with the land occupied by our projects or plants under construction.

In the six months ended June 30, 2009, we had a net cash outflow from investing activities of HK\$211.8 million. This net cash outflow was primarily attributable to (i) a cash outflow of HK\$175.5 million for purchases of property, plant and equipment primarily in connection with our projects or plants under construction, and (ii) a cash outflow of HK\$43.7 million for land lease payments primarily in connection with the land occupied by our projects or plants under construction.

In the year ended December 31, 2009, we had a net cash outflow from investing activities of HK\$520.3 million. This net cash outflow was primarily attributable to a cash outflow of HK\$500.4 million for purchases of property, plant and equipment primarily in connection with our projects or plants under construction.

In the year ended December 31, 2008, we had a net cash outflow from investing activities of HK\$667.2 million. This net cash outflow was primarily attributable to (i) a cash outflow of HK\$511.6 million for purchases of property, plant and equipment primarily in connection with our projects or plants under construction, and (ii) a payment of HK\$116.9 million for acquisition of certain mining rights for Bembélé Manganese Mine and other investment.

In the year ended December 31, 2007, we had net a cash outflow from investing activities of HK\$284.9 million. This net cash outflow was primarily attributable to a cash outflow of HK\$298.4 million for purchases of property, plant and equipment primarily in connection with our projects or plants under construction.

### ***Cash flows from financing activities***

In the six months ended June 30, 2010, we had a net cash inflow from financing activities of HK\$320.9 million. This net cash inflow was primarily attributable to the proceeds from new bank and other borrowings of HK\$1,435.2 million, partially offset by (i) repayment of bank and other borrowings of HK\$755.1 million, and (ii) payment of dividend of HK\$295.8 million.

In the six months ended June 30, 2009, we had a net cash inflow from financing activities of HK\$221.3 million. This net cash inflow was primarily attributable to the proceeds from new bank and other borrowings of HK\$1,396.4 million and advance from the intermediate holding company and a shareholder of HK\$250.1 million, partially offset by (i) repayment of bank and other borrowings of HK\$1,332.9 million, and (ii) payment of interest and dividend of HK\$79.1 million.

In the year ended December 31, 2009, we had a net cash outflow from financing activities of HK\$106.6 million. This net cash outflow was primarily attributable to the repayment of bank and other loans of HK\$1,958.1 million and payment of interest and dividend of HK\$135.4 million, partially offset by (i) a cash inflow of HK\$1,751.9 million in respect of proceeds from banks loans, and (ii) a cash inflow of advance from the intermediate holding company and a shareholder of HK\$250.1 million.



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In the year ended December 31, 2008, we had a net cash inflow from financing activities of HK\$1,064.7 million. This net cash inflow was primarily attributable to the proceeds from bank loans of HK\$1,825.0 million, partially offset by a cash outflow of HK\$481.9 million in respect of repayments of bank and other loans.

In the year ended December 31, 2007, we had a net cash inflow from financing activities of HK\$208.7 million. This net cash inflow was primarily attributable to the proceeds from bank loans of HK\$460.4 million, partially offset by a cash outflow of HK\$222.8 million in respect of repayments of bank and other loans.

### **Net Current Assets/(Liabilities)**

We had net current assets of HK\$367.9 million as of June 30, 2010, and we had net current liabilities of HK\$119.3 million, HK\$213.1 million and HK\$131.1 million as of December 31, 2007 and 2008 and 2009, respectively. We recorded net current liabilities as of December 31, 2007, 2008 and 2009 primarily due to (i) the fact that a majority of our bank borrowings were in the form of short-term bank loans and used to finance working capital and capital expenditures, (ii) amounts due to CRH, CITIC United Asia and its wholly-owned subsidiary in connection with cash contribution of CITIC Dameng Investments to the registered capital of CITIC Dameng Mining, which amounted to HK\$379.8 million as of December 31, 2009, and (iii) our other payables and accruals due to our purchases of property, plant and equipment. We have consistently improved our net current liability position since 2009 by restructuring the maturity profile of our bank loans and increasing the share of long-term bank loans in our interest-bearing bank and other borrowings. During the six months ended June 30, 2010, we continued to reduce the amount of short-term bank loans and increase the amount of long-term bank loans. On June 30, 2010, we capitalized the amounts due to CRH and Apexhill of HK\$240 million and HK\$60 million, respectively. For further details, please see “— Indebtedness — Bank and other borrowings”.

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We had net current assets of HK\$368 million as of September 30, 2010, based on unaudited management accounts prepared under HKFRS. The following table sets forth the breakdown of our current assets and current liabilities as of September 30, 2010.

	As of September 30, 2010 (HK\$'000)
<b>Current assets</b>	
Inventories . . . . .	481,119
Trade and notes receivables . . . . .	324,898
Prepayments, deposits and other receivables . . . . .	203,577
Due from related companies . . . . .	66,081
Due from minority shareholder of a subsidiary . . . . .	3,854
Tax recoverable . . . . .	11,416
Pledged deposit . . . . .	65,200
Cash and cash balance . . . . .	597,378
	<u>1,753,523</u>
<b>Current liabilities</b>	
Trade payables . . . . .	254,963
Other payables and accruals . . . . .	281,703
Interest-bearing bank and other borrowings . . . . .	718,828
Due to related companies . . . . .	3,814
Due to minority shareholders of subsidiaries . . . . .	74,749
Due to a shareholder . . . . .	41,225
Tax payable . . . . .	9,966
	<u>1,385,248</u>
<b>Net current assets</b> . . . . .	<u>368,275</u>

As of the date of this prospectus, all of the Group's non-trade receivables from and payable to related companies, intermediate holding company, a shareholder and minority shareholders of subsidiaries have been fully settled.

### Inventory analysis

The following table sets out a summary of our inventory balance as of the dates indicated, as well as the inventory turnover days.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(HK\$'000, except turnover days)			
Raw materials . . . . .	86,865	350,298	349,054	383,608
Work in progress . . . . .	6,492	4,385	6,536	7,294
Finished goods . . . . .	75,901	152,746	91,204	110,017
	169,258	507,429	446,794	500,919
Less: Inventory provision . . . . .	(412)	(149,284)	(92,307)	(89,034)
Total . . . . .	168,846	358,145	354,487	411,885
Inventory turnover days <sup>(1)</sup> . . . . .	40.8	45.5	78.5	66.9

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*Note:*

- (1) Average inventory is the inventory at the beginning of the period plus the inventory at the end of the period with the sum divided by two. Inventory turnover days equal the average inventory divided by cost of sales multiplied by the number of days during the period generating the sales (i.e. 365 days for each of the three years ended December 31, 2009 and 180 days for the six months ended June 30, 2010).

Our inventory is stated at the lower of cost and net realizable value. We make provision for slow moving inventory by writing down its carrying amount to net realizable value. We identify slow moving inventory by (i) performing periodical count and inspection, (ii) reviewing its expiry date, if any, to confirm the latest physical condition, and (iii) reviewing its monthly movement during the period after the last reporting date. The net realizable value of inventory is estimated as its selling price less any estimated costs to be incurred in connection with the disposal. We recorded write-down of inventory to net realizable value of HK\$1.1 million, HK\$146.9 million, HK\$35.2 million and HK\$5.8 million for the three years ended December 31, 2009 and six months ended June 30, 2010, respectively. The write-down increased significantly to HK\$146.9 million in 2008 from HK\$1.1 million in 2007, primarily reflecting the impact of the global financial and economic downturn that started to unfold in the second half of 2008 and resulted in significantly reduced net realizable values of our self-produced inventories and inventories purchased for trading as of December 31, 2008 as they were purchased at prices of historical high level. Significant decrease in average selling price in 2009 as compared with 2008 did not result in increase in write-down of inventories to net realizable value for self-produced inventories as the unit costs of raw materials for self-produced inventories also decreased sharply in 2009 as compared to 2008. The write-down decreased significantly to HK\$35.2 million in 2009 from HK\$146.9 million in 2008, primarily because a significant portion of the downward pressure on the net realizable values of our inventories derived from the global economic downturn had been released by the end of 2008 and the provision in 2009 was mainly for inventories purchased in 2008 for trading still remained in stock as at December 31, 2009.

