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8 November 2010

The Directors
CITIC Dameng Holdings Limited
Merrill Lynch Far East Limited
UBS AG, Hong Kong Branch

Dear Sirs,

We set out below our report on the financial information of CITIC Dameng Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the three years ended 31 December 2007, 2008 and 2009, and the six months ended 30 June 2010 (the "Relevant Periods"), and the financial information of the Group for the six months ended 30 June 2009 (the "30 June 2009 Financial Information"), prepared on the basis as set out in note 2 of Section II below, for inclusion in the prospectus of the Company dated 8 November 2010 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in Bermuda on 18 July 2005 as an exempted company with limited liability under Section 14 of the Companies Act 1981 of Bermuda (as amended) for the purpose of acting as a holding company of the subsidiaries now comprising the Group. Details of the Company's principal subsidiaries are set out in note 5 of Section II. All companies comprising the Group have adopted 31 December as their financial year end date.

No audited financial statements have been prepared for the Company and its subsidiaries incorporated in the British Virgin Islands (the "BVI") since their respective dates of incorporation as there are no statutory requirements for them to prepare audited financial statements. The audited financial statements or management accounts of the Company's subsidiary established in Gabon were prepared in accordance with the generally accepted accounting principles and relevant financial regulations in Gabon ("Gabon GAAP"). The audited financial statements or management accounts of the Company's subsidiaries established in the People's Republic of China (the "PRC") were prepared in accordance with the generally accepted accounting principles and relevant financial regulations in the PRC ("PRC GAAP"). The names of the statutory auditors of these companies are set out in note 5 of Section II.

For the purpose of this report, the directors of the Company have prepared the consolidated statements of comprehensive income, the consolidated statements of changes in equity, the consolidated statements of cash flows of the Group for the Relevant Periods, the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2007, 2008 and 2009, and 30 June 2010 (collectively, the "Underlying Financial Statements") together with the notes thereto set out in this report (the "Financial Information") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have been prepared on the basis set out in note 2 of Section II.

The directors of the Company are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements and the Financial Information in accordance with HKFRSs.

In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, and that judgments and estimates are reasonable. It is our responsibility to form an independent opinion based on our audit of the Financial Information and to report our opinion thereon.

Procedures performed in respect of the Financial Information

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. No adjustments were considered necessary by us to the Underlying Financial Statements to conform to the accounting policies referred to in note 3 of Section II of this report for the Relevant Periods.

Procedures performed in respect of the 30 June 2009 Financial Information

For the purpose of this report, we have also performed a review of the 30 June 2009 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 June 2009 Financial Information.

Opinion in respect of the Financial Information of the Relevant Periods

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the consolidated results and cash flows of the Group for each of the Relevant Periods and of the state of affairs of the Group and the Company as at 31 December 2007, 2008 and 2009 and 30 June 2010 in accordance with HKFRSs.

Review conclusion in respect of the 30 June 2009 Financial Information

On the basis of our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the 30 June 2009 Financial Information is not prepared, in all material respects, in accordance with HKFRSs.

I. FINANCIAL INFORMATION

Consolidated statements of comprehensive income

	Notes	Year ended 31 December			Six months ended 30 June	
		2007	2008	2009	2009	2010
		HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
REVENUE	7	1,684,457	2,862,864	2,086,364	922,868	1,287,350
Cost of sales		(1,093,444)	(2,113,904)	(1,656,641)	(771,786)	(1,030,692)
Gross profit		591,013	748,960	429,723	151,082	256,658
Other income and gains	7	23,895	26,752	23,288	8,677	9,364
Selling and distribution costs		(41,448)	(62,904)	(49,491)	(18,566)	(36,168)
Administrative expenses		(103,639)	(183,827)	(202,877)	(88,967)	(92,701)
Other expenses		(29,132)	(17,917)	(18,123)	(10,697)	(10,616)
Finance costs	8	(24,623)	(79,972)	(107,195)	(57,698)	(42,531)
PROFIT/(LOSS) BEFORE TAX	9	416,066	431,092	75,325	(16,169)	84,006
Income tax (expense)/credit	12	(22,143)	(31,302)	(11,613)	3,803	(13,567)
PROFIT/(LOSS) FOR THE YEAR/PERIOD		393,923	399,790	63,712	(12,366)	70,439
OTHER COMPREHENSIVE INCOME/(LOSS):						
Exchange differences on translation of foreign operations		40,913	85,341	1,002	(721)	(3,659)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD		434,836	485,131	64,714	(13,087)	66,780
Total profit/(loss) attributable to:						
Owners of the parent		219,796	239,227	48,611	2,013	50,693
Non-controlling interests		174,127	160,563	15,101	(14,379)	19,746
		393,923	399,790	63,712	(12,366)	70,439
Total comprehensive income/(loss) attributable to:						
Owners of the parent		244,041	288,530	49,541	1,885	51,735
Non-controlling interests		190,795	196,601	15,173	(14,972)	15,045
		434,836	485,131	64,714	(13,087)	66,780

Details of the proposed dividends during the Relevant Periods are disclosed in note 14 of Section II below.

Consolidated statements of financial position

	Notes	31 December 2007	31 December 2008	31 December 2009	30 June 2010
		HK$'000	HK$'000	HK$'000	HK$'000
NON-CURRENT ASSETS					
Property, plant and equipment	15	669,941	1,276,614	1,625,315	1,738,052
Prepaid land lease payments	16	72,451	77,433	83,361	124,609
Intangible assets	17	123,444	301,708	296,301	297,080
Available-for-sale equity investment	18	4,377	4,218	4,218	4,265
Deferred tax assets	19	990	42,704	40,790	53,706
Deposits and prepayment	22	56,780	81,120	182,177	193,307
Total non-current assets		927,983	1,783,797	2,232,162	2,411,019
CURRENT ASSETS					
Inventories	20	168,846	358,145	354,487	411,885
Trade and notes receivables	21	223,751	349,308	433,754	385,828
Prepayments, deposits and other receivables	22	106,063	203,682	152,568	219,868
Due from related companies	33	84,221	40,115	49,804	60,509
Due from a minority shareholder of a subsidiary	33	28,482	27,639	5,595	7,397
Tax recoverable		—	—	749	11,031
Pledged deposits	23	—	78,318	85,226	60,004
Cash and bank balances	23	253,066	805,874	453,004	711,387
Total current assets		864,429	1,863,081	1,535,187	1,867,909
CURRENT LIABILITIES					
Trade payables	24	122,987	128,717	108,873	209,715
Other payables and accruals	25	133,772	201,765	302,930	254,919
Interest-bearing bank and other borrowings	26	375,000	1,530,307	787,337	746,525
Due to related companies	33	71,604	36,916	19,512	3,427
Due to the intermediate holding company	33	247,720	113,720	303,840	67,680
Due to minority shareholders of subsidiaries	33	20,647	59,259	80,363	135,394
Due to a shareholder	33	—	—	60,000	70,545
Tax payable		11,956	5,525	3,404	11,763
Total current liabilities		983,686	2,076,209	1,666,259	1,499,968
NET CURRENT (LIABILITIES)/ASSETS		(119,257)	(213,128)	(131,072)	367,941
TOTAL ASSETS LESS CURRENT LIABILITIES		808,726	1,570,669	2,101,090	2,778,960
NON-CURRENT LIABILITIES					
Interest-bearing bank borrowings	26	135,417	387,308	923,867	1,669,908
Deferred tax liabilities	19	7,755	25,171	27,473	8,862
Other long-term liabilities	27	5,824	2,989	2,377	3,682
Deferred income	28	—	—	4,937	17,316
Total non-current liabilities		148,996	415,468	958,654	1,699,768
Net assets		659,730	1,155,201	1,142,436	1,079,192
EQUITY					
Equity attributable to owners of the parent					
Issued capital	29	100	100	100	245
Reserves	30	269,771	558,301	555,473	634,139
		269,871	558,401	555,573	634,384
Non-controlling interests		389,859	596,800	586,863	444,808
Total equity		659,730	1,155,201	1,142,436	1,079,192

Consolidated statements of changes in equity

	Attributable to owners of the parent								
	Issued capital	Share premium	Contributed surplus	Reserve funds	Retained profits	Exchange fluctuation reserve	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000 Note (a)	HK$'000 Note (b)	HK$'000 Note (c)	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2006 and 1 January 2007	100	—	—	—	25,702	28	25,830	235,122	260,952
Total comprehensive income for the year	—	—	—	—	219,796	24,245	244,041	190,795	434,836
Acquisition of a subsidiary (note 34(a))	—	—	—	—	—	—	—	12,257	12,257
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	(48,315)	(48,315)
Transfer from retained profits	—	—	—	25,425	(25,425)	—	—	—	—
At 31 December 2007 and 1 January 2008	100	—*	—*	25,425*	220,073*	24,273*	269,871	389,859	659,730
Total comprehensive income for the year	—	—	—	—	239,227	49,303	288,530	196,601	485,131
Acquisition of a subsidiary (note 34(b))	—	—	—	—	—	—	—	82,130	82,130
Capital injection by non-controlling interests	—	—	—	—	—	—	—	19,726	19,726
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	(91,516)	(91,516)
Transfer from retained profits	—	—	—	25,056	(25,056)	—	—	—	—
At 31 December 2008 and 1 January 2009	100	—*	—*	50,481*	434,244*	73,576*	558,401	596,800	1,155,201
Total comprehensive income for the year	—	—	—	—	48,611	930	49,541	15,173	64,714
Acquisition of additional interests in a subsidiary	—	—	(52,369)	—	—	—	(52,369)	52,369	—
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	(77,479)	(77,479)
Transfer from retained profits	—	—	—	11,876	(11,876)	—	—	—	—
At 31 December 2009 and 1 January 2010	100	—*	(52,369)*	62,357*	470,979*	74,506*	555,573	586,863	1,142,436

	Attributable to owners of the parent								
	Issued capital	Share premium	Contributed surplus	Reserve funds	Retained profits	Exchange fluctuation reserve	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000 Note (a)	HK$'000 Note (b)	HK$'000 Note (c)	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2009 and 1 January 2010	100	—*	(52,369)*	62,357*	470,979*	74,506*	555,573	586,863	1,142,436
Issue of shares (note 29)	145	534,905	—	—	—	—	535,050	—	535,050
Total comprehensive income for the period	—	—	—	—	50,693	1,042	51,735	15,045	66,780
Dividend declared	—	—	—	—	(507,974)	—	(507,974)	—	(507,974)
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	(157,100)	(157,100)
At 30 June 2010	245	534,905*	(52,369)*	62,357*	13,698*	75,548*	634,384	444,808	1,079,192
(Unaudited)									
At 31 December 2008 and 1 January 2009	100	—	—	50,481	434,244	73,576	558,401	596,800	1,155,201
Total comprehensive income/(loss) for the period	—	—	—	—	2,013	(128)	1,885	(14,972)	(13,087)
Acquisition of additional interests in a subsidiary	—	—	(52,369)	—	—	—	(52,369)	52,369	—
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	(41,628)	(41,628)
At 30 June 2009	100	—	(52,369)	50,481	436,257	73,448	507,917	592,569	1,100,486

* These reserve accounts comprise the consolidated reserves of the Group of HK$269,771,000, HK$558,301,000, HK$555,473,000 and HK$634,139,000 in the consolidated statements of financial position as at 31 December 2007, 2008 and 2009, and 30 June 2010, respectively.

Notes:

(a) The share premium account includes the premium arising from the subscriptions of new ordinary shares.

(b) The contributed surplus mainly represented the difference between the consideration and the book value of the share of the net assets acquired in respect of the acquisition of additional interests of CITIC Dameng Mining Industries Limited ("CITIC Dameng Mining").

