DAMENG

CITIC Dameng Holdings Limited
中信大錳控股有限公司*

(incorporated in Bermuda with limited liability)

Stock Code: 1091

Annual Report 2011

*For identification purpose only

Contents

Corporate Information

Board Of Directors

Executive Directors

Mr. Qiu Yiyong (Chairman)
Mr. Li Weijian (Vice Chairman)
Mr. Tian Yuchuan (Chief Executive Officer)

Non-executive Directors

Mr. Mi Zengxin
Mr. Yin Ke (resigned on 25 August 2011)
Mr. Zeng Chen (appointed on 25 August 2011)
Mr. Chen Jiqiu

Independent Non-executive Directors

Mr. Yang Zhi Jie
Mr. Mo Shijian
Mr. Tan Zhuzhong

Audit Committee

Mr. Yang Zhi Jie (Chairman)
Mr. Mo Shijian
Mr. Tan Zhuzhong

Remuneration Committee

Mr. Qiu Yiyong (Chairman)
Mr. Li Weijian
Mr. Yang Zhi Jie
Mr. Mo Shijian
Mr. Tan Zhuzhong

Nomination Committee

Mr. Qiu Yiyong (Chairman)
Mr. Li Weijian
Mr. Yang Zhi Jie
Mr. Mo Shijian
Mr. Tan Zhuzhong

Company Secretary

Mr. Lau Wai Yip

Registered Office

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

Headquarters In Hong Kong

Suites 3501-02, Bank of America Tower
No.12 Harcourt Road, Central, Hong Kong

Telephone : (852) 2179 1310
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Principal Place Of Business In The PRC

CITIC Dameng Building, No.18 Zhujin Road
Nanning, Guangxi, PRC

Bermuda Principal Share Registrar And Transfer Office

Codan Services Limited
Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

Hong Kong Branch Share Registrar And Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

Auditors

Ernst & Young
Certified Public Accountants
22th Floor, CITIC Tower, 1 Tim Mei Avenue,
Central, Hong Kong

Compliance Advisor

Guotai Junan Capital Limited

Authorized Representatives

Mr. Qiu Yiyong
Mr. Tian Yuchuan

Principal Bankers

China CITIC Bank
China Construction Bank
China Merchants Bank
Standard Chartered Bank (Hong Kong) Limited

Stock Code

1091 (Mainboard of the Hong Kong Stock Exchange)

Company Website

www.dameng.citic.com

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for last five financial years, as extracted from the published audited financial statements and the Prospectus, is set out below.

Results

	Year ended 31 December				
	2011 HK$'000	**2010 HK$'000**	**2009 HK$'000**	**2008 HK$'000**	**2007 HK$'000**
Revenue	**3,654,690**	2,579,673	2,086,364	2,862,864	1,684,457
Profit before tax	**377,051**	262,789	75,325	431,092	416,066
Income tax	**(30,751)**	(14,339)	(11,613)	(31,302)	(22,143)
Profit for the year	**346,300**	248,450	63,712	399,790	393,923
Attributable to:					
Owners of the parent	**408,572**	229,132	48,611	239,227	219,796
Non-controlling interests	**(62,272)**	19,318	15,101	160,563	174,127
	346,300	248,450	63,712	399,790	393,923

Assets, Liabilities, Non-controlling interests and Equity attributable to owners of the parent

	31 December				
	2011 HK$'000	**2010 HK$'000**	**2009 HK$'000 (Restated)**	**2008 HK$'000**	**2007 HK$'000**
Non-current assets	**4,753,773**	2,887,155	2,232,162	1,783,797	927,983
Current assets	**4,142,958**	3,948,524	1,535,187	1,863,081	864,429
Total assets	**8,896,731**	6,835,679	3,767,349	3,646,878	1,792,412
Current liabilities	**2,694,422**	1,863,167	1,754,177	2,076,209	983,686
Non-current liabilities	**1,824,462**	1,570,513	870,736	415,468	148,996
Total liabilities	**4,518,884**	3,433,680	2,624,913	2,491,677	1,132,682
Net Assets	**4,377,847**	3,401,999	1,142,436	1,155,201	659,730
Equity attributable to owners of the parent	**3,982,608**	3,331,955	555,573	558,401	269,871
Non-controlling interests	**395,239**	70,044	586,863	596,800	389,859
	4,377,847	3,401,999	1,142,436	1,155,201	659,730

The Group has retrospectively restated the 2009 figures in its annual report for the year ended 31 December 2010, as detailed in note 2.2 to the financial statements for such year.

Chairman's Statement

I am delighted to take this opportunity to present to you the annual results of CITIC Dameng Holdings Limited ("CITIC Dameng") for the year ended 31 December 2011.

During last year, CITIC Dameng had experienced a challenging year. Although we have been battered by the US debt crisis and the Eurozone debt crisis, as well as the natural disasters, with all of our staff making their best efforts with due care and diligence and acting strictly in accordance with the plan directed by the Board of Directors, we have still achieved satisfactory operating results. The annual revenue from operations reached HK$3.65 billion, increased by 41.7% from the previous year, while profit attributable to shareholders grew by 78% from the previous year to HK$409 million. On behalf of the Board of Directors, I would like to take this opportunity to express my sincere gratitude to all employees and the shareholders for your continued support.

Through all our hard work in the past year, we managed to further increase the market share of our products, enhance our leading position in the industry, and strengthen our overall competitiveness as well. Our achievements during the year were as follows:

Making a "breakthrough" by way of merger and acquisition

We successfully acquired Guizhou Zunyi Hui Xing Ferroalloy Limited Company ("Hui Xing Company"), which holds the second largest manganese carbonate mine in China. Thus, our Company's manganese mineral resources increased by 22.3 million tonnes, and our manganese mineral resources accounted for approximately 33% of China's total proven reserve, representing an increase from approximately 22% from the previous year.

Our Company also obtained a gain on bargain purchase of HK$262 million upon acquisition of Hui Xing Company. In addition, with the full support of the local government, we planned to relocate our existing production plants in the designated future central business district to the low carbon-oriented Goujiang Economic and Technological Development Zone in Zunyi city. We had applied to change the land use of our existing plants covering 1,800 mu land to commercial use. It is expected that the development of such land will bring shareholders significant economic return.

Further secure the supply of raw materials

During the year, our Company acquired Hui Xing Company and Guangxi Sanmenglong Mining Limited Company, which had given a significant increase to our manganese mineral resources. We commenced the expansion works of the existing mine of Hui Xing Company within a relatively short period of time. Meanwhile, we commenced the infrastructure design of the new mining blocks. It is expected that the annual ore production of such mine in the coming year will increase to 300,000 tonnes from the current 120,600 tonnes. By 2015, when the new mining blocks commence operation, the annual mining capacity will reach 600,000 tonnes.

During the year, the mining and ore processing construction work in Bembélé Manganese Mine had been completed, and it had produced 340,100 tonnes of manganese ore concentrates. The principal part of construction of the road connecting the mine and Ndjole City and the transfer station of Ndjole City have been completed. In July 2011, we entered into a framework agreement on railway transportation with SETRAG, the railway operation bureau in Gabon, so as to secure the railway transportation after the full operation of the Bembélé Manganese Mine. It is expected that the annual production capacity of Bembélé Manganese Mine will reach 500,000 tonnes of ore concentrates in 2012.

While pushing forward the construction of the aforesaid mines, we will be able to strengthen our ability to secure the supply of raw materials for our downstream processing business.

Improving Research and Innovation Capability and Strengthening "Soft Power" of the Company

We have made progress in research and development on new power materials of lithium manganite grade EMD. Technologies of related critical material were honored by the government of Guangxi Zhuang Autonomous Region and the pilot trials have been completed. Also, the technology on manganese carbonate all dry beneficiation has been implemented in actual production. CITIC Dameng was designated as one of the key development projects on manganese downstream processing under the "Principals of Twelfth Five-Year Plan" of Guangxi Zhuang Autonomous Region, and has become one of the top 10 innovated enterprises in Guangxi.

Outlook

2012 will be another challenging year, as the world economic situation will become more severe and complex due to the increasing instability and uncertainty in the global economy. However, with industrialization, urbanization and modernization being progressed at a faster pace in China, the continued and stable economic growth will stimulate the development in manganese industry and provide a lot of development opportunities for manganese ore and manganese products in the long run.

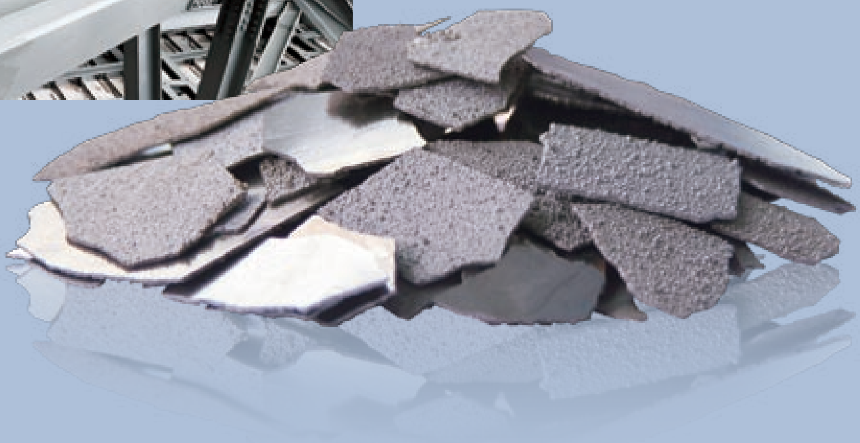
Leveraging on our strengths in abundant manganese resources and our core competitiveness, we believe that CITIC Dameng will benefit from the economic growth of China and the world. Accordingly, the Company's leadership in the industry will be further improved which will enable us to bring long term and stable benefits to our shareholders.

Qiu Yiyong
Chairman

Hong Kong, 1 March 2012

Introduction to Manganese

Manganese is an essential ingredient in the manufacturing of steel. Manganese removes impurities such as sulfur and oxygen in the steel manufacturing process and optimizes the physical properties of steel by improving its strength, hardness and abrasion resistance. Manganese also improves rolling and forging qualities and the weldability of steel. As there are no ready-made alternatives to manganese, it is expected that its usage in the steel industry will continue.

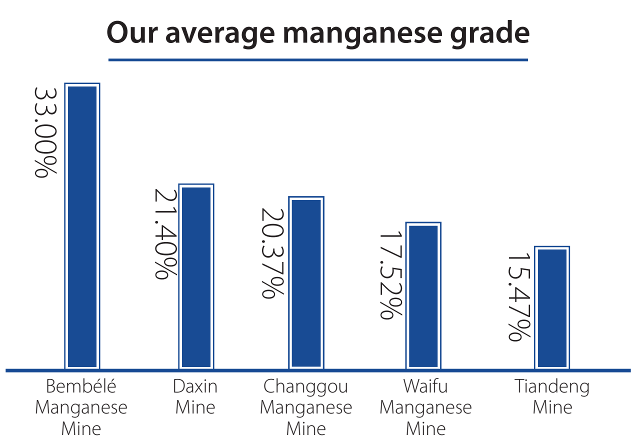


Overview of our manganese mineral resources

China: 107.60 million tonnes

Gabon: 30.68 million tonnes

Manganese is a hard and brittle gray-white metal and is one of the most widely used and versatile chemical elements in the world.



Management Discussion and Analysis

Financial Review

	2011 HK$'000	2010 HK$'000	Increase/(decrease) HK$'000	%
Revenue	**3,654,690**	2,579,673	1,075,017	41.7%
Operating profit (excluding share options expenses)	**158,051**	235,282	(77,231)	-32.8%
Share options expenses	**(61,987)**	–	(61,987)	N/A
Operating profit	**96,064**	235,282	(139,218)	-59.2%
Gain on bargain purchase	**262,775**	–	262,775	N/A
Increase in the fair value of investment properties	**18,212**	27,507	(9,295)	-33.8%
Profit before tax	**377,051**	262,789	114,262	43.5%
Income tax expense	**(30,751)**	(14,339)	(16,412)	114.5%
Profit after tax	**346,300**	248,450	97,850	39.4%
Profit attributable to owners of the parent	**408,572**	229,132	179,440	78.3%
(Loss)/profit attributable to non-controlling interests	**(62,272)**	19,318	(81,590)	N/A
	346,300	248,450	97,850	39.4%

Financial Highlights

- Turnover amounted to HK$3,654.7 million for 2011, representing an increase of 41.7% from HK$2,579.7 million of 2010.
- Operating profit (excluding share option expenses) for 2011 reached HK$158.1 million, representing a decrease of 32.8% from HK$235.3 million of 2010.
- The Group recorded a gain of HK$262.8 million (2010: Nil) on bargain purchase upon acquisition of Hui Xing Company.
- The Group's profit after tax amounted to HK$346.3 million for 2011, representing an increase of 39.4% over HK$248.5 million of 2010.
- Net profit attributable to owners of the parent amounted to HK$408.6 million for 2011, representing an increase of 78.3% over HK$229.1 million of 2010.

Overview

For 2011, the net profit attributable to owners of the parent is HK$408.6 million (2010: HK$229.1 million), or an increase of 78.3% as compared with last year.

Nonetheless, continuing turbulence in the global economy hit the market sentiment rapidly in the second half (especially in the fourth quarter) of 2011, and put significant downward pressures on our product selling prices. As a result, the profit attributable to owners of the parent for the year ended 31 December 2011 was hardly hit in the second half of the year which is comparatively much worse than the second half of the year 2010. These were mainly attributable to (i) the option expenses relating to share options granted by the Company in January 2011, which amounted to HK$62.0 million for the year 2011 and (ii) the prices of our products slide after continuous tightening of liquidity and other austerity measures in PRC in the fourth quarter of 2011 while raw material prices increased significantly over last year.

Despite above, the Group still recorded a substantial increase in the profit attributable to owners of the parent for the year ended 31 December 2011 as compared to 2010 which was mainly attributable to the gain on bargain purchase upon completion of acquisition of Hui Xing Company in May 2011.

Management Discussion and Analysis

Comparison with the 2010

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

	Year ended December 31							
	2011				2010			
	Sales Volume (tonnes)	Average Selling Price (HK$/ Tonne)	Revenue (HK$'000)	% of Total Revenue (%)	Sales Volume (tonnes)	Average Selling Price (HK$/ Tonne)	Revenue (HK$'000)	% of Total Revenue (%)
Manganese mining and ore processing								
Manganese concentrate	**172,015**	**732**	**125,984**	**3.4**	156,382	589	92,063	3.6
Natural discharging manganese powder and sand	**34,535**	**3,053**	**105,437**	**2.9**	93,933	2,072	194,645	7.6
Sub-Total	**206,550**	**1,120**	**231,421**	**6.3**	250,315	1,145	286,708	11.2
Manganese downstream processing								
EMM	**101,930**	**19,246**	**1,961,788**	**53.7**	94,608	15,786	1,493,520	57.9
Silicomanganese alloy	**63,838**	**8,325**	**531,461**	**14.5**	39,088	7,344	287,060	11.1
EMD	**15,993**	**10,038**	**160,539**	**4.4**	9,547	9,314	88,921	3.5
Manganese sulfate	**20,304**	**3,948**	**80,153**	**2.2**	20,920	3,490	73,019	2.8
Ferromanganese	**12,668**	**8,303**	**105,188**	**2.9**	1,134	7,712	8,745	0.3
Manganese tetroxide	**1,596**	**16,294**	**26,006**	**0.7**	–	–	–	–
Others	**9**	**35,111**	**316**	**0.0**	–	–	–	–
Sub-Total	**216,338**	**13,245**	**2,865,451**	**78.4**	165,297	11,805	1,951,265	75.6
Non-manganese ferroalloy processing								
High carbon ferrochromium	**13,416**	**10,109**	**135,620**	**3.7**	23,523	9,872	232,228	9.0
Lithium cobalt oxide	**245**	**228,416**	**55,962**	**1.5**	–	–	–	–
Sub-Total	**13,661**	**14,024**	**191,582**	**5.2**	23,523	9,872	232,228	9.0
Other business								
Trading	**28,637**	**12,789**	**366,236**	**10.1**	15,454	7,084	109,472	4.2
Total	**465,186**	**7,856**	**3,654,690**	**100.0**	454,589	5,675	2,579,673	100.0

Revenue

In 2011, the Group's revenue topped HK$3,654.7 million (2010: HK$2,579.7 million), representing an increase of 41.7% compared with 2010. Major reasons are: (1) Hui Xing Company and Sanmenglong were acquired in May 2011 and July 2011 respectively and their revenue were consolidated from the respective dates of acquisition; (2) Strong market demand particularly in the first half of 2011 pushed up both selling prices and sales volume for most of our downstream products, especially EMM and (3) increases in trading sales in 2011.

Manganese mining and ore processing – Performance of manganese mining and ore processing segment was less satisfactory in 2011 compared with 2010. Revenue decreased by 19.3% to HK$231.4 million (2010: HK$286.7 million). Sales volume from this segment dropped by 17.5% to 206,550 tonnes (2010: 250,315 tonnes) despite the respective increases in average selling prices of the two products of this segment. Major reasons of the drop in overall sales revenue and sales volume are (i) the shift of volume mix to the lower average selling price manganese concentrate; and (ii) more ore was utilised ourselves to match with the increase of the production of EMM and hence the direct sales of ore to third parties dropped.

Manganese downstream processing – In 2011, average EMM price rose to HK$19,246/tonne (2010: HK$15,786/tonne), representing an increase of 21.9%. EMM sales volume also increased by 7.7% to 101,930 tonnes (2010: 94,608 tonnes). However, as a percentage of total sales, EMM accounted for 53.7% (2010: 57.9%) of our total sales as we acquired Hui Xing Company in May 2011 which was engaged in silicomanganese and ferromanganese production. Furthermore, increase in trading sales also further diluted EMM's percentage share.

Management Discussion and Analysis

Sales volume of EMD for 2011 soared by 67.5% to 15,993 tonnes (2010: 9,547 tonnes) due to commencement of production of Daxin's second EMD production line of 10,000 tonnes in September 2010. Average selling price increased by 7.7% to HK$10,038/tonne (2010: HK$9,314/tonne).

For 2011, sales volume of silicomanganese increased by 63.3% to 63,838 tonnes (2010: 39,088 tonnes) primarily as a result of consolidating Hui Xing Company with effect from June 2011. Also, Qinzhou New Materials switched to produce silicomanganese alloy from high carbon ferrochromium in September 2011 and contributed to sales volume of 2,192 tonnes. Nevertheless, market demand for silicomanganese alloy remained weak due to intense competition. Average selling price of silicomanganese alloy increased by 13.4% to HK$8,325/tonne (2010: HK$7,344/tonne), and the increase was in line with other commodity price increase, and was mainly due to the increase in the unit cost of raw materials.





Non-manganese ferroalloy processing – Continuous weak demand of high carbon ferrochromium led to the further drop in sales volume by 43.0% to 13,416 tonnes (2010: 23,523 tonnes) despite mild increase in the average selling prices of 2.4% to HK$10,109/tonne (2010: HK$9,872/tonne) due only to the appreciation of RMB against HKD. In addition, our Qinzhou ferroalloy plant stopped producing high carbon ferrochromium and shifted to producing silicomanganese alloy starting from October 2011.

Management Discussion and Analysis

The following table sets out the cost of sales, unit cost of sales, gross profit/(loss) and gross profit/(loss) margins of our products and services.