Our inventory turnover days increased from 40.8 days in 2007 to 45.5 days in 2008, primarily reflecting, among other things, the rapidly declining demand for manganese products worldwide due to the impact of the global economic downturn that started to unfold in the second half of 2008.

In response to the global economic downturn, we focused on inventory reduction and reduced our inventory balance before provision as of December 31, 2009 to HK\$446.8 million from HK\$507.4 million as of December 31, 2008, even though we significantly increased the production volume in 2009 for EMM and silicomanganese alloy, our two principal products that jointly contributed to 50.8%, 49.3% and 63.1% of our total revenue for the three years ended December 31, 2009, respectively. However, our cost of sales fell even more rapidly in 2009 than we could reduce our inventory balance, resulting in a significant increase of inventory turnover days to 78.5 days in 2009, compared to 45.5 days in 2008. Our inventory balance as of December 31, 2009 also included manganese concentrates produced at Tiandeng Mine that were ordered by customers in December 2009 to be delivered in the first quarter of 2010, which contributed to the higher inventory turnover days in 2009 than in 2008.

Our inventory turnover days decreased to 66.9 days in the six months ended June 30, 2010 from 78.5 days in 2009, primarily reflecting the rapidly rising cost of sales, which in turn was mainly due to (i) the increased scale of production in the six months ended June 30, 2010, and (ii) the increased price of direct materials and fuel. As of August 31, 2010, 39% of inventories as at June 30, 2010 were subsequently utilized or sold.

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### Trade and notes receivables

Our trade and notes receivables represent receivables from the sales of our products. The following table sets out our trade and notes receivables turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
	(HK\$'000, except turnover days)			
Trade receivables	189,895	309,053	219,698	258,201
Notes receivable <sup>(1)</sup>	40,768	46,690	219,930	133,571
Less: Impairment	(6,912)	(6,435)	(5,874)	(5,944)
Total	<u>223,751</u>	<u>349,308</u>	<u>433,754</u>	<u>385,828</u>
Trade and notes receivable turnover days <sup>(2)</sup>	<u>40.4</u>	<u>36.5</u>	<u>68.5</u>	<u>57.3</u>

*Notes:*

- (1) Our notes receivables represent bank acceptance notes of CITIC Dameng Mining and its subsidiaries which were issued by major banks in China.
- (2) Average trade and notes receivables equals trade and notes receivables at the beginning of the period plus trade and notes receivables at the end of the period divided by two. Trade and notes receivables turnover days equal average trade and notes receivables divided by revenue for the relevant period multiplied by the number of days during the period generating the sales (i.e. 365 days for each of the three years ended December 31, 2009 and 180 days for the six months ended June 30, 2010).

We record a provision for impairment when there is objective evidence, such as those evidencing probable insolvency or significant financial hardship of the customer, that we will not be able to collect all of the amounts due. We recorded impairment loss for individually impaired trade receivables of HK\$5.3 million, HK\$0.8 million, nil and HK\$5,000 for the three years ended December 31, 2009 and six months ended June 30, 2010, respectively. These individually impaired trade receivables related to customers in financial hardship and only a portion of these trade receivables was expected to be recovered.

Our trade and notes receivables turnover days decreased from 40.4 days in 2007 to 36.5 days in 2008. The decrease was primarily due to the overall strong market demand and pricing for our manganese products in 2008. Our trade and notes receivables turnover days increased from 36.5 days in 2008 to 68.5 days in 2009. The increase was primarily due to (i) the increased share of our domestic sales in 2009, for which the overall collection cycle is generally longer than that for our export sales, and (ii) the decrease in our revenue for 2009, reflecting the impact of the global economic downturn. Our trade and notes receivables turnover days decreased from 68.5 days in 2009 to 57.3 days in the six months ended June 30, 2010, primarily reflecting the decrease of trade and notes receivables in the six months ended June 30, 2010. We typically offer credit terms of 30 to 90 days to our established customers.

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The following table sets out an ageing analysis of our trade and notes receivables as of the dates indicated.

	As of December 31,						As of June 30,	
	2007		2008		2009		2010	
	(HK\$'000)	%	(HK\$'000)	%	(HK\$'000)	%	(HK\$'000)	%
Within one month . . . . .	174,938	78.2	132,747	38.0	129,121	29.8	222,759	57.7
One to two months . . . . .	21,801	9.7	62,703	18.0	52,683	12.1	57,852	15.0
Two to three months . . . . .	5,500	2.5	90,665	25.9	65,777	15.2	25,129	6.5
Over three months . . . . .	21,512	9.6	63,193	18.1	186,173	42.9	80,088	20.8
Total . . . . .	<u>223,751</u>	<u>100.0</u>	<u>349,308</u>	<u>100.0</u>	<u>433,754</u>	<u>100.0</u>	<u>385,828</u>	<u>100.0</u>

Our trade and notes receivables aged over three months increased significantly from HK\$63.2 million as of December 31, 2008, which comprised accounts receivables of HK\$58.9 million and notes receivables of HK\$4.3 million, to HK\$186.2 million as of December 31, 2009, which comprised accounts receivables of HK\$94.3 million and notes receivables of HK\$91.9 million. We record notes receivables when our customers issues us promissory notes endorsed by major banks in PRC in exchange for our products. The significant increase in notes receivables from HK\$4.3 million as of December 31, 2008 to HK\$91.9 million as of December 31, 2009 was primarily because a significant increase in our customers who opted to pay with promissory notes instead of cash to effectively extend their credit terms, which in turn reflected the impact of the global financial and economic downturn. Our trade and notes receivables aged over three months decreased significantly from HK\$186.2 million as of December 31, 2009 to HK\$80.1 million as of June 30, 2010, which comprised accounts receivables of HK\$36.6 million and notes receivables of HK\$43.5 million, primarily due to the improvement of liquidity position of our customers in 2010 resulted from recovery of steel market and encourage cash settlements by the Group. As of August 31, 2010, 62% of trade and notes receivables were subsequently settled.

### Trade payables

Our trade payables represent the purchase of trading commodities, utilities and raw materials from various suppliers. The trade payables are non-interest-bearing and are usually settled within 60 days. The following table sets out our trade payables turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
	(days)			
Trade payables turnover days <sup>(1)</sup> . . . . .	<u>35.3</u>	<u>21.7</u>	<u>26.2</u>	<u>27.8</u>

Note:

(1) Average trade payables equals trade payables at the beginning of the period plus trade payables at the end of the period divided by two. Trade payables turnover days equal average trade payables divided by cost of sales for the relevant period multiplied by the number of days during the period generating the sales (i.e. 365 days for each of the three years ended December 31, 2009 and 180 days for the six months ended June 30, 2010).