(c) In accordance with the Company Law of the PRC, each of the subsidiaries of the Company that was registered in the PRC is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with PRC GAAP, to the statutory reserve until the balance of the reserve funds reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

Consolidated statements of cash flows

	Notes	Year ended 31 December 2007	Year ended 31 December 2008	Year ended 31 December 2009	Six months ended 30 June 2009	Six months ended 30 June 2010
		HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit/(loss) before tax		416,066	431,092	75,325	(16,169)	84,006
Adjustments for:						
Finance costs	8	24,623	79,972	107,195	57,698	42,531
Interest income	7	(1,238)	(2,250)	(3,524)	(2,572)	(3,428)
Loss on disposal of items of property, plant and equipment	9	16,291	8,605	2,606	3,231	252
Depreciation	9	37,853	80,552	141,428	64,283	77,420
Amortisation of prepaid land lease payments	9	1,555	1,670	2,062	839	3,769
Amortisation of intangible assets	9	5,943	7,223	6,004	2,999	3,116
Impairment of property, plant and equipment	9	486	—	—	—	—
Write-down of inventories to net realisable value	9	1,134	146,869	35,225	63,578	5,841
Impairment/(reversal of impairment) of trade and other receivables, net	9	7,130	(2,747)	1,702	2,430	2,709
Excess over the cost of a business combination	7	(11,933)	—	—	—	—
Write-off of payables	7	—	(3,611)	(936)	—	—
		497,910	747,375	367,087	176,317	216,216
(Increase)/decrease in inventories		(77,457)	(321,522)	(31,623)	11,170	(64,234)
(Increase)/decrease in trade and notes receivables		(185,246)	(103,914)	(99,476)	(25,581)	47,855
(Increase)/decrease in prepayments, deposits and other receivables		(53,326)	(35,817)	44,174	(11,453)	(67,021)
(Increase)/decrease in amounts due from related companies		(133,935)	51,716	(16,805)	(2,478)	(10,705)
Decrease/(increase) in an amount due from a minority shareholder of a subsidiary		45,882	(28,076)	(5,141)	1,682	(1,802)
Increase/(decrease) in trade payables		20,859	(2,853)	(9,838)	(29,958)	100,842
Increase/(decrease) in other payables and accruals		105,639	(24,613)	48,098	(37,968)	(4,915)
Increase/(decrease) in amounts due to related companies		2,740	(38,174)	(4,934)	(7,563)	(125)
(Decrease)/increase in amounts due to minority shareholders of subsidiaries		(21,638)	29,518	—	—	95
Increase/(decrease) in other long-term liabilities		5,824	—	(612)	—	1,305
Cash generated from operations		207,252	273,640	290,930	74,168	217,511
PRC tax paid		(5,061)	(62,877)	(10,272)	(9,811)	(46,400)
Net cash flows from operating activities		202,191	210,763	280,658	64,357	171,111

	Notes	Year ended 31 December 2007	2008	2009	Six months ended 30 June 2009	2010
		HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Net cash flows from operating activities		202,191	210,763	280,658	64,357	171,111
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		1,238	2,250	3,524	2,572	3,428
Receipt of government grants		—	—	4,937	2,291	12,379
Additions of items of property, plant and equipment		(244,118)	(530,840)	(447,303)	(179,840)	(205,869)
(Increase)/decrease in deposits for the purchase of property, plant and equipment	22	(54,286)	19,239	(53,131)	4,330	(26,833)
Proceeds from disposal of items of property, plant and equipment		6,078	—	22,077	2,539	4,938
Additions of leasehold land	16	(310)	(104)	(9,426)	—	(45,555)
Additions of intangible assets	17	—	(1,200)	(550)	—	(795)
(Increase)/decrease in deposits for the purchase of parcels of leasehold land	22	—	(39,698)	(40,422)	(43,693)	14,522
Acquisition of subsidiaries	34	10,894	(116,887)	—	—	—
Acquisition of an available-for-sale equity investment	18	(4,377)	—	—	—	—
Net cash flows used in investing activities		(284,881)	(667,240)	(520,294)	(211,801)	(243,785)
CASH FLOWS FROM FINANCING ACTIVITIES						
Capital injection by a minority shareholder of a subsidiary		—	19,726	—	—	—
New bank and other borrowings		460,417	1,825,042	1,751,916	1,396,396	1,435,174
Repayment of bank and other borrowings		(222,757)	(481,944)	(1,958,127)	(1,332,906)	(755,053)
Repayment of an advance from a related company		—	(33,500)	(12,470)	(12,470)	—
Advance from the intermediate holding company		—	—	240,000	240,000	—
Repayment of an advance from the intermediate holding company		—	(134,000)	(49,880)	(49,880)	—

	Notes	Year ended 31 December 2007	2008	2009	Six months ended 30 June 2009	2010
		HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Advance from a minority shareholder of a subsidiary		—	26,504	—	—	—
Repayment of an advance from a minority shareholder of a subsidiary		—	—	(2,700)	(750)	(20,856)
Advance from a shareholder		—	—	60,000	60,000	—
Interest paid		(28,957)	(77,793)	(107,195)	(57,698)	(42,531)
Dividend paid		—	(79,298)	(28,181)	(21,355)	(295,807)
Net cash flows from/(used in) financing activities		208,703	1,064,737	(106,637)	221,337	320,927
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		126,013	608,260	(346,273)	73,893	248,253
Cash and bank balances at beginning of year/period		115,753	253,066	884,192	884,192	538,230
Effect of foreign exchange rate changes, net		11,300	22,866	311	(796)	(15,092)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		253,066	884,192	538,230	957,289	771,391
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances as stated in the statements of financial position	23	253,066	805,874	453,004	898,052	711,387
Pledged deposits	23	—	78,318	85,226	59,237	60,004
Cash and cash equivalents as stated in the statements of cash flows		253,066	884,192	538,230	957,289	771,391

Statements of financial position of the Company

	Notes	31 December 2007 HK$'000	31 December 2008 HK$'000	31 December 2009 HK$'000	30 June 2010 HK$'000
NON-CURRENT ASSET					
Investment in a subsidiary	(a)	—	—	—	—
CURRENT ASSETS					
Other receivables	(b)	—	39,815	26,745	30,900
Due from subsidiaries	(b)	—	—	—	669,646
		—	39,815	26,745	700,546
CURRENT LIABILITIES					
Accrued liabilities and other payables		—	25,644	26,990	19,952
Due to subsidiaries	(c)	80	17,019	17,248	—
Due to the intermediate holding company	(c)	—	—	—	67,680
Due to a shareholder	(c)	—	—	—	70,545
		80	42,663	44,238	158,177
NET CURRENT (LIABILITIES)/ASSETS		(80)	(2,848)	(17,493)	542,369
NET (LIABILITIES)/ASSETS		(80)	(2,848)	(17,493)	542,369
EQUITY					
Issued capital	29	100	100	100	245
Reserves	30(b)	(180)	(2,948)	(17,593)	542,124
(DEFICIENCY IN ASSETS)/TOTAL EQUITY		(80)	(2,848)	(17,493)	542,369

Notes:

(a) Investment in a subsidiary represents the Company's investment in CITIC Dameng Investments Limited ("CITIC Dameng Investments") and is stated at cost of US$1 (equivalent to HK$8) as at 31 December 2007, 2008 and 2009 and 30 June 2010. Details of CITIC Dameng Investments are set out in note 5 to Section II below.

(b) Other receivables and amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(c) Amounts due to subsidiaries, an amount due to the intermediate holding company and an amount due to a shareholder are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due to subsidiaries, the amount due to the intermediate holding company and the amount due to a shareholder approximate to their fair values.

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND GROUP REORGANISATION

(a) Corporate information

The Company was incorporated in Bermuda on 18 July 2005 as an exempted company with limited liability under Section 14 of the Companies Act 1981 of Bermuda (as amended). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company is located at Suites 3501-3502, Bank of America Tower, 12 Harcourt Road, Hong Kong.

In the opinion of the directors, the ultimate holding company of the Company is CITIC Group, a state-owned enterprise established in the PRC.

(b) Principal activities

The principal activity of the Company is investment holding.

The Group is principally involved in the exploration, mining, ore processing, smelting, refining and sale of manganese and high carbon ferrochromium products.

(c) Reorganisation

In order to rationalise the corporate structure in preparation for the listing of its shares on the Stock Exchange, the Company underwent a corporate reorganisation (the "Reorganisation"). Prior to the Reorganisation, the Company was owned as to 80% and 20% by Highkeen Resources Limited ("Highkeen") and Apexhill Investments Limited ("Apexhill"). The Company has one directly held wholly-owned subsidiary, namely, CITIC Dameng Investments, which is also an investment holding company. Substantially all business operations of the Group have been conducted by CITIC Dameng Mining Industries Limited ("CITIC Dameng Mining") and its subsidiaries. CITIC Dameng Mining was owned as to 65.5% and 34.5% by CITIC Dameng Investments and Guangxi Dameng Manganese Industry Co., Ltd. ("Guangxi Dameng"). CITIC Dameng Investments acquired from Guangxi Dameng its entire 34.5% equity interest in CITIC Dameng Mining at a cash consideration of RMB463 million. On 30 September 2010, the registration of Guangxi Dameng's 34.5% equity interest in CITIC Dameng Mining was changed under the name of CITIC Dameng Investments. On 27 October 2010, Guinan Dameng International Resources Limited ("Guangxi Dameng BVI"), a wholly-owned subsidiary of Guangxi Dameng injected HK$556 million into the Company and acquired 34.5% equity interest in the Company. The Reorganisation was completed on 27 October 2010. Additional details of the Reorganisation are set out in the paragraph headed "Reorganisation" in the section headed "Corporate Structure and History" to the Prospectus. The effects of the Reorganisation have not been reflected in the Financial Information.

2. BASIS OF PREPARATION

Basis of preparation

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The HKICPA has issued a number of new and revised HKFRSs that are effective for the Group's annual periods beginning on or after 1 January 2007. For the purpose of preparing and presenting the Financial Information, the Group has early adopted all these new and revised HKFRSs that are relevant to the Group's operations as at the beginning of the Relevant Periods, except for those new and revised HKFRSs that are not yet effective for any of the Relevant Periods as further explained in note 3 below. This is the first HKFRS consolidated financial information of the Group. HKFRS 1 "First-time Adoption of Hong Kong Financial Reporting Standards" has been applied in preparing the Financial Information.

The accounting policies set out below have been applied consistently to all periods in the Financial Information and in preparing an opening HKFRS statement of financial position as of 1 January 2007 for the purpose of the transition to HKFRS.

The Financial Information has been prepared under the historical cost convention and is presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The Financial Information includes the financial statements of the Company and its subsidiaries for the Relevant Periods. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and loss resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the Relevant Periods has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of non-controlling interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised an equity transaction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information:

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong* Financial Reporting Standards — *Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HKFRS 9	*Financial Instruments*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfer of Financial Assets*[4]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which set out amendments and transition requirements for amendments to a number of HKFRSs. For *Improvements to HKFRSs 2010*, the amendments to HKFRS 3 and transition requirements for amendments arising as a result of HKAS 27 are effective for annual periods beginning on or after 1 July 2010 while the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC) — Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group has concluded that except for the adoption of HKFRS 9 may result in changes in accounting policies and disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's consolidated statements of comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the ventures stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the ventures, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture's financial and operating policies;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, after reassessment, is recognised immediately in profit or loss.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group or its parent;

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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	10 – 30 years
Motor vehicles, plant, 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 ("UOP") method based on reserves estimated to be recovered from existing facilities.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Construction in progress represents buildings and mining structures under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses. The mining rights are amortised over the estimated useful lives of the mines in accordance with the production plan of the entities concerned and the proven and probable reserves of the mines using the UOP method.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables and available-for-sale financial assets. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, amounts due from a minority shareholder of a subsidiary and related companies, financial assets included in prepayments, deposits and other receivables, and trade and notes receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in profit or loss. The loss arising from impairment is recognised in other operating expenses in profit or loss.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss as other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in profit or loss in other operating expenses and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively, and are recognised in profit or loss.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other operating expenses in profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss — is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade payables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings, amounts due to related companies, an amount due to the intermediate holding company, amounts due to minority shareholders of subsidiaries and an amount due to a shareholder.

Subsequent measurement

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. In the case of work in progress and finished goods, cost comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Inventories of ancillary materials, spare parts, fuels and small tools which are consumed in the process of mining operation are stated at cost less provision, if necessary, for obsolescence.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Provisions for the Group's obligations for land reclamation are based on estimates of required expenditure at the mines in accordance with the PRC rules and regulations. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work. Spending estimates are 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 such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligations. The Group records a corresponding asset in the period in which the liability is incurred. The asset is depreciated using the UOP method over its expected life and the liability is accreted to the projected expenditure date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligations and the asset are recognised using the appropriate discount rates.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Pension scheme

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Early retirement benefits

Termination benefits are payable whenever an employee's employment is terminated involuntarily before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for the benefits. The Group recognises the liability for termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation entity, the deferred cumulative amount recognised in the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statements of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information:

Tax

Determining income tax provisions requires the Group to make judgments on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgment on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Mineral reserves

Engineering estimates of the Group's mineral resources are inherently imprecise and represent only approximate amounts because of the assumptions involved in developing such information.