	Year ended December 31							
	2011				2010			
	Cost of Sales (HK$'000)	Unit Cost of Sales (HK$/ Tonne)	Gross Profit/ (Loss) (HK$'000)	Gross Profit/ (Loss) Margin (%)	Cost of Sales (HK$'000)	Unit Cost of Sales (HK$/ Tonne)	Gross Profit/ (Loss) (HK$'000)	Gross Profit/ (Loss) Margin (%)
Manganese mining and ore processing								
Manganese concentrate	**59,597**	**346**	**66,387**	**52.7**	23,713	152	68,350	74.2
Natural discharging manganese powder and sand	**27,588**	**799**	**77,849**	**73.8**	65,446	697	129,199	66.4
Sub-Total	**87,185**	**422**	**144,236**	**62.3**	89,159	356	197,549	68.9
Manganese downstream processing								
EMM	**1,474,332**	**14,464**	**487,456**	**24.8**	1,143,543	12,087	349,977	23.4
Silicomanganese alloy	**539,536**	**8,452**	**(8,075)**	**(1.5)**	263,160	6,733	23,900	8.3
EMD	**117,520**	**7,348**	**43,019**	**26.8**	74,045	7,756	14,876	16.7
Manganese sulfate	**66,208**	**3,261**	**13,945**	**17.4**	61,975	2,962	11,044	15.1
Ferromanganese	**110,356**	**8,711**	**(5,168)**	**(4.9)**	12,240	10,794	(3,495)	(40.0)
Manganese tetroxide	**26,191**	**16,410**	**(185)**	**(0.7)**	–	–	–	–
Others	**283**	**31,444**	**33**	**10.4**	–	–	–	–
Sub-Total	**2,334,426**	**10,791**	**531,025**	**18.5**	1,554,963	9,407	396,302	20.3
Non-manganese ferroalloy processing								
High carbon ferrochromium	**140,239**	**10,453**	**(4,619)**	**(3.4)**	228,686	9,722	3,542	1.5
Lithium cobalt oxide	**51,319**	**209,465**	**4,643**	**8.3**	–	–	–	–
Sub-Total	**191,558**	**14,022**	**24**	**0.0**	228,686	9,722	3,542	1.5
Other business								
Trading	**372,658**	**13,013**	**(6,422)**	**(1.8)**	97,370	6,301	12,102	11.1
Total	**2,985,827**		**668,863**	**18.3**	1,970,178		609,495	23.6

Cost of Sales

Cost of sales increased by HK$1,015.6 million or 51.5% to HK$2,985.8 million in 2011, as compared to HK$1,970.2 million in 2010. The increase was primarily due to: (1) general increase in sales volume of major products; (2) consolidation of Hui Xing Company and Sanmenglong since their respective dates of acquisition in May 2011 and July 2011; (3) increase in the unit cost of direct materials and other auxiliary materials; and (4) purchases directly for trading.

The unit cost of manganese mining and ore processing segment during 2011 increased by 18.5% to HK$422/tonne (2010: HK$356/tonne). This increase was mainly attributable to (i) continuous increase in the unit costs of fuel and explosives consumed; (ii) lower production efficiency in Luli and Dongmeng sub-regions of Tiandeng Mine mining operations which commenced production in early 2011 with higher transportation cost as the location was farther away from the production line compared with the old sub-regions; and (iii) higher unit cost of the newly acquired Hui Xing Company due to different geological structure.

In 2011, unit cost of EMM increased by 19.7% to HK$14,464/tonne (2010: HK$12,087/tonne). This was mainly attributable to the increase in unit costs of auxiliary materials including sulfuric acid and selenium dioxide, labour costs and electricity. In addition, power supply constraint in the fourth quarter of 2011 also dampened our EMM production volume and hence further raised our EMM unit cost.

Unit cost of silicomanganese alloy increased by 25.5% to HK$8,452/tonne (2010: HK$6,733/tonne) mainly due to (1) rise in price of high-grade manganese concentrates in line with the market conditions of other commodities; and (2) higher average unit cost of Hui Xing Company's imported ores than our existing plants.

Unit cost of high carbon ferrochromium increased by 7.5% to HK$10,453/tonne (2010: HK$9,722/tonne) which was in line with the increase in price of chromium ores.

Gross Profit

In 2011, the Group recorded a gross profit of HK$668.9 million (2010: HK$609.5 million), representing an increase of HK$59.4 million or 9.7%. The Group's overall gross profit margin was 18.3%, representing a decrease of 5.3% from 23.6% of 2010. The deteriorated overall gross profit margin was mainly attributable to (i) lower profit margin of products of the newly-acquired Hui Xing Company; and (2) increase in sales from trading segment, which used to be of comparatively much lower margin.

Gain on Bargain Purchase

Gain on bargain purchase represents the gain recorded upon acquisition.

Selling and Distribution Expenses

The Group's selling and distribution expenses in 2011 have increased by 15.9% to HK$90.4 million (2010: HK$78.0 million). The increase was in line with the increase in revenue.

Administrative Expenses

Administrative expenses increased by 40.0% to HK$306.7 million for 2011 (2010: HK$219.1 million). The increase was mainly attributable to (1) increase in scale of operations; and (2) additional entities post acquisition.

Finance Cost

For 2011, our Group's finance cost was HK$127.8 million (2010: HK$95.7 million), representing an increase of 33.5%. This was the combined effect of (1) the increase in average bank loan balance to further invest in the projects in the PRC and Gabon; and (2) increase in average interest rate.

Management Discussion and Analysis

Income Tax

Our tax expense increased to HK$30.8 million for the year ended 31 December 2011 (2010: HK$14.3 million) due primarily to the increase in corporate income tax rate of a major PRC subsidiary from 7.5% in 2010 to 15% in 2011.

Profit Attributable to Owners of the Parent

For 2011, the Group's profit attributable to owners of the parent was HK$408.6 million (2010: HK$229.1 million), representing an increase of 78.3% over 2010.

Earnings per share

For 2011, earnings per share attributable to ordinary equity holders of the Company amounted to 13.51 HK cents (2010: 13.01 HK cents), representing an increase of approximately 3.8% from 2010.

Final Dividend

The Board of Directors proposed payment of dividends of HK1.0 cent per share (2010: Nil) for the year ended 31 December 2011.

Use of Proceeds from IPO

As at 31 December 2011, we utilised the net proceeds raised from the IPO in accordance with the uses set out in the Prospectus as follows:

	Description	Amount designated in Prospectus (HK$ Million)	Amount utilised in 2011 (HK$ Million)	% utilised
1	Expansion project at Daxin EMD Plant	79	33	41.5%
2	Expansion project of underground mining and ore processing at Daxin Mine	278	64	22.9%
3	Expansion and construction projects of our EMM production facilities	516	185	35.9%
4	Construction project at Chongzuo Base	59	8	13.3%
5	Development of Bembélé manganese mine and associated facilities	119	119	100.0%
6	Technological improvement and renovation projects at our production facilities	40	40	100.0%
7	Acquisition of mines and mining right	397	271	68.4%
8	Repayment on a portion of our bank borrowings	297	297	100.0%
9	Working capital and other corporate purposes	198	198	100.0%
	Total	1,983	1,215	61.3%

Note: No proceeds have been utilised before 31 December 2010.

Liquidity and financial resources

As at 31 December 2011, our cash and bank balance was HK$1,898.4 million (2010: HK$2,580.7 million) while the Group's aggregate borrowings amounted to HK$3,290.3 million (2010: HK$2,686.9 million). The Group's net debt increased to HK$1,391.9 million (2010: HK$106.2 million) and was attributable to: (i) our capital expenditure including improvements of our existing production facilities and new EMM plants in the PRC and mine development in Gabon during the year; and (ii) acquisition of Hui Xing Company and Sanmenglong.

To manage liquidity risk, the Group will continue to monitor current and expected liquidity requirements to ensure that it maintains sufficient balance of cash in the short and long terms as well as facilities from banks and financial institutions.

At the same time, equity attributable to owners of the parent surged to HK$3,982.6 million (2010: HK$3,332.0 million) while total assets increased to HK$8,896.7 million (2010: HK$6,835.7 million).

Bank and other Borrowings

As at 31 December 2011, the Group's borrowing structure and maturity profile are as follows:

Borrowing structure	**2011 HK$ million**	**2010 HK$ million**
Secured borrowings	**296.1**	324.7
Unsecured borrowings	**2,994.2**	2,362.2
	3,290.3	2,686.9

Maturity profile	**2011 HK$ million**	**2010 HK$ million**
Repayable:		
On demand or within one year	**1,791.1**	1,172.7
After one year and within two years	**797.1**	480.0
After two years and within five years	**702.1**	897.7
After five years	**–**	136.5
	3,290.3	2,686.9

Management Discussion and Analysis

Currency denomination	2011 HK$ million	2010 HK$ million
Denominated in:		
RMB	**2,870.0**	2,413.0
USD	**420.3**	273.9
	3,290.3	2,686.9

As at 31 December 2011, borrowings as to the amounts of HK$351.7 million (2010: HK$375.3 million) and HK$2,938.6 million (2010: HK$2,311.6 million), carry fixed and floating rate interest respectively. The fixed rate borrowings carry interest at rates ranging from 5.81% to 6.56%. The floating rate borrowings carry interest at a discount of 5% to 10% below the Benchmark Borrowing Rates of the People's Bank of China, except the USD loan which carries interest at a rate of LIBOR+0.85%.

Interest rate risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our floating rate debt. Our loans' bearing floating interest rates are subject to published interest rate changes in PBOC as well as movements in LIBOR. If the PBOC increases interest rates or LIBOR moves up, our finance cost will increase. In addition, to the extent that we may need to raise debt financing or roll over our short-term loans in the future, any upward fluctuations in interest rates will increase the cost of new debt obligations. We do not currently use any derivative instruments to modify the nature of our debt for risk management purpose.

Foreign exchange risk

In 2011, the Group's operations are primarily in the PRC and Gabon. Our products are sold to customers in the PRC and to a much less extent to some other countries. Our major exposures to exchange rate fluctuations are only limited to export sales denominated in US dollars and certain XAF denominated costs incurred locally in Gabon. XAF is currently pegged to Euros. Our Gabon operations have not yet commenced any sales in 2011, and we expect that any sales from it will be denominated in US dollars or RMB. We have not entered into any foreign exchange contract or derivative transactions to hedge against foreign exchange fluctuations. However, we prepare rolling forecasts of our foreign currency revenue and expense and monitor the currency and the amount incurred, so as to control the impact on our business due to foreign exchange rate fluctuations.

Key Financial Ratios of the Group

	2011	2010
Current ratio	**1.5**	2.1
Quick ratio	**1.2**	1.9
Net gearing ratio	**33.4%**	17.6%

Current ratio	=	balance of current assets at the end of the year/balance of current liabilities at the end of the year
Quick ratio	=	(balance of current assets at the end of the year – balance of inventories at the end of the year)/balance of current liabilities at the end of the year
Net gearing ratio	=	Calculated as net debt divided by the sum of total equity (including non-controlling interests) and net debt. Net debt is defined as the sum of interest-bearing bank and other borrowings, trade payables, other payables and accruals and amounts due to related companies less cash and cash equivalents and pledged deposits

Management Discussion and Analysis

Business Review

Resources and reserves

Below is the information on our mineral resources and ore reserves in accordance with JORC Code as of 31 December 2011:

Summary of our manganese mineral resources

Mining Block	Ownership Percentage	JORC Resource Category	Million tonnes	Average Manganese Grade (%)	Million tonnes	Average Manganese Grade (%)
			31.12.2011		31.12.2010	
Daxin Mine	100%	Measured	**6.58**	**24.37**	7.20	24.24
		Indicated	**69.09**	**21.12**	69.60	21.11
		Subtotal	**75.67**	**21.40**	76.80	21.42
		Inferred	**0.43**	**21.23**	0.43	21.23
		Total	**76.10**	**21.40**	77.23	21.41
Tiandeng Mine	100%	Measured	**0.86**	**17.07**	0.87	17.05
		Indicated	**3.22**	**16.40**	3.27	16.40
		Subtotal	**4.08**	**16.59**	4.14	16.58
		Inferred	**3.64**	**14.26**	3.65	14.27
		Total	**7.72**	**15.47**	7.79	15.48
Waifu Manganese Mine	100%	Measured	**–**	**–**	N/A	N/A
		Indicated	**–**	**–**	N/A	N/A
		Subtotal	**–**	**–**	N/A	N/A
		Inferred	**1.54**	**17.52**	N/A	N/A
		Total	**1.54**	**17.52**	N/A	N/A
Changgou Manganese Mine	64%	Measured	**3.25**	**20.45**	N/A	N/A
		Indicated	**15.87**	**20.32**	N/A	N/A
		Subtotal	**19.12**	**20.34**	N/A	N/A
		Inferred	**3.12**	**20.5**	N/A	N/A
		Total	**22.24**	**20.37**	N/A	N/A
Bembélé Manganese Mine	51%	Measured	**–**	**–**	–	–
		Indicated	**18.31**	**33.18**	18.59	33.17
		Subtotal	**18.31**	**33.18**	18.59	33.17
		Inferred	**12.37**	**32.74**	12.37	32.74
		Total	**30.68**	**33.00**	30.96	33.00
Total			**138.28**		115.98	

Summary of our manganese ore reserves

Mine	Ownership Percentage	JORC Resource Category	Million tonnes (31.12.2011)	Average Manganese Grade (%) (31.12.2011)	Million tonnes (31.12.2010)	Average Manganese Grade (%) (31.12.2010)
Daxin Mine	100%	Proved	**6.36**	**21.71**	6.98	21.86
		Probable	**66.56**	**18.86**	67.07	18.87
		Total	**72.92**	**19.11**	74.05	19.15
Tiandeng Mine	100%	Proved	**0.82**	**15.44**	0.83	15.99
		Probable	**3.10**	**15.42**	3.15	15.40
		Total	**3.92**	**15.42**	3.98	15.52
Waifu Manganese Mine	100%	Proved	**–**	**–**	N/A	N/A
		Probable	**–**	**–**	N/A	N/A
		Total	**–**	**–**	N/A	N/A
Changgou Manganese Mine	64%	Proved	**3.27**	**20.45**	N/A	N/A
		Probable	**14.72**	**20.30**	N/A	N/A
		Total	**17.99**	**20.33**	N/A	N/A
Bembélé Manganese Mine	51%	Proved	**–**	**–**	–	–
		Probable	**18.26**	**31.58**	18.54	31.59
		Total	**18.26**	**31.58**	18.54	31.59
Total			**113.09**		96.57	

Management Discussion and Analysis

Exploration, Development, and Mining Activities

I) Exploration

Daxin Mine

During the year, we have done the preparation work for the exploration at the northern and central mining blocks within the area under the mining permit of the Daxin Mine and on 10 December 2011, we entered into an agreement on exploration and production with China Metallurgical Geology Bureau Nanning Geological Survey Institute of Central South Bureau for exploration covering area with approximately 4.92km^2 in size with drilling holes over 20,000 meters and costean survey totaling around 2,000 meters, so that we can ascertain the shape, size, attitude, thickness and variation of the ore bodies.

Tiandeng Mine

Since March 2011, we conducted exploration work in the mining blocks of Dongmeng, Tiandeng Mine. As at 31 December 2011, 45 drilling holes totaling 7,077 meters and costean survey totaling 1,434 meters at the mining blocks of Tuoren East, Tuoren West, Luli and Dongmeng of Tiandeng Mine were completed. After the completion of the drilling works, Nanning San Die Geological Resource Development Limited will analyse the results and design the next phase of the exploration work.

Furthermore, the in-depth exploration of manganese carbonate ore carried out at the Tiandeng Mine had proved that there are ore bodies extending to 440 meters underground, which is outside the height limits of the mining rights. We are prepared to apply for the exploration right of such resources. We also intend to apply for complete exploration of Dongping, Tiandeng to Longhuai Manganese Mine, Tiandong with an area of about 600km^2, and expect to confirm 100 million tonnes of manganese mineral resources. Pursuant to the Notice Regarding the Reporting of Large-scale Geology Exploration Projects of Ore Resources in Guangxi in 2011(Gui Guo Tu Zi Fa[2011] No.46) issued jointly by the Department of Land and Resources of Guangxi and the Ministry of Finance of Guangxi, we had submitted applications for the two projects to the relevant Guangxi government authorities at the end of June 2011 and made preparation for the next phase at the same time.

Waifu Manganese Mine

Since our acquisition in July 2011, no exploration work has been done yet.

Changgou Manganese Mine

Since our acquisition in May 2011, no exploration work has been done yet.

Bembélé Manganese Mine

In June 2011, we entered into a contract with No. 1 Institute of China Metallurgical Geology Bureau regarding the geology survey of Manganese Mine Line 57-63 at Bembélé, Ndjole, the Republic of Gabon and the related valuation of the peripheral mining blocks. The exploration staff have collected samples of ores to prepare a detailed exploration survey report. It is expected that the survey report will be completed in mid-2012.

II) Development

Daxin Mine

During the year, we purchased a number of mining machines for Daxin Mine.

Tiandeng Mine

During the year, we purchased a number of mining machines for Tiandeng Mine.

Waifu Manganese Mine

During the year and after our acquisition, we have made the application to the Ministry of Land and Resources and we are waiting for the issuance of mining certificate.

Changgou Manganese Mine

During the year, we have completed the feasibility study report on technological advancement for increasing the production capacity to 600,000 tonnes per annum at Changgou Manganese Mine. We are now finalizing the reconstruction plan for the initial mine construction to facilitate further expansion of our production capacity.

Bembélé Manganese Mine

On 28 February 2011, we entered into a handling and logistics service agreement with SDV Gabon in respect of the logistics services at Société d' Exploitation des Parcs à Bois du Gabon of Owendo Port. During the year, we also completed the road diversion work of a total of 6,500 meters. Completion of such work enhances road safety and lowers the transportation costs as the number of bends and steepness were reduced. The trial production of mining operation of Bembélé Manganese Mine commenced in March 2011 and an aggregate of 340,100 tonnes of manganese ore had been extracted during the year.

III) Mining activities

1) Mining operations

Daxin Mine

	2011	2010
Open pit mining		
Mine production (thousand tonnes)	**806**	674
Underground mining		
Mine production (thousand tonnes)	**385**	354
Total mine production (thousand tonnes)	**1,191**	1,028
Average manganese grade		
Manganese carbonate ore	**18.21%**	19.5%
Manganese oxide ore	**30.68%**	31.3%

Management Discussion and Analysis

Tiandeng Mine

	2011	2010
Open pit mining		
Mine production (thousand tonnes)	**287**	125
Average manganese oxide grade	**14.2%**	15.5%

Waifu Manganese Mine (Acquired with effect from July 2011)

During the year and after acquisition, no mining and exploitation work has been performed.

Changgou Manganese Mine (Acquired with effect from 31 May 2011)

	2011	2010
Underground mining		
Mine production (thousand tonnes)	**120.6**	N/A
Average manganese carbonate grade	**17.3%**	N/A

Bembélé Manganese Mine

	2011	2010
Open pit mining		
Mine production (thousand tonnes)	**340.1**	17.7
Average manganese oxide grade	**30.1%**	31.2%

(2) Ore processing operations

- Concentrating

Production (thousand tonnes)	2011	2010
Daxin Concentration Plant		
Concentrate production		
Manganese carbonate ore	**699**	656
Manganese oxide ore	**111**	106
Total	**810**	762
Average manganese grade of concentrate		
Manganese carbonate ore	**19.3%**	20.0%
Manganese oxide ore	**32.0%**	33.1%
Tiandeng Concentration Plant		
Manganese concentrate production	**151**	65.6
Average manganese grade of concentrate	**22.5%**	23.7%
Bembélé Concentration Plant		
Concentrate production	**268.9**	13.7
Average manganese grade of concentrate	**32.19%**	32.5%

- Grinding

Production (thousand tonnes)	2011	2010
Daxin Grinding Plant		
Powder produced	**706**	720

Management Discussion and Analysis

IV) Downstream processing operations

(1) Manganese downstream processing operations

- EMM

Our existing EMM production facilities include Daxin EMM Plant, Start EMM Plant, Tiandong EMM Plant and Sanmenglong EMM Plant. EMM facilities under construction include Tiandeng EMM Plant and the third production line of Tiandong EMM Plant. Details are set out below:

Production (thousand tonnes)	2011	2010
Daxin EMM Plant		
EMM production	**70.3**	65
Start EMM Plant		
EMM production	**14.4**	14
Tiandong EMM Plant		
EMM production	**17.6**	14
Sanmenglong EMM plant (Acquired with effect from July 2011)		
EMM production	**5.9**	N/A
Total	**108.2**	94

- Manganese sulfate

Production (thousand tonnes)	2011	2010
Daxin Manganese Sulfate Plant		
Manganese sulfate production	**19.3**	20

- EMD

Production (thousand tonnes)	2011	2010
Daxin EMD Plant		
EMD production	**17.1**	12

- Silicomanganese alloy

Production (thousand tonnes)	2011	2010
Tiandeng Ferroalloy Plant	**24.8**	32
Dabao Ferroalloy Plant	**8.4**	10.7
Qinzhou New Material Ferroalloy plant	**4.2**	–
Hui Xing Ferroalloy Plant (Acquired with effect from 31 May 2011)	**16.4**	N/A
Total	**25.4**	42.6

- Ferromanganese

Production (thousand tonnes)	2011	2010
Hui Xing Ferroalloy Plant (Acquired with effect from 31 May 2011)		
High carbon ferromanganese	**7.2**	N/A
Low and medium carbon ferromanganese	**1.9**	N/A
Total	**9.1**	N/A

- Manganese tetroxide and lithium manganese oxide

Production (thousand tonnes)	2011	2010
Manganese tetroxide	**3.1**	0.27
Lithium manganese oxide	**0.34**	0.08

(2) *Non-manganese processing operations*

- High carbon ferrochromium

Production (thousand tonnes)	2011	2010
High carbon ferrochromium	**12.9**	26
Lithium cobalt oxide	**0.34**	0.07

Management Discussion and Analysis

V) *Exploration, development and mining cost of the Group*

Expenses of exploration, development, and mining activities of the Group for the year ended 31 December 2011 are set out below:

(HK$'000)

	Daxin Mine	Tiandeng Mine	Waifu Manganese Mine (Note)	Changgou Manganese Mine (Note)	Bembélé Manganese Mine	Total
Exploration activities						
Drilling and analysis	–	8,717.4	–	–	878.6	9,596.0
Others	–	–	–	–	19.9	19.9
	–	8,717.4	–	–	898.5	9,615.9
Development activities (including mine construction)						
Purchases of assets and equipment	1,825.2	9,455.8	–	–	105,256.1	116,537.1
Construction of tunnels and roads	52,408.9	1,231.8	–	–	32,258.1	85,898.8
Staff cost	261.1	–	–	–	144.3	405.4
Others	5,545.5	–	–	–	2,577.9	8,123.4
	60,040.7	10,687.6	–	–	140,236.4	210,964.7
Mining activities*						
Staff cost	12,009.1	2,886.5	–	11,502.6	1,396.5	27,794.7
Consumables	13,904.8	1,970.0	–	9,916.1	–	25,790.9
Fuel, electricity, water and other services	18,752.3	5,395.8	–	1,931.9	4,861.9	30,941.9
On and off-site administration	11,441.8	–	–	–	–	11,441.8
Transportation	2,097.3	–	–	–	–	2,097.3
Non-income taxes, royalties and other governmental charges	30.5	–	–	–	–	30.5
Others	45,653.6	6,026.5	–	791.0	8.1	52,479.2
Depreciation	13,795.9	2,022.5	–	584.0	4,560.6	20,963.0
	117,685.3	18,301.3	–	24,725.6	10,827.1	171,539.3

(* Concentrating not included)

Note: Waifu Manganese Mine was acquired with effect from 31 July 2011 and Changgou Manganese Mine from 31 May 2011. We are in the progress of applying for the mining right certificates of these two mines.