Our trade payables turnover days decreased from 35.3 days in 2007 to 21.7 days in 2008, reflecting, among other things, (i) the significant increase in our cost of sales, which is primarily attributable to our expanded operations in 2008, and (ii) our trade payables balance at 2008 year-end that did not increased as much as our cost of sales did in 2008, which is primarily attributable to the shorter payment terms provided to our suppliers under the tight credit market after the global economic downturn unfolded. Our trade payables turnover days increased from 21.7 days in 2008 to 26.2

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days in 2009, primarily reflecting the significant decrease in our cost of sales in 2009. Our trade payables turnover days continued to increase to 27.8 days in the six months ended June 30, 2010, primarily reflecting the increase in our trade payables as of June 30, 2010 compared to December 31, 2009.

The table below sets out an ageing analysis of our trade payables as of the dates indicated.

	2007		As of December 31,				As of June 30,	
	(HK\$'000)	%	2008		2009		2010	
	(HK\$'000)	%	(HK\$'000)	%	(HK\$'000)	%	(HK\$'000)	%
Within one month . . . . .	99,307	80.8	66,525	51.7	66,349	60.9	137,694	65.7
One to two months . . . . .	10,631	8.6	10,254	8.0	12,234	11.3	30,599	14.6
Two to three months . . . . .	2,242	1.8	12,172	9.4	12,317	11.3	16,660	7.9
Over three months . . . . .	10,807	8.8	39,766	30.9	17,973	16.5	24,762	11.8
Total . . . . .	<u>122,987</u>	<u>100.0</u>	<u>128,717</u>	<u>100.0</u>	<u>108,873</u>	<u>100.0</u>	<u>209,715</u>	<u>100.0</u>

## FINANCIAL INFORMATION

### Properties

As of August 31, 2010, our Group's properties were revalued by Sallmanns, an independent property valuer, and the relevant property valuation report is set out in the Property Valuation in Appendix IV to this prospectus. The following table sets forth the value of the properties classified under the captions "Prepaid land lease payments" and "Prepayments, deposits and other receivables" in the Accountants' Report set out in Appendix I to this prospectus corresponding to the properties number in the Property Valuation in Appendix IV to this prospectus.

	As of June 30, 2010 (HK\$'000)	Reference page to Appendix IV	Properties description
Prepaid land lease payments recorded by:			
Daxin Mine .....	41,456	IV-4. No.1 & 2 & IV-6. No.12	26 parcels of land located at Xialei Town, Daxin County, Guangxi
Tiandeng Mine .....	19,592	IV-4. No.3 & 4 & IV-6. No.13 & IV-8. No.21	16 parcels of land located at Dongping Village, Tiandeng County, Guangxi
Guangxi Start .....	1,224	IV-4. No.6 & IV-9. No. 24, 25 & 26	10 parcels of land located at Hurun and Yuexu Town, Jingxi County, Guangxi
Guixin Ferroalloy Qinzhou New Materials .....	11,234	IV-4. No.5	A parcel of land located at the Central Trade & Economic Development Zone, Qinzhou Harbor, Guangxi
CITIC Dameng Mining .....	33,508	IV-5. No.7 & IV-6. No.10 & 11	A parcel of land located at Bajiao Chongzuo City; A parcel of land located at east of Youyi Avenue Chengnan District, Chongzuo City; A parcel of land located at Pingyang Road Jiangzhou District, Chongzuo City, Guangxi
Bembélé Manganese Mine .....	25	N/A	N/A
Tiandong New Materials .....	17,570	IV-5. No.8 & IV-9. No.22 & 23	3 parcels of land located at Linfeng Town, Fulan and Yonglong Village, Tiandong County; 2 parcels of land located at Nameng Village, Jiangcheng Town, Tiandong County, Guangxi
	<u>124,609</u>		
Prepayments, deposits and other receivables recorded by:			
CITIC Dameng Beibuwan (Guangxi) New Materials Co., Ltd .....	45,940	IV-7. No.16	A parcel of land located at Industrial Zone of Tieshangang Harbor Beihai City, Guangxi
Daxin Mine .....	5,573	IV-4. No.1	A parcel of land located at Xialei Town, Daxin County, Guangxi
Tiandong New Materials .....	13,991	IV-8. No.17 & 18	A parcel of land located at Youchang Village, Pingma Town, Tiandong County; a parcel of land located at Nameng Village, Jiangcheng Town, Tiandong County, Guangxi
Others .....	94	N/A	N/A
	<u>65,598</u>		



## FINANCIAL INFORMATION

### Prepayments, deposits and other receivables

The following table sets out, by principal category, the current portion of our prepayments, deposits and other receivables as of the dates indicated.

	As of December 31,			As of
	2007	2008	2009	June 30,
	(HK\$'000)			2010
Prepayments				
Prepayments for purchase of raw materials . . . . .	84,664	85,568	34,519	84,368
Prepaid expenses and others . . . . .	10,940	64,652	56,163	75,487
Deposits and other receivables				
Advances to staff . . . . .	4,642	6,369	2,787	4,002
Value-added tax recoverable . . . . .	—	40,681	53,135	50,218
Others . . . . .	5,817	6,412	5,964	5,793
Total . . . . .	<u>106,063</u>	<u>203,682</u>	<u>152,568</u>	<u>219,868</u>

Our prepayments for purchase of raw materials increased significantly from HK\$34.5 million as of December 31, 2009 to HK\$84.4 million as of June 30, 2010, primarily reflecting the raw materials purchased for our construction of Tiandeng EMM Plant and Chongzuo Base. Our prepayments for purchase of raw materials decreased from HK\$85.6 million as of December 31, 2008 to HK\$34.5 million as of December 31, 2009, partially reflecting the decreases in costs of raw materials in 2009. Our prepaid expenses and others increased from HK\$10.9 million as of December 31, 2007 to HK\$64.7 million as of December 31, 2008, primarily due to the prepayments made in connection with our construction and expansion projects.

Advances to staff were payments to employees in advance for their traveling expenses and entertainment expenditures. Value-added tax recoverable was the input value-added tax paid on our purchases over the output value-added tax collected on our sales, which may be carried forward to offset output value-added tax in the next period.

The following table sets out, by principal category, the non-current portion of our prepayments, deposits and other receivables as of the dates indicated.

	As of December 31,			As of
	2007	2008	2009	June 30,
	(HK\$'000)			2010
Deposits for purchase of property, plant and equipment . . . . .	56,780	41,422	94,553	121,386
Deposits for purchase of parcels of leasehold land . . . . .	—	39,698	80,120	65,598
Prepayment for insurance . . . . .	—	—	7,504	6,323
Total . . . . .	<u>56,780</u>	<u>81,120</u>	<u>182,177</u>	<u>193,307</u>

Our deposits for purchase of property, plant and equipment increased from HK\$94.6 million as of December 31, 2009 to HK\$121.4 million as of June 30, 2010, primarily reflecting the deposits made in connection with our construction of Tiandeng EMM Plant and Chongzuo Base. Our deposits for purchase of property, plant and equipment increased from HK\$41.4 million as of December 31, 2008 to HK\$94.6 million as of December 31, 2009, primarily reflecting our deposits made to purchase a office building in Nanning, Guangxi. Our deposits for purchases of parcels of leasehold land increased from HK\$39.7 million as of December 31, 2008 to HK\$80.1 million as of December 31, 2009, primarily due to our deposits for the leasehold lands where the planned Beibuwan Ferroalloy Plant is located.

## FINANCIAL INFORMATION

### Other payables and accruals

The following table sets out, by principal category, our other payables and accruals as of the dates indicated.