There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proven" and "probable". Proven and probable mineral reserve estimates are updated at a regular basis and have taken into account recent production and technical information about each mine. In addition, as prices and cost level change from year to year, the estimate of proven and probable mineral reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation/amortisation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation/amortisation expenses and impairment losses. Depreciation/amortisation rates of the mining structures and mining rights are determined based on the proven and probable mineral reserve quantity (the denominator) and capitalised costs of the mining structures or mining rights (the numerator).

Provision for rehabilitation

The provision for rehabilitation costs has been determined by the directors based on their best estimates. The directors estimated this liability for final restoration and mine closure based upon detailed calculations of the amount and timing of future cash flows to be incurred in performing the required work. Spending estimates are 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 such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. However, in so far as the effect on the land and environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to revision in the future. 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.

Useful lives and impairment of property, plant and equipment

In determining the useful lives of property, plant and equipment, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is made based on the experience of the Group with similar assets that are used in a similar way. Depreciation charge is revised if the estimated useful lives of items of property, plant and equipment are different from the previous estimation. Useful lives are reviewed, at each financial year end date, based on changes in circumstances.

Impairment of trade and other receivables

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on the management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, an additional impairment may be required.

Provision for obsolete inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes a provision for obsolete and slow-moving inventory items. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. As at 31 December 2007, 2008 and 2009 and 30 June 2010, the carrying amounts of inventories were approximately HK$168,846,000, HK$358,145,000, HK$354,487,000 and HK$411,885,000 after netting off the allowance for inventories of approximately HK$412,000, HK$149,284,000, HK$92,307,000 and HK$89,034,000, respectively.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of the asset. This requires an estimation of the value in use of the cash-generating unit to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

5. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries are set out below:

Name of company	Notes	Place and date of incorporation/ establishment	Nominal value of issued ordinary share/ registered capital		Percentage of equity interests attributable to the Company					Principal activities
					31 December			30 June	Date of this report	
					2007	2008	2009	2010		
CITIC Dameng Investments Limited ("CITIC Dameng Investments")	(1)	BVI 18 May 2005	US$1	Direct	100.00	100.00	100.00	100.00	100.00	Investment holding
CITIC Dameng Mining Industries Limited ("CITIC Dameng Mining") (中信大錳礦業有限責任公司) ^ #	(2)	PRC 19 August 2005	RMB579,710,100	Indirect	60.00	60.00	65.50	65.50	100.00*	Mining, processing and sale of manganese related products
Guangxi Start Manganese Materials Co., Ltd. ("Guangxi Start") (廣西斯達特錳材料有限公司) ^ @	(3)	PRC 18 April 2001	RMB24,280,000	Indirect	42.70	42.70	46.60	46.60	71.17*	Processing and sale of manganese related products
CITIC Dameng (Tiandeng) Manganese Materials Co., Ltd. ("Tiandeng Dameng") (中信大錳（天等）錳材料有限公司) ^ @	(3)	PRC 27 March 2003	RMB50,000,000	Indirect	36.00	36.00	39.30	39.30	60.00*	Manufacture and sale of ferroalloy products
Guangxi Daxin Dabao Ferroalloy Co., Ltd. ("Guangxi Dabao") (廣西大新縣大寶鐵合金有限公司) ^ @	(3)	PRC 28 April 2002	RMB2,680,000	Indirect	36.00	36.00	39.30	39.30	60.00*	Manufacture and sale of ferroalloy products
CITIC Dameng (Qinzhou) New Materials Co., Ltd. ("Qinzhou New Materials") , previously known as Guangxi Qinzhou Guixin Ferroalloy Co., Ltd. (中信大錳（欽州）新材料有限公司) ^ @	(3)	PRC 26 November 2003	RMB30,000,000	Indirect	42.00	42.00	45.90	45.90	70.00*	Processing and sale of high carbon ferrochromium products
CITIC Dameng (Guangxi) Mining Investment Limited (中信大錳（廣西）礦業投資有限責任公司) ^	(4)	PRC 1 February 2008	RMB50,000,000	Indirect	—	60.00	65.50	65.50	100.00*	Investment holding
CITIC Dameng (Tiandeng) New Materials Co., Ltd. ("Tiandeng New Materials") (中信大錳（天等）新材料有限公司) ^	(4)	PRC 27 May 2008	RMB20,000,000	Indirect	—	60.00	65.50	65.50	100.00*	Processing and sale of manganese related products
CITIC Dameng (Chongzuo) New Materials Co., Ltd. ("Chongzuo New Materials") (中信大錳（崇左）新材料有限公司) ^	(4)	PRC 21 May 2008	RMB20,000,000	Indirect	—	60.00	65.50	65.50	100.00*	Processing and sale of manganese related products
CITIC Dameng Beibuwan (Guangxi) New Materials Co., Ltd ("Beibuwan New Materials") (中信大錳北部灣（廣西）新材料有限公司) ^	(4)	PRC 30 July 2008	RMB20,000,000	Indirect	—	60.00	65.50	65.50	100.00*	Processing and sale of manganese related products
CITIC Dameng Tiandong New Materials Co., Ltd ("Tiandong New Materials") (中信大錳田東新材料有限公司) ^	(4)	PRC 15 April 2008	RMB20,000,000	Indirect	—	60.00	65.50	65.50	100.00*	Processing and sale of manganese related products
Huazhou Mining Investment Limited ("Huazhou BVI") (華州礦業投資有限公司) @	(5)	BVI 31 July 2008	USD5,820,000	Indirect	—	36.00	39.30	39.30	60.00*	Investment holding
Compagnie Industrielle et Commerciale des Mines de Huazhou (Gabon) ("CICMHZ") @	(6)	Gabon 24 August 2005	XAF10,000,000	Indirect	—	30.60	33.40	33.40	51.00*	Mining and sale of manganese

The English names of the Company's PRC subsidiaries represent management's best efforts at translating the Chinese names of these companies as no English names have been registered.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the Group for the Relevant Periods or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Foreign investment enterprise incorporated under the Law of the PRC on Sino-Foreign Equity Joint Venture.

^ Limited liability companies under the Company Law of the PRC.

@ These companies were subsidiaries of CITIC Dameng Mining, a non-wholly-owned subsidiary of the Company prior to the completion of the Reorganisation, and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over them.

* Upon the completion of the Reorganisation on 27 October 2010, CITIC Dameng Mining became a wholly-owned subsidiary of the Group. Equity interests of CITIC Dameng Mining and its subsidiaries directly or indirectly held by CITIC Dameng Mining attributable to the Company changed accordingly. The additional interests acquired arising from the Reorganisation have not been reflected in the Financial Information for the Relevant Periods.

Notes:

(1) No audited financial statements have been issued for CITIC Dameng Investments since its date of incorporation because it is not subject to any statutory audit requirements under its jurisdiction of incorporation.

(2) The statutory accounts of CITIC Dameng Mining for the three years ended 31 December 2007, 2008 and 2009 were audited by Ernst & Young Hua Ming, certified public accountants registered in the PRC.

(3) The statutory accounts of Guangxi Start, Tiandeng Dameng, Guangxi Dabao and Qinzhou New Materials for the years ended 31 December 2007, 2008 and 2009 were audited by Shanghai Dong Hua Certified Public Accountants (上海東華會計師事務所).

(4) The statutory accounts of CITIC Dameng (Guangxi) Mining Investment Limited, Tiandeng New Materials, Chongzuo New Materials, Beibuwan New Materials and Tiandong New Materials for the years ended 31 December 2008 and 2009 were audited by Shanghai Dong Hua Certified Public Accountants (上海東華會計師事務所).

(5) No audited financial statements have been issued for Huazhou BVI since its date of incorporation because it is not subject to any statutory audit requirements under its jurisdiction of incorporation.

(6) No audited financial statements of CICMHZ have been issued for the year ended 31 December 2008. The statutory accounts of CICMHZ for the year ended 31 December 2009 were audited by Ernst & Young Gabon.

6. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) the manganese mining and ore processing segment engages in the mining and production of manganese products including principally, through the Group's integrated processes, the beneficiation, concentrating, grinding and the production of manganese concentrate and natural discharging manganese;

(b) the manganese downstream processing segment comprises hydrometallurgical processing and pyrometallurgical processing, and the resulting products of which include Electrolytic Manganese Metal ("EMM"), Electrolytic Manganese Dioxide ("EMD"), manganese sulfate and silicomanganese alloys;

(c) the non-manganese ferroalloy processing segment engaged in the production and sale of non-manganese ferroalloys, including high carbon ferrochromium; and

(d) the others segment comprises, principally, the trading of various commodities such as manganese ore, EMM, chromium ore and sulphur.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, dividend income, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, deferred tax liabilities and other unallocated head office and corporate assets as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's operating segments for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010.

	Manganese mining and ore processing	Manganese downstream processing	Non-manganese ferroalloy processing	Others	Eliminations	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2007						
Segment revenue:						
Sales to external customers	274,773	914,320	260,536	234,828	—	1,684,457
Intersegment sales	70,903	—	—	—	(70,903)	—
Other revenue	2,604	2,680	17,373	—	—	22,657
Total	348,280	917,000	277,909	234,828	(70,903)	1,707,114
Segment results	142,024	303,319	27,130	5,466	—	477,939
Reconciliations:						
Interest income						1,238
Corporate and other unallocated expenses						(38,488)
Finance costs						(24,623)
Profit before tax						416,066
Income tax expense						(22,143)
Profit for the year						393,923
Assets and liabilities						
Segment assets	429,819	898,464	157,919	37,157	—	1,523,359
Reconciliations:						
Corporate and other unallocated assets						269,053
Total assets						1,792,412
Segment liabilities	88,099	127,082	33,675	35,598	—	284,454
Reconciliations:						
Corporate and other unallocated liabilities						848,228
Total liabilities						1,132,682
Other segment information:						
Depreciation and amortisation	9,890	30,171	3,847	694	—	44,602
Unallocated depreciation and amortisation						749
Total depreciation and amortisation						45,351
Capital expenditure	15,809	223,529	3,666	312	—	243,316
Unallocated capital expenditure						5,446
Total capital expenditure						248,762
Loss on disposal of items of property, plant and equipment	16,291	—	—	—	—	16,291
Impairment losses recognised in profit or loss	—	8,252	498	—	—	8,750

	Manganese mining and ore processing	Manganese downstream processing	Non-manganese ferroalloy processing	Others	Eliminations	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2008						
Segment revenue:						
Sales to external customers	347,749	1,552,435	447,648	515,032	—	2,862,864
Intersegment sales	113,015	—	—	—	(113,015)	—
Other revenue	724	4,752	6,430	12,596	—	24,502
Total	461,488	1,557,187	454,078	527,628	(113,015)	2,887,366
Segment results	232,584	386,406	(30,827)	(16,072)	—	572,091
Reconciliations:						
Interest income						2,250
Corporate and other unallocated expenses						(63,277)
Finance costs						(79,972)
Profit before tax						431,092
Income tax expense						(31,302)
Profit for the year						399,790
Assets and liabilities						
Segment assets	680,086	1,579,422	220,507	273,295	—	2,753,310
Reconciliations:						
Corporate and other unallocated assets						893,568
Total assets						3,646,878
Segment liabilities	114,282	235,318	46,531	284,526	—	680,657
Reconciliations:						
Corporate and other unallocated liabilities						1,811,020
Total liabilities						2,491,677
Other segment information:						
Depreciation and amortisation	22,943	57,049	6,263	629	—	86,884
Unallocated depreciation and amortisation						2,561
Total depreciation and amortisation						89,445
Capital expenditure	38,785	533,183	9,280	—	—	581,248
Unallocated capital expenditure						2,715
Total capital expenditure						583,963
Loss on disposal of items of property, plant and equipment	1,052	5,637	1,916	—	—	8,605
Impairment losses recognised in profit or loss	—	28,995	67,509	47,618	—	144,122

	Manganese mining and ore processing	Manganese downstream processing	Non-manganese ferroalloy processing	Others	Eliminations	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2009						
Segment revenue:						
Sales to external customers	222,412	1,460,436	318,295	85,221	—	2,086,364
Intersegment sales	71,601	—	—	—	(71,601)	—
Other revenue	57	5,552	5,465	8,690	—	19,764
Total	294,070	1,465,988	323,760	93,911	(71,601)	2,106,128
Segment results	106,971	147,061	(3,840)	(6,498)	—	243,694
Reconciliations:						
Interest income						3,524
Corporate and other unallocated expenses						(64,698)
Finance costs						(107,195)
Profit before tax						75,325
Income tax expense						(11,613)
Profit for the year						63,712
Assets and liabilities						
Segment assets	729,997	2,004,767	202,627	271,690	—	3,209,081
Reconciliations:						
Corporate and other unallocated assets						558,268
Total assets						3,767,349
Segment liabilities	195,997	336,623	56,572	19,542	—	608,734
Reconciliations:						
Corporate and other unallocated liabilities						2,016,179
Total liabilities						2,624,913
Other segment information:						
Depreciation and amortisation	31,779	100,914	6,676	7,363	—	146,732
Unallocated depreciation and amortisation						2,762
Total depreciation and amortisation						149,494
Capital expenditure	80,752	436,381	2,430	1,608	—	521,171
Unallocated capital expenditure						3,279
Total capital expenditure						524,450
Loss on disposal of items of property, plant and equipment	1,187	1,290	129	—	—	2,606
Impairment losses recognised in profit or loss	258	5,001	1,624	30,044	—	36,927