Expenses of exploration, development, and mining activities of the Group for the year ended 31 December 2010 are set out below:

(HK$'000)

	Daxin Mine	Tiandeng Mine	Bembélé Manganese Mine	Total
Exploration activities				
Drilling and analysis	–	2,238.2	–	2,238.2
	–	2,238.2	–	2,238.2
Development activities (including mine construction)				
Purchases of assets and equipments	20,495.5	2,613.2	59,775.8	82,884.5
Construction of tunnels and roads	43,183.0	–	18,661.2	61,844.2
Staff cost	26.3	–	3,308.4	3,334.7
Transportation cost	–	–	7,049.4	7,049.4
Others	3,741.6	–	34,431.4	38,173.0
	67,446.4	2,613.2	123,226.2	193,285.8
Mining activities*				
Staff cost	7,471.3	1,409.7	238.6	9,119.6
Consumables	7,719.7	1,558.1	0.3	9,278.1
Fuel, electricity, water and other services	16,473.9	1,481.8	152.7	18,108.4
On and off-site administration	27,951.9	–	–	27,951.9
Transportation	34.1	–	91.7	125.8
Non-income taxes, royalties and other governmental charges	1,979.8	–	–	1,979.8
Others	38,551.7	4,160.8	51.6	42,764.1
Depreciation	11,230.5	885.6	411.2	12,527.3
	111,412.9	9,496.0	946.1	121,855.0

(* Concentrating not included)

Management Discussion and Analysis

Human Resources

As at 31 December 2011, the Group had approximately 8,289 (2010: 3,055) full-time employees in HK and the PRC following the acquisition of Hui Xing Company and Sanmenglong in May 2011 and July 2011 respectively; approximately 202 (2010:140) full-time employees in Gabon. The Group offers a competitive remuneration and welfare package to its employees and will regularly review its remuneration scheme to ensure remuneration packages are market-competitive. Other benefits including comprehensive medical, life and disability insurance plans and retirement schemes are offered to employees.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme.

The Group operates the following contribution retirement benefit schemes for its employees:

(a) a defined scheme under the Pension Provisioning Law in Gabon for those employees in Gabon who are eligible to participate; and

(b) a defined scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees in Hong Kong who are eligible to participate.

Contributions are made based on a percentage of the employees' basic salaries. The assets of the above schemes are held separately from those of the Group in independently administered funds. The Group's contributions as an employer vest fully with the employees when contributed into these schemes. The Company operates a share option scheme for the purpose of providing incentives.

In January 2011, share options of the Company have also been granted to Directors and selected employees of the Group for rewarding and retaining talents. The Group will also provide training programmes to its eligible employees to enhance staff quality, technical knowledge and team spirit.

Directors and Senior Management Profiles

Executive Directors

Qiu Yiyong (邱毅勇), aged 55, is the Chairman and Executive Director of the Company. He is also a director of several subsidiaries of the Group. He holds a Bachelor of Economics Degree from Xiamen University. He is currently a non-executive director of CITIC Resources (Stock Code: 1205), a director of Keentech Group Limited, and the Chairman of CITIC United Asia Investments Limited. He also holds directorships in several other subsidiaries of CITIC Group. Mr. Qiu has over 30 years' experience in investment management and extensive experience in mining management.

Li Weijian (李維健), aged 49, is an Executive Director and Vice Chairman of the Company. He is also a director of several subsidiaries of the Group. He graduated from Shenyang Gold Vocational Training College (瀋陽黃金專科學校畢業) with professional qualifications in mining mechanics (礦山機械專業) in 1982. He is currently a director of Guangxi Dameng. He also holds directorships in several other subsidiaries of Guangxi Dameng. Mr. Li has 26 years of experience in manganese mining and manganese related business, at both the management and operational level and has assumed a wide spectrum of roles in different mining companies.

Tian Yuchuan (田玉川), aged 47, is the Executive Director and Chief Executive Officer of the Company. He is also a director of several subsidiaries of the Group. He holds a Bachelor of Arts Degree from the Beijing Foreign Studies University. Mr. Tian is currently a non executive director of CITIC Resources (Stock Code: 1205). He also held senior positions in several subsidiaries of CITIC Group between 1986 and 2004. Mr. Tian has over 26 years' experience in multi-national businesses, corporate management, international equity investments and corporate finance.

Directors and Senior Management Profiles

Non-Executive Directors

Mi Zengxin (秘增信), aged 61, is a Non-executive Director of the Company. He holds a Master's Degree in Science from Beijing University of Science and Technology. He is currently a non-executive director of Asia Satellite Telecommunications Holdings Limited (Stock Code: 1135), and a director of CITIC United Asia. He also holds executive management positions in several other subsidiaries of CITIC Group. Mr. Mi has many years of experience in multi-national business, corporate management and various industries.

Mr. Zeng Chen (曾晨), aged 48, was appointed as a Non-executive director of the Company on 25 August 2011. He is currently the Vice Chairman and Chief Executive Officer of CITIC Resources (Stock Code: 1205), the chairman of CITIC Australia Pty Limited, and a non-executive director of Marathon Resources Limited (listed on the Australian Securities Exchange). He also holds directorships in several other subsidiaries of CITIC Group. Mr. Zeng has over 23 years' experience in business operations and development, project investment, asset restructuring and the natural resources industry. Mr. Zeng holds a Master's Degree in International Finance from Shanghai University of Finance and Economics.

Chen Jiqiu (陳基球), aged 53, is a Non-executive director of the Company. He is also a director of several subsidiaries of the Group. Mr. Chen obtained a junior college diploma and graduation certificate in economics and management from the University of Guangxi (廣西大學) in 1988. He was granted the title of senior economist in 1999 by the committee member for the Assessment of the Qualifications of Senior Economist of the Guangxi Zhuang Autonomous Region (廣西壯族自治區高級經濟師職務資格評審委) and the Working Group for Reformation of Work Titles (廣西壯族自治區職稱改革工作領導小組). He was also issued the Advanced Professional Executive Qualification Certificate (高級職業經理資質證書) by the China Enterprise Confederation (中國企業聯合會) and China Enterprise Directors Association (中國企業家協會) in 2010. He is currently a director of Guangxi Dameng. Mr. Chen has almost 31 years of experience in the PRC mining industry and, in particular, has extensive management experience in the manganese industry.

Independent Non-Executive Directors

Mo Shijian (莫 世 健), aged 55, is an Independent Non-executive Director of the Company. Mr. Mo is the Chair Professor of Faculty of Law at University of Macau and a professor of law at China University of Political Science and Law and is the director of the Center for Trade Remedies at China University of Political Science and Law. Mr. Mo specializes in trade remedies and arbitration and has acted as an arbitrator in a number of cases involving international sales, financing, leasing, investment and franchising. He is an arbitrator of the China International Economic and Trade Arbitration Commission, an arbitrator of the China Maritime Arbitration Commission and a legal adviser to the China Center for Maritime Law Enforcement. He is currently acting as an independent director of Meng Na Textile Company Ltd.

Tan Zhuzhong (譚 柱 中), aged 72, is an Independent Non-executive Director of the Company. Mr. Tan has more than 41 years of experience in the field of mining and metallurgical research. He was employed by the Changsha Metallurgical Research Institute of the Metallurgical Ministry (冶金部長沙礦冶研究院) from 1963 to 1986, and was in charge of various metallurgical research studies. He also has extensive experience in the manganese industry. Mr. Tan is well recognized for his professional knowledge in the field of metallurgical technologies and has received a number of awards for various research projects that he led. He is also actively involved in several industry associations and has published articles in a number of professional journals.

Yang Zhi Jie (楊智傑), aged 67, is an Independent Non-executive Director of the Company. Mr. Yang obtained a Master of Business Administration degree with an emphasis on Economics from the Hong Kong University of Science and Technology in 1996. Mr. Yang is a chartered member of CFA (Chartered Financial Analysts) Institute, a full member of Hong Kong Securities Institute, a member of American Institute of Certified Public Accountants, a fellow member of The Chartered Institute of Management Accountants, United Kingdom, and a fellow member of Hong Kong Institute of Certified Public Accountants.

Directors and Senior Management Profiles

Senior Management

Lau Wai Yip (劉偉業), aged 49, joined the Company as the Chief Financial Officer and Company Secretary in 2010. Mr. Lau is responsible for the financial management and company secretarial matters of the Group. He holds a degree of Master of Business Administration from the Hong Kong University of Science and Technology. He is a member of the Chartered Association of Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants, and also a member of the American Institute of Certified Public Accountants. During the period from June 2006 to June 2008, he held various positions (including executive director during the period from July 2007 to May 2008) in GCL-Poly Energy Holdings Limited (Stock Code: 3800). He has over 26 years of experience in auditing, financial management and company secretarial management.

Ma Shirong (馬詩鎔), aged 59, is the Vice President of the Company. Mr. Ma holds an EMBA degree by China Europe International Business School (中歐國際工商學院). He has been the chief financial officer of CITIC Dameng Mining since 2006 and is responsible for overseeing the financial operations of CITIC Dameng Mining.

Corporate Governance Report

The Company is committed to maintaining a good and sensible framework of corporate governance and to complying with applicable statutory and regulatory requirements with a view to assuring the conduct of the management of the Company as well as protecting the interests of all shareholders. The Board assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company.

Compliance with the Code on Corporate Governance Practices

The Board is of the view that the Company has, for the year ended 31 December 2011, applied the principles and complied with the applicable code provisions, and also complied with certain recommended best practices, of the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to the Listing Rules.

Board of Directors

The Board currently comprises a total of 9 members, with three executive Directors, three non-executive Directors and three independent non-executive Directors:

Executive Directors:
Mr. Qiu Yiyong (Chairman)
Mr. Li Weijian (Vice Chairman)
Mr. Tian Yuchuan
(Chief Executive Officer)

Non-executive Directors:
Mr. Mi Zengxin
Mr. Yin Ke
(Resigned on 25 August 2011)
Mr. Zeng Chen
(Appointed on 25 August 2011)
Mr. Chen Jiqiu

Independent non-executive Directors:
Mr. Yang Zhi Jie
Mr. Mo Shijian
Mr. Tan Zhuzhong

The Board has a balanced composition of executive, non-executive and independent non-executive Directors so that it can effectively exercise independent judgement.

The Board possesses a balance of skills and experience appropriate for the requirements of the business of the Company. Directors take decisions objectively in the interests of the Company. The Directors, individually and collectively, are aware of their responsibilities and accountability to shareholders and for the manner in which the affairs of the Company are managed and operated.

The Group has management expertise in manganese exploration, mining and development as well as ore processing and downstream manganese processing operations. The Board has the required knowledge, experience and capabilities to operate and develop the Group's businesses and implement its business strategies.

The following changes to the Board occurred during the year.

On 25 August 2011, Mr. Yin Ke resigned as a non executive Director of the Company and Mr. Zeng Chen was appointed as a non-executive Director of the Company.

The biographies of the Directors and senior management are set out on pages 31 to 34 of this annual report.

On appointment, each new director is briefed by senior executives on the Group's corporate goals and objectives, activities and business, strategic plans and financial situations. He is also provided with a package of orientation materials in respect of his duties and responsibilities under the Listing Rules, the Bye-Laws and corporate governance guides. The

Corporate Governance Report

Company Secretary is responsible for keeping all Directors updated on the Listing Rules and other regulatory and reporting requirements.

All Directors are subject to re-election at regular intervals. The Bye-Laws provides that any director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

In addition, at each annual general meeting, one-third of the Directors shall retire from office by rotation provided that every director is subject to retirement at least once every three years.

To the best of the knowledge of the Company, there is no financial, business, family or other material or relevant relationship among members of the Board or between the chairman and the chief executive officer.

The Company provides Directors with directors' and officers' liability insurance coverage to protect them from loss as a result of any legal proceedings against the Company and themselves.

Chairman and Chief Executive Officer

The role of the chairman is separate from that of the chief executive officer so as to delineate their respective areas of responsibility, power and authority. The chairman focuses on the Group's strategic planning while the chief executive officer has overall executive responsibility for the Group's development and management. They receive significant support from the Directors and the senior management team.

The chairman has a clear responsibility to ensure that the whole Board receives complete and reliable information in a timely manner. The Board, led by the chairman, sets the overall direction, strategy and policies of the Company.

The chairman provides leadership for the Board to ensure that it works effectively, discharges its responsibilities and acts in the best interests of the Company. He is also responsible for overseeing effective functioning of the Board and application of good corporate governance practices and procedures. The chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings. He also encourages the Directors to make full and active contributions to the Board's affairs.

Under the leadership of the chief executive officer, management is responsible for executing the Board's strategy and implementing its policies through the day-to-day management and operations of the Group's businesses.

The Board determines which functions are reserved to the Board and which are delegated to management. It delegates appropriate aspects of its management and administrative functions to management. It also gives clear directions as to the powers of management; in particular, with respect to the circumstances where management must report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. These arrangements are reviewed on a periodic basis to ensure they remain appropriate to the needs of the Company.

Important matters are reserved to the Board for its decision, including long-term objectives and strategies, extension of the Group's activities into new business areas, appointments to the Board and the board committees, annual internal controls assessment, annual budgets, material acquisitions and disposals, material connected transactions, material banking facilities, announcements of interim and final results and payment of dividends.

Non-executive Directors

The non-executive Directors (including the independent non-executive Directors) are seasoned individuals from diversified backgrounds and industries and one member has an appropriate accounting qualification and related financial management expertise as required by the Listing Rules. With their expertise and experience, they serve the relevant function of bringing independent judgement and advice on the overall management of the Company. They take the lead where potential conflicts of interests arise. Their responsibilities include maintaining a balance between the interests of minority shareholders and the Company as a whole.

Each of our non executive Directors (save and except for Mr. Zeng) has entered into a service agreement with the Company for an initial fixed term of three years commencing from 26 October 2010. Mr. Zeng has entered into a service agreement with the Company for an initial fixed term of three years commencing from 25 August 2011.

Each of our independent non executive Directors has entered into a service agreement with the Company for an initial fixed term of two years commencing from 26 October 2010.

All independent non-executive Directors serve on the remuneration, nomination and audit committees. They are invited to participate in board meetings so that they are able to provide at such meetings their experience and judgement on matters discussed in the meetings.

The Company has received an annual confirmation of independence from each of the independent non-executive Directors. The Company is of the view that all the independent non-executive Directors meet the guidelines for assessing independence as set out in rule 3.13 of the Listing Rules and considers them to be independent.

Board Meetings

Under code provision A.1.1 of the CG Code, the Board shall meet regularly and at least four times a year at approximately quarterly intervals. The Board has scheduled to meet at least four times a year in approximately quarterly intervals, either in person or by electronic means of communication.

A total of four board meetings were held in 2011.

All Directors will be invited to include matters in the agenda for regular board meetings. The Company generally gives not less than fourteen days prior written notice of a regular board meeting and reasonable prior notice for all other board meetings.

If any director or his associates have any material interest in any proposed Board resolutions, such director shall not vote (nor be counted in the quorum) at a meeting of the Directors on any resolutions approving any contract or arrangement or concerning a matter in which he or any of his associates has directly or indirectly a material interest.

Directors have timely access to adequate information to enable them to make an informed decision and to discharge their duties and responsibilities. An agenda and the presentation material are usually sent to the Directors 3 days before the meeting. The Company Secretary, or a person designated by him, is responsible for taking the minutes. Drafts of minutes are sent to the Directors for comment within a reasonable time after each meeting. The minutes are kept by the Company Secretary and they are open for inspection by the Directors and the members of the board committees. Board papers and related materials are available to the Directors whenever requested. Efforts are made to ensure that queries of the Directors are dealt with promptly.

Corporate Governance Report

All Directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures and all applicable rules and regulations are followed. The Directors also have separate and independent access to the senior management of the Company to make further enquiries or to obtain more information where necessary. The Company provides an agreed procedure enabling the Directors to seek independent professional advice at the Company's expense.

Shareholder who has enquires to the Board can contact Company Secretary by telephone at (852)2179 1310 or email at ir@citicdameng.com.hk.

Model Code for Securities Transactions by Directors

The Company has adopted the rules of no less stringent than the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules ("**Securities Dealings Code**") as its code of conduct for dealings in securities of the Company by the Directors.

All Directors confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Securities Dealings Code throughout the year.

Board Committees

The Board has established a remuneration committee, a nomination committee and an audit committee.

Remuneration Committee

The purpose of the committee is to make recommendations to the Board on the remuneration policy and structure for all Directors' and senior management remuneration.

It is authorized by the Board to obtain such legal, remuneration or other professional advice as it shall deem appropriate in the discharge of its duties.

The Group's remuneration policy seeks to provide fair market remuneration in a form and value to attract, retain and motivate high quality staff. Remuneration packages are set at levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool.

Emoluments are also based on an individual's knowledge, skill, time commitment, responsibilities and performance and by reference to the Group's profits and performance.

Members of the committee are:

Mr. Qiu Yiyong (Executive Director) (Committee Chairman)
Mr. Li Weijian (Executive Director)
Mr. Yang Zhi Jie (Independent non-executive Director)
Mr. Mo Shijian (Independent non-executive Director)
Mr. Tan Zhuzhong (Independent non-executive Director)

Two meetings were held in the year. In the meetings, the committee reviewed and approved, inter alia, share options granted to the directors and selected senior management and the performance-based remuneration package of each individual executive director. No director was involved in deciding his own remuneration.

Details of the emoluments and share options of each director, on a named basis, are set out in note 10 to the financial statements and in the section "Share Option Scheme" in the Report of the Directors.

Nomination Committee

The committee is responsible to the Board for leading the process for Board appointments and for identifying and nominating for the approval of the Board candidates for appointment to the Board and appointment of senior management.

The committee is also responsible for reviewing the structure, size and composition (including skills, knowledge and experience) of the Board at least annually and making recommendations to the Board regarding any proposed changes, identifying individuals suitably qualified to become board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships. The committee is also responsible for assessing the independence of independent non-executive Directors and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and plans for succession of Directors.