	As of December 31,			As of
	2007	2008	2009	June 30,
	(HK\$'000)			2010
Advances from customers . . . . .	27,374	16,796	34,372	34,160
Payables relate to:				
Purchases of property, plant and equipment . . . . .	21,261	69,100	136,271	93,175
Taxes other than corporate income tax . . . . .	19,050	10,339	9,943	8,074
Salaries, wages and benefits . . . . .	24,455	42,834	40,728	33,162
Others . . . . .	25,421	5,217	6,408	6,480
Accrued expenses . . . . .	16,211	57,479	75,208	79,868
Total . . . . .	<u>133,772</u>	<u>201,765</u>	<u>302,930</u>	<u>254,919</u>

Advance from customers mainly represent receipts in advance for the sales of manganese concentrate, natural discharging manganese, EMM and manganese sulfate. The decrease in advance from customers as of December 31, 2008 compared to December 31, 2007 was due to that, as a result of the tight train schedule in the PRC, Tiandeng Ferroalloy Plant was not able to deliver the goods to a customer before the end of 2007 and recorded an amount of HK\$15,503,000 received in the advances from customers as of December 31, 2007. The increase in advances from customers as of December 31, 2009 compared to December 31, 2008 was primarily due to several advance payments we received in December 2009 from customers for products to be delivered in the first quarter of 2010. The advances from customers as of June 30, 2010 remained relatively stable compared with December 31, 2009, primarily reflecting certain customers' preference to lock in the purchase price in a recovering but volatile market for manganese products.

Accrued expenses consist primarily of accrued contracting fees for the outsourced works in our operations, accrued transportation expenses, accrued Listing expenses and accrued construction expenses. Our accrued expenses increased to HK\$57.5 million as of December 31, 2008 from HK\$16.2 million as of December 31, 2007, primarily attributable to (i) expenses in connection with the Listing accrued as of December 31, 2008, and (ii) an increase in the transportation expenses accrued as of December 31, 2008 as we agreed to bear the transportation and freight charges for certain customers in the last quarter of 2008 to stimulate our sales. Our accrued expenses increased to HK\$75.2 million as of December 31, 2009 from HK\$57.5 million as of December 31, 2008, primarily attributable to the contracting fees accrued as of December 31, 2009 in connection with the outsourced underground mining works at Daxin Mine while no such fee was accrued as of December 31, 2008 because of the significantly reduced scale of mining operations in the last quarter of 2008 in response to the global financial and economic downturn, partially offset by a decrease in the construction expenses accrued as of December 31, 2009 as the construction of Tiandong EMM Plant was completed in August 2009 and the corresponding accrued expenses became payable upon receipt of the invoices. Our accrued expenses increased to HK\$79.9 million as of June 30, 2010 from HK\$75.2 million as of December 31, 2009, primarily attributable to an increase in the construction expenses accrued as of June 30, 2010 because of the ongoing development of our projects under construction.

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## FINANCIAL INFORMATION

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### Available-for-sale equity investments

Our investment in unlisted equity securities amounted to HK\$4.4 million, HK\$4.2 million, HK\$4.2 million and HK\$4.3 million as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively. It represented our 14.38% equity investment in Daxin Industrial.

### Other long-term liabilities

Our other long-term liabilities represent production safety fund and provision for rehabilitation, which amounted to HK\$5.8 million, HK\$3.0 million, HK\$2.4 million and HK\$ 3.7 million as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively. Since January 1, 2008, safety fund was charged into the statement of comprehensive income when incurred.

### Related Party Transactions

For details of the related party transactions, see Note 33 to Appendix I, “Accountants’ Report”. The trade receivables from the Group’s related companies are unsecured, interest-free and on credit terms similar to those that we offer to other customers. The trade payables to the Group’s related companies are unsecured and interest-free.

We recorded non-trade receivables from related companies and Guangxi Dameng during the Track Record Period. Our non-trade receivables from Guangxi Dameng were primarily attributable to our installments payments to MLR on behalf of Guangxi Dameng as considerations for the mining rights to Daxin Mine and Tiandeng Mine. The resulting receivables were net off against our dividends payable to Guangxi Dameng. For further details, please see the section headed “Risk factors — Risks relating to our business and our industry — We may be unable to renew our mining rights for Daxin Mine and Tiandeng Mine, Jingxi Manganese Mine may not be able to renew its mining permit for the area mined by Guangxi Start under a management agreement, and we may be unable to obtain exploration or mining rights for other areas in China.” We also made miscellaneous payments on behalf of certain related companies during the Track Record Period with respect to their various expenses such as utilities. The resulting receivables were unsecured, non-interest-bearing and did not have fixed terms of repayment. We believe our non-trade receivables from related companies and Guangxi Dameng were incidental to our business operations and did not constitute money lending businesses. Our PRC legal advisers have also advised us that these non-trade receivables did not violate the applicable PRC financial legislations and regulations or the respective companies’ articles of association. As of the date of this prospectus, all of our non-trade receivables from the related companies and Guangxi Dameng have been fully settled.

Other than an advance of HK\$26,504,000 from Future Idea Investment Limited which was interest-free before December 29, 2009 and bears an interest at US dollar Prime Rate thereafter, the Group’s non-trade payables to related companies, intermediate holding company, a shareholder and minority shareholders of subsidiaries are unsecured, interest free and have no fixed term of repayment. As of December 31, 2007, 2008 and 2009 and June 30, 2010, we had amounts due to CRH of HK\$247.7 million, HK\$113.7 million, HK\$303.8 million and nil, respectively, representing the payables from CITIC Dameng Investments to CRH in connection with the cash contribution of CITIC Dameng Investments to the registered capital of CITIC Dameng Mining. As of the date of this prospectus, all of the Group’s non-trade receivables from and payable to related companies, intermediate holding company, a shareholder and minority shareholders of subsidiaries have been fully settled.

## FINANCIAL INFORMATION

### INDEBTEDNESS

#### Bank borrowings

The following table sets out our interest-bearing bank borrowings as of the dates indicated and the range of effective contractual interest rates of such borrowings.

	As of December 31,				As of June 30,				
	2007		2008		2009		2010		
	Effective interest rate (%)	Maturity	Effective interest rate (%)	Maturity	Effective interest rate (%)	Maturity	Effective interest rate (%)	Maturity	
Current									
Bank Loans									
— Secured	5.76-7.67	2008	4.72-8.96	2009	726,140	2010	34,074	2010	74,652
— Unsecured	6.12-7.29	2008	3.12-8.10	2009	804,167	2010	753,263	2010	356,035
Current portion of long term bank loans									
— Secured	—	—	—	—	—	—	—	—	—
— Unsecured	—	—	—	—	—	—	—	—	—
Other loans — Unsecured	—	—	—	—	—	—	—	—	—
Subtotal		375,000			1,530,307		787,337		746,525
Non-current									
Bank Loans									
— Secured	6.84-7.83	2009-2013	7.02-7.83	2010-2015	330,518	2011-2015	279,407	LIBOR+0.85, 2011-2015	422,637
— Unsecured	—	—	7.56	2010	56,790	2011-2015	644,460	5.4-5.94 4.5-5.4	1,247,271
Subtotal		135,417			387,308		923,867		1,669,908
Total		510,417			1,917,615		1,711,204		2,416,433

Our interest-bearing debt consists of bank loans. Most of our short-term bank loans, which were repayable within one year, were incurred to fund our working capital, and the majority of our bank loans in 2007 and 2008 were short-term loans. Most of our non-current bank loans, which were repayable beyond one year, were incurred to finance our capital expenditures. Considering (i) the expected impact of the global economic downturn unfolding in the second half of 2008 on the Group's operational and financial performance, and (ii) the expected investments required to develop Bembélé Manganese Mine and other expansion and construction projects in China, we restructured the maturity profile of our bank loans in 2009 by (i) repaying a significant portion of our short-term loans, and (ii) obtaining non-current loans as replacements for the repaid short-term loans. The purpose of the restructuring is to (i) better match our debt-maturity structure with our increasing investments in property, plant and equipment, and (ii) provide more time and greater flexibility in meeting our debt obligations in anticipation of the expected recovery of the prices for manganese products. As of December 31, 2009, the majority of our bank loans were non-current loans that will mature in the years between 2011 and 2015. During the six months ended June 30, 2010, we continued to repay a portion of our short-term loans and obtain additional non-current loans to fund our capital expenditure and working capital, primarily for the purpose of (i) continuing to improve our debt-maturity structure, and (ii) increase the return on equity capital. As of June 30, 2010, approximately 69% of our bank loans were non-current loans that will mature in the years between 2011 and 2015.