	Manganese mining and ore processing	Manganese downstream processing	Non-manganese ferroalloy processing	Others	Eliminations	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Six months ended 30 June 2009						
Segment revenue:						
Sales to external customers	103,141	686,657	120,720	12,350	—	922,868
Intersegment sales	27,530	—	—	—	(27,530)	—
Other revenue	—	1,264	—	4,841	—	6,105
Total	130,671	687,921	120,720	17,191	(27,530)	928,973
Segment results	56,432	18,746	(11,220)	4,482	—	68,440
Reconciliations:						
Interest income						2,572
Corporate and other unallocated expenses						(29,483)
Finance costs						(57,698)
Loss before tax						(16,169)
Income tax expense						3,803
Loss for the period						(12,366)
Six months ended 30 June 2010						
Segment revenue:						
Sales to external customers	95,630	980,981	188,908	21,831	—	1,287,350
Intersegment sales	50,140	—	—	—	(50,140)	—
Other revenue	—	4,243	114	1,579	—	5,936
Total	145,770	985,224	189,022	23,410	(50,140)	1,293,286
Segment results	38,249	121,337	(6,910)	(379)	—	152,297
Reconciliations:						
Interest income						3,428
Corporate and other unallocated expenses						(29,188)
Finance costs						(42,531)
Profit before tax						84,006
Income tax expense						(13,567)
Profit for the period						70,439
Assets and liabilities						
Segment assets	746,684	2,276,639	238,627	404,734	—	3,666,684
Reconciliations:						
Corporate and other unallocated assets						612,244
Total assets						4,278,928
Segment liabilities	266,102	393,050	99,629	25,859	—	784,640
Reconciliations:						
Corporate and other unallocated liabilities						2,415,096
Total liabilities						3,199,736

	Manganese mining and ore processing	Manganese downstream processing	Non-manganese ferroalloy processing	Others	Eliminations	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Other segment information:						
Depreciation and amortisation	14,240	57,448	3,458	7,931	—	83,077
Unallocated depreciation and amortisation						1,228
Total depreciation and amortisation						84,305
Capital expenditure	40,441	154,659	963	9,828	—	205,891
Unallocated capital expenditure						3,233
Total capital expenditure						209,124
(Gain)/loss on disposal of items of property, plant and equipment	(460)	712	—	—	—	252
Impairment losses recognised/(reversed) in profit or loss	263	8,794	6,708	(7,215)	—	8,550

Geographical information

(a) Revenue from external customers

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Mainland China	1,074,548	1,971,483	1,841,619	792,137	1,104,166
Asia (excluding Mainland China)	254,011	524,240	133,397	62,816	152,219
Europe	210,589	268,587	72,038	60,160	8,925
North America	128,056	97,805	38,740	7,083	20,290
Other countries	17,253	749	570	672	1,750
	1,684,457	2,862,864	2,086,364	922,868	1,287,350

The revenue information above is based on the location of the customers.

(b) Non-current assets

	31 December			30 June	
	2007	2008	2009	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Segment assets:					
Mainland China	922,616	1,498,884	1,917,146	1,605,588	2,062,184
Africa	—	237,991	270,008	291,094	290,864
	922,616	1,736,875	2,187,154	1,896,682	2,353,048

The non-current asset information above is based on the location of assets and excludes deferred tax assets and available-for-sale equity investment.

Information about a major customer

Revenue of approximately HK$358 million for the year ended 31 December 2007 was derived from sales to a single customer, which comprised of the manganese mining and ore processing segment of approximately HK$3 million, the manganese downstream processing segment of approximately HK$263 million and the segment of others of approximately HK$92 million. Revenue of approximately HK$395 million for the year ended 31 December 2008 was derived from sales by the others segment to a single customer. Revenue of approximately HK$343 million for the year ended 31 December 2009 was derived from sales by the manganese downstream processing segment to a single customer. Revenue of approximately HK$163 million for the six months ended 30 June 2010 was derived from sales by the manganese downstream processing segment to a single customer.

7. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold after allowances for returns and trade discounts, for the Relevant Periods and the six months ended 30 June 2009.

An analysis of revenue, other income and gains is as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Revenue					
Sales of goods	1,684,457	2,862,864	2,086,364	922,868	1,287,350
Other income and gains					
Interest income	1,238	2,250	3,524	2,572	3,428
Gain on disposal of items of property, plant and equipment	—	—	3,710	3,085	665
Excess over the cost of a business combination (note 34(a))	11,933	—	—	—	—
Subsidy income	8,044	17,804	11,251	1,279	4,361
Write-off of payables	—	3,611	936	—	—
Sales of scrap	—	—	120	52	—
Others	2,680	3,087	3,747	1,689	910
	23,895	26,752	23,288	8,677	9,364

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Interest on bank loans and other loans wholly repayable within five years	26,500	70,098	100,753	56,221	46,487
Interest on bank loans and other loans wholly repayable for more than five years	—	4,387	5,582	1,158	1,821
Finance costs for discounted notes receivable	2,457	6,649	860	319	805
Less: Interest capitalised	(4,334)	(1,162)	—	—	(6,582)
	24,623	79,972	107,195	57,698	42,531

9. PROFIT/(LOSS) BEFORE TAX

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

		Year ended 31 December			Six months ended 30 June	
	Notes	2007	2008	2009	2009	2010
		HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Cost of inventories sold		1,092,310	1,967,035	1,621,416	708,208	1,024,851
Depreciation	15	37,853	80,552	141,428	64,283	77,420
Amortisation of prepaid land lease payments	16	1,555	1,670	2,062	839	3,769
Amortisation of intangible assets	17	5,943	7,223	6,004	2,999	3,116
Auditors' remuneration		2,708	3,003	2,850	1,310	1,457
Minimum lease payments under operating leases, land and buildings		1,032	1,807	2,761	1,864	3,761
Employee benefit expense:						
Wages and salaries		134,572	130,611	187,094	67,695	99,440
Pension scheme contributions		11,387	9,161	15,702	6,293	9,081
Housing fund		3,132	3,999	6,527	2,788	4,037
Medical benefit costs		2,592	3,197	3,357	1,902	1,981
		151,683	146,968	212,680	78,678	114,539
Loss on disposal of items of property, plant and equipment *		16,291	8,605	2,606	3,231	252
Foreign exchange differences, net *		2,339	5,545	1,824	1,592	417
Impairment of property, plant and equipment *	15	486	—	—	—	—
Write-down of inventories to net realisable value #	20	1,134	146,869	35,225	63,578	5,841
Impairment/(reversal of impairment) of trade and other receivables, net *	21,22	7,130	(2,747)	1,702	2,430	2,709

Included in "Cost of sales" in the consolidated statements of comprehensive income.

* Included in "Other expenses" in the consolidated statements of comprehensive income.

10. DIRECTORS' REMUNERATIONS

The Company's directors have not received any emoluments from the Group in respect of their services rendered to the Group during the Relevant Periods and the six months ended 30 June 2009.

During the Relevant Periods and the six months ended 30 June 2009, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

11. FIVE HIGHEST PAID EMPLOYEES

All the five highest paid employees of the Group during the Relevant Periods and the six months ended 30 June 2009 were not directors. Details of the remuneration of the five highest paid employees for the Relevant Periods and the six months ended 30 June 2009 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Salaries, allowances and benefits in kind	1,969	2,799	3,010	1,684	1,453
Bonuses	2,624	2,578	3,650	2,550	2,754
Pension scheme contributions	83	115	105	46	122
	4,676	5,492	6,765	4,280	4,329

The number of non-director, highest paid employees whose remuneration fell within the following bands during the Relevant Periods and the six months ended 30 June 2009 is as follows:

	Number of employees				
	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
Nil to HK$1,000,000	2	1	1	4	4
HK$1,000,001 to HK$1,500,000	3	3	3	1	1
HK$1,500,001 to HK$2,000,000	—	1	—	—	—
HK$2,000,001 to HK$2,500,000	—	—	1	—	—
	5	5	5	5	5

12. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The major components of income tax expenses for the Relevant Periods and the six months ended 30 June 2009 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Group:					
Current — PRC					
—Charge for the year/period	16,277	55,485	15,795	519	16,932
Deferred (note 19)	5,866	(24,183)	(4,182)	(4,322)	(3,365)
Total tax charge for the year/period	22,143	31,302	11,613	(3,803)	13,567

Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods and the six months ended 30 June 2009.

PRC corporate income tax ("CIT")

Pursuant to the then PRC Income Tax Law and the respective regulations, except for certain preferential tax treatment available to certain subsidiaries operating in Mainland China, the companies of the Group which operate in Mainland China are subject to CIT at a rate of 33% on their respective taxable income for the year ended 31 December 2007, and 25% for the two years ended 31 December 2008 and 2009, and the six months ended 30 June 2010. The other major tax concessions applicable to the entities within the Group are detailed as follows:

(a) Pursuant to the various tax notices regarding the preferential tax treatment for the large-scale development of Western China issued by the State Administration of Taxation, the PRC, CITIC Dameng Mining is entitled to a preferential CIT rate of 15%. Additionally, according to the then income tax law of the PRC for foreign invested enterprises and foreign enterprises as approved by relevant PRC tax authorities, CITIC Dameng Mining, being a foreign-invested enterprise, was exempted from CIT for its first two profitable years, commencing from 1 January 2006, and is thereafter entitled to a 50% reduction in the CIT for the subsequent three years from 1 January 2008 to 31 December 2010. Since year 2006 was the first profitable year of CITIC Dameng Mining, no income tax has been provided by CITIC Dameng Mining for the two years ended 31 December 2006 and 2007 accordingly. For the two years ended 31 December 2008 and 2009, and the six months ended 30 June 2010, the applicable CIT rate of CITIC Dameng Mining was 7.5%.

(b) Pursuant to Dishui Han [2007] No. 841 "Approval on CIT Exemption of Guangxi Dabao" issued by the local tax authority of Chongzuo City, Guangxi, the PRC, Guangxi Dabao is entitled to a preferential tax treatment for engaging in an encouraged industry and its applicable CIT rate is 15% for the period from 1 January 2007 to 31 December 2010.

(c) Pursuant to the tax document Dishui Han [2005] No.3 "Approval on CIT Exemption of Guangxi Start" issued by the local tax authority of Jingxi County, Guangxi, the PRC, Guangxi Start was entitled to preferential tax treatment for developing Western China and its applicable CIT rate is 15% for the period from 1 January 2005 to 31 December 2010.

The 5th Session of the 10th National People's Congress approved the Corporate Income Tax Law of the PRC (the "New Corporate Income Tax Law") on 16 March 2007 and the State Council has announced the Detail Implementation Regulations ("DIR") on 26 December 2007, which became effective from 1 January 2008. According to the New Corporate Income Tax Law, the income tax rates for both domestic and foreign investment enterprises will be unified at 25% effective from 1 January 2008. However, enterprises which are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires. Except for the subsidiaries which currently enjoy preferential tax treatments as explained aforesaid, the Group's other subsidiaries located in Mainland China are subject to CIT rate of 25% commencing on 1 January 2008.

Pursuant to the New Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between Mainland China and the jurisdictions of the foreign investors. On 22 February 2008, Caishui [2008] No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of Mainland China from the retained profits as at 31 December 2007 are exempted from the withholding tax.