The criteria for the committee to select and recommend a candidate for Directorship include the candidate's skill, knowledge, experience and integrity and whether he/she can demonstrate a standard of competence commensurate with his/her position as a director of the Company.

Members of the committee are:

Mr. Qiu Yiyong (Executive Director) (Committee Chairman)
Mr. Li Weijian (Executive Director)
Mr. Yang Zhi Jie (Independent non-executive Director)
Mr. Mo Shijian (Independent non-executive Director)
Mr. Tan Zhuzhong (Independent non-executive Director)

During the year, two meetings were held by the Nomination Committee. In the meetings, the committee considered and approved, inter alia, the resignation of Mr. Yin Ke as a non-executive director of the Company and the appointment of Mr. Zeng Chen as a non-executive director of the Company.

Audit Committee

The purpose of the committee is to establish formal and transparent arrangements for considering how the Board applies the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's external auditors.

The committee is also responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors and considering any questions of resignation or dismissal of such auditors.

Corporate Governance Report

The committee reports to the Board any suspected fraud and irregularities, failure of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board. It is authorized by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary. The committee is provided with sufficient resources to discharge its duties.

Members of the committee are:

Mr. Yang Zhi Jie (Independent non-executive Director) (Committee Chairman)
Mr. Mo Shijian (Independent non-executive Director)
Mr. Tan Zhuzhong (Independent non-executive Director)

Mr. Yang Zhi Jie possesses appropriate professional qualifications and/or experience in financial matters. None of the committee members is or was a partner of the external auditors.

The committee meets as and when required to discharge its responsibilities, and at least twice in each financial year. Two meetings were held in the year and all members attended the meetings. The committee together with the senior management and the external auditors, reviewed the financial statements for the six months ended 30 June 2011, and the financial statements for the year ended 31 December 2011 the accounting principles and practices adopted by the Company, statutory compliance, other financial reporting matters and internal control systems.

Shareholder Meeting

Pursuant to article 57 of the Bye-Laws, the Board may whenever it thinks fit call special general meetings and shareholders, holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit, the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with the article 58 of the Bye-Laws.

A separate resolution is proposed for each substantially separate issue at a general meeting by the chairman of that meeting, including the election of director as well as re-election of director. The chairman of the Board, the chairman or member of each of the board committees and external auditors attend and answer questions at the annual general meeting. The members of the independent board committee is available to answer questions at any general meeting to approve connected transaction(s) or any other transaction(s) that is subject to independent shareholders' approval.

Attendance at Meetings of the Board, the Board Committees and General Meetings during the year

	Number of meetings held during the year Attended / Eligible to attend					
	Board Meeting	Remuneration Committee	Nomination Committee	Audit Committee	Annual General Meeting	Special General Meeting
Executive Directors						
Mr. Qiu Yiyong (Chairman)	4/4	2/2	2/2	N/A	1/1	0/1
Mr. Li Weijian (Vice Chairman)	4/4	2/2	2/2	N/A	1/1	0/1
Mr. Tian Yuchuan (Chief Executive Officer)	4/4	N/A	N/A	N/A	1/1	1/1
Non Executive Directors						
Mr. Mi Zengxin	3/4	N/A	N/A	N/A	0/1	0/1
Mr. Yin Ke (resigned on 25 August 2011)	2/2	N/A	N/A	N/A	0/1	N/A
Mr. Zeng Chen (appointed on 25 August 2011)	2/2	N/A	N/A	N/A	N/A	1/1
Mr. Chen Jiqiu	2/4	N/A	N/A	N/A	1/1	0/1
Independent non-executive Directors						
Mr. Yang Zhi Jie	4/4	2/2	2/2	2/2	1/1	1/1
Mr. Mo Shijian	4/4	2/2	2/2	2/2	1/1	1/1
Mr. Tan Zhuzhong	4/4	2/2	2/2	2/2	0/1	1/1

Financial Reporting

The Directors acknowledge their responsibilities for preparing the financial statements for the Group. The Directors are regularly provided with updates on the Company's businesses, potential investments, financial objectives, plans and actions.

The Board aims at presenting a balanced, clear and comprehensive assessment of the Group's performance, position and prospects. Management provides such explanation and information to the Directors to enable the Board to make informed assessments of the financial and other matters put before the Board for approval.

The statement of the external auditors of the Company regarding their responsibilities for the financial statements of the Group is set out in the independent auditors' report on page 57 of this annual report.

Corporate Governance Report

Internal Controls

The Board has overall responsibility for maintaining a sound and effective system of internal control and for reviewing its effectiveness, particularly in respect of the controls on financial, operational, compliance and risk management, to safeguard shareholders' investment and the Group's assets.

The internal control system is designed to provide reasonable, but not absolute, assurance. The system aims to manage, instead of eliminate, risks of failure in achieving the Company's objectives.

During the year, an internal audit department has been set up. The internal control manager is directly reported to the audit committee in respect of internal control matters of the Group. For daily administration purpose, the internal control manager reports to the Chief Executive Officer and Chief Financial Officer. The audit committee, in turn, communicates any material issues to the Board.

During the year, the Board conducted a review of the effectiveness of the system of internal control of the Group. The Board considered the system of internal control of the Group effective and complied with the code provisions of the CG Code.

Independent Auditors

The Company's independent auditor is Ernst & Young. For the year ended 31 December 2011, the remuneration payable by the Group to Ernst & Young is set out below:

Services provided by the auditors for the year ended 31 December 2011	
Audit services	
Annual audit and interim review services	HK$3,127,800
Taxation Services	HK$36,000
Total	HK$3,163,800

Communications with Shareholders and Investor Relations

We adhere to the principle of good faith and strictly comply with and implement the Listing Rules to disclose discloseable information on a true, accurate, complete and timely basis and all other information that might have significant impact on the decisions of shareholders and other stakeholders in an active and timely manner. In addition, the Company takes efforts in ensuring all shareholders with equal access to information. As such, the Company has honestly performed its statutory obligation in respect of information disclosure.

To enhance transparency, the Company endeavours to maintain on-going dialogues with shareholders through a wide array of channels such as annual general meetings and other general meetings. Shareholders are encouraged to participate in these meetings.

The Company ensures compliance with the requirements about voting by poll contained in the Listing Rules and the Bye-laws. A representative of the share registrar of the Company is normally appointed as scrutineer of the votes cast by way of a poll. In relation to votes taken by way of a poll, results are subsequently published on the websites of Hong Kong Exchanges and Clearing Limited and the Company.

The Company is committed to providing clear and reliable information on the performance of the Group to shareholders through interim and annual reports. The website of the Company offers timely and updated information of the Group.

Our senior management is dedicated to maintaining an open dialogue with the investment community to ensure thorough understanding of our Company and our business as well as strategies.

Since the Listing of the Company in November 2010, we have emphasized the importance of investor relations by establishing and developing a highly effective investor relations department (the "**Investor Relations Department**").

The main function of the Investor Relations Department is to make fair, consistent and transparent disclosures and maintain appropriate communications with global investors.

The Company organises activities relating to investor relations and emphasis on corporate responsibilities in order to ensure that our operating strategies, financial performance and development prospects are fully known to and understood by global investors.

The Company holds press conferences with the media and briefings with investment analysts from time to time particularly following the announcement of financial results. Management also participates in investor conferences, one-on-one meetings, forums, luncheons, conference calls and non-deal road shows which enable the Company and investors to better understand each other's concerns and expectations.

The Company maintains effective two-way communications with shareholders and other investors whose feedback is valuable to the Company in enhancing corporate governance, management and competitiveness. Comments and suggestions are welcome and can be sent to the principal place of business of the Company for the attention of the Investor Relations Department or e-mailed to ir@citicdameng.com.

Report of the Directors

The Directors are pleased to present their report and the audited financial statements for the year ended 31 December 2011.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the Group are manganese mining, and ore processing in the PRC and Gabon and downstream processing operations in the PRC, details of which are set out in notes 1 and 5 to the financial statements. There were no significant changes in the nature of the Group's principal activities. During the year, the Group acquired 64% equity interest of Guizhou Zunyi Hui Xing Ferroalloy Limited Company ("**Hui Xing Company**") at a consideration of RMB332,260,000 (HK$400,140,000).

Results and Dividends

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 58 to 122.

The Board recommends the payment of a final dividend of HK1.0 cent per ordinary share for the year ended 31 December 2011.

Subsidiaries, Associates and Jointly Controlled Entities

Details of the principal subsidiaries of the Group at 31 December 2011 are set out in note 5 to the consolidated financial statements.

Summary Financial Statements

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 3. This summary does not form part of the audited financial statements.

Property, Plant and Equipment and Investment Properties

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 16 and 17 to the financial statements respectively.

Share Capital

Details of movements in the Company's share capital during the year are set out in note 31 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

Borrowings

Details of bank loans of the Group as at 31 December 2011 are set out in note 28 to the consolidated financial statements of this annual report.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2011.

Distributable Reserves of the Company

As at 31 December 2011, the Company's reserves available for distribution amounted to HK$45,830,000.

In addition, the Company's share premium account of HK$2,872,076,000 as at 31 December 2011 may be distributed in the form of fully paid bonus shares.

Charitable Donations

During the year, the Group made charitable and other donations totalling HK$8,647,000 (2010: HK$3,382,000).

Major Customers and Suppliers

During the year, sales to the Group's five largest customers accounted for 37% of the total sales for the year and sales to the largest customer included therein amounted to 10%. Purchases from the Group's five largest suppliers, amounted to 15% of the total purchases for the year and purchase from the largest supplier included therein amounted to 5%.

As far as the Directors are aware, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

Directors

The Directors of the Company during the year ended 31 December 2011 and up to the date of this annual report are:

Executive Directors:
Mr. Qiu Yiyong (Chairman)
Mr. Li Weijian (Vice Chairman)
Mr. Tian Yuchuan (Chief Executive Officer)

Non-executive Directors:
Mr. Mi Zengxin
Mr. Yin Ke (Resigned on 25 August 2011)
Mr. Zeng Chen (Appointed on 25 August 2011)
Mr. Chen Jiqiu

Independent non-executive Directors:
Mr. Yang Zhi Jie
Mr. Mo Shijian
Mr. Tan Zhuzhong

Report of the Directors

In accordance with articles 84(1) and 84(2) of the Bye-laws, Mr. Mi Zengxin, Mr. Li Weijian ("**Mr. Li**") and Mr. Zeng Chen ("**Mr. Zeng**") will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' and Senior Management's Biographies

Biographical details of the Directors of the Company and the senior management of the Company are set out on pages 31 to 34 of this annual report.

Directors' Service Contracts

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Remuneration

Directors' remuneration is determined by the Board with reference to the recommendations made by the remuneration committee. The Group's remuneration policy seeks to provide fair market remuneration in a form and value to attract, retain and motivate high quality staff. Remuneration packages are set at levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool. Emoluments are also based on an individual's knowledge, skill, time commitment, responsibilities and performance and by reference to the Group's profits and performance.

Details of the remuneration of the Directors are set out in note 10 to the consolidated financial statements of this annual report.

Directors' Interests in Contracts

Mr. Zeng is the Vice Chairman and chief executive officer of CITIC Resources. Mr. Qiu Yiyong ("**Mr. Qiu**") and Mr. Tian Yuchuan ("**Mr. Tian**") are non-executive directors of CITIC Resources. CITIC Resources is a diversified energy and natural resources investment holding company and through its subsidiaries has interests in aluminium smelting, coal, import and export of commodities, and oil exploration, development and production. Further details of the nature, scope and size of the businesses of CITIC Resources as well as its management can be found in the latest annual report of CITIC Resources. In the event that there are transactions between CITIC Resources and the Company, Mr. Zeng, Mr. Qiu and Mr. Tian will abstain from voting.

Pursuant to the deed of non-compete undertaking entered into between CITIC Resources and the Company dated 3 November 2010, CITIC Resources has given a non-compete undertaking in favour of the Company (for itself and as trustee for the benefit of its subsidiaries from time to time) pursuant to which CITIC Resources has undertaken with the Company that it will not, and will procure that its subsidiaries will not, subject to certain exceptions, either on its own account or in conjunction with or on behalf of any person, firm or company, directly or indirectly, be interested or engaged in or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise) in any business which competes or may compete with the relevant business.

Pursuant to the right of first refusal agreement dated 3 November 2010, Guangxi Dameng granted the right of first refusal to the Company to acquire all the equity interest it holds in Rainbow Minerals Pte. Limited which in turn holds certain manganese and iron mines in South Africa. Mr. Li and Mr. Chen Jiqiu ("**Mr. Chen**") are directors of Guangxi Dameng.

Save as disclosed herein, Mr. Qiu, Mr. Li, Mr. Tian, Mr. Zeng and Mr. Chen are not directly or indirectly interested in any business that constitutes or may constitute a competing business of the Company.

Save as disclosed herein and so far as is known to the Directors, as at 31 December 2011, none of the Directors or their respective associates was materially interested in any contract or arrangement which is significant in relation to the businesses of the Group taken as a whole.

Directors' and Chief Executive's Interests in Shares and Underlying Shares and Debentures

As at 31 December 2011, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are deemed or taken to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules, and which have been notified to the Company and the Stock Exchange are as follows:

Interests in the Shares and underlying Shares of the Company

Name of Director/ chief executive	Shares/equity derivatives	Capacity	Number of equity derivatives held	Approximate percentage of the issued share capital of the Company
Mr. Qiu Yiyong	Share options	Directly beneficially owned	15,000,000	0.50%
Mr. Li Weijian	Share options	Directly beneficially owned	15,000,000	0.50%
Mr. Tian Yuchuan	Share options	Directly beneficially owned	12,000,000	0.40%
Mr. Mi Zengxin	Share options	Directly beneficially owned	10,000,000	0.33%
Mr. Yin Ke*	Share options	Directly beneficially owned	3,000,000	0.10%
Mr. Chen Jiqiu	Share options	Directly beneficially owned	9,000,000	0.30%
Mr. Yang Zhi Jie	Share options	Directly beneficially owned	1,000,000	0.03%
Mr. Mo Shijian	Share options	Directly beneficially owned	1,000,000	0.03%
Mr. Tan Zhuzhong	Share options	Directly beneficially owned	1,000,000	0.03%

Note: Mr. Yin Ke resigned as a director with effect from 25 August 2011.

Report of the Directors

Directors' Rights to Acquire Interests or Debentures

Save as disclosed in this annual report, at no time during the year ended 31 December 2011 was the Company or any of its subsidiaries or its holding company or any of the subsidiaries of the Company's holding company a party to any arrangement to enable the Directors or their associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Share Option Scheme

The purpose of the Share Option Scheme is to provide incentive or reward to eligible persons (including full time or part time employees, executive, non-executive Directors and independent non-executive Directors of our Group) for their contribution to, and continuing efforts to promote the interests of, our Company and to enable our Company and its subsidiaries to recruit and retain high-caliber employees.

On 11 January 2011, the Company granted 103,000,000 share options to the Directors and certain employees of the Group under the Share Option Scheme, of which 67,000,000 share options were granted to the Directors. Further details of the grant are disclosed in note 32 to the financial statement.

The following table discloses movements in the Company's share options during the year:

	Number of share options						
Name and category of participant	**At 1 January 2011**	**Granted during the period**	**Change during the period[(1)]**	**At 31 December 2011**	**Date of grant[(2)]**	**Exercise period[(3)]**	**Exercise price per share HK$**
Directors of the Company							
Mr. Qiu Yiyong	–	15,000,000	–	15,000,000	11.1.2011	11.1.2012 to 10.1.2021	2.81
Mr. Li Weijian	–	15,000,000	–	15,000,000	11.1.2011	11.1.2012 to 10.1.2021	2.81
Mr. Tian Yuchuan	–	12,000,000	–	12,000,000	11.1.2011	11.1.2012 to 10.1.2021	2.81
Mr. Mi Zengxin	–	10,000,000	–	10,000,000	11.1.2011	11.1.2012 to 10.1.2021	2.81
Mr. Yin Ke[(4)]	–	3,000,000	–	3,000,000	11.1.2011	11.1.2012 to 10.1.2021	2.81
Mr. Chen Jiqiu	–	9,000,000	–	9,000,000	11.1.2011	11.1.2012 to 10.1.2021	2.81
Mr. Yang Zhi Jie	–	1,000,000	–	1,000,000	11.1.2011	11.1.2012 to 10.1.2021	2.81
Mr. Mo Shijian	–	1,000,000	–	1,000,000	11.1.2011	11.1.2012 to 10.1.2021	2.81
Mr. Tan Zhuzhong	–	1,000,000	–	1,000,000	11.1.2011	11.1.2012 to 10.1.2021	2.81
	–	67,000,000	–	67,000,000			
Non-directors	–	36,000,000	–	36,000,000	11.1.2011	11.1.2012 to 10.1.2021	2.81
	–	103,000,000	–	103,000,000			

Notes:

(1) No share option was lapsed or cancelled during the year ended 31 December 2011.

(2) The vesting period of the share options is from the date of grant until the respective dates of commencement of the exercise periods.

(3) The exercise period is divided into three tranches, i.e. 25% after first year of grant, an additional 25% after two years of grant and the remaining 50% after three years of grant.

(4) Mr. Yin Ke resigned as a director with effect from 25 August 2011.

Save as disclosed herein and in the section headed "Substantial Shareholders and Other Person's Interests and Short Position in Shares and Underlying Shares" below and so far as is known to the Directors, as at 31 December 2011:

(i) none of the Directors or chief executive of the Company had an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are deemed or taken to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange; and

(ii) none of the Directors was a director or employee of a company which had an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Substantial Shareholders' and Other Persons' Interests and Short Position in Shares and Underlying Shares

As at 31 December 2011, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the directors, the persons or entities who had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital

Report of the Directors

carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital are as follows:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held (a)	Percentage of the total issued share capital (%)	Number of share options held the Company
CITIC Group Corporation	(b)	Through a controlled corporation	1,482,408,000 (L)	49.00	–
中國中信股份有限公司	(b)	Through a controlled corporation	1,482,408,000 (L)	49.00	–
CITIC Projects Management (HK) Limited	(b)	Through a controlled corporation	1,482,408,000 (L)	49.00	–
Keentech Group Limited	(c)	Through a controlled corporation	1,179,000,000 (L)	38.98	–
CITIC Resources Holdings Limited	(c)	Through a controlled corporation	1,179,000,000 (L)	38.98	–
Starbest Venture Limited	(c)	Through a controlled corporation	1,179,000,000 (L)	38.98	–
Group Smart Resources Limited	(c)	Through a controlled corporation	1,179,000,000 (L)	38.98	–
Highkeen Resources Limited	(c)	Directly beneficially interested	1,179,000,000 (L)	38.98	–
CITIC United Asia Investments Limited	(d)	Through a controlled corporation	303,408,000 (L)	10.03	–
Apexhill Investments Limited	(d)	Directly beneficially interested	303,408,000 (L)	10.03	–
Guangxi Dameng Manganese Industrial Co., Ltd	(e)	Through a controlled corporation	776,250,000 (L)	25.66	–
			776,250,000 (S)	25.66	–
Huanan Dameng Investments Limited	(e)	Through a controlled corporation	776,250,000 (L)	25.66	–
Guinan Dameng International Resources Limited	(e)	Directly beneficially interested	776,250,000 (L)	25.66	–
China Minsheng Banking Corporation Limited		Directly beneficially interested	776,250,000 (L)	25.66	–
Gaoling Fund, L.P.	(f)	Through a controlled corporation	225,794,000 (L)	7.46	–
Hillhouse Capital Management, Ltd.	(f)	Directly beneficially interested	225,794,000 (L)	7.46	–

Notes:

(a) The letter "L" denotes the long position in such Shares and the letter "S" denotes the short position in such Shares.

(b) CITIC Projects Management (HK) Limited ("**CITIC Projects**") is wholly owned by 中國中信股份有限公司 which is in turn owned by CITIC Group Corporation. CITIC Group Corporation is a company established in the PRC.

(c) Highkeen Resources Limited is wholly owned by Group Smart Resources Limited ("**Group Smart**"), which is in turn wholly owned by Starbest Venture Limited ("**Starbest Venture**"). Starbest Venture is wholly owned by CITIC Resources, which is in turn is owned as to 47% by Keentech Group Limited ("**Keentech**"). Keentech is wholly owned by CITIC Projects.

(d) Apexhill Investments Limited is wholly owned by CITIC United Asia Investments Limited ("**CITIC United Asia**"), which is in turn wholly owned by CITIC Projects.