## FINANCIAL INFORMATION

During the six months ended June 30, 2010, we continued to repay a portion of our short-term loans and obtain additional non-current loans to fund our capital expenditure and working capital, primarily for the purpose of (i) continuing to improve our debt-maturity structure, and (ii) increase the return on equity capital. As of June 30, 2010, approximately 69% of our bank loans were non-current loans that will mature in the years between 2011 and 2015.

As of June 30, 2010, the carrying values of our assets under pledge to secure bank borrowings were HK\$344.5 million, comprising property, plant and equipment, prepaid land lease payments and pledged deposits.

The following table sets out the maturity profile of our bank loans as of the dates indicated.

	As of December 31,			As of
	2007	2008	2009	June 30,
	(HK\$'000)	(HK\$'000)	(HK\$'000)	2010 (HK\$'000)
Bank loans:				
Within one year or on demand . . . . .	375,000	1,530,307	787,338	746,525
In the second year . . . . .	52,083	90,865	335,061	195,244
In the third to fifth years, inclusive . . . . .	31,251	224,888	517,250	1,303,537
Beyond five years . . . . .	52,083	71,555	71,555	171,127
Total . . . . .	<u>510,417</u>	<u>1,917,615</u>	<u>1,711,204</u>	<u>2,416,433</u>

As at September 30, 2010, we had total available banking facilities of approximately HK\$1,137.5 million, of which approximately HK\$654.1 million had been utilized. As at September 30, 2010, we had interest-bearing bank and other borrowings of approximately HK\$2,429.4 million, comprising secured short-term interest-bearing bank and other borrowings of approximately HK\$75.3 million, unsecured short-term interest-bearing bank and other borrowings of approximately HK\$643.5 million, secured long-term interest-bearing bank borrowings of approximately HK\$509.4 million and unsecured long-term interest-bearing bank borrowings of approximately HK\$1,201.2 million. As at September 30, 2010, the carrying values of our assets under pledge to secure bank borrowings were of HK\$273.7 million, comprising property, plant and equipment, prepaid land lease payments and pledged deposits. We had no difficulties in renewing our banking facilities in the past. We have obtained confirmations from our principal banks which granted us facilities in respect of rolling over our banking facilities, if needed. Our Group currently does not have any plan to obtain any material debt financing in the foreseeable future. Except as described above, we did not have, as of September 30, 2010, any outstanding mortgage, charge, debenture or other loan capital (issued or agreed to be issued), bank overdraft, loan, liability under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantee or other material contingent liability.

Our Directors confirm that there have been no material changes in our indebtedness or contingent liabilities since September 30, 2010.

### Contingent liabilities

As of June 30, 2010, we had no outstanding contingent liabilities. We currently are not a party to any litigation that is likely to have a material adverse impact on our business, results of operations or financial condition. Our Directors confirm that there has been no material change in our contingent liabilities since June 30, 2010.

### Capital expenditure

During the Track Record Period, our capital expenditure was primarily for the purchase of buildings, machinery and equipment, and land for our manganese downstream procession operations and manganese mining and ore processing operations.

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Based on the estimation of the Directors, our major planned capital costs and investments for 2010 and 2011 are approximately HK\$696 million and HK\$1,142 million, respectively, which are expected to include the following projects.

<u>Project</u>	<u>Year 2010</u> (HK\$ in millions)	<u>Year 2011</u> (HK\$ in millions)	<u>Total</u> (HK\$ in millions)
Development of Bembélé Manganese Mine and associated facilities . . .	273	100	373
Construction project at Tiandeng EMM Plant . . . . .	132	222	354
Construction project at Beibuwan Ferroalloy Plant . . . . .	8	—	8
Expansion project at Daxin EMD Plant . . . . .	56	100	156
Construction project at Chongzuo Base . . . . .	76	50	126
Expansion project of the underground mining, concentrating and grinding productions at Daxin Mine <sup>(1)</sup> . . . . .	45	280	325
Expansion and renovation project at Daxin EMM Plant . . . . .	—	250	250
Expansion project at Tiandong EMM Plant . . . . .	—	50	50
Expansion project at Start EMM Plant . . . . .	9	50	59
Miscellaneous technical renovation projects . . . . .	97	40	137
<b>Total</b> . . . . .	<u>696</u>	<u>1,142</u>	<u>1,838</u>

*Note:*

(1) This refers to the planned expansion project at Daxin Mine that is expected to access the manganese deposits in the northern and central portions of the mine. We currently plan to commence this expansion project in 2011.

Our planned capital expenditures are estimated on the basis of, among other things, (i) prospective supply and demand of manganese products in the market, (ii) prevailing and anticipated prices for manganese products, (iii) utilization of existing production facilities, (iv) estimated cost of development and construction, (v) scale of the proposed projects, (vi) expected pace of project execution and (vii) availability and cost of sufficient capital resources. We plan to fund the planned capital expenditures outlined above, to the extent of HK\$960 million in the year 2011 out of net proceeds from the Global Offering; with the remaining expenditures funded through cash inflows generated from our operating activities, proceeds from bank loans, and cash and bank balances on hand. For the amount of net proceeds from the Global Offering that will be used to fund the planned capital expenditure, please see the section headed “Future Plans and Use of Proceeds” in this prospectus. There is no guarantee that any of the planned capital expenditures will proceed as planned. For example, we may postpone the construction projects of Beibuwan Ferroalloy Plant. As of June 30, 2010 we have invested HK\$94.3 million to acquire the land use rights to and conduct basic land-leveling works on the site of Beibuwan Ferroalloy Plant. Other than an amount of HK\$68.3 million commitment for the construction of the Beibuwan Ferroalloy Plant, the payment schedule of which depends on the progress of obtaining the land use rights certificate and other required permit, we do not have any other capital commitment for this project. If our Directors determine that postponing the project would be in the interest of our Group after taking into consideration of the then market conditions, our financial performance and other relevant factors. We may also incur additional capital expenditures as we continue to expand. For further details, please see the section headed “Risk factors — Risks relating to our business and our industry — Our existing and future major capital expenditure projects may not be completed within the expected time frame and within our budget, or at all, and may not achieve the intended economic results” in this prospectus.



## FINANCIAL INFORMATION

### Operating lease commitments

We lease certain of our land and offices under operating lease arrangements. Leases for such properties are negotiated for terms ranging from two to 25 years. The following table sets out our total future minimum lease payments under non-cancellable operating leases falling due as of the dates indicated.