A reconciliation of the income tax charge/(credit) applicable to profit/(loss) before tax using the statutory rate for the country in which the Company and the majority of its subsidiaries are principally domiciled to the income tax charge at the effective tax rate is as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Profit/(loss) before tax	416,066	431,092	75,325	(16,169)	84,006
Tax at the applicable PRC corporate income tax rate (2007: 33%, 2008, 2009 and 2010: 25%)	137,302	107,773	18,831	(4,042)	21,001
Lower tax rates/tax holidays or concessions for specific provinces	(111,789)	(83,246)	(19,825)	(1,655)	(16,417)
Income not subject to tax	(5,349)	(4,648)	—	—	(220)
Expenses not deductible for tax	7,602	6,311	1,806	528	2,143
Tax credit for purchases of domestic equipment*	—	(14,885)	—	—	—
Effect of withholding tax at 10% on undistributed profits of the Group's PRC subsidiaries**	—	20,592	6,093	1,366	7,535
Tax losses utilised from previous periods	(5,623)	(595)	—	—	(696)
Tax losses not recognised	—	—	4,708	—	221
Tax charge/(credit) reported in the consolidated statements of comprehensive income	22,143	31,302	11,613	(3,803)	13,567
The Group's effective income tax rate	5.3%	7.3%	15.4%	23.5%	16.2%

Notes:

* Pursuant to the tax document 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 Domestic Purchase of 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 CIT computation of CITIC Dameng Mining from 1 January 2008 for the excess of tax payable for the year as compared with the immediate preceding year.

** Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

13. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

14. DIVIDENDS

The dividends declared by the Group to the Company's shareholders during the Relevant Periods and the six months ended 30 June 2009 were as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000 (Unaudited)	HK$'000
Dividend declared	—	—	—	—	507,974

As at 30 June 2010, the dividend payable to Highkeen and Apexhill of HK$4,799,000 and HK$53,625,000 were included in the amount due to the intermediate holding company and the amount due to a shareholder, respectively. As at the date of this report, the Group's dividend payable to the intermediate holding company and a shareholder had been fully settled.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Buildings and mining structures	Motor vehicles, plant, machinery, tools and equipment	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost:							
At 1 January 2007		148,978	159,101	2,672	4,198	109,735	424,684
Additions		649	44,407	3,940	2,218	197,238	248,452
Acquisition of a subsidiary	34(a)	16,736	34,906	105	—	—	51,747
Disposals		(12,286)	(18,661)	(928)	—	—	(31,875)
Transfers		45,735	17,515	—	—	(63,250)	—
Exchange realignment		13,166	15,263	310	257	798	29,794
At 31 December 2007		212,978	252,531	6,099	6,673	244,521	722,802
Accumulated depreciation and impairment:							
At 1 January 2007		5,812	12,250	14	754	—	18,830
Charge for the year	9	9,937	25,204	1,884	828	—	37,853
Disposals		(1,096)	(7,971)	(439)	—	—	(9,506)
Impairment	9	203	283	—	—	—	486
Exchange realignment		2,801	2,229	111	57	—	5,198
At 31 December 2007		17,657	31,995	1,570	1,639	—	52,861
Net book value:							
At 31 December 2007		195,321	220,536	4,529	5,034	244,521	669,941
Cost:							
At 1 January 2008		212,978	252,531	6,099	6,673	244,521	722,802
Additions		76,936	66,686	2,114	4,227	432,696	582,659
Acquisition of a subsidiary	34(b)	—	37,881	743	—	8,312	46,936
Disposals		(2,305)	(11,788)	(367)	—	—	(14,460)
Transfers		247,215	249,770	159	—	(497,144)	—
Exchange realignment		24,021	28,599	617	1,399	20,579	75,215
At 31 December 2008		558,845	623,679	9,365	12,299	208,964	1,413,152
Accumulated depreciation and impairment:							
At 1 January 2008		17,657	31,995	1,570	1,639	—	52,861
Charge for the year	9	16,271	54,367	2,542	7,372	—	80,552
Disposals		(806)	(4,766)	(283)	—	—	(5,855)
Exchange realignment		2,200	5,656	216	908	—	8,980
At 31 December 2008		35,322	87,252	4,045	9,919	—	136,538
Net book value:							
At 31 December 2008		523,523	536,427	5,320	2,380	208,964	1,276,614

	Note	Buildings and mining structures	Motor vehicles, plant, machinery, tools and equipment	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost:							
At 1 January 2009		558,845	623,679	9,365	12,299	208,964	1,413,152
Additions		76,871	76,590	2,129	199	358,685	514,474
Disposals		(6,198)	(48,459)	(244)	—	—	(54,901)
Transfers		229,957	104,833	—	—	(334,790)	—
Exchange realignment		291	130	2	—	23	446
At 31 December 2009		859,766	756,773	11,252	12,498	232,882	1,873,171
Accumulated depreciation and impairment:							
At 1 January 2009		35,322	87,252	4,045	9,919	—	136,538
Charge for the year	9	39,029	100,174	1,303	922	—	141,428
Disposals		(906)	(29,163)	(149)	—	—	(30,218)
Exchange realignment		37	69	1	1	—	108
At 31 December 2009		73,482	158,332	5,200	10,842	—	247,856
Net book value:							
At 31 December 2009		786,284	598,441	6,052	1,656	232,882	1,625,315
Cost:							
At 1 January 2010		859,766	756,773	11,252	12,498	232,882	1,873,171
Additions		2,489	16,090	428	1,123	142,644	162,774
Disposals		(4,003)	(16,401)	(25)	—	—	(20,429)
Transfers		26,728	14,273	300	—	(41,301)	—
Exchange realignment		9,815	8,886	112	223	17,192	36,228
At 30 June 2010		894,795	779,621	12,067	13,844	351,417	2,051,744
Accumulated depreciation and impairment:							
At 1 January 2010		73,482	158,332	5,200	10,842	—	247,856
Charge for the year	9	23,114	52,907	666	733	—	77,420
Disposals		—	(15,222)	(23)	—	—	(15,245)
Exchange realignment		1,075	2,409	49	128	—	3,661
At 30 June 2010		97,671	198,426	5,892	11,703	—	313,692
Net book value:							
At 30 June 2010		797,124	581,195	6,175	2,141	351,417	1,738,052

Note:

Certain of the Group's interest-bearing bank borrowings were secured by certain of the Group's buildings and machinery, which had aggregate net carrying amounts of approximately HK$80,727,000, HK$380,896,000, HK$207,614,000 and HK$239,575,000 as at 31 December 2007, 2008 and 2009, and 30 June 2010, respectively (note 26).

At the date of this report, the Group was in the process of applying for the building ownership certificates of certain of its buildings with an aggregate net carrying amount of approximately HK$16,143,000. As at that date, the Group also had buildings and construction in progress with an aggregate net carrying amount of approximately HK$42,269,000 situated on certain land parcels which the Group was in the process of applying for land use rights certificates. The Directors are of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 30 June 2010.

16. PREPAID LAND LEASE PAYMENTS

Group

	Notes	31 December 2007	31 December 2008	31 December 2009	30 June 2010
		HK$'000	HK$'000	HK$'000	HK$'000
Carrying amount at beginning of year/period		59,616	74,021	79,125	86,497
Acquisition of subsidiaries	34(a)	11,105	—	—	—
Additions		310	104	9,426	45,555
Amortisation provided during the year/period	9	(1,555)	(1,670)	(2,062)	(3,769)
Exchange realignment		4,545	6,670	8	1,334
Carrying amount at end of year/period		74,021	79,125	86,497	129,617
Current portion included in prepayments, deposits and other receivables		(1,570)	(1,692)	(3,136)	(5,008)
Non-current portion		72,451	77,433	83,361	124,609

The leasehold lands are held under a medium-term lease and are situated in Mainland China.

Certain of the Group's interest-bearing bank borrowings were secured by certain of the Group's leasehold lands of HK$52,347,000, HK$57,147,000, HK$55,842,000 and HK$47,532,000 as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively (note 26).

17. INTANGIBLE ASSETS

Group

	Notes	Mining rights	Other Intangible assets	Total
		HK$'000	HK$'000	HK$'000
Cost:				
At 1 January 2007		124,744	—	124,744
Additions		—	—	—
Exchange realignment		8,722	—	8,722
At 31 December 2007		133,466	—	133,466
Accumulated amortisation:				
At 1 January 2007		3,877	—	3,877
Charge for the year	9	5,943	—	5,943
Exchange realignment		202	—	202
At 31 December 2007		10,022	—	10,022
Net book value:				
At 31 December 2007		123,444	—	123,444

	Notes	Mining rights	Other intangible assets	Total
		HK$'000	HK$'000	HK$'000
Cost:				
At 1 January 2008		133,466	—	133,466
Additions		—	1,200	1,200
Acquisition of a subsidiary	34(b)	175,459	—	175,459
Exchange realignment		10,711	16	10,727
At 31 December 2008		319,636	1,216	320,852
Accumulated amortisation:				
At 1 January 2008		10,022	—	10,022
Charge for the year	9	7,223	—	7,223
Exchange realignment		1,899	—	1,899
At 31 December 2008		19,144	—	19,144
Net book value:				
At 31 December 2008		300,492	1,216	301,708
Cost:				
At 1 January 2009		319,636	1,216	320,852
Additions		174	376	550
Exchange realignment		—	51	51
At 31 December 2009		319,810	1,643	321,453
Accumulated amortisation:				
At 1 January 2009		19,144	—	19,144
Charge for the year	9	5,733	271	6,004
Exchange realignment		4	—	4
At 31 December 2009		24,881	271	25,152
Net book value:				
At 31 December 2009		294,929	1,372	296,301
Cost:				
At 1 January 2010		319,810	1,643	321,453
Additions		—	795	795
Exchange realignment		2,298	1,079	3,377
At 30 June 2010		322,108	3,517	325,625
Accumulated amortisation:				
At 1 January 2010		24,881	271	25,152
Charge for the period	9	2,906	210	3,116
Exchange realignment		(419)	696	277
At 30 June 2010		27,368	1,177	28,545
Net book value:				
At 30 June 2010		294,740	2,340	297,080

Certain of the Group's interest-bearing bank borrowings were secured by certain of the Group's mining rights with a carrying value of HK$110,044,000 at 31 December 2007 (nil at 31 December 2008 and 2009 and 30 June 2010) (note 26).

18. AVAILABLE-FOR-SALE EQUITY INVESTMENT

Group

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Unlisted equity investment, at cost	4,377	4,218	4,218	4,265

The unlisted equity investment is stated at cost less accumulated impairment losses as the investment does not have quoted market prices in an active market, and the variability in the range of reasonable fair value estimates of such investment is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of the investment in the near future.

19. DEFERRED TAXATION

The movements in deferred tax assets/(liabilities) of the Group during the Relevant Periods are as follows:

Deferred tax assets

Group

	Notes	Losses available for offsetting against future taxable profits	Tax credit for purchases of domestic equipment	Deductible temporary differences	Total
		HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007		—	—	926	926
Acquisition of a subsidiary	34(a)	6,589	—	—	6,589
Deferred tax charged to profit or loss during the year	12	(5,623)	—	(960)	(6,583)
Exchange realignment		—	—	58	58
At 31 December 2007 and 1 January 2008		966	—	24	990
Deferred tax (charged)/credited to profit or loss during the year	12	(651)	11,657	30,160	41,166
Exchange realignment		(11)	156	403	548
At 31 December 2008 and 1 January 2009		304	11,813	30,587	42,704
Deferred tax credited/(charged) to profit or loss during the year	12	29,958	—	(20,070)	9,888
Credited to tax payable		—	(11,801)	—	(11,801)
Exchange realignment		30	(12)	(19)	(1)
At 31 December 2009		30,292	—	10,498	40,790

	Note	Losses available for offsetting against future taxable profits	Tax credit for purchases of domestic equipment	Deductible temporary differences	Total
		HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010		30,292	—	10,498	40,790
Deferred tax credited to profit or loss during the period	12	10,573	—	1,777	12,350
Exchange realignment		432	—	134	566
At 30 June 2010		41,297	—	12,409	53,706

Deferred tax liabilities

	Notes	Fair value adjustments arising from acquisition of subsidiaries	Withholding taxes	Taxable temporary differences	Total
		HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007		5,029	—	—	5,029
Acquisition of a subsidiary	34(a)	3,230	—	—	3,230
Deferred tax credited to profit or loss during the year	12	(717)	—	—	(717)
Exchange realignment		213	—	—	213
At 31 December 2007 and 1 January 2008		7,755	—	—	7,755
Deferred tax (credited)/charged to profit or loss during the year	12	(3,609)	20,592	—	16,983
Exchange realignment		433	—	—	433
At 31 December 2008 and 1 January 2009		4,579	20,592	—	25,171
Deferred tax (credited)/charged to profit or loss during the year	12	(387)	6,093	—	5,706
Transferred to tax payable		—	(3,404)	—	(3,404)
At 31 December 2009 and 1 January 2010		4,192	23,281	—	27,473
Deferred tax (credited)/charged to profit or loss during the period	12	(195)	7,535	1,645	8,985
Transferred to tax payable		—	(27,647)	—	(27,647)
Exchange realignment		36	—	15	51
At 30 June 2010		4,033	3,169	1,660	8,862

20. INVENTORIES

Group

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
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)
	168,846	358,145	354,487	411,885

The movements of the Group's allowance for inventories for the Relevant Periods are as follows:

		31 December			30 June
	Note	2007	2008	2009	2010
		HK$'000	HK$'000	HK$'000	HK$'000
At beginning of year/period		1,505	412	149,284	92,307
Write-down	9	1,134	146,869	35,225	5,841
Write-off		(2,295)	—	(92,146)	(10,109)
Exchange realignment		68	2,003	(56)	995
At end of year/period		412	149,284	92,307	89,034

21. TRADE AND NOTES RECEIVABLES

Group

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables	189,895	309,053	219,698	258,201
Notes receivable	40,768	46,690	219,930	133,571
	230,663	355,743	439,628	391,772
Less: Impairment	(6,912)	(6,435)	(5,874)	(5,944)
	223,751	349,308	433,754	385,828

Notes receivable represent bank acceptance notes of CITIC Dameng Mining and its subsidiaries which are issued by major banks in Mainland China.