(e) Guinan Dameng International Resources Limited is wholly owned by Huanan Dameng Investments Limited ("**Huanan Dameng**"), which is in turn wholly owned by Guangxi Dameng. Guangxi Dameng is a PRC state-owned enterprise.

(f) Hillhouse Capital Management, Ltd. is wholly owned by Gaoling Fund, L.P. Gaoling Fund, L.P. is a company incorporated under the laws of Cayman Islands.

Save as disclosed in this annual report, as at 31 December 2011, the Company has not been notified by any persons (other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests in shares and underlying shares and debentures" above), who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Non-compete Undertaking by a Controlling Shareholder

The Company has received an annual confirmation from CITIC Resources, a controlling shareholder of the Company, in respect of its compliance with the Non-compete Undertaking for the year ended 31 December 2011.

The independent non-executive Directors have reviewed the said undertaking and are of the view that CITIC Resources has complied with the Non-compete Undertaking for the year ended 31 December 2011.

Continuing Connected Transactions

During the year, the Group had the following continuing connected transactions, details of which have been disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

On 28 October 2010, CITIC Dameng Mining entered into the Integrated Services Framework Agreement with Guangxi Dameng for providing basic welfare to the Company's employees at Daxin Mine by Guangxi Dameng and to provide water and electricity to Guangxi Dameng. Details of the Services Framework Agreement were disclosed in the section headed "Connected Transactions" in the Prospectus.

On 28 October 2010, CITIC Dameng Mining entered into (i) Guangxi Guilin Dameng Agreement; (ii) Guangxi Liuzhou Agreement; (iii) Nanning Battery Plant Agreement; (iv) Guangxi Hezhou Agreement and (v) Guangxi Wuzhou Agreement (collectively, the "**Guangxi Dameng Framework Agreements**") with Guangxi Dameng's subsidiaries. Pursuant to the Guangxi Dameng Framework Agreements, CITIC Dameng Mining agreed to, amongst other things, purchase raw materials, manganese products, tools and equipment from, sell manganese products and raw materials to and receive processing services from Guangxi Dameng's subsidiaries. Details of the Guangxi Dameng Framework Agreements were disclosed in the section headed "Connected Transactions" in the Prospectus.

On 28 October 2010, CITIC Dameng Mining entered into a framework outsourcing agreement with Guangxi Xishan pursuant to which Guangxi Xishan agreed to provide underground mining services and construction of underground for underground mining works to CITIC Dameng Mining while CITIC Dameng Mining agreed to provide fuels and water and electricity to Guangxi Xishan of Daxin Mine. Details of the framework outsourcing agreement were disclosed in the section headed "Connected Transactions" in the Prospectus. During the year, the provision of underground mining services and construction of infrastructure for underground mining works amounted to HK$36,368,000 and HK$50,334,000 respectively. The provision of water and electricity and sales of fuel amounted to HK$1,755,000 and HK$1,357,000 respectively.

Report of the Directors

On 31 December 2010, the Company entered into a master agreement the China CITIC Bank and CITIC Bank International Limited by maintaining bank balances and deposits with China CITIC Bank and CITIC Bank International Limited. Further details of the transactions were disclosed in the Prospectus and announcement of the Company dated 31 December 2010. Details of the Master Agreement were disclosed in the Company's announcement dated 31 December 2010.

On 11 November 2011, Hui Xing Company entered into the Second Master Construction and Outsourcing Agreement, pursuant to which Guangxi Xishan agreed to provide the underground mining services and construction of infrastructure for underground mining work to Hui Xing Company while Hui Xing Company agreed to provide electricity, detonating cords and explosives to Guangxi Xishan at Changgou Manganese Mine. Details of the Second Master Construction and Outsourcing Agreement were disclosed in the circular of the Company dated 11 November 2011. During the year, the provision of underground mining services amounted to HK$2,365,000.

Other than the transactions with Guangxi Xishan, the amounts of the above mentioned continuing connected transactions are disclosed in note 37 to the financial statements.

The independent non-executive Directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules.

Sufficiency of Public Float

As at the date of this annual report, based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital are held by the public.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Qiu Yiyong
Chairman

Hong Kong
1 March 2012

Report on Social Responsibility

We strive to establish ourself to be a leading manganese company in PRC and the world, with our mission to create shareholders value, while delivering customers with world-class products and services of good value, providing a safe, healthy and friendly working environment and contributing to the economy and development of the community in which we operate. We always take it as our responsibility to ensure all of our business and products are environment friendly.

For the year ended 31 December 2011, we have fulfilled the following social responsibilities:

1. Provision of safe production environment

During the year, we have carried out the following works to promote and improve system for safe production:

(I) Establishment of safety management system

The branches, subsidiaries and production units of the Group strictly comply with and implement the PRC and Gabon national laws and regulations, such as enhancing the quality control in accordance with ISO9001: 2000 quality control system. We have already been certified with level 3 Mine Safety Standard of PRC, and we are in the progress of obtaining level 2 Mine Safety Standard of PRC. In addition, we have set up a safe production system which includes regular production safety meetings in order to analyze and resolve the issues occurred during the operation process, with a view to achieving safe production.

(II) Safety training enhancement

The Company provides employees with education on safe production through safe production training in various means, aiming at enhancing employee's awareness and skills on safe production. During the year, our employees from the branches and subsidiaries of the Group have attended the safety training courses for more than 30,000 times.

(III) Strengthen our safety inspection and elimination of hidden risks

The Group together with its branches and subsidiaries conducted daily group inspection, weekly factory inspection and monthly company inspection through professional inspection method, which have uncovered and eliminated hidden risks within the Group.

(IV) Increasing the investment in safe production equipment

In strict compliance with regulations required by Ministry of Finance and the State Administration of Work Safety, we have allocated safe production fund which is managed in a specialized account. During the year, the Group has invested significant amounts into safe production fund, so as to pay for the expenses incurred from the construction of six major safety production and hazards prevention systems for mine exploration in Daxin branch and relevant management fees, as well as purchasing exploiting technique of deep-hole blasting in mine, mechanical transportation technique, new explosives, blasting materials and curtain grouting technique.

Report on Social Responsibility

2. Reinforcement in environmental regulations, and environment protection

As a resource company, we focus on investment in energy saving and environment protection. Our performance in environment protection, energy saving and emission reduction has obtained an outstanding performance in the industry. During the year, we have carried out the following works for environment protection:

(I) Air pollution control and emission reduction

- Introducing vertical grinding equipment to replace traditional raymond mill. Dust is released into the air through a funnel after passage of a filter in a dust collector, which significantly reduces the dust emission level;

- We add manganese powder in the combination process during manufacture of electrolytic manganese and EMD and use the sealed feeding methods by purchasing 11 cement tankers, in order to fully utilize the manganese powder needed for the combination process to reduce pollution in the combination process workplace;

- We use acid fog purifying combined absorption tower system to process combination manufacturing. Acid fog generated from combination manufacturing and dust are diverted to absorption tower through a channel, where they are treated and released to meet the safety standard, resulting in a lower level of exhaust gas in the workplace and reduction of acid fog emission.

(II) Prevention and control, energy saving and emission reduction of water pollution

- In terms of treating wastewater, we separate clean and wastewater in all of our processes. We build rainfall collection system in the plant, which leads the rainfall in the plant area to the rainfall collecting pool through drainage ditch, and such water will be recycled to manufacturing system as supplementation. For rainfall that cannot be recycled will be discharged if they meet the safety standard after treatment;

- On-line supervision equipments are installed at the drain outlet by environment authority, which enables us to supervise the rainfall through on-line system;

- We have built a pool for urgent need in workplace to prevent waste liquid leakage by accident.

(III) Management, energy saving and emission reduction of solid waste

According to relevant environment requirements, we use different measures to treat different slags:

- Slags generated during the manufacture of ferromanganese which do not contain any harmful ingredients and are as hard as stone, are used as construction materials;

- In strict compliance with the standards issued by the government, we have built manganese slag storehouse for manganese filter slag which are generated as by product during the manufacture of electrolytic manganese metal and electrolytic manganese dioxide. We set up monitoring site in the slag dump and downstream to carry out regular test on the water quality underground. The slag dump which is out of service will be recovered with plants;

- Regarding of the chromic slag which is suspended will be stored in the chromic slag storehouse after dehydration and drying.

(IV) Comprehensive improvement in the factory

We improve our factory condition through plantation, decoration and installation. The plants we selected are acid resisting and are able to block, absorb and filter the dust, and also are suitable for local condition. In recent years, we have invested more than RMB4 million and planted over 300,000 eucalyptus seedlings in vacant areas of the factory and wasteland in mining area.

3. "People-oriented" and harmonious labor relations

Insofar as our employees' development and relationship is concerned, we encourage our employees to grow with our enterprise. We always emphasis on the training and development needs of our employees. Our training courses mainly cover areas such as enhancement courses for front-line head leaders, advanced training courses on economic management for our middle tier management officers and work skills courses for employees in charge of special operations. We were concerned about the occupational health of our employees, and provided various cultural and sports facilities and organized various amusing and exciting leisure and sports events, so as to cultivate a healthy and positive corporate culture. During the period, we have invested a total of RMB2 million in the above measures, which created harmonious labor relations and enhanced employees' sense of belonging and solidarity, and as a result, ensured stability in its workplace.

4. Participate in community with all efforts

We committed to continue to expand our social activities while generating economic returns:

- We donated money and goods in the aggregate sum of RMB3.57 million, including setting up the "CITIC Dameng Scholarship" in Guangxi University, financing poverty relief and education grants, construction of schools attached to Guangxi Normal University for Nationalities and establishment of culture and sports facilities in the community. The "CITIC Dameng Scholarship" has already supported 407 college students who with excellent character and academic performance;

Report on Social Responsibility

- We donated money and goods in the aggregate sum of RMB3.45 million, including building roads of surrounding communities, the project for safe drinking water for human and animals and agricultural irrigation project etc.. These included assistance offered to Daliu, Daren and Liuli villages which located around Dongping mining area in Tiandeng county to enhance the safety of drinking water, paving the road and setting up public entertainment facilities, so as to build up a more harmonious relationship between the mining area and the community;

- As for disaster relief, we organized activities to deliver free drinking and domestic water for people in drought-striken Xinfeng village, Xialie town, Daxin county. Our continuous efforts have largely relieved the water shortage problem in those area;

- With the construction projects and corporate development gathering speed, we have created 205 jobs in Guangxi area in the first half of this year.

5. Our awards and honors

During the period, we received the following awards and honors:

- Mr. Li Weijian, our Vice Chairman, was elected to be the Chairman of International Manganese Institute Electrolytic Products Division (IMnI EPD Division) on the 37th Annual Meeting of International Manganese Institute;

- In 27 January 2011, we received a High-tech Enterprise Certification jointly issued by four departments, including science and technology department, of Zhuangzu Autonomous Region of Guangxi, in recognition of its high-tech enterprise status in Guangxi among other enterprises in the first held selection in 2010;

- The Group was elected as an outstanding enterprise of Guangxi, and our Vice Chairman, Mr. Li Weijian was awarded with the title of "Guangxi Top Ten Entrepreneur";

- Our two research projects, namely "Research and Application of New Surface Alloying of Titanium for Electrolytic Manganese Dioxide" and "Technology Development in Cold Pressed Pellets of Chrome Ore Fines", have been short listed for election of Guangxi Science and Technology Advancement Prize;

- Our Daxin EMM Plant, Daxin EMD Plant and Start EMM Plant were honored as "Excellent Enterprise in Electrolytic Manganese Industry in terms of Environment Improvement" by Guangxi Zhuang Autonomous Region;

- In 15 August 2011, our Daxin branch obtained the title of "National Model Enterprise having Harmonious Labor Relation";

- In 15 September 2011, the Company obtained the title of "Guangxi Model Enterprise having Harmonious Labor Relation".

Independent Auditors' Report

To the shareholders of CITIC Dameng Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of CITIC Dameng Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 58 to 122, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

1 March 2012

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	7	3,654,690	2,579,673
Cost of sales		(2,985,827)	(1,970,178)
Gross profit		668,863	609,495
Other income and gains	7	83,590	65,505
Gain on bargain purchase from the acquisition of subsidiaries	34	262,775	–
Selling and distribution costs		(90,424)	(77,956)
Administrative expenses		(306,730)	(219,128)
Share option expense		(61,987)	–
Other expenses		(51,213)	(19,411)
Finance costs	8	(127,823)	(95,716)
PROFIT BEFORE TAX	9	377,051	262,789
Income tax expense	12	(30,751)	(14,339)
PROFIT FOR THE YEAR		346,300	248,450
OTHER COMPREHENSIVE INCOME:			
Contribution from a minority shareholder upon waiver of loans		–	13,128
Exchange differences on translation of foreign operations		150,528	43,223
		150,528	56,351
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		496,828	304,801
Total profit/(loss) attributable to:			
Owners of the parent	13	408,572	229,132
Non-controlling interests		(62,272)	19,318
		346,300	248,450
Total comprehensive income/(loss) attributable to:			
Owners of the parent		554,803	269,949
Non-controlling interests		(57,975)	34,852
		496,828	304,801
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic		13.51 HK cents	13.01 HK cents
Diluted		13.51 HK cents	13.01 HK cents

Details of the dividends proposed for the year are disclosed in note 15 to the financial statements.

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	2,958,709	2,145,238
Investment properties	17	85,116	62,612
Prepaid land lease payments	18	491,104	164,886
Intangible assets	19	878,732	300,759
Available-for-sale equity investment	20	4,582	4,369
Deferred tax assets	21	131,545	79,929
Deposits and prepayments	24	203,985	129,362
Total non-current assets		4,753,773	2,887,155
CURRENT ASSETS			
Inventories	22	810,509	449,995
Trade and notes receivables	23	948,573	603,934
Prepayments, deposits and other receivables	24	370,809	187,842
Due from related companies	37	16,701	53,739
Tax recoverable		–	730
Pledged deposits	25	97,932	71,543
Cash and cash equivalents	25	1,898,434	2,580,741
Total current assets		4,142,958	3,948,524
CURRENT LIABILITIES			
Trade payables	26	318,101	240,223
Other payables and accruals	27	564,839	446,694
Interest-bearing bank and other borrowings	28	1,791,153	1,172,735
Due to related companies	37	14,350	3,515
Tax payable		5,979	–
Total current liabilities		2,694,422	1,863,167
NET CURRENT ASSETS		1,448,536	2,085,357
TOTAL ASSETS LESS CURRENT LIABILITIES		6,202,309	4,972,512
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	1,499,189	1,514,156
Deferred tax liabilities	21	211,220	16,973
Other long-term liabilities	29	3,954	3,700
Deferred income	30	110,099	35,684
Total non-current liabilities		1,824,462	1,570,513
Net assets		4,377,847	3,401,999

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
EQUITY			
Equity attributable to owners of the parent			
Issued capital	31	302,480	302,480
Reserves	33	3,649,880	3,029,475
Proposed final dividend	15	30,248	–
		3,982,608	3,331,955
Non-controlling interests		395,239	70,044
Total equity		4,377,847	3,401,999

Qiu Yiyong
Director

Tian Yuchuan
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

		Attributable to owners of the parent										
	Notes	Issued capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Proposed final dividend HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010		100	–	(52,369)	–	62,357	74,506	–	470,979	555,573	586,863	1,142,436
Profit for the year		–	–	–	–	–	–	–	229,132	229,132	19,318	248,450
Other comprehensive income for the year:												
Contribution from a minority shareholder upon waiver of loans		–	–	6,696	–	–	–	–	–	6,696	6,432	13,128
Exchange differences on translation of foreign operations		–	–	–	–	–	34,121	–	–	34,121	9,102	43,223
Total comprehensive income for the year		–	–	6,696	–	–	34,121	–	229,132	269,949	34,852	304,801
Issue of shares	31 and 33	302,380	2,856,583	–	–	–	–	–	–	3,158,963	–	3,158,963
Acquisition of additional interest in a subsidiary from non-controlling shareholders	33(b)	–	–	(144,556)	–	–	–	–	–	(144,556)	(394,571)	(539,127)
Provision for special reserve	33(c)	–	–	–	–	13,754	–	–	(13,754)	–	–	–
Utilisation of special reserve	33(c)	–	–	–	–	(6,212)	–	–	6,212	–	–	–
Dividend declared	15	–	–	–	–	–	–	–	(507,974)	(507,974)	–	(507,974)
Dividend paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	(157,100)	(157,100)
Transfer from retained profits	33(c)	–	–	–	–	34,228	–	–	(34,228)	–	–	–
At 31 December 2010 and 1 January 2011		302,480	2,856,583*	(190,229)*	–	104,127*	108,627*	–	150,367*	3,331,955	70,044	3,401,999
Profit for the year		–	–	–	–	–	–	–	408,572	408,572	(62,272)	346,300
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations		–	–	–	–	–	146,231	–	–	146,231	4,297	150,528
Total comprehensive income for the year		–	–	–	–	–	146,231	–	408,572	554,803	(57,975)	496,828
Acquisition of a subsidiary	34	–	–	–	–	–	–	–	–	–	305,196	305,196
Acquisition of non-controlling interests		–	–	18,370	–	–	–	–	–	18,370	(18,370)	–
Capital injection by a minority shareholder		–	–	–	–	–	–	–	–	–	96,344	96,344
Reversal of over-provided listing expenses	33(a)	–	15,493	–	–	–	–	–	–	15,493	–	15,493
Provision for special reserve	33(c)	–	–	–	–	10,043	–	–	(10,043)	–	–	–
Utilisation of special reserve	33(c)	–	–	–	–	(7,053)	–	–	7,053	–	–	–
Equity-settled share option arrangements	32	–	–	–	61,987	–	–	–	–	61,987	–	61,987
Transfer from retained profits	33(c)	–	–	–	–	27,517	–	–	(27,517)	–	–	–
Proposed final dividend for year 2011	15	–	–	–	–	–	–	30,248	(30,248)	–	–	–
At 31 December 2011		302,480	2,872,076*	(171,859)*	61,987*	134,634*	254,858*	30,248	498,184*	3,982,608	395,239	4,377,847

* These reserve accounts comprise the consolidated reserves of HK$3,649,880,000 in the consolidated statement of financial position (2010: HK$3,029,475,000).

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		377,051	262,789
Adjustments for:			
Finance costs	8	127,823	95,716
Interest income	7	(28,680)	(6,710)
Dividend income	7	(2,646)	–
(Gain)/loss on disposal of items of property, plant and equipment	9	(1,624)	1,337
Government grants	30	(6,799)	(2,053)
Depreciation	9	227,183	158,744
Fair value gains on investment properties	7	(18,212)	(27,507)
Amortisation of prepaid land lease payments	9	8,979	6,172
Amortisation of intangible assets	9	16,911	6,252
Write-down/(write-back)of inventories to net realisable value	9	39,360	(1,010)
Impairment of trade and other receivables, net	9	10,915	3,553
Impairment of items of property, plant and equipment	9	3,985	–
Gain on bargain purchase from the acquisition of subsidiaries	34	(262,775)	–
Transaction cost incurred for acquisition of a subsidiary	34	21,557	–
Reversal of over-provided listing expenses		(4,636)	–
Equity-settled share option expense	32	61,987	–
Write-off of payables	7	(19)	(4,811)
		570,360	492,472
Increase in inventories		(208,316)	(97,353)
Increase in trade and notes receivables		(103,052)	(127,159)
Increase in prepayments, deposits and other receivables		(98,357)	(71,505)
Decrease/(increase) in amounts due from related companies		37,038	(9,818)
(Decrease)/increase in trade payables		(1,826)	133,278
(Decrease)/increase in other payables and accruals		(189,823)	119,802
Increase/(decrease) in amounts due to related companies		10,835	(5,598)
Decrease in an amount due to a minority shareholder of a subsidiary		–	(8,432)
Increase in other long-term liabilities		–	1,323
Cash generated from operations		16,859	427,010
PRC tax paid		(67,350)	(65,261)
Net cash flows (used in)/from operating activities		(50,491)	361,749

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Net cash flows (used in)/from operating activities		(50,491)	361,749
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	7	28,680	6,710
Receipt of government grants	30	62,990	31,878
Additions of items of property, plant and equipment		(811,349)	(606,255)
Increase in deposits for the purchase of property, plant and equipment		(25,314)	(377)
Proceeds from disposal of items of property, plant and equipment		27,401	32,184
Additions of investment properties		(772)	(8,413)
Additions of leasehold land		(2,677)	(52,273)
Additions of intangible assets	19	(638)	(836)
Acquisition of subsidiaries, net of cash acquired	34	(203,181)	–
Transaction cost incurred for the acquisition of a subsidiary	34	(21,557)	–
Addition of an entrusted Loan	24	(123,390)	–
Increase in deposits for the purchase of parcels of leasehold land		–	(6,064)
Deposit for rehabilitation		(36,704)	–
Dividend income	7	2,646	–
Acquisition of additional interest in a subsidiary from a minority shareholder		–	(539,127)
Net cash flows used in investing activities		(1,103,865)	(1,142,573)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		–	2,539,313
Injection of capital by a minority shareholder		96,344	–
New bank and other borrowings		1,591,511	1,805,083
Repayment of bank and other borrowings		(1,117,542)	(910,435)
Repayment of an advance from a minority shareholder of a subsidiary		–	(29,746)
Interest paid		(132,683)	(109,939)
Dividend paid		–	(409,696)
Net cash flows from financing activities		437,630	2,884,580
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(716,726)	2,103,756
Cash and bank balances at beginning of year		2,652,284	538,230
Effect of foreign exchange rate changes, net		60,808	10,298
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,996,366	2,652,284
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	25	1,898,434	2,580,741
Pledged deposits	25	97,932	71,543
Cash and cash equivalents as stated in the statement of cash flows		1,996,366	2,652,284

Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSET			
Investment in a subsidiary	5	–	–
CURRENT ASSETS			
Other receivables		1,472	125
Due from subsidiaries	5	2,966,952	2,289,122
Cash and cash equivalents	25	316,775	939,065
		3,285,199	3,228,312
CURRENT LIABILITIES			
Other payables and accruals		2,826	65,434
		2,826	65,434
NET CURRENT ASSETS		3,282,373	3,162,878
NET ASSETS		3,282,373	3,162,878
EQUITY			
Issued capital	31	302,480	302,480
Reserves	33	2,949,645	2,860,398
Proposed final dividend	15	30,248	–
TOTAL EQUITY		3,282,373	3,162,878

Qiu Yiyong
Director

Tian Yuchuan
Director

Notes to Financial Statements

31 December 2011

1. 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. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 November 2010.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise manganese mining, ore processing and downstream processing operations in Mainland China. The Group is also developing manganese mining and ore operations in Gabon.

2.1 Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 Changes in accounting policy and disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

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*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation - Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendment to HK(IFRIC) – Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	*Amendments to a number of HKFRSs issued in May 2010*

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

Notes to Financial Statements

31 December 2011

2.2 Changes in accounting policy and disclosures (continued)

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The revised standard has no financial impact on the Group. Details of the related party transactions, including the related comparative information, are included in note 37 to the financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

Notes to Financial Statements

31 December 2011

2.3 Issued but not yet effective Hong Kong financial reporting standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments*: *Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	*Amendments to HKAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	*Amendments to HKAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011

2 Effective for annual periods beginning on or after 1 January 2012

3 Effective for annual periods beginning on or after 1 July 2012

4 Effective for annual periods beginning on or after 1 January 2013

5 Effective for annual periods beginning on or after 1 January 2014

6 Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 7 Amendments require an entity to disclose both quantitative and qualitative information for the derecognition of financial assets where the entity has a continuing involvement in the derecognised assets. The Group expects to adopt HKFRS 7 Amendments from 1 January 2012. As the Group does not have continuing involvement in the derecognised assets, the amendments will not have any financial impact on the Group.

HKFRS 7 Amendments issue new disclosure requirements in relation to the offsetting models of financial assets and financial liabilities. The amendments also improve the transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. The Group expects to adopt the amendments from 1 January 2013. The adoption of the amendments is unlikely to have any material financial impact on the Group.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

Notes to Financial Statements

31 December 2011

2.3 Issued but not yet effective Hong Kong financial reporting standards (continued)

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 replaces the portion of HKAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12. The adoption of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK(SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The adoption of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 Consolidated and Separate Financial Statements, HKAS 31 Interests in Joint Ventures and HKAS 28 Investments in Associates. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012. The Group is in the process of assessing the impact from application of these amendments.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

Notes to Financial Statements

31 December 2011

2.3 Issued but not yet effective Hong Kong financial reporting standards (continued)

HKAS 32 Amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and some gross settlement systems may be considered equivalent to net settlements. The Group expects to adopt the amendments from 1 January 2014. The application of these amendments is unlikely to have any material financial impact on the Group.

HK(IFRIC)-Int 20 addresses the recognition of waste removal costs that are incurred in surface mining activity during the production phase of a mine as an asset, as well as the initial measurement and subsequent measurement of the stripping activity asset. To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the costs incurred are accounted for in accordance with HKAS 2 Inventories. To the extent that the benefit is improved access to ore and when criteria set out in the interpretation are met, the waste removal costs are recognised as a stripping activity asset under non-current assets. The Group expects to adopt the interpretation from 1 January 2013. The adoption of the interpretation is unlikely to have any material financial impact on the Group.

3. Summary of significant accounting policies

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 statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

Notes to Financial Statements

31 December 2011

3. Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), 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 other than goodwill 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, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to Financial Statements

31 December 2011

3. Summary of significant accounting policies (continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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 depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are 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.

Notes to Financial Statements

31 December 2011

3. Summary of significant accounting policies (continued)

Property, plant and equipment and depreciation (continued)

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 including 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 a building 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.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

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.

Research and development costs

All research costs are charged to profit or loss as incurred.

Notes to Financial Statements

31 December 2011

3. Summary of significant accounting policies (continued)

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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor 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 investments. 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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 cash equivalents, pledged deposits, amounts due from 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 by 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 the statement of comprehensive income in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt 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 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 revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of comprehensive income in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of comprehensive income in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of comprehensive income as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments 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 investments are stated at cost less any impairment losses.

Notes to Financial Statements

31 December 2011

3. Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, 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. 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. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and 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 maturity amount 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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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 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.

Notes to Financial Statements

31 December 2011

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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 yet 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 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 expenses in the statement of comprehensive income.

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 judgement. "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 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 plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing bank and other borrowings.

Notes to Financial Statements

31 December 2011

3. Summary of significant accounting policies (continued)

Financial liabilities (continued)

Subsequent measurement

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

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 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 statement of comprehensive income.

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

Cash and cash equivalents

For the purpose of the consolidated statement 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 statement of financial position, cash and cash equivalents 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 statement of comprehensive income.

Notes to Financial Statements

31 December 2011

3. Summary of significant accounting policies (continued)

Provisions (continued)

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:

- when the deferred tax liability arises from the initial recognition of goodwill or 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, associates and joint ventures, when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when 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.

Notes to Financial Statements

31 December 2011

3. Summary of significant accounting policies (continued)

Income tax (continued)

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) rental income, on a time proportion basis over the lease terms;

(c) 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

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

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 32 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Notes to Financial Statements

31 December 2011

3. Summary of significant accounting policies (continued)

Share-based payment transactions (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Employee benefits

Pension scheme

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by the 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.

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 arising on settlement or translation of monetary items 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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item.

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, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement 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.

Notes to Financial Statements

31 December 2011

4. Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, 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.

Judgements

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

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Tax

Determining income tax provisions requires the Group to make judgements 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 judgement 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.

Deferred income tax liabilities have not been established for income tax and withholding tax that would be payable on certain profits of the subsidiaries in the Mainland China to be repatriated and distributed by way of dividends as the directors consider that the timing of the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future. If those undistributed earnings of the subsidiaries in Mainland China are considered to be repatriated and distributed by way of dividends, the deferred income tax charge and deferred income tax liability would have been increased by the same amount of approximately HK$47,086,000 for the year ended 31 December 2011.

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 described below.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amount of investment properties at 31 December 2011 was HK$85,116,000 (2010: HK$62,612,000).

Notes to Financial Statements

31 December 2011

4. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

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 on 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 management's judgement. A considerable amount of judgement 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 2011, the carrying amount of inventories was approximately HK$810,509,000 (2010: HK$449,995,000) after netting off the allowance for inventories of approximately HK$109,727,000 (2010: HK$77,052,000).

Notes to Financial Statements

31 December 2011

4. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

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. Investment in a subsidiary

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 2011 (2010: HK$8).

The amounts due from subsidiaries included in the Company's current assets of HK$2,966,952,000 (2010: HK$2,289,122,000), are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are set out below:

Name of company	Place and date of incorporation/ establishment	Nominal value of issued ordinary share/ registered capital	Percentage of equity interests attributable to the Company 31 December 2011	2010	Principal activities
CITIC Dameng Investments	BVI 18 May 2005	US$1 Direct	100.00	100.00	Investment holding
CITIC Dameng Mining Industries Co., Limited ("CITIC Dameng Mining") (中信大錳礦業有限責任公司) ^ #	PRC/Mainland China 19 August 2005	RMB1,539,710,100 Indirect	100.00	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) ^	PRC/Mainland China 18 April 2001	RMB24,280,000 Indirect	71.17	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) ^	PRC/Mainland China 27 March 2003	RMB50,000,000 Indirect	60.00	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) ^	PRC/Mainland China 28 April 2002	RMB2,680,000 Indirect	60.00	60.00	Manufacture and sale of ferroalloy products
CITIC Dameng (Qinzhou) New Materials Co., Ltd. ("Qinzhou New Materials") (中信大錳(欽州)新材料有限公司) ^	PRC/Mainland China 26 November 2003	RMB30,000,000 Indirect	70.00	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) ^	PRC/Mainland China 1 February 2008	RMB50,000,000 Indirect	100.00	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) ^	PRC/Mainland China 27 May 2008	RMB20,000,000 Indirect	100.00	100.00	Processing and sale of manganese related products

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5. Investment in a subsidiary (continued)

Name of company	Place and date of incorporation/ establishment	Nominal value of issued ordinary share/ registered capital	Percentage of equity interests attributable to the Company 31 December 2011	2010	Principal activities
CITIC Dameng (Chongzuo) New Materials Co., Ltd. ("Chongzuo New Materials") (中信大錳（崇左）新材料有限公司) ^	PRC/Mainland China 21 May 2008	RMB20,000,000 Indirect	100.00	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) ^	PRC/Mainland China 30 July 2008	RMB20,000,000 Indirect	100.00	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) ^	PRC/Mainland China 15 April 2008	RMB20,000,000 Indirect	100.00	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)	BVI 6 July 2007	USD5,820,000 Indirect	60.00	60.00	Investment holding
Companie Industrielle et Commerciale des Mines de Huazhou (Gabon) ("CICMHZ")	Gabon 24 August 2005	XAF10 million Indirect	51.00	51.00	Mining and sale of manganese
Guizhou Zunyi Hui Xing Ferroalloy Co., Ltd. ("Hui Xing Company") (貴州遵義匯興鐵合金有限公司) ^	PRC/Mainland China 20 December 2007	RMB500,000,000 Indirect	64.00	–	Mining, processing and sale of manganese related products
Zunyi CITIC Dameng Equipment Manufacture and Installation Co., Ltd ("Zunyi Manufacture") (遵義中信大錳設備製造安裝有限公司) ^	PRC/Mainland China 7 September 2011	RMB5,000,000 Indirect	64.00	–	Manufacture and sale of equipment
Guizhou Zunyi Longmai Real Estate Co., Ltd ("Longmai Real Estate") (貴州遵義龍麥置業有限責任公司) ^	PRC/Mainland China 20 October 2011	RMB50,000,000 Indirect	64.00	–	Property development, investment and management
Guangxi Sanmenglong Mining Industries Co, Ltd. ("Sanmenglong") (廣西三錳龍礦業有限公司) ^	PRC/Mainland China 7 October 2004	RMB11,800,000 Indirect	100.00	–	Mining, processing and sale of manganese related products

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5. Investment in a subsidiary (continued)

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 reporting period 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 Ventures.

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

During the year, the Group acquired Hui Xing Company and Sanmenglong. Further details of these acquisitions are included in note 34 to the financial statements.

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, manganese sulfate and silicomanganese alloys;

(c) the non-manganese ferroalloy processing segment engages 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, an available-for-sale equity investment 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 liabilities 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.

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6. Operating segment information (continued)

	Manganese mining and ore processing HK$'000	Manganese downstream processing HK$'000	Non-manganese ferroalloy processing HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2011					
Segment revenue:					
Sales to external customers	231,421	2,865,451	191,582	366,236	3,654,690
Intersegment sales	107,708	–	–	17,105	124,813
Other revenue	2,428	8,836	55	43,591	54,910
	341,557	2,874,287	191,637	426,932	3,834,413
Reconciliation:					
Elimination of intersegment sales					(124,813)
Revenue from operations					3,709,600
Segment results	25,561	352,811	(13,985)	1,034	365,421
Reconciliation:					
Interest income					28,680
Gain on bargain purchase					262,775
Corporate and other unallocated expenses					(152,002)
Finance costs					(127,823)
Profit before tax					377,051
Income tax expense					(30,751)
Profit for the year					346,300
Assets and liabilities					
Segment assets	1,284,928	4,722,400	150,861	603,831	6,762,020
Reconciliation:					
Corporate and other unallocated assets					2,134,711
Total assets					8,896,731
Segment liabilities	612,996	837,223	12,205	76,352	1,538,776
Reconciliation:					
Corporate and other unallocated liabilities					2,980,108
Total liabilities					4,518,884
Other segment information:					
Depreciation and amortisation	50,178	156,396	6,887	35,294	248,755
Unallocated depreciation and amortisation					4,318
Total depreciation and amortisation					253,073
Capital expenditure*	214,347	495,599	18,633	60,256	788,835
Unallocated capital expenditure					22,406
Total capital expenditure					811,241
Gain/(loss) on disposal of items of property, plant and equipment	(1,058)	2,682	–	–	1,624
Impairment losses recognised in profit or loss	8,939	19,009	9,179	17,133	54,260

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6. Operating segment information (continued)

	Manganese mining and ore processing HK$'000	Manganese downstream processing HK$'000	Non-manganese ferroalloy processing HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2010					
Segment revenue:					
Sales to external customers	286,708	1,951,265	232,228	109,472	2,579,673
Intersegment sales	110,813	–	–	110	110,923
Other revenue	1,664	4,634	3,264	49,233	58,795
	399,185	1,955,899	235,492	158,815	2,749,391
Reconciliation:					
Elimination of intersegment sales					(110,923)
Revenue from operations					2,638,468
Segment results	132,773	276,871	(15,145)	38,772	433,271
Reconciliation:					
Interest income					6,710
Corporate and other unallocated expenses					(81,476)
Finance costs					(95,716)
Profit before tax					262,789
Income tax expense					(14,339)
Profit for the year					248,450
Assets and liabilities					
Segment assets	949,095	2,689,698	209,799	360,489	4,209,081
Reconciliation:					
Corporate and other unallocated assets					2,626,598
Total assets					6,835,679
Segment liabilities	372,199	535,755	66,865	42,546	1,017,365
Reconciliation:					
Corporate and other unallocated liabilities					2,416,315
Total liabilities					3,433,680
Other segment information:					
Depreciation and amortisation	33,288	112,568	7,825	15,776	169,457
Unallocated depreciation and amortisation					1,711
Total depreciation and amortisation					171,168
Capital expenditure*	140,512	487,725	2,467	202	630,906
Unallocated capital expenditure					136,793
Total capital expenditure					767,699
Loss on disposal of items of property, plant and equipment	515	822	–	–	1,337
Impairment losses recognised in profit or loss	1,910	3,903	4,203	(7,473)	2,543

* Capital expenditure consists of additions to property, plant and equipment, investment properties, prepaid land lease payments and intangible assets.

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6. Operating segment information (continued)

Geographical information

(a) *Revenue from external customers*

	2011 HK$'000	2010 HK$'000
Mainland China	3,241,879	2,151,371
Asia (excluding Mainland China)	373,905	379,181
Europe	10,488	13,354
North America	19,116	27,684
Other countries	9,302	8,083
	3,654,690	2,579,673

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

(b) *Non-current assets*

	2011 HK$'000	2010 HK$'000
Segment assets:		
Mainland China	4,100,854	2,440,571
Africa	516,792	362,286
	4,617,646	2,802,857

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

Information about a major customer

Revenue of approximately HK$350 million for the year ended 31 December 2011 (2010: HK$282 million) was derived from sales by the manganese downstream processing segment to a single customer.

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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 during the year.

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

	Note	2011 HK$'000	2010 HK$'000
Revenue			
Sale of goods		3,654,690	2,579,673
Other income and gains			
Interest income		28,680	6,710
Gain on disposal of items of property, plant and equipment		1,624	2,836
Subsidy income		12,714	9,754
Write-off of payables		19	4,811
Sale of scrap and raw materials		19,015	11,624
Dividend from unlisted investment		2,646	–
Fair value gains on investment properties	17	18,212	27,507
Others		680	2,263
		83,590	65,505

8. Finance costs

An analysis of finance costs is as follows:

	2011 HK$'000	2010 HK$'000
Interest on bank loans and other loans wholly repayable within five years	130,338	104,635
Interest on bank loans and other loans not wholly repayable within five years	–	4,016
Finance costs for discounted notes receivable	2,538	1,288
Less: Interest capitalised	(5,053)	(14,223)
	127,823	95,716

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9. Profit before tax

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

	Notes	2011 HK$'000	2010 HK$'000
Cost of inventories sold		2,532,307	1,947,588
Depreciation	16	227,183	158,744
Amortisation of prepaid land lease payments	18	8,979	6,172
Amortisation of intangible assets	19	16,911	6,252
Auditors' remuneration		4,107	3,180
Minimum lease payments under operating leases, land and buildings		11,607	6,376
Employee benefit expense (excluding directors' remuneration (note 10)):			
Wages and salaries		266,829	201,389
Equity-settled share option expense		20,677	–
Pension scheme contributions		33,999	25,474
Other employee welfare		27,561	11,067
		349,066	237,930
(Gain)/loss on disposal of items of property, plant and equipment*		(1,624)	1,337
Foreign exchange differences, net*		2,632	1,158
Write-down/(write-back)of inventories to net realisable value, net#		39,360	(1,010)
Impairment of trade and other receivables, net*		10,915	3,553
Impairment of property, plant and equipment*	16	3,985	–
Changes in fair value of investment properties	17	(18,212)	(27,507)
Gain on bargain purchase from the acquisition of subsidiaries^	34	(262,775)	–

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

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

^ Gain on bargain purchase from the acquisition of subsidiaries is included in the consolidated statement of comprehensive income.

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10. Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2011 HK$'000	2010 HK$'000
Fees	1,801	333
Other emoluments		
Salaries, allowances and benefits in kind	3,871	700
Performance related bonuses*	3,558	985
Equity-settled share option expenses	40,657	–
Pension scheme contributions	177	28
	48,263	1,713
	50,064	2,046

* Certain executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.

(a) Independent non-executive directors

The remuneration of each of independent non-executive director during the year were as follows:

	Fees HK$'000	Equity-settled share option expenses HK$'000	Total HK$'000
2011			
Mr. Yang Zhi Jie	**200**	**617**	**817**
Mr. Mo Shijian	**200**	**617**	**817**
Mr. Tan Zhuzhong	**200**	**617**	**817**
	600	**1,851**	**2,451**
2010			
Mr. Yang Zhi Jie	37	–	37
Mr. Mo Shijian	37	–	37
Mr. Tan Zhuzhong	37	–	37
	111	–	111

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

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10. Directors' remuneration (continued)

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expenses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2011						
Executive directors:						
Mr. Qiu Yiyong	200	–	–	9,248	–	9,448
Mr. Li Weijian	200	886	1,574	9,248	83	11,991
Mr. Tian Yuchuan	200	2,340	1,000	7,399	12	10,951
	600	3,226	2,574	25,895	95	32,390
Non-executive directors:						
Mr. Mi Zengxin	200	–	–	6,166	–	6,366
Mr. Yin Ke	131	–	–	1,196	–	1,327
Mr. Zeng Chen	70	–	–	–	–	70
Mr. Chen Jiqiu	200	645	984	5,549	82	7,460
	601	645	984	12,911	82	15,223
	1,201	3,871	3,558	38,806	177	47,613
2010						
Executive directors:						
Mr. Qiu Yiyong	37	–	–	–	–	37
Mr. Li Weijian	37	158	358	–	13	566
Mr. Tian Yuchuan	37	428	400	–	2	867
	111	586	758	–	15	1,470
Non-executive directors:						
Mr. Mi Zengxin	37	–	–	–	–	37
Mr. Yin Ke	37	–	–	–	–	37
Mr. Chen Jiqiu	37	114	227	–	13	391
	111	114	227	–	13	465
	222	700	985	–	28	1,935

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

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11. Five highest paid employees

The five highest paid employees for the year ended 31 December 2011 are four directors of the Company (2010: two), details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining one non-director, highest paid employee for the year ended 31 December 2011 (2010: three) is as follows:

Group

	2011 HK$'000	2010 HK$'000
Salaries, allowances and benefits in kind	616	1,903
Performance related bonuses	1,107	3,852
Equity-settled share option expenses	5,169	–
Pension scheme contributions	83	146
	6,975	5,901

The remuneration of the non-director highest paid employees fell within the band of HK$6,500,001 to HK$7,000,000 for the year ended 31 December 2011 (2010: HK$1,500,001 to HK$2,000,000).

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.

	Note	2011 HK$'000	2010 HK$'000
Group:			
Current – PRC			
Charge for the year		62,337	34,004
Deferred	21	(31,586)	(19,665)
Total tax charge for the year		30,751	14,339

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 year.

PRC corporate income tax ("CIT")

Pursuant to the 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 25% on their respective taxable income for the years ended 31 December 2010 and 2011. The other major tax concessions applicable to the entities within the Group are detailed as follows:

(a) CITIC Dameng Mining is recognised as a High and New Technology Enterprise and is entitled to a preferential CIT rate of 15%.

(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 was 15% for the period from 1 January 2007 to 31 December 2010. During the year 2011, no additional tax preferential policy was granted, and the applicable CIT rate of Guangxi Dabao was 25%.

(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 a preferential tax treatment for developing Western China and its applicable CIT rate was 15% for the period from 1 January 2005 to 31 December 2010. During the year 2011, no additional tax preferential policy was granted, and hence the applicable CIT rate of Guangxi Start was 25%.

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12. Income tax (continued)

A reconciliation of the income tax charge applicable to profit 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:

Group

	2011 HK$'000	2010 HK$'000
Profit before tax	377,051	262,789
Tax at the applicable PRC corporate income tax rate	94,263	65,697
Lower tax rates/tax holidays or concessions for specific provinces	(29,912)	(65,991)
Income not subject to tax	(68,728)	(472)
Expenses not deductible for tax	8,831	3,877
Effect of withholding tax at 10% on undistributed profits of the Group's PRC subsidiaries	13,494	10,503
Tax losses utilised from previous periods	–	(702)
Tax losses not recognised	12,803	1,427
Tax charge reported in the consolidated statement of comprehensive income	30,751	14,339
The Group's effective income tax rate	8.2%	5.5%

13. Profit attributable to owners of the parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a profit of HK$42,015,000 (2010: HK$529,382,000) which has been dealt with in the financial statements of the Company (note 33).

14. Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,024,795,000 (2010: 1,760,973,329) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2011 and 2010 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amounts presented for the year ended 31 December 2011 and the Group had no potentially dilutive ordinary share in issue during the year ended 31 December 2010.

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14. Earnings per share attributable to ordinary equity holders of the parent (continued)

The calculation of basic earnings per share is based on:

	2011 HK$'000	2010 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	408,572	229,132

	Number of shares	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	3,024,795,000	1,760,973,329

15. Dividends

	2011 HK$'000	2010 HK$'000
Proposed final dividend – HK1.0 cent (2010: Nil) per ordinary share	30,248	–

Dividends amounting to HK$507,974,000 for the year ended 31 December 2010 was declared by the Company to its shareholders before the reorganisation as detailed in the Prospectus. As at 31 December 2010, all dividend payable had been fully settled.

Pursuant to the board of directors' meeting held on 1 March 2012, the directors recommended a final dividend of HK1.0 cent per ordinary share. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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16. Property, plant and equipment

Group

	Notes	Buildings and mining structures HK$'000	Motor vehicles, plant, machinery, tools and equipment HK$'000	Furniture and fixtures HK$'000	Leasehold improvements HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:							
At 1 January 2011		1,018,242	939,760	44,633	15,969	499,870	2,518,474
Additions		–	115,007	5,568	129	686,450	807,154
Acquisition of subsidiaries	34	112,715	114,462	4,975	–	6,415	238,567
Disposals		(10,276)	(70,552)	(545)	–	–	(81,373)
Transfers		182,506	45,964	608	–	(229,078)	–
Exchange realignment		51,627	47,295	656	727	33,784	134,089
At 31 December 2011		1,354,814	1,191,936	55,895	16,825	997,441	3,616,911
Accumulated depreciation and impairment:							
At 1 January 2011		126,559	217,102	16,943	12,632	–	373,236
Charge for the year	9	68,141	154,263	3,515	1,264	–	227,183
Acquisition of subsidiaries	34	46,102	36,607	1,564	–	–	84,273
Impairment	9	–	3,985	–	–	–	3,985
Disposals		(3,107)	(52,324)	(165)	–	–	(55,596)
Exchange realignment		8,736	15,357	392	636	–	25,121
At 31 December 2011		246,431	374,990	22,249	14,532	–	658,202
Net book value:							
At 31 December 2011		1,108,383	816,946	33,646	2,293	997,441	2,958,709
Cost:							
At 1 January 2010		859,766	756,773	11,252	12,498	232,882	1,873,171
Additions		5,915	65,466	21,734	2,904	551,304	647,323
Disposals		(1,395)	(75,985)	(3,150)	–	–	(80,530)
Transfers		121,676	165,924	11,663	–	(299,263)	–
Exchange realignment		32,280	27,582	3,134	567	14,947	78,510
At 31 December 2010		1,018,242	939,760	44,633	15,969	499,870	2,518,474
Accumulated depreciation and impairment:							
At 1 January 2010		73,482	158,332	5,200	10,842	–	247,856
Charge for the year	9	49,069	95,951	12,356	1,368	–	158,744
Disposals		(148)	(44,182)	(2,679)	–	–	(47,009)
Exchange realignment		4,156	7,001	2,066	422	–	13,645
At 31 December 2010		126,559	217,102	16,943	12,632	–	373,236
Net book value:							
At 31 December 2010		891,683	722,658	27,690	3,337	499,870	2,145,238

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16. Property, plant and equipment (continued)

Certain of the Group's interest-bearing bank borrowings were secured by certain of the Group's buildings and machinery, which had an aggregate net carrying amount of approximately HK$239,514,000 as at 31 December 2011 (2010: HK$221,961,000) (note 28 (b)).

At 31 December 2011, 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$141,932,000 (2010: HK$138,099,000) and the Group also had buildings and construction in progress with an aggregate net carrying amount of approximately HK$66,644,000 (2010: HK$48,807,000) situated on certain land parcels of which the Group was in the process of applying for the 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 31 December 2011.

17. Investment properties

Group

	Note	2011 HK$'000	2010 HK$'000
Carrying amount at beginning of year		62,612	–
Additions		772	33,576
Net gain from a fair value adjustment	7	18,212	27,507
Exchange realignment		3,520	1,529
Carrying amount at end of year		85,116	62,612

The Group's investment properties are situated in Mainland China and are held under medium term operating leases.

The Group's investment properties were revalued on 31 December 2011 by Guangxi Wushuang Real Estate Appraisal Company Limited, independent professionally qualified valuers, at HK$85,116,000 on an open market, existing use basis.

18. Prepaid land lease payments

Group

	Notes	2011 HK$'000	2010 HK$'000
Carrying amount at beginning of year		171,383	86,497
Additions		2,677	85,964
Acquisition of subsidiaries	34	321,943*	–
Amortisation provided during the year	9	(8,979)	(6,172)
Exchange realignment		16,121	5,094
Carrying amount at end of year		503,145	171,383
Current portion included in prepayments, deposits and other receivables		(12,041)	(6,497)
Non-current portion		491,104	164,886

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18. Prepaid land lease payments (continued)

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

Certain of the Group's interest-bearing bank borrowings were secured by certain of the Group's leasehold lands with a net carrying amount of approximately HK$45,994,000 as at 31 December 2011 (2010: HK$48,155,000) (note 28 (b)).

* These leasehold lands are allocated industrial land use rights situated in the PRC.

19. Intangible assets

Group

	Notes	**Mining rights HK$'000**	**Other intangible assets HK$'000**	**Total HK$'000**
Cost:				
At 1 January 2011		329,472	3,638	333,110
Additions		211	427	638
Acquisition of subsidiaries	34	566,835	–	566,835
Exchange realignment		29,033	188	29,221
At 31 December 2011		925,551	4,253	929,804
Accumulated amortisation:				
At 1 January 2011		30,888	1,463	32,351
Amortisation provided during the year	9	16,345	566	16,911
Exchange realignment		1,725	85	1,810
At 31 December 2011		48,958	2,114	51,072
Net book value:				
At 31 December 2011		876,593	2,139	878,732
Cost:				
At 1 January 2010		319,810	1,643	321,453
Additions		–	836	836
Exchange realignment		9,662	1,159	10,821
At 31 December 2010		329,472	3,638	333,110
Accumulated amortisation:				
At 1 January 2010		24,881	271	25,152
Amortisation provided during the year	9	5,790	462	6,252
Exchange realignment		217	730	947
At 31 December 2010		30,888	1,463	32,351
Net book value:				
At 31 December 2010		298,584	2,175	300,759

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19. Intangible assets (continued)

At 31 December 2011, the Group was in the process of applying for the mining right certificates of Changgou Manganese Mine and Waifu Manganese Mine with aggregate net carrying amounts of approximately HK$525,069,000 and HK$56,537,000, respectively. The directors are of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2011.

20. Available-for-sale equity investment

Group

	2011 HK$'000	2010 HK$'000
Unlisted equity investment, at cost	4,582	4,369

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.

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21. Deferred tax

The movements in deferred tax assets and liabilities of the Group during the year are as follows:

Deferred tax assets

Group

	Note	Losses available for offsetting against future taxable profits HK$'000	Deductible temporary differences HK$'000	Total HK$'000
At 1 January 2011		56,837	23,092	79,929
Deferred tax credited to profit or loss during the year	12	27,923	18,649	46,572
Exchange realignment		3,459	1,585	5,044
At 31 December 2011		88,219	43,326	131,545
At 1 January 2010		30,292	10,498	40,790
Deferred tax credited to profit or loss during the year	12	24,837	11,919	36,756
Exchange realignment		1,708	675	2,383
At 31 December 2010		56,837	23,092	79,929

Deferred tax liabilities

	Notes	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Withholding taxes HK$'000	Fair value adjustments on investment properties HK$'000	Total HK$'000
At 1 January 2011		3,909	5,912	7,152	16,973
Deferred tax (credited)/charged to profit or loss during the year	12	(2,343)	13,494	3,835	14,986
Acquisition of subsidiaries	34	185,878	–	–	185,878
Charged to tax payable		–	(11,722)	–	(11,722)
Exchange realignment		4,662	–	443	5,105
At 31 December 2011		192,106	7,684	11,430	211,220
At 1 January 2010		4,192	23,281	–	27,473
Deferred tax (credited)/charged to profit or loss during the year	12	(389)	10,503	6,977	17,091
Transferred to tax payable		–	(27,872)	–	(27,872)
Exchange realignment		106	–	175	281
At 31 December 2010		3,909	5,912	7,152	16,973

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31 December 2011

21. Deferred tax (continued)

The Group has accumulated tax losses of approximately HK$350 million (2010: HK$217 million) which are available for offsetting against future taxable profits in one to five years. Deferred tax assets have not been recognised in respect of losses of HK$54 million (2010: HK$8 million) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the Corporate Income Tax Law of China, 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 Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2011, the Group has not recognised deferred tax liabilities of HK$47,086,000 (2010: HK$15,600,000) in respect of temporary differences relating to the unremitted profits of subsidiaries, amounting to HK$470,863,000 (2010: HK$155,996,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

22. Inventories

Group

	2011 HK$'000	2010 HK$'000
Raw materials	571,264	340,767
Work in progress	8,410	4,528
Finished goods	340,562	181,752
	920,236	527,047
Less: Inventory provision	(109,727)	(77,052)
	810,509	449,995

23. Trade and notes receivables

Group

	2011 HK$'000	2010 HK$'000
Trade receivables	429,275	264,044
Notes receivable	534,304	344,711
	963,579	608,755
Less: Impairment	(15,006)	(4,821)
	948,573	603,934

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23. Trade and notes receivables (continued)

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed and followed up regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Notes receivable represent bank acceptance notes issued by banks in Mainland China which are secured and paid by the banks when due.

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

Group

	2011 HK$'000	2010 HK$'000
Within one month	399,975	386,822
One to two months	252,942	84,704
Two to three months	114,816	29,346
Over three months	180,840	103,062
	948,573	603,934

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

Group

	2011 HK$'000	2010 HK$'000
At beginning of year	4,821	5,874
Acquisition of a subsidiary	682	–
Impairment losses recognised	9,171	471
Write-off	(142)	(1,704)
Exchange realignment	474	180
At end of year	15,006	4,821

Included in the above provision for impairment of trade and notes receivables are provisions for individually impaired trade receivables of HK$15,006,000 (2010: HK$4,821,000) with a carrying amount before provision of approximately HK$15,006,000 (2010: HK$4,821,000) as at 31 December 2011. 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.

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23. Trade and notes receivables (continued)

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

Group

	2011 HK$'000	2010 HK$'000
Neither past due nor impaired	767,733	592,404
One to three months past due	154,802	7,873
Over three months past due	26,038	3,657
	948,573	603,934

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 relate 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.

24. Prepayments, deposits and other receivables

Non-current portion

Group

	2011 HK$'000	2010 HK$'000
Deposits	154,930	124,302
Prepayment	49,055	5,060
	203,985	129,362

Current portion

Group

	2011 HK$'000	2010 HK$'000
Prepayments	83,373	97,629
Deposits and other receivables	164,046	90,213
Loans to a third party	123,390	–
	370,809	187,842

Loans to a third party bear interest at 7.15% per annum and are due on 12 April 2012.

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25. Cash and cash equivalents and pledged deposits

		Group		Company	
	Note	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Cash and bank balances		1,996,366	2,652,284	316,775	939,065
Less: Pledged deposits					
– Pledged for long-term bank loans	28(b)	(88,292)	(61,425)	–	–
– Pledged for bank acceptance notes		(9,640)	(10,118)	–	–
Cash and cash equivalents		1,898,434	2,580,741	316,775	939,065

As at 31 December 2011, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$1,141,165,000 (2010: HK$532,713,000) were deposited in Mainland China. 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. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

26. Trade payables

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

Group

	2011 HK$'000	2010 HK$'000
Within one month	192,842	152,182
One to two months	41,816	13,086
Two to three months	33,337	17,017
Over three months	50,106	57,938
	318,101	240,223

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

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27. Other payables and accruals

Group

	2011 HK$'000	2010 HK$'000
Advances from customers	66,221	98,773
Other payables	378,156	207,785
Accruals	120,462	140,136
	564,839	446,694

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

28. Interest-bearing bank and other borrowings

Group

	2011			2010		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	5.81-6.06	2012	37,017	4.78	2011	35,295
Bank loans – unsecured	4.70-6.89	2012	1,016,196	4.78-5.56	2011	516,484
Current portion of long-term bank loans – secured	5.96	2012	119,688	6.53	2011	41,177
Current portion of long-term bank loans – unsecured	4.86-5.96, LIBOR+0.85	2012	618,252	4.86-5.40	2011	188,240
Long-term bank loans with a repayment on demand clause – unsecured (Note (a))	–	–	–	LIBOR+0.85	On demand	273,889
Other loans – unsecured	–	–	–	4.70	2011	117,650
			1,791,153			1,172,735
Non-current						
Bank loans – secured	5.27-6.14	2013 - 2015	139,431	5.40-5.94	2012 - 2015	248,242
Bank loans – unsecured	4.86-7.25	2013 - 2016	1,359,758	4.86-5.76	2012 - 2016	1,265,914
			1,499,189			1,514,156
			3,290,342			2,686,891

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28. Interest-bearing bank and other borrowings (continued)

	2011 HK$'000	2010 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand (Note(a))	1,791,153	1,055,085
In the second year	797,099	480,012
In the third to fifth years, inclusive	702,090	897,670
Beyond five years	–	136,474
	3,290,342	2,569,241
Other loans repayable:		
Within one year or on demand	–	117,650
	3,290,342	2,686,891

Notes:

(a) Due to the adoption of HK Interpretation 5 in the year 2010, the Group's term loan in the amount of HK$273,889,000 containing a repayment on-demand clause had been reclassified as a current liability as at 31 December 2010. For the purpose of the above analysis, the loan was included within current interest-bearing bank and other borrowings and analysed into bank loans repayable within one year or on demand in the year 2010. Based on the terms of the loan, the whole amount of the loan is repayable in the year 2012 and therefore recognised in the current portion of long term bank loans as at 31 December 2011.

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

	Notes	2011 HK$'000	2010 HK$'000
Property, plant and equipment	16	239,514	221,961
Prepaid land lease payments	18	45,994	48,155
Pledged deposits	25	88,292	61,425
		373,800	331,541

(c) Except for unsecured bank loan of HK$420,290,000 (2010: HK$273,889,000) which is denominated in United States dollars, all borrowings were in Renminbi as at 31 December 2011.

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29. Other long-term liabilities

Group

	2011 HK$'000	2010 HK$'000
At beginning of year	3,700	2,377
Additional provision	458	1,291
Utilisation of rehabilitation provision	–	(83)
Exchange realignment	(204)	115
At end of year	3,954	3,700

The provision for rehabilitation represents management's estimates of the restoration costs to be incurred on mine closure. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

30. Deferred income

Group

	Note	2011 HK$'000	2010 HK$'000
At beginning of year		35,684	4,937
Acquisition of a subsidiary	34	14,741	–
Addition		62,990	31,878
Amortised during the year		(6,799)	(2,053)
Exchange realignment		3,483	922
At end of year		110,099	35,684

The balance represents the receipt of government grants for the construction of certain equipment, which has been credited as a non-current liability on the consolidated statement 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.

31. Issued capital

Shares

	2011 HK$'000	2010 HK$'000
Authorised: 10,000,000,000 (2010: 10,000,000,000) ordinary shares of HK$0.10 each	1,000,000	1,000,000
Issued and fully paid: 3,024,795,000 (2010: 3,024,795,000) ordinary shares of HK$0.10 each	302,480	302,480

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32. Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. On 11 January 2011, the Company granted 103,000,000 share options to the directors and other employees of the Group under the Scheme, of which 67,000,000 share options were granted to the directors. The share options became effective on 11 January 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The offer of a grant of share options may be accepted within 48 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted begins after a vesting period of one to three years as detailed below and ends on 10 January 2021:

(a) The first tranche (25% of the share options) shall be exercisable after the first anniversary day of the grant of the share options;

(b) The second tranche (25% of the share options) shall be exercisable after the second anniversary day of the grant of the share options; and

(c) The remaining 50% of the share options shall be exercisable after the third anniversary day of the grant of the share options.

The exercise price of the share options is HK$2.81 per share, which was determined by the higher of (i) the closing price of HK$2.810 per share as stated in the Stock Exchange's daily quotation sheets on the date of grant; (ii) the average closing price of HK$2.778 per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Other than the 103,000,000 share options granted on 11 January 2011 with an exercise price of HK$2.81 per share, there was no movement in the share options for the year ended 31 December 2011 (2010: No share options were granted or exercised).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

31 December 2011 Number of share options '000	**Exercise price HK$ per share**	**Exercise period**
25,750	2.81	11-1-2012 to 10-1-2021
25,750	2.81	11-1-2013 to 10-1-2021
51,500	2.81	11-1-2014 to 10-1-2021
103,000		

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32. Share option scheme (continued)

The fair value of the share options granted during the year was HK$122,780,000 (weighted average fair value of HK$1.19 each) (2010: Nil), of which the Group recognised a share option expense of HK$61,987,000 (2010: Nil) during the year ended 31 December 2011.

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

Dividend yield (%)	–
Expected volatility (%)	46.75
Historical volatility (%)	N/A
Risk-free interest rate (%)	2.46
Weighted average share price (HK$ per share)	2.81

The expected volatility was determined using the historical volatilities of comparable companies since there was no historical record of the Company, and may also not necessarily be the actual outcome. Early exercise assumption for option holders to exercise their option when the share price is at least 164% and 150% of the exercise price for the directors and other employees, respectively.

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

As at 31 December 2011, the Company had 103,000,000 share options outstanding under the Scheme. As all of the share options are still within the vesting period in year 2011, they would have no impact on the shares of the Company nor the share capital or share premium.