	As of December 31,			AS of
	2007	2008	2009	June 30,
	(HK\$'000)	(HK\$'000)	(HK\$'000)	2010
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Within one year . . . . .	420	4,648	5,846	6,028
In the second to fifth years, inclusive . . . . .	549	11,617	13,921	11,382
After five years . . . . .	347	53,341	50,332	41,073
Total . . . . .	<u>1,316</u>	<u>69,606</u>	<u>70,099</u>	<u>58,483</u>

### Capital commitments

Our capital commitments generally comprise purchases of land, building, plant, machinery as well as equity interests in subsidiaries. The following table sets out such capital commitments as of the dates indicated:

	As of December 31,			As of
	2007	2008	2009	June 30,
	(HK\$'000)	(HK\$'000)	(HK\$'000)	2010
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Authorized, but not contracted for:				
Acquisition of land and buildings . . . . .	—	350,781	19,900	261,593
Acquisition of plant and machinery . . . . .	—	509,682	363,758	830,343
Total . . . . .	<u>—</u>	<u>860,463</u>	<u>383,658</u>	<u>1,091,936</u>
Contracted, but not provided for:				
Acquisition of land and buildings . . . . .	256,487	330,947	135,146	178,329
Acquisition of plant and machinery . . . . .	58,050	164,640	356,534	117,612
Investments to subsidiaries . . . . .	121,867	—	—	—
Acquisition of equity interests in subsidiaries . . . . .	78,468	—	—	—
Total . . . . .	<u>514,872</u>	<u>495,587</u>	<u>491,680</u>	<u>295,941</u>

Our capital commitments as of December 31, 2007 and 2008 primarily related to the acquisition of land and buildings. Our capital commitments as December 31, 2009 and June 30, 2010 primarily related to the purchase of plant and machinery.



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Our contracted but not provided for capital commitments as of June 30, 2010 amounted to HK\$295.9 million, which included capital commitments for the following projects. We expect to fund such capital commitments with our own capital and bank loans.

<u>Project</u>	<u>Capital commitments</u> <u>(HK\$'000)</u>
Construction project at Tiandeng EMM Plant .....	40,503
Construction project at Beibuwan Ferroalloy Plant .....	68,283
Expansion project at Daxin EMD Plant .....	20,786
Construction project at Chongzuo Base .....	34,779
Expansion project of the underground mining, concentrating and grinding productions at Daxin Mine <sup>(1)</sup> .....	81,569
Expansion project at Tiandong EMM Plant .....	2,958
Expansion project at Start EMM Plant .....	3,529
Others <sup>(2)</sup> .....	43,534
Total .....	295,941

*Notes:*

- (1) This refers to the currently ongoing expansion project at Daxin Mine that is expected to increase the underground mining and ore processing capacities at Daxin Mine by accessing another ore body of manganese carbonate ore. We expect to increase the underground mining capacity up to 600,000 tpa by the end of 2014.
- (2) Other projects include miscellaneous technical renovation projects and construction of an office building in Nanning, Guangxi.

### Recent development

On October 27, 2010, our Company completed the Reorganization in preparation for the Global Offering. Following the completion of the Reorganization, our Company wholly-owns CITIC Dameng Mining indirectly, which in turn holds all operating subsidiaries of the Group. For further details, please see the section headed “Corporate Structure and History — History and Development — Reorganization” in this prospectus.

On August 2, 2010, our Company capitalized the amounts due to Highkeen and Apexhill of HK\$67.7 million and HK\$16.9 million by issuing 258,320 Shares and 64,580 Shares to Highkeen and Apexhill, respectively.

### Off-balance sheet arrangements

As of the Latest Practical Date, except for the above capital commitments, we had no other significant off-balance sheet arrangements.

### MARKET RISKS

We are, in the normal course of business, exposed to market risks relating primarily to fluctuations in commodity prices, as well as interest rate risks, foreign currency risk, credit risk and liquidity risk. Our risk management strategy aims to minimize the adverse effects of these risks on our financial performance.

### Commodity prices risk

We derive a majority of our revenue from the sales of manganese products. Our revenue generated from the sales of manganese products accounted for 70.6%, 66.4%, 80.7% and 83.6% of our total

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## FINANCIAL INFORMATION

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revenue, respectively, for the three years ended December 31, 2009 and the six months ended June 30, 2010; our revenue generated from the sales of chromium products accounted for 15.5%, 15.6%, 15.3% and 14.7% of our total revenue, respectively, during the same periods. The prices of our manganese and chromium ferroalloy products are impacted by international and domestic market prices and changes in global supply and demand for such products. Fluctuations in both global and domestic prices and demand for our products are beyond our control. Price volatility of manganese and chromium is also affected by the global and PRC economic cycles as well as the fluctuations of the global currency markets. Any significant decrease in manganese or chromium prices may materially and adversely affect our financial condition and results of operations.

We have not entered into any financial instruments to hedge our exposure to the risk related to fluctuations in manganese and chromium prices, because we are not aware of any financial instrument in the market that provides effective hedging against price risks of manganese and chromium products. Meanwhile, we have adopted the following measures to manage our risk exposure derived from the fluctuation of manganese and chromium prices.

- *Monitoring risk exposures.* We have a dedicated team conducting real-time monitoring on a daily basis of various factors, including the manganese, steel and other commodity prices, and the anticipated market trends in the PRC and international market. Through (i) our established relationship with our suppliers, customers and various industry associations, (ii) our management's expertise and experience in the manganese industry, and (iii) real time market monitoring systems, we are able to collect and provide updated market price information for our pricing committee to evaluate and assess our risk exposures from the fluctuation of market prices.
- *Analyzing risks and managing pricing.* We have a pricing committee systematically analyzing the current market prices, demand and supply for our products, our production cost and profitability target to decide the floor price for each of the Company's product. The pricing committee comprises our senior management, heads of our sales, marketing, finance and production departments. The pricing committee holds meetings periodically and may convene special meetings in the event of unusual market movements. We believe our members of the pricing committee have rich industry knowledge and market sense to make the optimum pricing decision in response to the fluctuating market prices. For example, the chairman of our pricing committee is Mr. Li Weijian, an Executive Director of our Company, who has 25 years of experience in manganese mining and manganese related business; the vice chairmen include Mr. Chen Jiqui, a Vice President of CITIC Dameng Mining, who has almost 30 years of experience in the PRC mining industry and has extensive management experience in the manganese industry.
- *Assessing feedback and adjusting production.* Our sales and marketing department makes appropriate upward adjustments to the floor prices set by the pricing committee, depending on the timing and quantity of the sales and our relationship with the particular customer. The sales and marketing department assesses the market response to our prices in terms of impact on our sales volumes, and provide such feedback information to the pricing committee and the management. Our management will adjust the production scale if necessary to maintain the optimum procurement and inventory level.
- *Evaluating hedging opportunities.* We are not aware of any current financial instrument in the market that provides effective hedging against price risks of manganese and chromium products. If there is effective financial instrument available in the market that could hedge our

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exposure to the risk related to fluctuations in manganese and chromium prices, we will assess the effectiveness, cost and benefit of hedging to maximize shareholder value.

- *Evaluating commodity price risk management procedures.* Our Directors will continue to evaluate our risk management procedures in respect of commodity prices and will meet periodically to review and discuss our exposure to the commodity price risk and the corresponding procurement and inventory management strategies.

### **Interest rates risk**

We are exposed to interest rate risk resulting from fluctuations in interest rates on our debt. Our loans bearing floating interest rates are subject to adjustment by our lenders in accordance with changes in relevant PBOC regulations. If the PBOC increases interest rates, our finance cost will be increased. In addition, to the extent that we may need to raise debt financing or roll over our short-term loans in the future, upward fluctuations in interest rates will increase the cost of new debt. Fluctuations in interest rates can also lead to significant fluctuations in the fair values of our debt obligations. We do not currently use any derivative instruments to modify the nature of our debt so as to manage our interest rate risk.