The Group normally offers credit terms of 30 to 90 days to its established customers.

An ageing analysis of the trade and notes receivables as at the end of each of the Relevant Periods, based on the invoice date and net of provisions, is as follows:

Group

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Within one month	174,938	132,747	129,121	222,759
One to two months	21,801	62,703	52,683	57,852
Two to three months	5,500	90,665	65,777	25,129
Over three months	21,512	63,193	186,173	80,088
	223,751	349,308	433,754	385,828

The movements in the provision for impairment of trade and notes receivables are as follows:

Group

		31 December			30 June
	Note	2007	2008	2009	2010
		HK$'000	HK$'000	HK$'000	HK$'000
At beginning of year/period		1,257	6,912	6,435	5,874
Impairment losses recognised	9	5,282	806	—	5
Impairment losses reversed	9	—	(2,230)	(454)	—
Write-off		—	(45)	(107)	—
Exchange realignment		373	992	—	65
At end of year/period		6,912	6,435	5,874	5,944

Included in the above provision for impairment of trade and notes receivables are provisions for individually impaired trade receivables of HK$6,912,000, HK$6,435,000, HK$5,874,000 and HK$5,944,000 with carrying amounts before provision of approximately HK$8,210,000, HK$7,051,000, HK$5,874,000 and HK$5,944,000 as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively. The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of these receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The ageing analysis of the trade and notes receivables that are not considered to be impaired is as follows:

Group

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Neither past due nor impaired	213,126	297,638	339,438	333,653
One to three months past due	4,614	18,608	15,278	29,617
Over three months past due	6,011	33,062	79,038	22,558
	223,751	349,308	433,754	385,828

Receivables that were neither past due nor impaired relate to a large number of diversified customers in respect of whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The carrying amounts of the trade and notes receivables approximate to their fair values.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Non-current portion

Group

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
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
	56,780	81,120	182,177	193,307

Current portion

Group

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Prepayments consisting of:				
Prepayments for purchase of 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 consisting of:				
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
	106,063	203,682	152,568	219,868

The movements in the provision for impairment of other receivables are as follows:

Group

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
At beginning of year/period	231	2,093	1,177	3,266
Impairment losses recognised (note 9)	1,848	340	2,156	2,704
Impairment losses reversed (note 9)	—	(1,663)	—	—
Write-off	—	—	(70)	(5)
Exchange realignment	14	407	3	60
At end of year/period	2,093	1,177	3,266	6,025

The carrying amounts of financial assets included in the above balances approximate to their fair values.

23. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

As at 31 December 2007, 2008 and 2009 and 30 June 2010, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$248,086,000, HK$879,346,000, HK$493,285,000 and HK$702,670,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. As at 31 December 2007, 2008 and 2009 and 30 June 2010, pledged deposits of the Group amounted to nil, HK$78,318,000, HK$85,226,000 and HK$60,004,000, respectively. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances approximate to their fair values. Certain of the Group's interest-bearing bank borrowings were secured by certain pledged deposits with a carrying value of HK$56,790,000 and HK$57,425,000 as at 31 December 2009 and 30 June 2010, respectively (note 26).

24. TRADE PAYABLES

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

Group

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Within one month	99,307	66,525	66,349	137,694
One to two months	10,631	10,254	12,234	30,599
Two to three months	2,242	12,172	12,317	16,660
Over three months	10,807	39,766	17,973	24,762
	122,987	128,717	108,873	209,715

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

The carrying amounts of the trade payables approximate to their fair values.

25. OTHER PAYABLES AND ACCRUALS

Group

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
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 CIT	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
	133,772	201,765	302,930	254,919

Other payables are non-interest-bearing and have no fixed terms of repayment.

The carrying amounts of financial liabilities included in the above balances approximate to their fair values.

26. INTEREST — BEARING BANK AND OTHER BORROWINGS

Group

	31 December 2007			31 December 2008			31 December 2009			30 June 2010		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current												
Bank loans-secured	5.76-7.67	2008	312,500	4.72-8.96	2009	726,140	5.31	2010	34,074	5.31	2010	74,652
Bank loans-unsecured	6.12-7.29	2008	62,500	3.12-8.10	2009	804,167	3-5.31	2010	753,263	4.5-5.4	2010	356,035
Current portion of long term bank loans-secured			—			—			—	5.4	2011	40,198
Current portion of long term bank loans-unsecured			—			—			—	4.86-5.4	2011	160,790
Other loans-unsecured			—			—			—	4.7	2011	114,850
			375,000			1,530,307			787,337			746,525
Non-current												
Bank loans-secured	6.84-7.83	2009-2013	135,417	7.02-7.83	2010-2015	330,518	5.94-7.83	2011-2015	279,407	LIBOR+0.85, 5.4-5.94	2011-2015	422,637
Bank loans-unsecured			—	7.56	2010	56,790	4.86-7.02	2011-2015	644,460	4.5-5.4	2011-2015	1,247,271
			135,417			387,308			923,867			1,669,908
			510,417			1,917,615			1,711,204			2,416,433

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Analysed into:				
Bank loans repayable:				
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
	510,417	1,917,615	1,711,204	2,416,433
Other interest rate information:				
Fixed interest rate:				
Bank loans	388,542	1,609,813	490,893	304,352
Other loans	—	—	—	114,850
	388,542	1,609,813	490,893	419,202
Floating interest rate:				
Bank loans	121,875	307,802	1,220,311	1,997,231
Total	510,417	1,917,615	1,711,204	2,416,433

The carrying amounts of the Group's borrowings approximate to their fair values.

Note:

The above secured bank loans were secured by certain of the Group's assets and their carrying values are as follows:

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Property, plant and equipment (note 15)	80,727	380,896	207,614	239,575
Prepaid land lease payments (note 16)	52,347	57,147	55,842	47,532
Mining rights (note 17)	110,044	—	—	—
Pledged deposits (note 23)	—	—	56,790	57,425
	243,118	438,043	320,246	344,532

As at 31 December 2007, 2008 and 2009, certain interest-bearing bank borrowings of the Group of HK$289,120,000, HK$670,122,000 and HK$147,654,000 were guaranteed by Guangxi Dameng, a minority shareholder of CITIC Dameng Mining. As at 30 June 2010, all corporate guarantees from Guangxi Dameng had been released.

27. OTHER LONG-TERM LIABILITIES

(a) Safety fund of HK$5,824,000 as at 31 December 2007 was provided based on the output of primary ores during the year of 2007. Since 1 January 2008, the Group charged safety fund into profit or loss when incurred.

(b) Provision for rehabilitation

Group

	31 December			30 June
	2007	2008	2009	2010
		HK$'000	HK$'000	HK$'000
At beginning of year/period	—	—	2,989	2,377
Additional provision	—	2,989	—	1,317
Utilisation of rehabilitation provision	—	—	(612)	(12)
At end of year/period	—	2,989	2,377	3,682

The provision for rehabilitation represents management's estimates of the restoration costs to be incurred on mine closure. These costs are based on current mineral reserve estimates ranging from 11 to 27 years. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

28. DEFERRED INCOME

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
At beginning of year/period	—	—	—	4,937
Addition	—	—	4,933	12,216
Exchange realignment	—	—	4	163
At end of year/period	—	—	4,937	17,316

The balance represented the receipt of government grants for the construction of certain equipment, which has been credited as a non-current liability on the consolidated statements of financial position. Such deferred income is amortised on the straight-line basis to profit or loss over the expected useful lives of the relevant assets acquired.

29. ISSUED CAPITAL

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Authorised:				
5,000,000 (2007-2009: 1,000,000) ordinary shares of HK$0.10 each	100	100	100	500
Issued and fully paid:				
2,450,000 (2007-2009: 1,000,000) ordinary shares of HK$0.10 each	100	100	100	245

Upon the incorporation of the Company, an aggregate of 1,000,000 ordinary shares of HK$0.10 each were issued at par to Highkeen and Apexhill for a total cash consideration of HK$100,000.

Pursuant to an ordinary resolution passed on 30 June 2010, the authorised share capital of the Company was increased from HK$100,000 to HK$500,000 by the creation of 4,000,000 additional shares of HK$0.10 each, ranking pari passu in all respects with the existing shares of the Company.

On 30 June 2010, CITIC Dameng Investments transferred its amount due to CITIC Resources Holdings Limited ("CRH", the intermediate holding company of the Company) and Apexhill of HK$240,000,000 and HK$60,000,000, respectively to the Company. Additionally, the Company declared dividend of HK$406,380,000 and HK$101,595,000 to Highkeen and Apexhill, respectively. On the same day, the Company capitalised an amount of HK$535,050,000 due to shareholders of the Company by the issuance of 1,450,000 shares of the Company of HK$0.10 each.

Changes in the Company's authorised and issued share capital subsequent to 30 June 2010 are disclosed in Appendix VII to the Prospectus.

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity set out in Section I of the report.

(b) Company

	Notes	Share premium account	(Accumulated losses)/ retained profits	Total
		HK$'000	HK$'000	HK$'000
At 1 January 2007		—	(112)	(112)
Loss for the year		—	(68)	(68)
At 31 December 2007 and at 1 January 2008		—	(180)	(180)
Loss for the year		—	(2,768)	(2,768)
At 31 December 2008 and at 1 January 2009		—	(2,948)	(2,948)
Loss for the year		—	(14,645)	(14,645)
At 31 December 2009 and at 1 January 2010		—	(17,593)	(17,593)
Issue of new shares	29	534,905	—	534,905
Profit for the period		—	532,786	532,786
Dividend declared	14	—	(507,974)	(507,974)
At 30 June 2010		534,905	7,219	542,124

31. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for such properties are negotiated for terms ranging from 2 to 25 years.

As at 31 December 2007, 2008 and 2009 and 30 June 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December			30 June
	2007	2008	2009	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
	1,316	69,606	70,099	58,483

Company

The Company did not have any operating lease commitments as at 31 December 2007, 2008 and 2009 and 30 June 2010.

32. CONTINGENT LIABILITIES AND COMMITMENTS

At the end of each of the Relevant Periods, neither the Group nor the Company had any significant contingent liabilities.

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments as at the end of each of the Relevant Periods:

Group

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Authorised, 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
	—	860,463	383,658	1,091,936
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 interest in a subsidiary (note 34(b))	78,468	—	—	—
	514,872	495,587	491,680	295,941
Total	514,872	1,356,050	875,338	1,387,877

Company

The Company did not have any commitments as at 31 December 2007, 2008 and 2009 and 30 June 2010.

33. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the Group's management was of the view that the following companies were related companies of the Group:

Name of related party	Relationship with the Group
CITIC Resources Holdings Limited ("CRH")	Intermediate holding company
Highkeen Resources Limited ("Highkeen")	Intermediate holding company
Apexhill Investments Limited ("Apexhill")	Shareholder of the Company
CITIC United Asia Investments Limited ("CITIC United Asia")	Immediate holding company of Apexhill
Guangxi Dameng	Minority shareholder of CITIC Dameng Mining
Guangxi Daxin Manganese Mine ("Daxin Mine")	Subsidiary of Guangxi Dameng
Guangxi Tiandeng Manganese Mine ("Tiandeng Mine")	Subsidiary of Guangxi Dameng
Guangxi Xinmeng Co., Ltd. ("Guangxi Xinmeng")	Subsidiary of Guangxi Dameng
Guangxi Liuzhou Dameng Electrical and Mechanical Manufacturer Co., Ltd. ("Liuzhou Dameng")	Subsidiary of Guangxi Dameng
Nanning Battery Plant	Subsidiary of Guangxi Dameng
Guangxi Fangchenggang Jinxiang Industry Co., Ltd. ("Fangchenggang Jinxiang")	Subsidiary of Guangxi Dameng
Guangxi Wuzhou Xinhua Battery Co., Ltd. ("Xinhua Battery")	Subsidiary of Guangxi Dameng
Guangxi Guilin Dameng Manganese Investment Co., Ltd. ("Guilin Dameng")	Subsidiary of Guangxi Dameng
Guangxi Hezhou Dameng Yinhe Industry Co., Ltd. ("Hezhou Dameng")	Subsidiary of Guangxi Dameng
Nanning Yinhe Battery Co., Ltd ("Nanning Yinhe")	Subsidiary of Guangxi Dameng
Future Idea Investments Limited ("Future Idea")	Minority shareholder of Huazhou BVI

The following is a summary of the Group's significant transactions with related parties during the Relevant Periods and balances arising from those related party transactions at the end of each of the Relevant Periods:

(a) Recurring

	Notes	Year ended 31 December 2007 HK$'000	2008 HK$'000	2009 HK$'000	30 June 2010 HK$'000
Purchase of raw materials from related parties:					
Nanning Battery Plant	(i)	4,730	7,756	7,038	5,982
Guilin Dameng	(i)	52,477	152,045	36,282	16,346
		57,207	159,801	43,320	22,328
Purchase of property, plant and equipment:					
Liuzhou Dameng	(i)	—	31,971	14,654	—
Guangxi Dameng	(i)	—	—	1,228	—
		—	31,971	15,882	—
Sales of goods to related parties:					
Guangxi Dameng	(ii)	3,294	7,158	—	—
Liuzhou Dameng	(ii)	15,609	14,803	14,988	5,139
Hezhou Dameng	(ii)	140	1,831	9,167	5,098
Guilin Dameng	(ii)	10,300	17,140	505	668
Xinhua Battery	(ii)	—	4,989	17,530	5,853
		29,343	45,921	42,190	16,758
Electricity and water provided to Guangxi Dameng	(iii)	122	—	301	—
Service fees paid to Guangxi Dameng	(iv)	—	—	2,728	1,366

Notes:

(i) These purchases were made at prices based on the mutual agreements between the parties.

(ii) These sales were made at prices based on the mutual agreements between the parties.

(iii) Reimbursement of electricity and water was based on the actual costs incurred.

(iv) Service fees were charged at a monthly amount of RMB200,000 (equivalent to HK$227,000) as mutually agreed by the parties.

(b) Non-recurring

	Notes	Year ended 31 December 2007 HK$'000	2008 HK$'000	2009 HK$'000	30 June 2010 HK$'000
Advance from CRH		—	—	240,000	—
Advance from Apexhill		—	—	60,000	—
Advance from Future Idea	(i)	—	26,504	—	
		—	26,504	300,000	—
Guarantee charges paid to Guangxi Dameng	(ii)	—	5,955	5,918	529

Notes:

(i) Advance from Future Idea is unsecured and interest-free before 29 December 2009 and bears interest at the United States dollar (US$) Prime Rate thereafter, and has no fixed terms of repayment. Advances from CRH and Apexhill are unsecured, interest-free and have no fixed terms of repayment.

(ii) Guarantee fees were charged based on 1.5% of the guaranteed amounts effective from 1 April 2008 as mutually agreed by the parties.

(c) Guarantees provided by a related party

Guangxi Dameng has provided corporate guarantees, in connection with bank borrowings obtained by the Group, as follows:

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Guarantees provided to the Group by Guangxi Dameng	289,120	670,122	147,654	—

(d) Outstanding balances with related parties

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
(i) Due from related companies				
Trade receivables from related companies:				
Daxin Mine	1,799	—	—	—
Fangchenggang Jinxiang	1	—	—	—
Xinhua Battery	4,647	188	7,500	9,201
Hezhou Dameng	154	—	8,713	14,827
Guilin Dameng	2,187	9,570	—	—
Liuzhou Dameng	—	—	501	2,811
	8,788	9,758	16,714	26,839
Other receivables from related companies:				
Tiandeng Mine	8,802	7,116	140	212
Daxin Mine	—	—	11	11
Nanning Battery Plant	51		—	—
Nanning Yinhe	1,808	—	—	—
Future Idea	—	—	8	—
	10,661	7,116	159	223
Prepayments to related companies:				
Guilin Dameng	52,686	4,773	26,287	26,027
Liuzhou Dameng	12,086	18,468	6,644	6,719
Nanning Battery Plant	—	—	—	701
	64,772	23,241	32,931	33,447
	84,221	40,115	49,804	60,509
(ii) Due from a minority shareholder of a subsidiary				
Trade receivables from Guangxi Dameng	18,366	5,755	51	52
Other receivables from Guangxi Dameng	10,116	21,884	5,544	7,345
	28,482	27,639	5,595	7,397
(iii) Due to related companies				
Trade payables to related companies:				
Guangxi Xinmeng	2,311	—	—	—
Liuzhou Dameng	—	—	315	318
Nanning Battery Plant	—	—	1,482	1,266
Guilin Dameng	—	—	356	360
	2,311	—	2,153	1,944
Other payables to related companies:				
Liuzhou Dameng	—	1,398	199	1,058
CITIC United Asia	61,930	28,430	15,960	—
Guilin Dameng	—	—	1,200	425
Daxin Mine	4,857	7,088	—	—
Tiandeng Mine	2,506	—	—	—
	69,293	36,916	17,359	1,483
	71,604	36,916	19,512	3,427

	31 December 2007	31 December 2008	31 December 2009	30 June 2010
	HK$'000	HK$'000	HK$'000	HK$'000
(iv) Due to the intermediate holding company				
Other payables to CRH	247,720	113,720	303,840	—
Other payables to Highkeen	—	—	—	67,680
	247,720	113,720	303,840	67,680
(v) Due to minority shareholders of subsidiaries				
Other payables to shareholders of subsidiaries:				
Guangxi Dameng	20,647	3,237	27,041	102,929
Future Idea	—	56,022	53,322	32,465
	20,647	59,259	80,363	135,394
(vi) Due to a shareholder				
Other payables to Apexhill	—	—	60,000	70,545

Trade receivables from the Group's related companies are unsecured, non-interest bearing and repayable on similar credit terms to those offered to the customers of the Group. The Group's non-trade receivables from related companies and a minority shareholder of a subsidiary are unsecured, non-interest-bearing and have no fixed terms of repayment. As at the date of this report, the Group's non-trade receivables from related companies and a minority shareholder of a subsidiary had been fully settled.

Trade payables to the Group's related companies are non-interest-bearing. Other than an amount of HK$26,504,000 included in the amount due to Future Idea which is unsecured and interest-free before 29 December 2009 and bears interest at the United States dollar (US$) Prime Rate thereafter, and has no fixed terms of repayment, the Group's non-trade payables to related companies, the intermediate holding company and minority shareholders of subsidiaries are unsecured, non-interest-bearing and have no fixed terms of repayment. As at the date of this report, the Group's non-trade payables to related companies, the intermediate holding company, a shareholder and minority shareholders of subsidiaries had been fully settled.

(e) Compensation of key management personnel of the Group

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Salaries, allowances and benefits in kind	1,620	2,264	3,010	1,684	1,453
Bonuses	2,118	2,578	3,650	2,550	2,754
Pension scheme contributions	88	115	105	46	122
Total compensation paid to key management personnel	3,826	4,957	6,765	4,280	4,329

Further details of directors' emoluments are included in note 10.

34. ACQUISITION OF SUBSIDIARIES

(a) On 8 February 2007, CITIC Dameng Mining, a 60%-owned subsidiary of the Group, acquired a 70% equity indirect interest in Qinzhou New Materials (previously known as Guangxi Qinzhou Guixin Ferroalloy Co., Ltd.) at a cash consideration of RMB16,000,000 (equivalent to HK$16,667,000). Qinzhou New Materials is engaged in the manufacture and sale of high carbon ferrochromium in Mainland China.

The fair values of the identifiable assets and liabilities of Qinzhou New Materials as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition	Previous carrying amount
		HK$'000	HK$'000
Property, plant and equipment	15	51,747	46,227
Prepaid land lease payments	16	11,105	3,008
Deferred tax assets	19	6,589	—
Inventories		16,827	16,827
Trade receivables		2,208	2,208
Prepayments, deposits and other receivables		11,099	11,099
Cash and bank balances		27,561	27,561
Trade payables		(16,440)	(16,440)
Other payables and accruals		(47,469)	(47,469)
Tax payable		(390)	(390)
Interest-bearing bank borrowings		(18,750)	(18,750)
Deferred tax liabilities	19	(3,230)	—
Non-controlling interests		(12,257)	(7,164)
		28,600	16,717
Excess over the cost of a business combination recognised in profit or loss	7	(11,933)	
Satisfied by cash		16,667	

The consideration was determined based on the carrying amount of the net assets of Qinzhou New Materials mutually agreed between the parties. An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Qinzhou New Materials is as follows:

	2007
	HK$'000
Cash consideration	(16,667)
Cash and bank balances acquired	27,561
Net inflow of cash and cash equivalents in respect of the acquisition of Qinzhou New Materials	10,894

Since its acquisition, Qinzhou New Materials contributed HK$269,343,000 to the Group's revenue and HK$5,433,000 to the consolidated profit for the year ended 31 December 2007.

Had the combination taken place at the beginning of the year of 2007, the revenue of the Group and the profit of the Group for the year of 2007 would have been HK$1,692,449,000 and HK$396,999,000, respectively.

(b) On 23 November 2007, CITIC Dameng Mining entered into an agreement (the "Gabon Acquisition Agreement") with Future Idea, an independent third party, to acquire from Future Idea a 60% equity interest in Huazhou BVI, a company incorporated in the BVI with limited liability (the "Gabon Acquisition"), at a cash consideration of US$10,060,000 and capital injection of US$5,820,000 to Huazhou BVI. As at 31 December 2008, CITIC Dameng Mining had paid US$10,060,000 (equivalent to HK$78,468,000) to Future Idea in respect of the Gabon Acquisition and injected US$5,820,000 (equivalent to HK$46,314,000) to Huazhou BVI. The Gabon Acquisition was completed on 1 August 2008.

Huazhou BVI is an investment holding company and has not carried out any other major business activities except for holding a 85% equity interest in CICMHZ. CICMHZ was established in Gabon on 24 August 2005 as a limited liability company with total registered capital of XAF10,000,000 (HK$165,567). CICMHZ holds the pre-operation exploration rights to certain manganese mines in Gabon. CICMHZ has not carried out any significant business transactions since its incorporation up to the acquisition date. Since the net assets acquired through the Gabon Acquisition do not constitute a business, the Gabon Acquisition was not disclosed as a business combination in accordance with HKFRS 3.

The net assets acquired in the Gabon Acquisition are as follows:

	Notes	HK$'000
Net assets acquired:		
Property, plant and equipment	15	46,936
Mining rights	17	175,459
Prepayments, deposits and other receivables		10,350
Inventories		57
Cash and bank balances		7,895
Accrued liabilities and other payables		(4,409)
Due to related companies		(29,376)
Non-controlling interests		(82,130)
		124,782
Satisfied by:		
Cash	32	78,468
Capital injection		46,314
		124,782
Cash consideration paid		(124,782)
Cash and bank balances acquired		7,895
Net outflow of cash and cash equivalents in respect of the Gabon Acquisition		(116,887)

35. MAJOR NON-CASH TRANSACTIONS

(a) During the year ended 31 December 2007, CITIC Dameng Mining has offset trade and other receivables due from Guangxi Dameng of HK$61,390,000 and HK$7,799,000, respectively, against other payables and dividends payable to Guangxi Dameng of HK$37,888,000 and HK$31,301,000, respectively.

(b) On 28 December 2007, CITIC Dameng Mining has entered into a debt set-off agreement with Guangxi Jinmeng Manganese Co., Ltd. ("Guangxi Jinmeng"). Pursuant to the agreement, CITIC

Dameng Mining has offset advances from Guangxi Jinmeng of HK$47,762,000 against trade receivables from Guangxi Jinmeng of the same amount.

(c) During the year ended 31 December 2008, CITIC Dameng Mining has offset trade and other receivables due from Guangxi Dameng of HK$20,577,000, and HK$11,737,000, respectively, against dividends payable to Guangxi Dameng of HK$32,314,000.