At the date of approval of these financial statements, the Company had 103,000,000 share options outstanding under the Scheme, which represented approximately 3.41% of the Company's shares in issue as at that date.

33. Reserves

Group

The amounts of the Group's reserves and the movements therein for current and prior years are presented in the consolidated statement of changes in equity on page 61 of the financial statements.

	Notes	2011 HK$'000	2010 HK$'000
Share premium	(a)	2,872,076	2,856,583
Contributed surplus	(b)	(171,859)	(190,229)
Reserve funds	(c)	134,634	104,127
Share option reserve		61,987	–
Exchange fluctuation reserve		254,858	108,627
Retained profits		498,184	150,367
		3,649,880	3,029,475

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33. Reserves (continued)

Notes:

(a) The share premium account includes the premium arising from the subscription of new ordinary shares, and the increase during the year was due to the reversal of over-provided listing expenses.

(b) The contributed surplus mainly represents the difference between the consideration and the book value of the share of the net assets acquired in respect of the acquisition of additional interest in 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.

Pursuant to the relevant regulation in the PRC, the Group is required to provide for safety fund based on the volume of ore excavated.

Company

	Note	Share premium account HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2010		–	–	(17,593)	(17,593)
Issuance of new shares		2,856,583	–	–	2,856,583
Profit for the year		–	–	529,382	529,382
Dividend declared	15	–	–	(507,974)	(507,974)
At 31 December 2010 and at 1 January 2011		2,856,583	–	3,815	2,860,398
Equity-settled share option arrangements		–	61,987	–	61,987
Reversal of over-provided listing expenses		15,493	–	–	15,493
Profit for the year		–	–	42,015	42,015
Proposed final dividend for year 2011	15	–	–	(30,248)	(30,248)
At 31 December 2011		2,872,076	61,987	15,582	2,949,645

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 3 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

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34. Business combination

On 31 May 2011, the Group acquired a 60% equity interest in Hui Xing Company at a consideration of RMB162,260,000 (equivalent to HK$195,410,000). The principal activities of Hui Xing Company included manganese ore mining, ferroalloy production and logistics services in the PRC. The Group has elected to measure the non-controlling interest in Hui Xing Company at the non-controlling interests' proportionate share of the fair value of Hui Xing Company's identifiable net assets.

On 26 July 2011, the Group acquired a 100% equity interest in Sanmenglong at a consideration of RMB26,800,000 (equivalent to HK$32,275,000). Sanmenglong was primarily engaged in manganese mine exploration, evocation and further processing in Guangxi, the PRC.

These two acquisitions have been accounted for using the acquisition method. The consolidated financial statements include the results of Hui Xing Company and Sanmenglong for the period from the respective acquisition dates to 31 December 2011.

The fair values of the identifiable assets and liabilities of Hui Xing Company and Sanmenglong as at the date of acquisition were as follows:

	Notes	**Hui Xing Company HK$'000**	**Sanmenglong HK$'000**	**Total HK$'000**
Property, plant and equipment	16	93,311	60,983	154,294
Prepaid land lease payments	18	317,980	3,963	321,943
Mining rights	19	512,232	54,603	566,835
Cash and bank balances		23,224	1,280	24,504
Trade receivables		103,082	–	103,082
Prepayments and other receivables		56,204	5,942	62,146
Inventories		172,054	8,366	180,420
Trade payables		(79,255)	(468)	(79,723)
Other payables and accruals		(252,238)	(84,988)	(337,226)
Deferred income	30	(14,741)	–	(14,741)
Deferred tax liabilities	21	(168,862)	(17,016)	(185,878)
Non-controlling interests		(305,196)	–	(305,196)
		457,795	32,665	490,460
Satisfied by cash		195,410	32,275	227,685
Gain on bargain purchase recognised in profit or loss	9	262,385	390	262,775

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34. Business combination (continued)

The fair values of the trade and notes receivables and other receivables as at the date of acquisition amounted to HK$103,082,000 and HK$8,130,000, respectively. The gross contractual amounts of trade receivables and other receivables were HK$103,764,000 and HK$13,007,000, respectively, of which trade receivables of HK$682,000 and other receivables of HK$4,877,000 are expected to be uncollectible.

The Group recognised a gain on bargain purchase of HK$262,775,000 in the consolidated statement of comprehensive income for the year ended 31 December 2011, which was primarily attributable to the consideration determined based on the carrying amount of the net assets of Hui Xing Company and Sanmenglong that was mutually agreed between the parties.

The Group incurred transaction costs of HK$21,557,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated statement of comprehensive income.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	Hui Xing Company HK$'000	Sanmenglong HK$'000	Total HK$'000
Cash consideration	195,410	32,275	227,685
Cash and bank balances acquired	(23,224)	(1,280)	(24,504)
Net outflow of cash and cash equivalents included in cash flows from investing activities	172,186	30,995	203,181
Transaction costs of the acquisition included in cash flows from operating activities	21,557	–	21,557
	193,743	30,995	224,738

Since the acquisition, these two subsidiaries contributed HK$399,000,000 to the Group's revenue and a loss of HK$42,054,000 and to the consolidated profit for the year ended 31 December 2011.

Had the acquisition taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been HK$3,989,424,000 and HK$310,472,000, respectively.

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35. Operating lease arrangements

(a) As lessor

The Group leases its investment properties (note 17 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 2 to 20 years.

At 31 December 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2011 HK$'000	2010 HK$'000
Within one year	1,633	–
In the second to fifth years, inclusive	7,125	–
After five years	8,176	–
	16,934	–

During the year, the Group has not recognised any contingent rentals receivable.

(b) As lessee

As at 31 December 2010 and 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group

	2011 HK$'000	2010 HK$'000
Within one year	9,934	9,648
In the second to fifth years, inclusive	18,692	18,398
After five years	44,754	44,753
	73,380	72,799

Company

The Company did not have any operating lease commitments as at 31 December 2011 (2010: Nil).

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36. Contingent liabilities and commitments

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

In addition to the operating lease arrangements detailed in note 35 above, the Group had the following capital commitments as at the end of the reporting period:

Group

	2011 HK$'000	2010 HK$'000
Authorised, but not contracted for:		
Acquisition of land and buildings	566,922	211,328
Acquisition of plant and machinery	601,830	586,942
	1,168,752	798,270
Contracted, but not provided for:		
Acquisition of land and buildings	307,432	184,243
Acquisition of plant and machinery	122,511	135,049
	429,943	319,292
Total	1,598,695	1,117,562

Company

The Company did not have any commitments as at 31 December 2011 (2010: Nil).

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37. Related party transactions

Guangxi Dameng, a shareholder of the Company, exercises significant influence over the Group. Therefore, Guangxi Dameng and its subsidiaries are considered to be related parties of the Group.

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2011 HK$'000	2010 HK$'000
Purchase of raw materials from subsidiaries of Guangxi Dameng	(i)	13,643	27,944
Purchase of property, plant and equipment from a subsidiary of Guangxi Dameng	(i)	21,161	5,137
Sales of goods to subsidiaries of Guangxi Dameng	(ii)	42,515	50,471
Provision of water and electricity to Guangxi Dameng	(iii)	39	60
Provision of integrated service as defined in the Prospectus by Guangxi Dameng	(iv)	2,890	2,755
Deposits placed with related companies	(v)	194,968	192,936
Interest income on deposits placed with related companies	(v)	3,914	126
Tax indemnity charged to Highkeen	(vi)	3,987	–
Tax indemnity charged to Apexhill	(vi)	997	–
Tax indemnity charged to Guangxi Dameng	(vi)	2,625	–
Guarantee charges paid to Guangxi Dameng	(vii)	–	529
Provision of processing services by a subsidiary of Guangxi Dameng	(viii)	–	12,025

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$241,000) as mutually agreed by the parties.

(v) Deposits with related companies and related interest income were in the usual and ordinary course of business of the Group.

(vi) Pursuant to the deed of tax indemnity dated 3 November 2010, Highkeen, Apexhill and Guangxi Dameng agreed to indemnify against taxation falling on any of the companies of the Group resulting from any income, profits and gains earned, accrued or received (or deemed to be so) on or before 30 June 2010. During the year, the Company charged the tax indemnity according to the income tax clearance of subsidiaries for the year ended 31 December 2010 to Highkeen, Apexhill and Guangxi Dameng, respectively.

(vii) Guarantee fees were charged based on 1.5% of the guaranteed amounts effective from 1 April 2008 as mutually agreed by the parties. No guarantee was provided by related companies for bank loans for the year ended 31 December 2011.

(viii) Processing fee was charged based on the mutual agreements between the parties.

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37. Related party transactions (continued)

(b) Outstanding balances with related parties

	2011 HK$'000	2010 HK$'000
(i) Due from related companies		
Trade receivables	16,309	30,408
Prepayments	392	23,331
	16,701	53,739
(ii) Due to related companies		
Trade payables	10,977	2,398
Other payables	3,373	1,117
	14,350	3,515
(iii) Bank balances with related companies	40,721	192,936

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 other receivables from related companies are unsecured, non-interest-bearing and have no fixed terms of repayment.

Trade payables to the Group's related companies are non-interest-bearing and have no fixed terms of repayment. The Group's other payables to related companies are unsecured, non-interest-bearing and have no fixed terms of repayment.

(c) Compensation of key management personnel of the Group

	2011 HK$'000	2010 HK$'000
Salaries, allowances and benefits in kind	6,217	2,681
Bonuses	5,023	3,752
Equity-settled share option expenses	13,785	–
Pension scheme contributions	282	75
Total compensation paid to key management personnel	25,307	6,508

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

The related party transactions in respect of items (a) and (b) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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38. Major non-cash transactions

During the year ended 31 December 2011, CITIC Dameng Mining has offset receivables due from Guangxi Jinmeng Manganese Industry Co., Ltd ("Guangxi Jinmeng") of HK$94,442,000, against a prepayment to a subsidiary of Guangxi Jinmeng.

39. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

Group

	Loans and receivables HK$'000	Available-for-sale financial asset HK$'000	Total HK$'000
31 December 2011			
Available-for-sale equity investment	–	4,582	4,582
Trade and notes receivables	948,573	–	948,573
Financial assets included in prepayments, deposits and other receivables	142,764	–	142,764
Due from related companies	16,701	–	16,701
Pledged deposits	97,932	–	97,932
Cash and cash equivalents	1,898,434	–	1,898,434
	3,104,404	4,582	3,108,986
31 December 2010			
Available-for-sale equity investment	–	4,369	4,369
Trade and notes receivables	603,934	–	603,934
Financial assets included in prepayments, deposits and other receivables	9,880	–	9,880
Due from related companies	53,739	–	53,739
Pledged deposits	71,543	–	71,543
Cash and cash equivalents	2,580,741	–	2,580,741
	3,319,837	4,369	3,324,206

Company

	2011 HK$'000	2010 HK$'000
Other receivables	1,472	125
Due from subsidiaries	2,966,952	2,289,122
Cash and cash equivalents	316,775	939,065
	3,285,199	3,228,312

Notes to Financial Statements

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39. Financial instruments by category (continued)

Financial liabilities

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

Group

	2011 HK$'000	2010 HK$'000
Trade payables	318,101	240,223
Financial liabilities included in other payables and accruals	450,720	347,921
Interest-bearing bank and other borrowings	3,290,342	2,686,891
Due to related companies	14,350	3,515
	4,073,513	3,278,550

Company

	2011 HK$'000	2010 HK$'000
Financial liabilities included in other payables and accruals	2,826	65,434

40. Fair value

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Financial assets

Group

	Carrying amounts		Fair values	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Available-for-sale equity investment	4,582	4,369	4,582	4,369
Trade and notes receivables	948,573	603,934	948,573	603,934
Financial assets included in prepayments, deposits and other receivables	142,764	9,880	142,764	9,880
Due from related companies	16,701	53,739	16,701	53,739
Pledged deposits	97,932	71,543	97,932	71,543
Cash and cash equivalents	1,898,434	2,580,741	1,898,434	2,580,741
	3,108,986	3,324,206	3,108,986	3,324,206

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40. Fair value (continued)

Financial assets (continued)

Company

	Carrying amounts		Fair values	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Other receivables	1,472	125	1,472	125
Due from subsidiaries	2,966,952	2,289,122	2,966,952	2,289,122
Cash and cash equivalents	316,775	939,065	316,775	939,065
	3,285,199	3,228,312	3,285,199	3,228,312

Financial liabilities

Group

	Carrying amounts		Fair values	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Trade payables	318,101	240,223	318,101	240,223
Financial liabilities included in other payables and accruals	450,720	347,921	450,720	347,921
Interest-bearing bank borrowings and other borrowings	3,290,342	2,686,891	3,290,342	2,686,891
Due to related companies	14,350	3,515	14,350	3,515
	4,073,513	3,278,550	4,073,513	3,278,550

Company

	Carrying amounts		Fair values	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Financial liabilities included in other payables and accruals	2,826	65,434	2,826	65,434

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, the current portion of pledged deposits, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to related companies and amounts due from subsidiaries approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

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41. Financial risk management objectives and policies

The Group's principal financial instruments comprise financial liabilities which are mainly interest-bearing bank and other borrowings; and financial assets which are mainly 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 prices of manganese and other products of the Group 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 loans of the Group are set out in note 28.

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
Year ended 31 December 2011		
RMB	100	12,312
RMB	(100)	(12,312)
Year ended 31 December 2010		
RMB	100	9,719
RMB	(100)	(9,719)

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 and HKD. The Group is exposed to foreign currency risk mainly arising from the exposure of HKD 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.

Notes to Financial Statements

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41. Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably determined possible change in the RMB 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 HK$'000	Increase/ (decrease) in equity* HK$'000
31 December 2011			
If HKD weakens against RMB	1	9,610	–
If HKD strengthens against RMB	(1)	(9,610)	–
31 December 2010			
If HKD weakens against RMB	1	10,741	–
If HKD strengthens against RMB	(1)	(10,741)	–

* 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 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 constituted approximately 32% of the Group's total financial assets as at 31 December 2011 (2010: 18%):

Group

	2011 HK$'000	2010 HK$'000
By location:		
Mainland China	931,691	566,857
Asia (excluding Mainland China)	14,147	31,724
Europe	1,172	2,612
North America	1,563	2,741
	948,573	603,934

In addition, 17% of the Group's trade and notes receivables were due from the Group's five largest customers as at 31 December 2011 (2010: 11%).

Notes to Financial Statements

31 December 2011

41. Financial risk management objectives and policies (continued)

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 and capital expenditure.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

			2011			
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	More than 5 years HK$'000	Total HK$'000
Trade payables	–	318,101	–	–	–	318,101
Financial liabilities included in other payables and accruals	–	450,720	–	–	–	450,720
Interest-bearing bank and other borrowings	–	287,163	1,647,498	1,829,154	–	3,763,815
Due to related companies	14,350	–	–	–	–	14,350
	14,350	1,055,984	1,647,498	1,829,154	–	4,546,986

			2010			
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	More than 5 years HK$'000	Total HK$'000
Trade payables	–	240,223	–	–	–	240,223
Financial liabilities included in other payables and accruals	7,124	340,797	–	–	–	347,921
Interest-bearing bank and other borrowings	287,039	480,998	762,476	1,334,511	174,959	3,039,983
Due to related companies	3,515	–	–	–	–	3,515
	297,678	1,062,018	762,476	1,334,511	174,959	3,631,642

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 years ended 31 December 2011 and 31 December 2010.

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41. Financial risk management objectives and policies (continued)

Capital management (continued)

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 less cash and cash equivalents and pledged deposits. The gearing ratios at the end of the reporting periods were as follows:

Group

	2011 HK$'000	2010 HK$'000
Interest-bearing bank and other borrowings	3,290,342	2,686,891
Trade payables	318,101	240,223
Other payables and accruals	564,839	446,694
Due to related companies	14,350	3,515
Less: Cash and cash equivalents	(1,898,434)	(2,580,741)
Less: Pledged deposits	(97,932)	(71,543)
Net debt	2,191,266	725,039
Equity	4,377,847	3,401,999
Equity and net debt	6,569,113	4,127,038
Gearing ratio	33%	18%

42. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 1 March 2012.

Glossary of Terms

Apexhill	Apexhill Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 3 November 2004, which is wholly-owned by CITIC United Asia Limited. Apexhill is a shareholder of our Company
associate	has the meaning ascribed thereto in the Listing Rules
Bembélé Concentration Plant	the concentration plant associated with Bembélé Manganese Mine
Bembélé Manganese Mine	a manganese mine located in Bembélé, Moyen-Ogooue Province, Gabon, the exploration rights and mining rights of which are owned by CICMHZ, a company in which we indirectly hold a 51% equity interest
Board or Board of Directors	our board of Directors
Bye-laws	the bye-laws of our Company, as amended from time to time
Changgou Manganese Mine	貴州遵義匯興鐵合金有限責任公司長溝錳礦 (Guizhou Zunyi Hui Xing Ferroalloy Limited Company Changgou Manganese Mine)
China or PRC	the People's Republic of China, but for the purpose of this annual report, excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
CITIC Dameng Investments	CITIC Dameng Investments Limited (中信大錳投資有限公司)
CITIC Dameng Mining	CITIC Dameng Mining Industries Co., Limited (中信大錳礦業有限責任公司)
CITIC Group	中國中信集團有限公司 (CITIC Group Corporation) (formerly known as 中國中信集團公司 (CITIC Group)), a company incorporated under the laws of the PRC on 4 October 1979, and, except where the context may otherwise require, all of its subsidiaries, which is a Controlling Shareholder of our Company
CITIC Resources	CITIC Resources Holdings Limited, a company incorporated in Bermuda with limited liability on 18 July 1997 and listed on the Stock Exchange (Stock Code: 1205), which is a Controlling Shareholder of our Company
Companies Act	The Companies Act 1981 of Bermuda
Companies Ordinance	the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
Company or our Company	CITIC Dameng Holdings Limited
Controlling Shareholder	has the meaning ascribed thereto in the Listing Rules
Daxin Mine	中信大錳礦業有限責任公司大新錳礦 (CITIC Dameng Mining Industries Co., Limited Daxin Manganese Mine)
Director(s)	the director(s) of our Company
EMD	electrolytic manganese dioxide
EMM	electrolytic manganese metal
Group, we or us	the Company and its subsidiaries
Guangxi	Guangxi Zhuang Autonomous Region, the PRC
Guangxi Dameng	廣西大錳錳業有限公司 (Guangxi Dameng Manganese Industrial Co., Ltd.), a state-owned limited liability company established under the laws of the PRC on 30 July 2001. Guangxi Dameng is wholly-owned by the government of Guangxi

Glossary of Terms

Guangxi Dameng BVI	Guinan Dameng International Resources Limited (桂南大錳國際資源有限公司)
Highkeen	Highkeen Resources Limited, a company incorporated in the British Virgin Islands on 28 January 2005 with limited liability, which is indirect wholly-owned by CITIC Resources Holdings Limited. Highkeen is an immediate Controlling Shareholder of our Company
Hong Kong or HK	the Hong Kong Special Administrative Region of the PRC
Hui Xing Company	貴州遵義匯興鐵合金有限公司 (Guizhou Zunyi Hui Xing Ferroalloy Limited Company)
Hui Xing Ferroalloy Plant	the ferroalloy plant associated with Changgou Manganese Mine
IPO	the initial public offering and listing of Shares of the Company on the main board of the Stock Exchange on 18 November 2010
JORC	the Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy
JORC Code	the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 edition, which is used to determine resources and reserves, and is published by JORC of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia
Listing	the listing of the Shares on the Main Board of the Stock Exchange
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
Non-compete Undertaking	the non-compete undertaking given by CITIC Resources Holdings Limited in favor of our Company under the deed of non-competition dated 3 November 2010
Prospectus	the prospectus of the Company dated 8 November 2010
Sanmenglong	廣西三錳龍礦業有限公司(Guangxi Sanmenglong Mining Limited Company)
Securities and Futures Ordinance or SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shares	ordinary shares in the share capital of the Company, with a nominal value of HK$0.10 each
Stock Exchange	the Stock Exchange of Hong Kong Limited
substantial shareholder	has the meaning ascribed to it under the Listing Rules
Tiandeng Mine	中信大錳礦業有限責任公司天等錳礦 (CITIC Dameng Mining Industries Co., Limited Tiandeng Manganese Mine)
tonne	metric tonne
Waifu Manganese Mine	靖西縣外伏錳礦(Jingxi Waifu Manganese Mine)
XAF	Central African CFA franc