### **Foreign exchange risk**

We conduct operations primarily in China and sell our products to customers in China and various foreign countries. Our exposure to exchange rate fluctuations results partially from the proceeds of sales denominated in foreign currencies. In addition, our monetary assets, loans and transactions are principally denominated in Renminbi, Hong Kong dollar and U.S. dollar. Our exposure to exchange rate fluctuations also results from exposure of Hong Kong dollar and U.S. dollar against Renminbi. Fluctuations in exchange rates may adversely affect the value, translated or converted into Hong Kong dollars, of our net assets, earnings and any dividends we declare. In addition, a depreciation of the Renminbi would adversely affect the value of any dividends we pay to investors outside the PRC and would also result in an increase in the price of goods with imported content which we source from our suppliers. An appreciation of the Renminbi, however, would adversely affect the value of proceeds we receive from the Global Offering and any subsequent overseas equity or debt offering if they are not converted into Renminbi in a timely manner. We did not enter into any foreign exchange contracts or derivatives transactions to hedge against foreign exchange fluctuations. However, we make rolling forecasts on our foreign currency revenue and expenses and match the currency and the amount incurred, so as to alleviate the impact on our business due to foreign exchange rate fluctuations. Please see “Risk Factors — Risks Relating to Business Operations in the PRC — Fluctuations in foreign exchange rates and changes in foreign exchange regulations may materially and adversely affect our results of operations”.

### **Credit risk**

The carrying amounts of our trade and notes receivables represent the Group’s maximum exposure to credit risk in relation to its financial assets. As of December 31, 2007, 2008 and 2009 and June 30, 2010, the Group’s trade and notes receivables due from our five largest customers accounted for 32%, 57%, 8% and 41% of the Group’s total trade and notes receivables, respectively. Our Group has policy in place to ensure that sales are made to customers who are creditworthy, and we closely monitor the collection of the trade and notes receivables on an ongoing basis. The credit risk of the Group’s other financial assets, which comprise cash and bank balances and other receivables, arises from the default of the counterparty, with the maximum exposure equal

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to the carrying amounts of these instruments. Our bank balances are deposited with creditworthy banks that have no recent history of default.

### Liquidity risk

We have historically met the working capital requirements with our cash resources from capital contributions from our Shareholders, short-term and long-term bank loans, and operating activities. See “— Liquidity and capital resources — Overview”.

For maturity profile of the Group’s financial liabilities, based on the contractual undiscounted payments, as of December 31, 2007, 2008 and 2009 and June 30, 2010, see Note 37 to Appendix I, “Accountants’ Report”.

We manage and adjust our capital structure in light of the changing economic conditions to maximize the shareholders’ value. We monitor our capital structure using a gearing ratio, which is calculated as the net debt divided by equity plus net debt. Our gearing ratio was 56%, 58%, 64% and 69% as of December 2007, 2008 and 2009 and June 30, 2010, respectively. The gearing ratio increased significantly to 64% as of December 31, 2009 from 58% as of December 31, 2008, primarily attributable to our restructuring of the maturity profile of our bank loans in 2009 by (i) repaying a significant portion of our short-term loans, and (ii) obtaining non-current loans as replacements for the repaid short-term loans. Our gearing ratio continued to increase to 69% as of June 30, 2010 from 64% as of December 31, 2009, primarily attributable to our continuing repayment of portions of our short-term loans and obtaining additional non-current loans to fund our capital expenditure and working capital. For further details, see Note 37 to Appendix I, “Accountants’ Report”.

### DISCLOSURE REQUIRED UNDER THE LISTING RULES

As at the Latest Practicable Date, we confirm that there are no circumstances that will give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.

### PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2010

The Directors believe that, on the basis and assumptions set out in the Profit Forecast in Appendix III to this prospectus and in the absence of unforeseen circumstances, our forecast consolidated net profit attributable to owners of the parent for the year ending December 31, 2010 is unlikely to be less than HK\$200.0 million. The profit forecast has been prepared by the Directors based on (i) the audited consolidated results of the Group for the six months ended June 30, 2010, (ii) the unaudited consolidated results of the Group for the two months ended August 31, 2010 and (iii) our forecast of the consolidated results of the Group for the remaining four months ended December 31, 2010.

The above profit forecast is based on the assumptions set out in the Profit Forecast in Appendix III to this prospectus including prices for our manganese products. Manganese prices for the eight months ended August 31, 2010 are based on actual prices contracted by the Group. The average selling price of EMM for the four months ending December 31, 2010 is largely based on the data as of late August 2010.

For the year ended December 31, 2009 and first half of 2010, sales of EMM accounted for 43.9% and 53.5% of the Group’s revenue, respectively, and the gross profit derived from sales of EMM

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contributed to 48.2% and 63.9% of the Group's gross profit, respectively. It is demonstrated in historical operation data that when the selling prices of EMM increased, the purchase price of direct materials in the production of EMM, such as manganese oxide, liquid ammonia would also increase, and vice versa. Since direct materials accounted for about 50% of unit cost of EMM, we expect the variable portion of the unit cost will increase in line with the increase in purchase price of direct materials for EMM production for prudence. We have identified the selling price and unit cost of EMM as the most sensitive areas to the Profit Forecast. As a result, we investigated the potential financial impact of variation in selling price and unit cost of EMM on the Profit Forecast. The percentage of increase in selling price of EMM and that in unit cost of EMM is estimated as follows based on the historical experience of production:

Increase in selling price of EMM . . . . .	5%	10%	15%
Increase in unit cost of EMM . . . . .	<u>2%</u>	<u>4%</u>	<u>5%</u>

The following tables set forth the sensitivity analysis of the forecast consolidated profit attributable to owners of the parent for the four months ending December 31, 2010 with respect to the variation in the average selling price of EMM and the variation in the unit cost of EMM. The sensitivity analysis below assume that there is no changes in other input variables or other products, including selling prices and unit cost of other products, sales quantities and other operating expenses.

Variation in EMM price/unit cost	Adjusted EMM price/unit cost HK\$/tonne	Effect on profit attributable to owners of the parent Sep to Dec 2010 increase/(decrease) HK\$'000	Revised profit attributable to owners of the parent full year 2010 HK\$'000	Variation in profit attributable to owners of the parent full year 2010 increase/(decrease)
<b>&lt;I&gt; price</b>				
+15%	18,694	52,857	252,899	26%
+10%	17,881	35,365	235,407	18%
+5%	17,068	17,478	217,520	9%
0%	16,255	—	200,042	0%
-5%	15,442	(17,838)	182,204	(9%)
-10%	14,630	(36,426)	163,616	(18%)
-15%	13,817	(55,234)	144,808	(28%)
<b>&lt;II&gt; unit cost</b>				
+5%	12,560	(13,507)	186,535	(7%)
+4%	12,440	(10,732)	189,310	(5%)
+2%	12,201	(5,311)	194,731	(3%)
0%	11,962	—	200,042	0%
-2%	11,723	4,491	204,533	2%
-4%	11,483	8,982	209,024	4%
-5%	11,364	13,278	213,320	7%

### PROPERTY VALUATION

Sallmanns, an independent property valuer, has valued our property interests as of August 31, 2010 and is of the opinion that our property interests amounted to HK\$1,412,767,000 as of August 31, 2010. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set out in the Property Valuation in Appendix IV to this prospectus.

As required under Rule 5.07 of the Listing Rules, the table below sets forth (i) the reconciliation of our property interests from our audited consolidated financial statements as of June 30, 2010 to the

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unaudited net book value of our property interests as of August 31, 2010; and (ii) the reconciliation of the unaudited net book value of our property interests and the valuation of such property interests as of August 31, 2010:

	<b>(HK\$'000)</b>
<b>Net book value of our property interests as of June 30, 2010</b>	
—Buildings and mining structures . . . . .	797,124
—Construction in progress <sup>(1)</sup> . . . . .	269,422
—Land use rights . . . . .	<u>129,617</u>
<b>Movements for the two months ended of August 31, 2010</b>	
Additions . . . . .	55,293
Depreciation and amortization . . . . .	<u>(6,406)</u>
Net book value as of August 31, 2010 . . . . .	1,245,051
Valuation surplus as of August 31, 2010 . . . . .	<u>167,716</u>
Valuation as of August 31, 2010 per Appendix IV . . . . .	<u><u>1,412,767</u></u>

*Note:*

(1) Our property interests as indicated above comprised the properties valued by Sallmanns and contained in the Property Valuation in Appendix IV to this prospectus, which are different from the items on the consolidated statements of financial position and the accompanying notes in the Accountants' Report in Appendix I to this prospectus. Accordingly, the net book value of our property interests as of June 30, 2010 have been extracted with adjustment on construction in progress not relating to our property interests of HK\$81,995,000.

### UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted consolidated net tangible assets of the Group, which has been prepared for the purpose of illustrating the effect of the Global Offering as if it had taken place on June 30, 2010 and the Reorganization had been completed on June 30, 2010. It is based on the audited consolidated net tangible assets attributable to owners of the parent as at June 30, 2010 as shown in the accountants' report of the Group, the text of which is set out in Appendix I to this Prospectus, and is adjusted as follows:

	Audited consolidated net tangible assets attributable to owners of the parent as at June 30, 2010	Estimated net proceeds receivable by the Company from the Global Offering	Guangxi Dameng's non-controlling interest upon the Reorganization as at June 30, 2010	Unaudited pro forma adjusted consolidated net tangible assets upon the completion of the Reorganization	Unaudited pro forma adjusted consolidated net tangible assets per Share
	HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000 (Note 3)	HK\$'000	HK\$ (Note 4)
Based on an Offer					
Price of HK\$2.10 per Share . . . . .	<u>337,304</u>	<u>1,425,957</u>	<u>372,195</u>	<u>2,135,456</u>	<u>0.71</u>
Based on an Offer					
Price of HK\$2.75 per Share . . . . .	<u>337,304</u>	<u>1,896,395</u>	<u>372,195</u>	<u>2,605,894</u>	<u>0.87</u>

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*Notes:*

- (1) The consolidated net tangible assets attributable to owners of the parent as at June 30, 2010 are extracted from the accountants' report set out in Appendix I to this prospectus and set forth below:

	<b>HK\$'000</b>
Consolidated net assets attributable to owners of the parent .....	634,384
Less: Intangible assets .....	<u>297,080</u>
Consolidated net tangible assets attributable to owners of the parent .....	<u>337,304</u>

- (2) The estimated net proceeds from the Global Offering is based on the Offer Shares and the Offer Price of HK\$2.10 or HK\$2.75 per Share, being the low or high end of the stated offer price range, after the deduction of an estimated aggregate amount of the underwriting commissions and certain other expenses the Company expects to incur in connection with the Global Offering, without taking into account of any Shares which may be issued upon exercise of the Over-allotment Option.
- (3) Guangxi Dameng's non-controlling interest represents the net assets attributable to Guangxi Dameng assuming that the Reorganization was completed on June 30, 2010. Upon the completion of the Reorganization, interests of Guangxi Dameng will become part of the equity attributable to owners of the parent.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 3,000,000,000 Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering without taking into account any Shares which may be issued upon exercise of the Over-allotment Option.
- (5) The Group's property interests as at August 31, 2010 have been valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV to this Prospectus. The above unaudited pro forma adjusted consolidated net tangible assets do not take into account the surplus attributable to the Group arising from the revaluation of the Group's property interests amounting to HK\$167,716,000. The revaluation surplus will not be incorporated in the Group's financial statements for the year ending December 31, 2010 because it is the Group's accounting policy to state the property interests, classified under the captions "Property, plant and equipment" and "Prepaid land lease payments" in the accountants' report set out in Appendix I to this Prospectus, at cost less accumulated depreciation/amortization and impairment rather than at revalued amounts. If the revaluation surplus was recorded in the Group's financial statements for the year ending December 31, 2010, an additional depreciation/amortization of approximately HK\$6 million per annum would have been incurred.

### **NO MATERIAL ADVERSE CHANGE**

The Directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2010, being the date to which our latest consolidated financial results were prepared in the Accountants' Report in Appendix I to this prospectus.

### **DIVIDENDS**

For the three years ended December 31, 2009 and six months ended June 30, 2010, the dividends declared by our Group to Highkeen, Apexhill and minority shareholders of subsidiaries amounted to HK\$48.3 million, HK\$91.5 million, HK\$77.5 million and HK\$665.1 million in total, respectively. As of the date of this prospectus, all outstanding dividends payable have been fully settled. We funded the payment of the declared dividends with cash in hand.

The amount of dividend declared by our Board in the future will depend upon: (a) our overall results of operation; (b) our financial position; (c) our capital requirements; (d) our shareholders interests; (e) our future prospects; and (f) other factors that the Board deems relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Act, including, inter alia, the approval of our Shareholders.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of the net profit calculated



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according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign-invested enterprises, such as some of our subsidiaries in China, to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries and associated companies may enter into in the future.

### CASH OPERATING COST

The following table, which is based on the data derived from the SRK Report, sets forth the estimated cash operating costs for our mining, ore processing and down stream processing operations during the periods indicated.

<u>Estimated cash operating costs</u>	<u>Year ended on December 31,</u>	
	<u>2011</u>	<u>2012</u>
	<u>(RMB/tonne of product)</u>	<u>(RMB/tonne of product)</u>
<b>Manganese mining operations</b>		
Daxin Mine (open-pit) . . . . .	83	83
Daxin Mine (underground) . . . . .	102	102
Tiandeng Mine (open-pit) . . . . .	37	37
Bembélé Manganese Mine (open-pit) . . . . .	83	70
<b>Manganese ore processing operations</b>		
Daxin Concentration Plant . . . . .	26	26
Tiandeng Concentration Plant . . . . .	42	42
Bembélé Concentration Plant . . . . .	129	103
Daxin Grinding Plant . . . . .	76	76
<b>Manganese downstream processing operations</b>		
Daxin EMM Plant . . . . .	9,605	9,605
Start EMM Plant . . . . .	11,442	11,785
Tiandong EMM Plant . . . . .	11,922	12,280
Tiandeng EMM Plant . . . . .	11,986	11,986
Daxin Manganese Sulfate Plant . . . . .	2,698	2,698
Daxin EMD Plant . . . . .	5,757	5,757
Tiandeng Ferroalloy Plant . . . . .	6,912	7,051
Dabao Ferroalloy Plant . . . . .	5,273	5,357
<b>Chongzuo Base</b>		
Manganese tetroxide . . . . .	10,665	10,677
Lithium manganese oxide . . . . .	22,941	22,945
Lithium cobalt oxide . . . . .	209,839	209,950
<b>Non-manganese ferroalloy processing operations</b>		
Qinzhou Ferroalloy Plant . . . . .	9,399	9,399

For further details, please see the section headed “10. Production, Operating and Capital Costs — 10.4 Forecasts of Operating Costs” of the SRK Report.