(d) During the year ended 31 December 2009, CITIC Dameng Mining has offset trade and other receivables due from Guangxi Dameng of HK$5,755,000 and HK$28,545,000, respectively, against an amount due to Guangxi Dameng of HK$10,348,000 and dividends payable to Guangxi Dameng of HK$23,952,000. As at 31 December 2009, dividend payable to Guangxi Dameng of HK$23,065,000 was included in amounts due to minority shareholders of subsidiaries.

(e) On 30 June 2010, the Company capitalised its amount due to the intermediate holding company of HK$240,000,000 and the amount due to a shareholder of HK$60,000,000 by issuing additional 813,010 shares of HK$0.1 each.

(f) During the period ended 30 June 2010, the dividends declared by the Company amounted to HK$507,974,000 and declared by a subsidiary of the Company to a minority shareholder of a subsidiary amounted to HK$157,100,000. On 30 June 2010, the Company further capitalised the dividend payable to Highkeen and Apexhill of HK$188,040,000 and HK$47,010,000, respectively, by issuing additional 636,990 shares of HK$0.1 each. As at 30 June 2010, the dividend payable to Highkeen, Apexhill and Guangxi Dameng of HK$4,799,000, HK$53,625,000 and HK$98,858,000 were included in the amount due to the intermediate holding company, the amount due to a shareholder and the amounts due to minority shareholders of subsidiaries, respectively.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Financial assets

Group

31 December 2007	Notes	Loans and receivables	Available-for-sale financial asset	Total
		HK$'000	HK$'000	HK$'000
Available-for-sale equity investment	18	—	4,377	4,377
Trade and notes receivables	21	223,751	—	223,751
Financial assets included in prepayments, deposits and other receivables	22	10,459	—	10,459
Due from related companies	33	84,221	—	84,221
Due from a minority shareholder of a subsidiary	33	28,482	—	28,482
Cash and bank balances	23	253,066	—	253,066
		599,979	4,377	604,356

31 December 2008	Notes	Loans and receivables	Available-for-sale financial asset	Total
		HK$'000	HK$'000	HK$'000
Available-for-sale equity investment	18	—	4,218	4,218
Trade and notes receivables	21	349,308	—	349,308
Financial assets included in prepayments, deposits and other receivables	22	29,818	—	29,818
Due from related companies	33	40,115	—	40,115
Due from a minority shareholder of a subsidiary	33	27,639	—	27,639
Pledged deposits	23	78,318	—	78,318
Cash and bank balances	23	805,874	—	805,874
		1,331,072	4,218	1,335,290
31 December 2009				
Available-for-sale equity investment	18	—	4,218	4,218
Trade and notes receivables	21	433,754	—	433,754
Financial assets included in prepayments, deposits and other receivables	22	8,751	—	8,751
Due from related companies	33	49,804	—	49,804
Due from a minority shareholder of a subsidiary	33	5,595	—	5,595
Pledged deposits	23	85,226	—	85,226
Cash and bank balances	23	453,004	—	453,004
		1,036,134	4,218	1,040,352
30 June 2010				
Available-for-sale equity investment	18	—	4,265	4,265
Trade and notes receivables	21	385,828	—	385,828
Financial assets included in prepayments, deposits and other receivables	22	9,795	—	9,795
Due from related companies	33	60,509	—	60,509
Due from a minority shareholder of a subsidiary	33	7,397	—	7,397
Pledged deposits	23	60,004	—	60,004
Cash and bank balances	23	711,387	—	711,387
		1,234,920	4,265	1,239,185

Company

The carrying amounts of the loans and receivables of the Company as at the end of each of the Relevant Periods are as follows:

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Other receivables	—	39,815	26,745	30,900
Due from subsidiaries	—	—	—	669,646
	—	39,815	26,745	700,546

Financial liabilities

All of the Group's and the Company's financial liabilities carried at amortised cost are detailed as follows:

Group

		31 December			30 June
	Notes	2007	2008	2009	2010
		HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	24	122,987	128,717	108,873	209,715
Financial liabilities included in other payables and accruals	25	106,398	184,969	268,558	226,507
Interest-bearing bank and other borrowings	26	510,417	1,917,615	1,711,204	2,416,433
Due to related companies	33	71,604	36,916	19,512	3,427
Due to the intermediate holding companies	33	247,720	113,720	303,840	67,680
Due to minority shareholders of subsidiaries	33	20,647	59,259	80,363	135,394
Due to a shareholder	33	—	—	60,000	70,545
		1,079,773	2,441,196	2,552,350	3,129,701

Company

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Financial liabilities included in other payables and accruals	—	25,644	26,990	19,952
Due to subsidiaries	80	17,019	17,248	—
Due to the intermediate holding company	—	—	—	67,680
Due to a shareholder	—	—	—	70,545
	80	42,663	44,238	158,177

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans and other borrowings, cash and short-term bank deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are commodity price risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Commodity price risk

The Group is principally engaged in the exploration, mining, ore processing, smelting, refining and sale of manganese and high carbon ferrochromium products. The prices of the Group's products are influenced by global as well as regional supply and demand conditions. A decline in manganese prices could adversely affect the Group's financial performance.

Interest rate risk

The Group's income and operating cash flows are not substantially affected by changes in market interest rates. In addition, the Group has no significant interest-bearing assets and liabilities except for cash and cash equivalents and interest-bearing bank and other borrowings. Borrowings carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

The effective interest rates and terms of repayment of the bank and other borrowings of the Group are set out in note 26.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Group	
	Increase/ (decrease) in basis points	Decrease/ (increase) in profit before tax
		HK$'000
Six months ended 30 June 2010		
RMB	100	8,745
RMB	(100)	(8,745)
Year ended 31 December 2009		
RMB	100	5,237
RMB	(100)	(5,237)
Year ended 31 December 2008		
RMB	100	2,041
RMB	(100)	(2,041)
Year ended 31 December 2007		
RMB	100	1,021
RMB	(100)	(1,021)

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument fluctuates because of the changes in foreign exchange rates.

The Group's monetary assets, loans and transactions are principally denominated in RMB, HK$ and US$. The Group is exposed to foreign currency risk mainly arising from the exposure of US$ against RMB.

The Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in future as may be necessary.

The Group has transactional currency exposures. Such exposures arise from the sales or purchases by operating units in currencies other than the units' functional currencies. The Group did not enter into any foreign exchange forward contracts to hedge against foreign exchange fluctuations. However, the Group makes rolling forecasts on its foreign currency revenue and expenses and matches the currency and the amount incurred, so as to alleviate the impact on its business due to exchange rate fluctuations.

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably determined possible change in the US$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Group		
	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*
		HK$'000	HK$'000
30 June 2010			
If US$ weakens against RMB	1	(1,970)	—
If US$ strengthens against RMB	1	1,970	—
31 December 2009			
If US$ weakens against RMB	1	(1,264)	—
If US$ strengthens against RMB	1	1,264	—
31 December 2008			
If US$ weakens against RMB	1	(23,687)	—
If US$ strengthens against RMB	1	23,687	—
31 December 2007			
If US$ weakens against RMB	1	(873)	—
If US$ strengthens against RMB	1	873	—

* Excluding retained profits

Credit risk

The carrying amounts of the trade and notes receivables represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has a policy in place to ensure that sales are made to customers who are creditworthy and to 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 a maximum exposure equal to the carrying amounts of these instruments.

The Group determines concentration of credit risk by monitoring the locations of its customers. The table below shows an analysis of credit risk exposures of trade receivables which constitute approximately 37%, 26%, 42% and 45% of the Group's total financial assets as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively:

Group

	31 December			30 June
	2007	2008	2009	2010
	HK$'000	HK$'000	HK$'000	HK$'000
By location:				
Mainland China	136,471	312,505	420,220	366,120
Asia (excluding Mainland China)	37,568	20,523	8,037	18,874
Europe	24,499	8,125	4,968	—
North America	25,213	8,155	529	834
	223,751	349,308	433,754	385,828

In addition, 32%, 57%, 8% and 41% of the Group's trade and notes receivables were due from the Group's five largest customers as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents and have available funding through bank and other borrowings to meet its working capital requirements.

The maturity profile of the Group's financial liabilities at the end of each of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

Group

	31 December 2007				
	Less than 3 months or on demand	3 to less than 12 months	1 to 5 years	More than 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	122,987	—	—	—	122,987
Financial liabilities included in other payables and accruals	106,398	—	—	—	106,398
Interest-bearing bank borrowings	64,846	323,348	87,504	52,429	528,127
Due to related companies	71,604	—	—	—	71,604
Due to the intermediate holding company	247,720	—	—	—	247,720
Due to minority shareholders of subsidiaries	20,647	—	—	—	20,647
	634,202	323,348	87,504	52,429	1,097,483

	31 December 2008				
	Less than 3 months or on demand	3 to less than 12 months	1 to 5 years	More than 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	128,717	—	—	—	128,717
Financial liabilities included in other payables and accruals	184,969	—	—	—	184,969
Interest-bearing bank borrowings	554,224	1,018,188	326,058	76,001	1,974,471
Due to related companies	36,916	—	—	—	36,916
Due to the intermediate holding company	113,720	—	—	—	113,720
Due to minority shareholders of subsidiaries	59,259	—	—	—	59,259
	1,077,805	1,018,188	326,058	76,001	2,498,052

	31 December 2009				
	Less than 3 months or on demand	3 to less than 12 months	1 to 5 years	More than 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	108,873	—	—	—	108,873
Financial liabilities included in other payables and accruals	268,558	—	—	—	268,558
Interest-bearing bank borrowings	721,953	95,217	878,624	77,142	1,772,936
Due to related companies	19,512	—	—	—	19,512
Due to the intermediate holding company	303,840	—	—	—	303,840
Due to minority shareholders of subsidiaries	80,363	—	—	—	80,363
Due to a shareholder	60,000	—	—	—	60,000
	1,563,099	95,217	878,624	77,142	2,614,082

	30 June 2010				
	Less than 3 months or on demand	3 to less than 12 months	1 to 5 years	More than 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	209,715	—	—	—	209,715
Financial liabilities included in other payables and accruals	226,507	—	—	—	226,507
Interest-bearing bank and other borrowings	37,058	575,440	1,946,576	173,815	2,732,889
Due to related companies	3,427	—	—	—	3,427
Due to the intermediate holding companies	67,680	—	—	—	67,680
Due to minority shareholders of subsidiaries	135,394	—	—	—	135,394
Due to a shareholder	70,545	—	—	—	70,545
	750,326	575,440	1,946,576	173,815	3,446,157

Company

All the financial liabilities of the Company have no fixed terms of repayment.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Net debt is calculated as the sum of interest-bearing bank and other borrowings, trade payables, other payables and accruals, amounts due to related companies, an amount due to the intermediate holding company, amounts due to minority shareholders of subsidiaries and an amount due to a shareholder less cash and bank balances and pledged deposits. Capital represents equity attributable to owners of the parent. The gearing ratios at the end of each of the Relevant Periods were as follows:

Group

	31 December			30 June
	2007	**2008**	**2009**	**2010**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Interest-bearing bank and other borrowings	510,417	1,917,615	1,711,204	2,416,433
Trade payables	122,987	128,717	108,873	209,715
Other payables and accruals	133,772	201,765	302,930	254,919
Due to related companies	71,604	36,916	19,512	3,427
Due to the intermediate holding company	247,720	113,720	303,840	67,680
Due to minority shareholders of subsidiaries	20,647	59,259	80,363	135,394
Due to a shareholder	—	—	60,000	70,545
Less: Cash and bank balances	(253,066)	(805,874)	(453,004)	(711,387)
Less: Pledged deposits	—	(78,318)	(85,226)	(60,004)
Net debt	854,081	1,573,800	2,048,492	2,386,722
Equity	659,730	1,155,201	1,142,436	1,079,192
Equity and net debt	1,513,811	2,729,001	3,190,928	3,465,914
Gearing ratio	56%	58%	64%	69%

38. SUBSEQUENT EVENTS

(a) On 27 October 2010, the companies now comprising the Group underwent the Reorganisation in the preparation for the listing of the Company's shares on the Stock Exchange. Further details of the Reorganisation are set out in the paragraph headed "Reorganisation" in the section headed "Corporation Structure and History" to this Prospectus.

(b) On 2 August 2010, the Company capitalised the amounts due to Highkeen and Apexhill of HK$67,680,000 and HK$16,920,000 by issuance of 258,320 shares and 64,580 shares of the Company, respectively, of HK$0.10 each.

(c) Pursuant to the written resolution of the shareholders of the Company passed on 26 October 2010, the authorised share capital of the Company was increased from HK$500,000 to HK$1,000,000,000 by the creation of an additional 9,995,000,000 ordinary shares.

39. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2010.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong