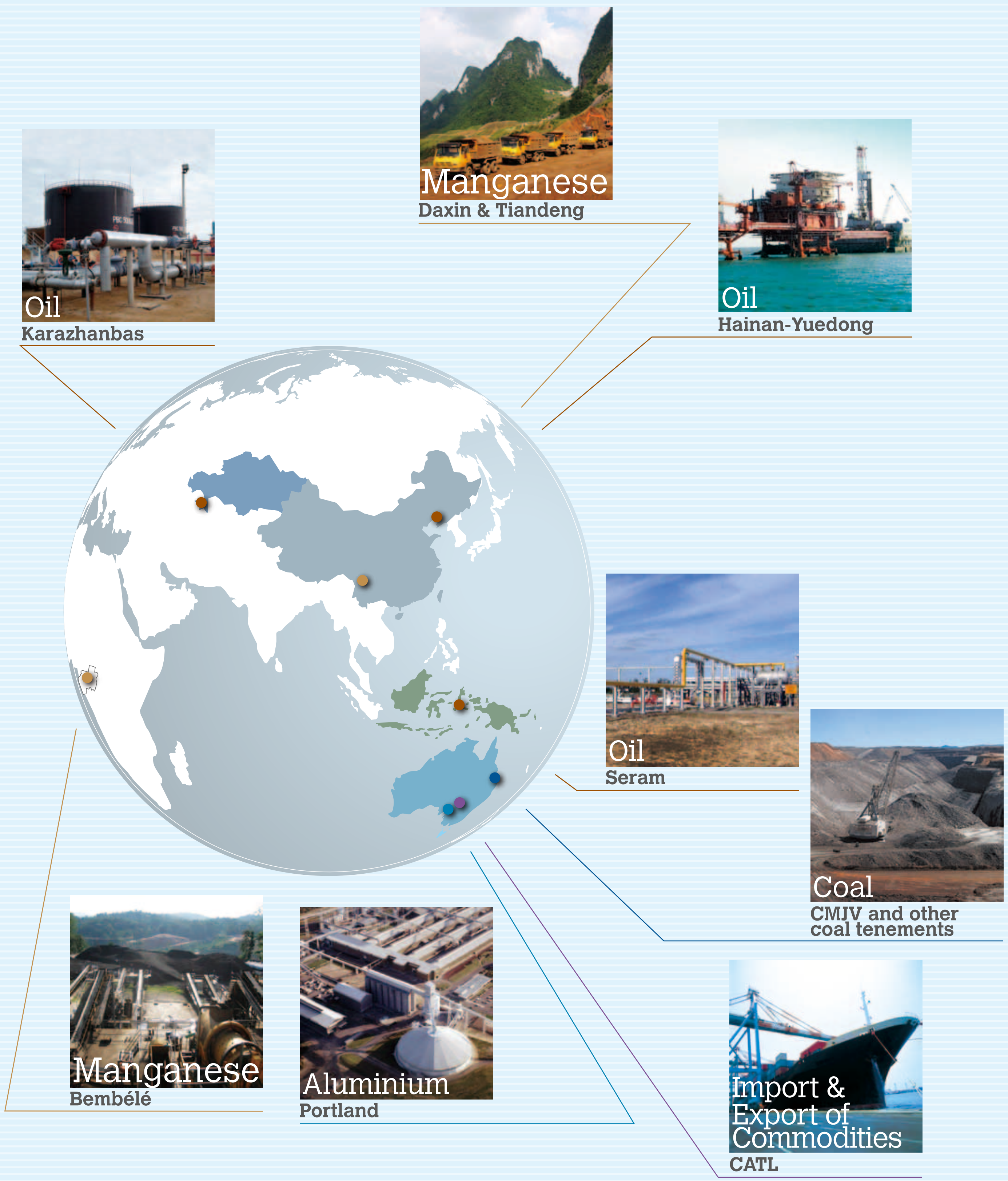
CITIC Resources Holdings Limited
中信資源控股有限公司

(incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

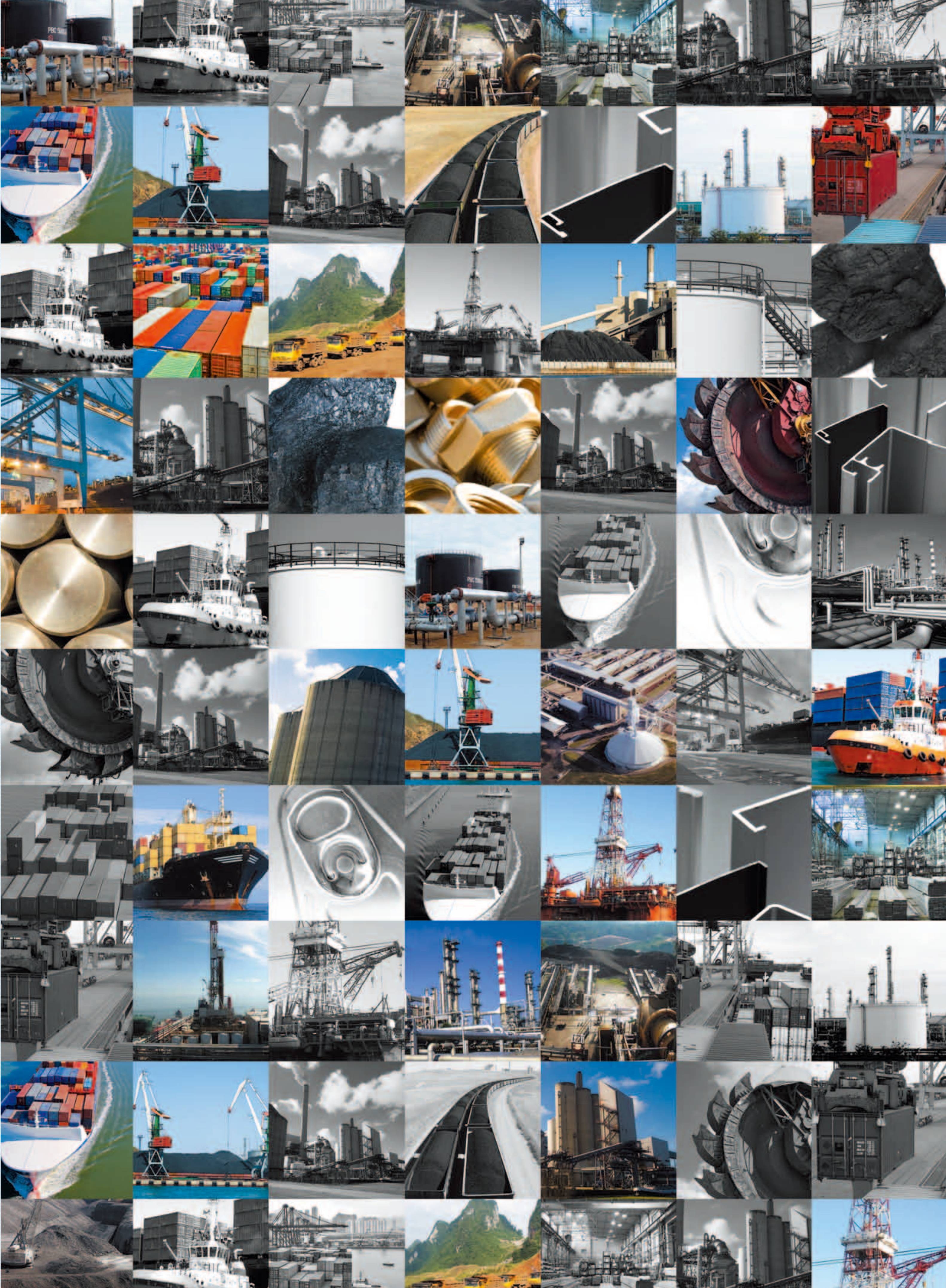
Global Development

ANNUAL REPORT 2011 年報

Stock Code 股份代號 : 1205



Oil An energy and minerals company with a growing focus on oil exploration, development and production responsible for significant large scale volume operations in Kazakhstan, the PRC and Indonesia. **Coal** A 7% participating interest in the Coppabella Mine and the Moorvale Mine that provide approximately one-third of the low volatile PCI coal exported from Australia to the steel mills of Asia, Europe and the Americas. **Aluminium** A 22.5% interest in the Portland Aluminium Smelter, one of the largest and most efficient aluminium smelting operations in the world, producing high-quality primary aluminium ingot. **Manganese** We continue to be the largest shareholder in our spun-off manganese business operated by CITIC Dameng Holdings Limited (SEHK : 1091) which owns Guangxi Daxin Manganese Mine and Guangxi Tiandeng Manganese Mine, the largest manganese mines in the PRC, and manganese mines in Gabon. CDH is one of the largest manufacturers and suppliers of manganese products in the world. **Import & Export of Commodities** Our import and export of commodities business, based on strong network and ties and well placed to benefit from the burgeoning economy of the PRC, has a focus on international trade and the promotion of bilateral economic cooperation between Australia and the PRC.



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Board of Directors

Chairman (Non-executive Director)

Mr. Ju Weimin

Vice Chairmen (Executive Directors)

Mr. Sun Xinguo
Mr. Zeng Chen *(Chief Executive Officer)*

Executive Directors

Mr. Guo Tinghu
Ms. Li So Mui

Non-executive Directors

Mr. Qiu Yiyong
Mr. Tian Yuchuan
Mr. Wong Kim Yin
Mr. Zhang Jijing

Independent Non-executive Directors

Mr. Fan Ren Da, Anthony
Mr. Gao Pei Ji
Mr. Ngai Man

Audit Committee

Mr. Fan Ren Da, Anthony *(Chairman)*
Mr. Gao Pei Ji
Mr. Ngai Man

Remuneration Committee

Mr. Gao Pei Ji *(Chairman)*
Mr. Fan Ren Da, Anthony
Mr. Ngai Man
Mr. Zhang Jijing

Nomination Committee

Mr. Ngai Man *(Chairman)*
Mr. Fan Ren Da, Anthony
Mr. Gao Pei Ji
Mr. Ju Weimin
Mr. Zhang Jijing

Company Secretary

Ms. Li So Mui

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Stock Code : 1205

Auditors

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Certified Public Accountants
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1 Tim Mei Avenue, Central, Hong Kong

Principal Bankers

China Development Bank
CITIC Bank International Limited
Mizuho Corporate Bank, Ltd.

Chairman's Statement

Uncertainty in global financial markets, political unease and natural disasters had made 2011 a challenging year. Within this difficult environment, the Group focused efforts on improving production volume from its key businesses and looked at ways to foster and maintain sustainable growth across its business sectors by strengthening its operational expertise and applying more sophisticated management practices. Although the Group faced a number of challenges during the year, it was helped significantly by higher energy and oil prices, as well as the realization of certain coal assets of the Group in the year which have contributed to the Group delivering satisfactory operating results with revenue and net profit reaching record highs.

Financial Results

In 2011, the Group's revenue increased significantly by 19.4% to HK$38,496.4 million. Profit attributable to shareholders was HK$2,202.9 million, representing a year-on-year increase of 100.0%. Earnings per share was HK 30.92 cents. As of 31 December 2011, the Group's total assets amounted to HK$33,882.5 million and equity attributable to shareholders reached HK$14,389.9 million, which grew by HK$6,819.5 million and HK$4,212.3 million respectively from 2010.

Business Review

An update on the Group's operations in 2011 is detailed as follows.

Crude oil

Production at the Karazhanbas oilfield in Kazakhstan remained stable with some modest growth. Since taking over the project, the Group has been committed to enhancing production by means of, amongst others, more efficient use of steam flooding technology, closer control of production plans and better management of new wells. These efforts have been successful to a certain extent. Oil production continued to show some growth in 2011, with over half of the production recovered by steam flooding. In addition, the Group will roll out research works to consider the medium to long term development plan of the oilfield.

Construction and development of the Yuedong oilfield in Liaoning Province, the People's Republic of China (the "PRC") achieved significant progress during the year. The project entered commercial production in May 2011, with the first artificial island equipped with full production capability. The Group has directed its effort to promote timely completion of the remaining construction works. Following to the commencement of full scale production, which is expected in 2015, the Yuedong oilfield should be a key driver for the Group's oil business, enabling the Group to take a major stride forward in both capacity and production terms.

The Seram Island Non-Bula Block in Indonesia has performed better as a result of more drillings and further development works. This supplemented the natural decline in production from existing wells which the Group continues to manage prudently. Higher production was attained in 2011 than in 2010 and exploratory works will continue to be carried out.

Coal

Production at the Coppabella and Moorvale coal mines decreased in 2011 as compared to 2010 due to flooding and continuous rainfall in Queensland of Australia. The current production level has basically returned to normal.

During the year, the Group disposed of its entire 16.34% interest in Macarthur Coal Limited ("Macarthur Coal") and sold down part of its interest in the Codrilla project, thereby unlocking latent investment value as well as providing financial support for the development of existing exploratory coal mine projects.

The Group shall continue with its strategic coal asset investments with its 7% direct interest in the Coppabella and Moorvale coal mines joint venture (the "CMJV") and also the 10% to 15% interests in a number of exploratory coal mines joint ventures in which Macarthur Coal is also a participant. In addition, through the CMJV, the Group shall continue to hold a 7% direct interest in the Codrilla project which was named as the third project for development by the CMJV and scheduled to commence in 2012. With continual exploratory works undertaken in these years, both the resources and asset value of the Group's coal portfolio are expected to further increase and the Group is optimistic about the outlook for this sector.

Metals

The Group's strategic metal investments are currently made up of its 22.5% interest in the Portland Aluminium Smelter joint venture and its 38.98% interest in CITIC Dameng Holdings Limited ("CDH").

In light of prevailing market conditions, the Portland Aluminium Smelter continued to implement a production curtailment program and cost cutting measures to improve production efficiency and performance. However, profitability was inevitably affected by the appreciation of the Australian dollar.

CDH has expanded its business scale and manganese resources through the acquisition of 貴州遵義匯興鐵合金有限責任公司 (Guizhou Zunyi Hui Xing Ferroalloy Limited Company).

Import and export of commodities

The Group's import and export of commodities business continued to demonstrate strong growth in the year. Backed by the long time international trading experience and strong ties with both upstream suppliers and downstream customers, the Group has further optimized the customer portfolio and product mix with a focal shift towards demand from the PRC, achieving rapid growth in business scale and record high revenue in the year.

Financial Management

To improve its capital structure and cash position, the Company successfully completed a rights issue raising about HK$2.5 billion before expenses in June 2011. The Company's major shareholders 中國中信集團有限公司 (CITIC Group Corporation) ("CITIC Group") and Temasek Holdings (Private) Limited supported the transaction by fully subscribing for their respective entitlements under the rights issue while CITIC Group, through its wholly-owned subsidiary Keentech Group Limited, acted as underwriter.

The Group's financial position was substantially improved after the completion of the rights issue and the disposal of its entire interest in Macarthur Coal and partial disposal of its interest in the Codrilla project, providing the Group with sufficient financial flexibility for future developments.

Business Outlook

2012 is expected to be another testing year, full of challenges brought about by the overcast from the euro-zone sovereign debt crisis as well as uncertainties in the global economy.

The global energy and natural resources industry will no doubt continue to undergo fluctuations. However, given its diverse business portfolio and geographic presence, broad product range and extensive customer base, the Group is well positioned to withstand the risks so associated.

Looking forward, the Group is optimistic about the outlook of energy and natural resources industry, which is capital and technology intensive, and sensitive to cyclical market volatility. Apart from fostering growth organically, supported by sufficient financial flexibility, expansion from new investment opportunities is always on the agenda with a view to achieving diversification and economies of scale, which are prerequisites for large players in the sector.

Change of Board Members

In May 2011, Mr. Kong Dan resigned from the posts of chairman of the Board and of the Company and non-executive director of the Company. Mr. Tsang Link Carl, Brian and Ms. Yap Chwee Mein had also resigned from being an independent non-executive director and an alternate director of the Company respectively. Mr. Guo Tinghu and Mr. Gao Pei Ji were appointed an executive director and an independent non-executive director of the Company respectively. Mr. Mi Zengxin was appointed the chairman of the Board and of the Company.

Mr. Zeng Chen was appointed a vice chairman of the Board and of the Company in December 2011.

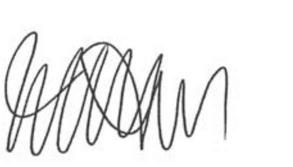
In March 2012, Mr. Mi Zengxin resigned from the posts of chairman of the Board and of the Company and non-executive director of the Company. I myself was appointed the chairman of the Board and of the Company and non-executive director of the Company.

On behalf of the Board, I would like to thank Mr. Kong Dan; Mr. Mi Zengxin; Mr. Tsang Link Carl, Brian and Ms. Yap Chwee Mein for their invaluable contribution to the Group, and express my congratulations to Mr. Zeng Chen for his appointment to vice chairman as well as extend a warm welcome to Mr. Guo Tinghu and Mr. Gao Pei Ji on joining the Board. The Group believes that these appointments will allow the Group to leverage their respective areas of expertise and substantial experience to further enhance its management capability.

Appreciation

For myself and on behalf of the Board, I would like to extend my sincere thanks to our shareholders, customers, suppliers, bankers and business associates for their continued support. I would also wish to thank my fellow directors, management and staff across the continents for their efforts, unstinting dedication and hard work for the business development of the Group in the past year.

In opening a new chapter, I am determined to lead the Board and our management team to forge ahead, with innovative management philosophy, in pursuit of sustainable and steady growth in both the business and economic returns of the Company for the benefit of our shareholders and fellow staff members.



Ju Weimin
Chairman

Hong Kong, 2 March 2012

Management's Discussion and Analysis

The board of directors (the "**Board**") of CITIC Resources Holdings Limited (the "**Company**") presents the 2011 annual results of the Company and its subsidiaries (collectively the "**Group**").

Financial Review

Group's financial results: HK$'000

Operating results and ratios

	Year ended 31 December		
	2011	2010 (Restated)	Increase
Revenue	**38,496,434**	32,252,330	19.4%
Underlying EBIT [1]	**2,137,398**	1,380,699	54.8%
EBITDA [2]	**3,264,466**	2,567,672	27.1%
Profit attributable to shareholders	**2,202,872**	1,101,660	100.0%
Earnings per share (Basic)	**HK 30.92 cents**	HK 17.56 cents	76.1%
Gross profit margin [3]	**10.2%**	9.1%	
EBITDA coverage ratio [4]	**3.9 times**	3.1 times	

Financial position and ratios

	31 December		
	2011	2010	Increase/ (decrease)
Cash and cash equivalents	**10,779,067**	2,315,488	365.5%
Total assets	**33,882,470**	27,063,006	25.2%
Net debt [5]	**1,543,146**	10,035,961	(84.6%)
Equity attributable to shareholders	**14,389,925**	10,177,646	41.4%
Current ratio [6]	**2.5 times**	2.2 times	
Net debt to net total capital [7]	**9.7%**	49.7 %	
Net asset value per share [8]	**HK$1.83**	HK$1.68	

1 profit before tax + asset impairment losses – gain on disposal of investment in an associate/gain on loss of control of subsidiaries + finance costs
2 underlying EBIT + depreciation + amortisation
3 gross profit / revenue x 100%
4 EBITDA / finance costs
5 bank and other borrowings + finance lease payables + bond obligations – cash and cash equivalents
6 current assets / current liabilities
7 net debt / (net debt + equity attributable to shareholders) x 100%
8 equity attributable to shareholders / number of issued shares at end of year

Management's Discussion and Analysis

The Group achieved a strong full year results for 2011 with both revenue and profit attributable to shareholders reaching record highs. The good financial performance was attributable to the sustained strong demand for and thus improving prices of energy and commodities, as well as the Group's continuous effort in maximizing operational efficiencies.

In addition, the pre-tax gains of HK$271.0 million and HK$3,785.8 million from the partial disposal of the Group's interest in the Codrilla project and the disposal of the Group's entire interest in Macarthur Coal Limited ("**Macarthur Coal**") respectively also contributed to the good results. The underlying EBIT, which is a measure of the Group's core business operation performance, reached HK$2,137.4 million for the year.

The following is a description of the Group's operating activities in each of the business segments in 2011.

Aluminium smelting

Revenue	HK$1,338.9 million	▲ 10%
Segment result	HK$ 90.4 million	N/A

  The Group holds a 22.5% interest in the Portland Aluminium Smelter joint venture (the "**PAS JV**"). The aluminium smelting underlying operations recorded a profit for the year due to higher selling prices of aluminium (denominated in United States dollars), reduced exchange loss and the revaluation gain of an embedded derivative. However, net operating profit was offset by an impairment loss in anticipation of the introduction of carbon tax in Australia in July 2012. Details of the embedded derivative and the carbon tax are described below.

  The Australian dollar appreciated sharply in 1H 2010 and continued through 2011. This affected the net result of the Group's aluminium smelting business because its revenue is denominated in United States dollars. Nevertheless, the favourable exchange rates between the appreciating Australian dollar and the Hong Kong dollar (as a presentation currency of the financial statements) helped improve revenue by 12% as compared to 2010.

- Increase in revenue was mainly due to rising selling prices of aluminium while sales volume during the year was similar to 2010. As improvements in the global economy continued, selling prices for aluminium appreciated from 3Q 2010 onwards. Average selling price in United States dollars increased 10% when compared to 2010.

  In light of prevailing market conditions, the curtailment program implemented since 3Q 2009 to reduce production by 15% is still in force, which also targeted a similar reduction in production costs.

- Production costs increased in line with the rising selling prices of aluminium during the year. Gross profit margin and net profit margin were affected by cost increases in electricity, labour, maintenance, potlining and materials (such as alumina and carbon).

  As the Group's aluminium smelting business is a net United States dollar denominated asset, the higher value of the Australian dollar as at 31 December 2011 compared to that as at 31 December 2010 resulted in an exchange loss of HK$11.1 million (2010: HK$39.4 million).

- Included in "Other income and gains" in the consolidated income statement is a gain of HK$51.5 million (2010: a loss of HK$113.5 million) arising from the revaluation of an embedded derivative.

  In accordance with Hong Kong Financial Reporting Standards, a component of an electricity supply agreement (the "**ESA**") which is linked to the market price of aluminium is considered a financial instrument embedded in the ESA. Such embedded derivative needs to be marked to market at the end of each reporting period based on future aluminium prices. Its fair value gain or loss is recognised in the consolidated income statement. On 31 December 2011, the aluminium forward price had decreased as compared to that on 31 December 2010 and the revaluation of the embedded derivative resulted in an unrealised gain.

  The revaluation has no cash flow consequences for operations but introduces volatility into the consolidated income statement.

- As the ESA expires in 2016, a new base load electricity contract (the "**EHA**") was signed on 1 March 2010 with Loy Yang Power to secure a stable supply of electricity to the Portland Aluminium Smelter from 2016 through 2036. The pricing mechanism used in the EHA includes a component that is subject to certain escalation factors which, in turn, are affected by the consumer price index, producer price index and labour costs.

- During the year, in anticipation of the introduction of carbon tax in Australia in July 2012, an aggregate impairment loss of HK$956.5 million was prudently provided and charged to the consolidated income statement.

Coal

Revenue	HK$529.0 million	▲ 4%
Segment result	HK$124.8 million	▲ 2%
Share of profit of associates	HK$144.8 million	(2010: HK$220.9 million)

  Revenue and segment result were helped by the favourable exchange rates between the appreciating Australian dollar and the Hong Kong dollar (as a presentation currency of the financial statements) which contributed to an increase of 11% to each of them as compared to 2010.

  There were gains from the partial disposal of the Group's interest in the Codrilla project and the disposal of the Group's entire interest in Macarthur Coal, which contributed significantly to the net result of the Group's coal business. Details of the disposals are described below.

- Revenue slightly increased compared to 2010, due to a rise in selling prices despite a drop in sales volume. Sales volume decreased 27%, resulting from supply chain and production disruptions caused by flooding and continuous rainfall in Queensland, Australia during 1H 2011. Force majeure was declared and remained in force until the end of April 2011. The current production level has basically returned to normal.

  The coal supply constraints caused by the adverse weather conditions resulted in higher coal prices. The average selling price in Australian dollars rose 29% when compared to 2010.

  Demand for low volatile pulverized coal injection coal (the "**LV PCI coal**") remained strong during the year. Although sales to traditional customers slowed, spot sales to non-traditional customers such as Chinese customers in the People's Republic of China (the "**PRC**") continued to increase as the PRC imported coal from Australia to satisfy shortfall.

- Also, as a result of the adverse weather conditions, production costs such as overburden costs and mine management costs increased significantly compared to 2010.

  As the Group's coal business is a net United States dollar denominated asset, the higher value of the Australian dollar as at 31 December 2011 compared to that as at 31 December 2010 resulted in an exchange loss of HK$22.1 million (2010: HK$18.3 million).

- In June 2011, the Group completed the partial disposal of its interest in the Codrilla project (as described below) to certain participants of the Coppabella and Moorvale coal mines joint venture (the "**CMJV**") for an aggregate consideration of A$51.2 million (HK$405.8 million). As a result, the Group recorded a disposal gain of A$33.8 million (HK$271.0 million) before tax.

  The Codrilla project is a greenfield prospect in the Bowen Basin, Queensland, Australia with a JORC resource estimate of 79.5 million tonnes of coal suited for the preparation of LV PCI coal. The Codrilla project is proposed for development as a conventional open cut coal mine.

  Prior to the partial disposal of the Group's interest in the Codrilla project, the Group and Macarthur Coal owned 15% and 85% respectively of the Codrilla project. Following completion of the partial disposal of their respective interests to the other participants of the CMJV, the Group and Macarthur Coal continue to hold respectively a 7% and 73.3% interest in the Codrilla project through their interests in the CMJV. The development of the Codrilla project will be expedited through the use of currently operating infrastructure employed by the CMJV, and the combination of the Codrilla project with the CMJV enhances the blending of the coal opportunities available. The Group holds the right to market all coal produced by the CMJV to customers in the PRC.

  Similar to the Group, Macarthur Coal also recorded a disposal gain from its partial disposal of its interest in the Codrilla project.

  Details of the partial disposal of the Group's interest in the Codrilla project are set out in the announcement of the Company dated 16 May 2011.

- In October 2011, the Group completed the disposal of its entire interest in Macarthur Coal for an aggregate consideration of A$802.0 million (HK$6,356.1 million). As a result, the Group recorded a disposal gain of HK$3,785.8 million before tax.

  At the end of 2010, the Group's shareholding in Macarthur Coal was 16.14%. In April 2011, Macarthur Coal raised new equity through a dividend reinvestment plan. The Group participated in the plan and reinvested the dividend received of A$11.6 million (HK$97.2 million) in Macarthur Coal, resulting in an increase of its shareholding in Macarthur Coal to 16.34%.

  On 21 October 2011, the Group accepted the general offer for all the issued shares of Macarthur Coal (the "**MCC Shares**") made by PEAMCoal Pty Ltd ("**PEAMCoal**"), a subsidiary of Peabody Energy Corporation, in respect of the Group's 49,356,013 MCC Shares, being its entire 16.34% interest in Macarthur Coal, at the offer price of A$16.00 per MCC Share and on the basis that PEAMCoal would increase the offer price to A$16.25 per MCC Share if PEAMCoal acquired relevant interests in at least 90% of the MCC Shares in issue by the close of the offer.

  On 16 November 2011, the offer price increased to A$16.25 per MCC Share as a result of PEAMCoal acquiring relevant interests in more than 90% of the MCC Shares in issue. The Group received the consideration from PEAMCoal in cash. Macarthur Coal was delisted from the Australian Securities Exchange (the "**ASX**") on 21 December 2011.

Following completion of the disposal, Macarthur Coal ceased to be an associate of the Group. Included in "Share of profit of associates" in the consolidated income statement is the share of profit attributable to the Group's interest in Macarthur Coal for the year but up to 21 October 2011 inclusive. This represents the Group's last record of the share of profit attributable to its interest in Macarthur Coal.

Details of the transaction are set out in the announcements of the Company dated 21 October 2011 and 16 November 2011 and the circular of the Company dated 11 November 2011.

- Following the above two disposal transactions, the Group continues to have its 7% direct interest in the CMJV and also the 10% to 15% interests in a number of exploratory coal mines joint ventures in which Macarthur Coal is also a participant. The Group's attributable share of JORC resources estimate of these coal asset investments increased by 69.8% from 117.4 million tonnes as of 30 June 2010 to 199.4 million tonnes as of 12 August 2011 as a result of resources upgrade of certain coal mines.

Import and export of commodities

• Revenue	HK$ 30,829.3 million	▲	26%
Segment result	HK$ 349.4 million	▲	16%

CITIC Australia Trading Pty Limited ("**CATL**"), which conducts the Group's import and export of commodities business, has been able to further expand its export business in the PRC during the year. Trading activities continued to grow as the demand for the natural resources from the PRC remains strong. Through its established selling channels, CATL recorded a significant increase in its revenue for the year.

Revenue and segment result were also helped by the favourable exchange rates between the appreciating Australian dollar and the Hong Kong dollar (as a presentation currency of the financial statements) which contributed to an increase of 14% and 12% respectively as compared to 2010.

- Exported products include aluminium ingots, iron ore, coal and alumina sourced from Australia and other countries to the PRC.

There was a significant growth in exports revenue, attributable to an increase in average selling prices by more than 9% as compared to 2010.

Aluminium ingot exports recorded a substantial increase in both selling prices and sales volume as compared to 2010. When compared to the domestic offering in the PRC, the pricing of the Group's products were more competitive.

Iron ore exports also recorded a substantial increase in selling prices, but this was partly offset by a significant decrease in sales volume to steel mills in the PRC compared to 2010. Export iron ore was sourced from Australia, India and South Africa. Since greater price transparency was introduced into the iron ore market by changing pricing intervals from yearly to quarterly, thinner margins were seen. The Group's decision to end a long term off-take contract helped the segment in successfully avoiding negative profit margin and thus potential loss.

Coal exports recorded a substantial increase in both selling prices and sales volume when compared to 2010.

- Imported products include steel, batteries, tyres and alloy wheels from the PRC and other Asian countries into Australia.

  Due to a drop in selling prices and sales volume, plus higher costs in importing goods, the imports division recorded a lower net profit during the year.

- As the Group's import and export of commodities business is a net United States dollar denominated asset, the higher value of the Australian dollar as at 31 December 2011 compared to that as at 31 December 2010 resulted to an exchange loss of HK$7.6 million (2010: HK$25.9 million).

Manganese

- Share of profit of associates HK$136.1 million (2010: HK$30.0 million)

  CITIC Dameng Holdings Limited ("**CDH**") was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 18 November 2010 following a successful initial public offering of its shares. The Group's shareholding in CDH was therefore diluted to 38.98% and CDH ceased to be a subsidiary, and became an associate, of the Group. The Group remains the single largest shareholder of CDH.

  As from 18 November 2010, the financial results of CDH and its subsidiaries (the "**CDH Group**") are included in "Share of profit of associates" in the consolidated income statement. The Group's shareholding in CDH is classified as "Investments in associates" in the consolidated statement of financial position.

- During the year, CDH has expanded its business scale and manganese resources through the acquisition of 貴州遵義匯興鐵合金有限責任公司 (Guizhou Zunyi Hui Xing Ferroalloy Limited Company).

- As part of the listing of CDH, in November 2010, the Group entered into a deed of tax indemnity (the "**Deed of Tax Indemnity**") in favour of the CDH Group in respect of certain tax liabilities of the CDH Group occurring prior to the completion of the listing of CDH.

  During the year, the amount paid by the Group under the Deed of Tax Indemnity was RMB3.4 million (HK$4.1 million).

  Details of the Deed of Tax Indemnity are set out in the announcement of the Company dated 11 October 2010 and the circular of the Company dated 12 October 2010.

Crude oil (the Seram Island Non-Bula Block, Indonesia)

- CITIC Seram Energy Limited ("**CITIC Seram**"), an indirect wholly-owned subsidiary of the Company, owns a 51% participating interest in the production sharing contract relating to the Seram Island Non-Bula Block, the Republic of Indonesia ("**Indonesia**") (the "**Seram Block**"), of which CITIC Seram is the operator.

  As at 31 December 2011, the Seram Block had estimated proved oil reserves of 7.5 million barrels (2010: 9.7 million barrels).

- During the year, the segment result of CITIC Seram recorded a profit of HK$131.8 million (2010: a loss of HK$17.7 million). The following table shows a comparison of the performance of the Seram Block:

		2011 (51%)	2010 (51%)	Change
Average benchmark Mean of Platts Singapore (MOPS): Platts HSFO 180 CST Singapore	(US$ per barrel)	**99.9**	72.3	▲ 38%
Average crude oil realised price	(US$ per barrel)	**97.6**	72.8	▲ 34%
Sales volume	(barrels)	**429,000**	373,000	▲ 15%
Revenue	(HK$ million)	**326.9**	211.9	▲ 54%
Total production	(barrels)	**423,000**	371,000	▲ 14%
Daily production	(barrels)	**1,160**	1,010	▲ 14%

  Revenue increased substantially compared with 2010, attributable to higher oil prices maintained throughout the year as well as increase in sales volume.

  Increase in sales volume reflects an improvement in total production during the year, attributable to new wells drilled in 2H 2010 and 2011. The Seram Block has performed better as a result of more drillings and further development works being undertaken.

- Continuing efforts in cost control proved to be effective in the year with only a mild increase in operating costs despite the overall rise in input prices as well as the unfavourable effect of the appreciating Indonesian rupiah.

- The continuous extraction of crude oil and the lower than expected performance of the exploration wells in the area of Nief Utara A and East Nief during the year lowered the estimated proved oil reserves as at 31 December 2011.

- Nonetheless, drilling programs were actively conducted in 2011 to realise the potential of the Seram Block at the current high oil prices.

  In respect of development drillings, the development well located in the Oseil area and tested in 2H 2010 became a production well in 1H 2011. Following the success of this well and the one drilled earlier in 2010, two additional development wells were drilled in the Oseil area during the year. Production from these four wells has been satisfactory and their contribution exceeded the natural decline in production from existing wells and led to a net increase in production volume. Further drilling in the Oseil area is warranted as a result of these satisfactory results.

  In respect of exploration drillings, during the year, two new exploration wells, in the area of Nief Utara B and Oseil Selatan respectively, were drilled with oil discovered. Water shut-off program will be performed to test and increase the oil extraction probabilities.

  Preparation for exploration in the Lofin area completed in the year and the first exploration drilling will commence in early 2012.

Crude oil (the Hainan-Yuedong Block, the PRC)

- CITIC Haiyue Energy Limited, an indirect wholly-owned subsidiary of the Company, owns a 90% interest in Tincy Group Energy Resources Limited ("**Tincy Group**").

  Pursuant to a petroleum contract entered into with China National Petroleum Corporation ("**CNPC**") in February 2004 as supplemented by an agreement signed in May 2010, Tincy Group holds the right to explore, develop and produce petroleum from the Hainan-Yuedong Block in the Bohai Bay Basin in Liaoning Province, the PRC (the "**Hainan-Yuedong Block**") until 2034. Tincy Group is the operator of the Hainan-Yuedong Block in cooperation with CNPC.

  As at 31 December 2011, the Yuedong oilfield (the "**Yuedong oilfield**"), the principal field within the Hainan-Yuedong Block, had estimated proved oil reserves of 18.8 million barrels (2010: 19.8 million barrels).

- During the year, the segment result of the Yuedong oilfield recorded a loss of HK$152.9 million (2010: HK$64.6 million). The following table shows a comparison of its performance:

		(Tincy Group's share) 2011	2010	Change
Average benchmark end-market quote:				
Dated Brent crude oil	(US$ per barrel)	**112.1**	79.9	▲ 40%
Average crude oil realised price	(US$ per barrel)	**93.8**	—	N/A
Sales volume	(barrels)	**189,000**	—	N/A
Revenue	(HK$ million)	**136.3**	—	N/A
Total production	(barrels)	**241,000**	35,000	▲ 589%
Daily production	(barrels)	**660**	379	▲ 74%

  Pilot production commenced in 4Q 2010 on Platform A, the first artificial island of the Yuedong oilfield. The maiden shipment of oil sales took place in August 2011.

  During the year, the commercial stage was attained and oil production is expected to progressively rise as the number of production wells drilled increases and the construction of oil treatment plant completes.

- The construction of three additional artificial islands commenced in 2010 with good construction progress achieved during the year. Construction of the platforms is scheduled to progressively complete by the end of 2012 and production facilities there by late 2013. Full production is expected to begin by 2015.

- Capital expenditure will continue to be required in respect of the coming construction and net cash flow contribution to the Group is expected to come after full production has begun in the Yuedong oilfield.

Management's Discussion and Analysis

Crude oil (the Karazhanbas oilfield, Kazakhstan)

- CITIC Oil & Gas Holdings Limited ("**CITIC Oil & Gas**"), an indirect wholly-owned subsidiary of the Company, owns the **Kazakhstan Interests** which mainly comprise 50% of the issued voting shares of JSC Karazhanbasmunai ("**KBM**") (which represents 47.3% of the total issued shares of KBM). JSC KazMunaiGas Exploration Production ("**KMG EP**") holds an identical interest in KBM. The Group and KMG EP manage and operate KBM jointly.

  KBM is engaged in the development, production and sale of oil and holds the right to explore, develop, produce and sell oil from the Karazhanbas Oil and Gas Field in Mangistau Oblast, the Republic of Kazakhstan ("**Kazakhstan**") (the "**Karazhanbas oilfield**") until 2020.

  As at 31 December 2011, the Karazhanbas oilfield had estimated proved oil reserves of 285.9 million barrels (2010: 317.2 million barrels).

- During the year, the segment result of CITIC Oil & Gas recorded a profit of HK$1,017.1 million (2010: HK$598.6 million), representing a year-on-year increase of 70%. The following table shows a comparison of the performance of the Karazhanbas oilfield:

		2011 (50%)	2010 (50%)	Change
Average benchmark end-market quotes:				
Urals Mediterranean crude oil	(US$ per barrel)	**109.6**	78.2	▲ 40%
Dated Brent crude oil	(US$ per barrel)	**112.1**	79.9	▲ 40%
Average crude oil realised price	(US$ per barrel)	**97.6**	67.3	▲ 45%
Sales volume	(barrels)	**7,023,000**	6,869,000	▲ 2%
Revenue	(HK$ million)	**5,336.0**	3,591.1	▲ 49%
Total production	(barrels)	**6,616,000**	6,482,000	▲ 2%
Daily production	(barrels)	**18,100**	17,800	▲ 2%

Increase in revenue was mainly driven by the higher oil realised prices as compared to 2010.

Sales volume and production both slightly increased in the year when compared to 2010. The continued deployment of enhanced oil recovery methods such as cyclic steam stimulation and steam flooding has enabled the Group to produce oil at more efficient and sustainable rates and to enhance the production outlook for the Karazhanbas oilfield.

- Following the implementation of new tax codes in January 2009 and the introduction of a new export duty in August 2010 in Kazakhstan, the overall tax payable by the Karazhanbas oilfield increased.

  Mineral extraction tax ("**MET**") is charged at progressive rates based on production volume and treated as cost of sales. The rent tax is charged on export revenue while the export duty is charged based on volume of oil exported, and both are treated as selling costs. These taxes have a negative impact on both segment result and net profit.

  As a result of higher oil prices in the year, MET increased by 38%. Overall cost of sales increased by 14% compared to 2010, contributed by higher salaries and wages, as well as cost factors like the environmental remediation charge, gas and water supply.

  Resulting from higher export revenue, the rent tax increased by 93% during the year. Effective 16 August 2010, export duty was charged at US$20 per tonne of oil exported and doubled to US$40 per tonne in 2011. The rent tax and the export duty, coupled with the Customs Duty Claim (as described below), elevated the selling costs by 104% in the year compared to 2010.

  During the year, average lifting costs increased to US$15.2 (2010: US$14.5) per barrel, being a 5% increase compared to 2010. This increase was mainly caused by the rising salaries and wages as well as gas and water supply.

- In 2009, the customs authority of Kazakhstan conducted a customs audit on KBM and issued a claim against KBM (the "**Customs Duty Claim**"). Despite several appeals to the courts, KBM was held liable to the Customs Duty Claim. The amount settled by KBM in 2010 was treated as a current asset as at 31 December 2010.

  Final judgment in respect of the Customs Duty Claim was handed down in the year. KBM's payment will not be refunded nor will there be any further payment. Therefore, during the year, the paid customs duty and related penalties totalling HK$151.0 million were respectively charged to selling costs and administrative expenses with a tax credit of HK$23.1 million, resulting in a net impact of HK$127.9 million to the Group's profit. Further details of the Customs Duty Claim are set out in note 39 to the financial statements.

- In 2011, no additional provision for impairment loss was considered necessary.

  In 2010, as a result of the combined effect of the imposition of new export duty and a downward revision of the estimate of original oil in place which has an impact on the estimates of total oil commercially recoverable from the oilfield, an impairment loss of HK$2,514.1 million was provided for in the oil and gas properties of the Karazhanbas oilfield and charged to the consolidated income statement.

Liquidity, Financial Resources and Capital Structure

Cash

As at 31 December 2011, the Group had cash and cash equivalents of HK$10,779.1 million.

The balances were primarily contributed by the operational cash inflow, funds of HK$2,504.9 million (before expenses) through the Rights Issue (details of which are set out in the section headed "Share capital" below) and gross proceeds of HK$6,356.1 million from the disposal of shares in Macarthur Coal during the year.

Borrowings

As at 31 December 2011, the Group had total debts of HK$12,322.2 million, which comprised:

- secured bank loan of HK$405.8 million;
- unsecured bank loans of HK$3,907.1 million;
- secured other loans of HK$3.9 million;
- unsecured other loan of HK$288.7 million;
- finance lease payables of HK$50.4 million; and
- bond obligations of HK$7,666.3 million.

The secured bank loan was secured by the Group's 22.5% participating interest in the PAS JV.

Most transactions of CATL are debt funded which means CATL is highly geared. However, in contrast to term loans, CATL's borrowings are self liquidating, transaction specific and of short durations, matching the term of the underlying trade. When sale proceeds are received at the completion of a transaction, the related borrowings are repaid accordingly.

In January 2008, the Company, as borrower, entered into a facility agreement with a syndicate of financial institutions as lenders in respect of an unsecured 5-year term loan facility of US$280 million (HK$2,184 million). The outstanding balance of the facility as at 31 December 2011 was US$210 million (HK$1,638 million).

Further details of the bank and other borrowings are set out in note 29 to the financial statements.

The Group leases certain of its plant and machinery for its coal mine operation. The leases are classified as finance leases. Further details of the finance lease payables are set out in note 30 to the financial statements.

The bond obligations represent the issue of US$1,000,000,000 6.75% senior notes due 2014 (the "**Notes**") by CITIC Resources Finance (2007) Limited ("**CR Finance**"), a direct wholly-owned subsidiary of the Company, in May 2007. The obligations of CR Finance under the Notes are guaranteed by the Company. The net proceeds of the Notes were used by the Group to facilitate the acquisition of the Kazakhstan Interests and for general working capital requirements. Further details of the bond obligations are set out in note 31 to the financial statements.

Benefiting from the good operating results of the year, the Group's capital structure as at 31 December 2011 was substantially strengthened with net debt to net total capital of 9.7% (2010: 49.7%). Of the total debts, HK$2,353.0 million was repayable within one year, the majority of which being trade finance related and of a periodic renewal nature.

Share capital

In June 2011, the Company completed the issue of 1,815,170,111 ordinary shares of HK$0.05 each in the share capital of the Company by way of the rights issue at the subscription price of HK$1.38 per rights share on the basis of three rights shares for every ten existing ordinary shares held as at the close of business on 25 May 2011 (the "**Rights Issue**"). Further details of the Rights Issue are set out in the announcements of the Company dated 3 May 2011, 17 May 2011 and 17 June 2011 and the circular of the Company dated 26 May 2011.

The proceeds from the Rights Issue were HK$2,504.9 million (before expenses). The net proceeds of the Rights Issue are being applied by the Company towards funding the capital and operating expenditure of the Group's existing oil assets, the Group's future investments, working capital and for general corporate purposes of the Group. The Rights Issue has enhanced the financial condition of the Company.

Financial risk management

The Group's diversified business is exposed to a variety of risks, such as market risks (including foreign currency risk, price risk, interest rate risk and inflation risk), credit risk and liquidity risk. The management of such risks is dictated by a set of internal policies and procedures designed to minimise potential adverse effects to the Group. The policies and procedures have proved effective.

The Group enters into derivative transactions, including principally forward currency contracts, forward commodity contracts, interest rate swap contracts, embedded derivative and electricity hedge agreement. The purpose is to manage the foreign currency risk, price risk, interest rate risk and inflation risk arising from the Group's operations and its sources of finance.

Further details are set out in note 46 to the financial statements.

New investment

There was no new investment concluded during the year.

Opinion

The Board is of the opinion that, after taking into account the existing available borrowing facilities and internal resources, the Group has sufficient resources to meet its foreseeable working capital requirements.

Employees and Remuneration Policies

As at 31 December 2011, the Group had around 4,600 full time employees, including management and administrative staff. Most of the Group's employees are employed in Kazakhstan, the PRC and Indonesia while the others are employed in Australia and Hong Kong.

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. Rent-free quarters are provided to some employees in Kazakhstan and Indonesia.

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 Kazakhstan for those employees in Kazakhstan who are eligible to participate;

(b) a defined scheme under the Government Law No. 11/1992 of the Indonesian government for those employees in Indonesia who are eligible to participate;

(c) a defined scheme under the superannuation legislation of the Australian government for those employees in Australia who are eligible to participate; and

(d) 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 and rewards to eligible participants who contribute to the success of the Group's operations.

Board of Directors and Senior Management

Directors

Mr. Ju Weimin	*Chairman and Non-executive Director*
Mr. Sun Xinguo	*Vice Chairman and Executive Director*
Mr. Zeng Chen	*Vice Chairman, Executive Director and Chief Executive Officer*
Mr. Guo Tinghu	*Executive Director*
Ms. Li So Mui	*Executive Director*
Mr. Qiu Yiyong	*Non-executive Director*
Mr. Tian Yuchuan	*Non-executive Director*
Mr. Wong Kim Yin	*Non-executive Director*
Mr. Zhang Jijing	*Non-executive Director*
Mr. Fan Ren Da, Anthony	*Independent Non-executive Director*
Mr. Gao Pei Ji	*Independent Non-executive Director*
Mr. Ngai Man	*Independent Non-executive Director*

Directors – Biographies

Mr. Ju Weimin, aged 48, was appointed the Chairman, a non-executive director and a member of the nomination committee of the Company in March 2012. He is responsible for the strategic planning of the Group. Mr. Ju holds a Master's Degree in Economics from Renmin University of China. He is a vice president of 中國中信股份有限公司 (CITIC Limited) ("**CITIC Limited**") and a director of Keentech Group Limited ("**Keentech**"). He is the chairman and a non-executive director of Asia Satellite Telecommunications Holdings Limited (Stock Code: 1135) and a non-executive director of CITIC Pacific Limited ("**CITIC Pacific**") (Stock Code: 267) (both listed on the Main Board of the Stock Exchange, a non-executive director of China CITIC Bank Corporation Limited ("**China CITIC Bank**") (Stock Code: 998) and CITIC Securities Company Limited ("**CITIC Securities**") (Stock Code: 6030) (both listed on the Main Board of the Stock Exchange and the Shanghai Stock Exchange). He ceased to act as an executive director and a vice president of 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)) ("**CITIC Group**") in December 2011 upon its restructuring but still holds directorships in several other subsidiaries of CITIC Group. Mr. Ju has over 24 years' experience in accounting, finance, investments and corporate management.

Mr. Sun Xinguo, aged 61, is a Vice Chairman of the Company. He has been an executive director of the Company since 2002 and was the President and Chief Executive Officer of the Company between 2005 and 2010. He is also a director of several subsidiaries of the Company. He is responsible for the strategic development of the Group. Mr. Sun holds a Bachelor of Arts Degree from Fudan University and graduated from the Advanced Management Program (AMP167) of Harvard Business School in 2004. He is a director of Keentech. He ceased to act as a director of CITIC Group in December 2011 upon its restructuring but still holds directorships in several other subsidiaries of CITIC Group. Mr. Sun has over 36 years' experience in project investment, marketing and operation, import and export, securities investment and corporate finance.

Board of Directors and Senior Management

Mr. Zeng Chen, aged 48, was appointed a Vice Chairman of the Company in December 2011. He has been an executive director and the Chief Executive Officer of the Company since 2004 and 2010 respectively. He was the President of the Company between 2010 and 2011. He is also a director of several subsidiaries of the Company. He is responsible for the strategic and corporate development, management and operations of the Group. Mr. Zeng holds a Master's Degree in International Finance from Shanghai University of Finance and Economics. He is the chairman of CITIC Australia Pty Limited ("**CA**") and a non-executive director of CDH (Stock Code: 1091) listed on the Main Board of the Stock Exchange and Marathon Resources Limited listed on the ASX. He ceased to act as a director of CITIC Group in December 2011 upon its restructuring but still holds directorships in several other subsidiaries of CITIC Group. In October 2011, Mr. Zeng resigned as a non-executive director of Macarthur Coal which was delisted from the ASX in December 2011. Mr. Zeng has over 23 years' experience in business operations and development, project investment, asset restructuring and natural resources industry.

Mr. Guo Tinghu, aged 50, was appointed an executive director of the Company in May 2011. He is also a director of several subsidiaries of the Company. He is responsible for the business development and operations of the Group. Mr. Guo holds a Bachelor of Engineering Degree from Northeastern University in Shenyang and a Master's Degree in Engineering from Central Iron and Steel Research Institute in Beijing. He is the managing director of CA. Mr. Guo has over 23 years' experience in business operations and trading in various commodities.

Ms. Li So Mui, aged 57, joined in 2000 as an executive director and the Company Secretary of the Company. She is also a director of several subsidiaries of the Company. She is responsible for the financial management and general administration of the Group. Ms. Li holds a Master's Degree in Business Administration and is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the Association of International Accountants. Ms. Li has over 34 years' experience in the accounting and banking field.

Mr. Qiu Yiyong, aged 55, is a non-executive director of the Company. He was an executive director of the Company between 2002 and 2010, and was re-designated as a non-executive director of the Company in 2010. Mr. Qiu holds a Bachelor of Economics Degree from Xiamen University. He is a director of Keentech, and the chairman and an executive director of CDH. He ceased to act as a director of CITIC Group in December 2011 upon its restructuring but still holds directorships in several other subsidiaries of CITIC Group. Prior to joining CITIC Group in 2000, Mr. Qiu was a director of two companies listed on the Main Board of the Stock Exchange. Mr. Qiu has over 30 years' experience in investment management and natural resources industry.

Mr. Tian Yuchuan, aged 47, is a non-executive director of the Company. He was an executive director of the Company between 2001 and 2004, and rejoined the Company as an executive vice president in 2008. He was an executive director of the Company between 2009 and 2010, and was re-designated as a non-executive director of the Company in 2010. Mr. Tian holds a Bachelor of Arts Degree from Beijing Foreign Studies University. He is an executive director and the chief executive officer of CDH. Mr. Tian held senior positions in several subsidiaries of CITIC Group between 1986 and 2004. He held high-level positions in several companies listed on the Stock Exchange and the Shenzhen Stock Exchange between 2004 and 2007. Mr. Tian has over 26 years' experience in multi-national businesses, corporate management, international equity investments and corporate finance.

Board of Directors and Senior Management

Mr. Wong Kim Yin, aged 41, joined in 2008 as a non-executive director of the Company. He holds an Executive Master's Degree in Business Administration from the University of Chicago Graduate School of Business. He is a director and the group chief executive officer of Singapore Power Limited. Prior to joining Singapore Power Limited in 2012, Mr. Wong was a senior managing director of Temasek Holdings (Private) Limited between 2004 and 2011 and was responsible for investment portfolios in transportation, industrials and energy industries. He worked for The AES Corporation, a power company listed on the New York Stock Exchange, between 1995 and 2002 and was responsible for investments across Asia Pacific.

Mr. Zhang Jijing, aged 56, is a non-executive director of the Company. He was an executive director of the Company between 2002 and 2009, and was re-designated as a non-executive director of the Company in 2009. He is also a member of the remuneration committee and nomination committee of the Company, and a director of several subsidiaries of the Company. Mr. Zhang holds a Bachelor of Engineering Degree from Hefei Polytechnic University in Anhui Province and a Master's Degree in Economics from the Graduate School of Chinese Academy of Social Sciences in Beijing. He is a vice president, and the head of the Strategy & Planning Department of CITIC Limited, a director of Keentech, an executive director and the managing director of CITIC Pacific, and a non-executive director of CITIC Securities. He ceased to act as an executive director and a vice president of CITIC Group in December 2011 upon its restructuring but still holds directorships in several other subsidiaries of CITIC Group. In November 2011, Mr. Zhang resigned as a non-executive director of China CITIC Bank. Mr. Zhang has over 27 years' experience in corporate management, industrial investment, business finance and the aluminium industry.

Mr. Fan Ren Da, Anthony, aged 51, joined in 2000 as an independent non-executive director of the Company. He is also a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Fan holds a Master's Degree in Business Administration from the United States of America. He is the chairman and managing director of AsiaLink Capital Limited. He is also an independent non-executive director of Uni-President China Holdings Ltd. (Stock Code: 220), Raymond Industrial Limited (Stock Code: 229), Shanghai Industrial Urban Development Group Limited (Stock Code: 563), Technovator International Limited (Stock Code: 1206), Guodian Technology & Environment Group Corporation Limited (Stock Code: 1296), Renhe Commercial Holdings Company Limited (Stock Code: 1387), Hong Kong Resources Holdings Company Limited (Stock Code: 2882) and Tenfu (Cayman) Holdings Company Limited (Stock Code: 6868) (all listed on the Main Board of the Stock Exchange) and Shenzhen World Union Properties Consultancy Co., Ltd. listed on the Shenzhen Stock Exchange. In June 2011, Mr. Fan ceased to act as an independent non-executive director of Chinney Alliance Group Limited (Stock Code: 385) listed on the Main Board of the Stock Exchange. Mr. Fan held senior positions with various international financial institutions.

Mr. Gao Pei Ji, aged 65, was appointed an independent non-executive director of the Company in May 2011. He is also a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Gao holds a LL.M. Degree from the Law School of University of California, Berkeley. He has been admitted to practise law in the PRC since 1984. He is a foreign legal consultant to Clifford Chance, Hong Kong office, providing advisory services to the firm on issues in relation to the PRC. He was a partner of Clifford Chance between 1993 and 2007. Mr. Gao has extensive and diversified experience in general practice, including banking and finance, direct investment, international trade, construction contracts, arbitration and litigation in relation to financial matters, and insolvency.

Board of Directors and Senior Management

Mr. Ngai Man, aged 66, joined in 2006 as an independent non-executive director of the Company. He is also a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Ngai has been a senior adviser to the chairmen of Charoen Pokphand Group and Chia Tai Group since 1988. He is also a director of Longtime Company Limited and Orient Telecom & Technology Holdings Limited. Mr. Ngai has over 39 years' experience in various industries in South-east Asia including telecommunications, trading, hotels and leisure, petrochemicals, real estate and agriculture. In 1995, he was recognised as an "honorary citizen" by the Shenzhen Municipal Government.

Senior Management – Biographies

Mr. Cha Johnathan Jen Wah, aged 47, joined in 2005 as the General Counsel of the Company. He is a solicitor admitted in Hong Kong and in England and Wales. Mr. Cha has over 21 years' experience in mergers and acquisitions, corporate finance, regulatory and general commercial work.

Mr. Chung Ka Fai, Alan, aged 44, joined in 1996 as the Chief Accountant of the Company. He is a certified practising accountant of CPA Australia. Prior to joining the Company, Mr. Chung worked for various multi-national companies. Mr. Chung has over 21 years' experience in the accounting field.

Mr. Luk Kar Yan, aged 44, joined in 2005 as a vice president of the Company. He is responsible for the financial management of the Group. Mr. Luk holds a Bachelor of Social Sciences Degree from the University of Hong Kong and a Master's Degree in Business Administration from the Hong Kong University of Science and Technology. He is an associate member of HKICPA. Mr. Luk has over 22 years' experience in banking and corporate finance.

Mr. Yang Zaiyan, aged 53, joined in 2009 as a vice president of the Company. He is responsible for the management, planning and development of the Group's oil investments and portfolio. Mr. Yang holds a Bachelor of Engineering Degree from Huadong Petroleum Institute and is a senior geologist. Prior to joining the Company, Mr. Yang was engaged in CNPC and Sinochem Group organisations. Mr. Yang has over 29 years' experience in the oil and gas industry.

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 Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), except for the deviations to paragraphs A.4.1 and E.1.2 of the CG Code as respectively set out in the sections headed "Non-executive Directors" and "Communication with Shareholders" below.

Board of Directors

The Board currently comprises a total of 12 members, with four executive directors, five non-executive directors and three independent non-executive directors:

Executive Directors:

Mr. Sun Xinguo	(Vice Chairman)	
Mr. Zeng Chen	(Vice Chairman and Chief Executive Officer)	(appointed Vice Chairman on 9 December 2011)
Mr. Guo Tinghu		(appointed on 1 May 2011)
Ms. Li So Mui		

Non-executive Directors:

Mr. Kong Dan	(Chairman)	(resigned on 1 May 2011)
Mr. Mi Zengxin	(Chairman)	(appointed Chairman on 1 May 2011 and resigned on 1 March 2012)
Mr. Ju Weimin	(Chairman)	(appointed on 1 March 2012)
Mr. Qiu Yiyong		
Mr. Tian Yuchuan		
Mr. Wong Kim Yin		
Mr. Zhang Jijing		
Ms. Yap Chwee Mein	(Alternate to Mr. Wong Kim Yin)	(resigned on 1 May 2011)

Independent Non-executive Directors:

Mr. Fan Ren Da, Anthony	
Mr. Gao Pei Ji	(appointed on 1 May 2011)
Mr. Ngai Man	
Mr. Tsang Link Carl, Brian	(resigned on 1 May 2011)

Corporate Governance Report

The Board comprises executive, non-executive and independent non-executive directors so that it can effectively exercise independent judgement. The composition of the Board is disclosed in all corporate communications. On the websites of the Stock Exchange at http://www.hkexnews.hk and the Company at http://www.irasia.com/listco/hk/citicresources, there is an updated list of the directors identifying their roles and functions and whether they are executive, non-executive or independent non-executive directors.

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 the energy resources and commodities sectors, including oil, aluminium, coal and manganese. 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 1 May 2011, Mr. Kong Dan resigned as the chairman of the Board and of the Company and a non-executive director of the Company, Mr. Tsang Link Carl, Brian resigned as an independent non-executive director of the Company and Ms. Yap Chwee Mein resigned as an alternate to Mr. Wong Kim Yin, a non-executive director of the Company. On the same day, Mr. Mi Zengxin was appointed the chairman of Board and of the Company, Mr. Guo Tinghu was appointed an executive director of the Company and Mr. Gao Pei Ji was appointed an independent non-executive director of the Company.

On 9 December 2011, Mr. Zeng Chen was appointed a vice chairman of the Company.

Subsequent to the reporting period, on 1 March 2012, Mr. Mi Zengxin resigned as the chairman of the Board and of the Company and a non-executive director of the Company. On the same day, Mr. Ju Weimin was appointed the chairman of the Board and of the Company and a non-executive director of the Company.

The biographies of the directors and senior management and their interests in shares and underlying shares of the Company and its associated corporations are respectively set out on pages 17 to 20 and pages 35 and 36 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 Company's bye-laws, corporate governance and financial reporting standards. The 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 Company's bye-laws provide that any director appointed by the Board to fill a casual vacancy or as an additional director shall hold office only until the next following general meeting of the Company or until the next following annual general meeting of the Company, whichever shall be the earlier, and such director shall be eligible for election at that meeting. 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.

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, performs 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.

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.

Paragraph A.4.1 of the CG Code provides that non-executive directors should be appointed for a specific term, subject to re-election. The non-executive directors of the Company are not appointed for specific terms. However, under the Company's bye-laws, one-third of the directors (including those appointed for a specific term) for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in paragraph A.4.1 of the CG Code.

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 of 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

Meetings of the Board are held regularly and at least four times a year at about quarterly intervals to approve, amongst other things, the financial results of the Company. Regular board meetings are scheduled in advance to give the directors an opportunity to attend. Directors can attend board meetings either in person or by electronic means of communication.

There was satisfactory attendance for board meetings, which evidences prompt attention of the directors to the affairs of the Company. A total of four board meetings were held in 2011.

All directors are invited to include matters in the agenda for regular board meetings. The Company at least gives 14 days prior written notice of a regular board meeting and reasonable prior notice for all other board meetings.

If a substantial shareholder or a director has a conflict of interest in a material matter, a board meeting will be held. Independent non-executive directors who, and whose associates, have no material interest in the transaction will be present at such board meeting. The voting and quorum requirements specified in the Company's bye-laws conform with the requirements of the CG Code.

Directors have timely access to adequate information to enable them to make an informed decision and to perform their duties and responsibilities. An agenda and the presentation material are usually sent to the directors 3 days before the meeting.

The company secretary 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.

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 senior management 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.

Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct of dealings in the securities of the Company by its directors (the "**Securities Dealings Code**") that is based on the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules (or on terms no less exacting than the Model Code).

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. They were each established with specific written terms of reference which deal clearly with their respective authority and responsibilities.

The terms of reference for each committee include the minimum prescribed responsibilities. They are published on the websites of the Stock Exchange at http://www.hkexnews.hk and the Company at http://www.irasia.com/listco/hk/citicresources.

There was satisfactory attendance for meetings of the board committees during the year. The minutes of the committee meetings are circulated to all members of the Board unless a conflict of interest arises. The committees are required to report back to the Board on key findings, recommendations and decisions.

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 of the Group and the remuneration of all directors of each member of the Group.

The committee is responsible for making recommendations to the Board on the establishment of a formal and transparent procedure for developing remuneration policy on all directors and senior management and for determining remuneration packages of individual executive directors and senior management. It also makes recommendations to the Board on the remuneration of non-executive directors (including independent non-executive directors).

The committee consults the chairman and/or the chief executive officer about their remuneration proposals for other executive directors. It is authorised by the Board to obtain such legal, remuneration or other independent professional advice as it shall deem appropriate in the performance 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. Gao Pei Ji	(Independent Non-executive Director)	(Chairman)	(appointed on 1 May 2011)
Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)		(as chairman until 1 May 2011)
Mr. Ngai Man	(Independent Non-executive Director)		
Mr. Tsang Link Carl, Brian	(Independent Non-executive Director)		(resigned on 1 May 2011)
Mr. Zhang Jijing	(Non-executive Director)		

One meeting was held in the year and all members attended the meeting. In the meeting, the committee reviewed and approved the performance-based remuneration package of each individual executive director. No director was involved in deciding his/her own remuneration.

Details of the emoluments and share options of each director, on a named basis, are set out in note 7 to the financial statements and in the section headed "Share Option Scheme" in the Report of the Directors respectively.

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.

The committee is responsible for reviewing the structure, size and composition (including skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board 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 the appointment or re-appointment of directors and succession planning for directors.

The committee consults the chairman of the Company about his proposals relating to the process for Board appointments and for identifying and nominating candidates as members of the Board.

The criteria for the committee to select and recommend a candidate for directorship include the candidate's skills, 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. Ngai Man	(Independent Non-executive Director)	(Chairman)	
Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)		
Mr. Gao Pei Ji	(Independent Non-executive Director)		(appointed on 1 May 2011)
Mr. Tsang Link Carl, Brian	(Independent Non-executive Director)		(resigned on 1 May 2011)
Mr. Kong Dan	(Non-executive Director)		(resigned on 1 May 2011)
Mr. Mi Zengxin	(Non-executive Director)		(appointed on 1 May 2011 and resigned on 1 March 2012)
Mr. Ju Weimin	(Non-executive Director)		(appointed on 1 March 2012)
Mr. Zhang Jijing	(Non-executive Director)		

Two meetings were held in the year. The committee resolved to recommend to the Board the appointment of an executive director, an independent non-executive director and the chairman and a vice chairman of the Company.

Audit Committee

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

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

The committee reports to the Board any suspected fraud and irregularities, failures 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 authorised 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 perform its duties.

Members of the committee are:

Mr. Tsang Link Carl, Brian	(Independent Non-executive Director)	(Chairman)	(resigned on 1 May 2011)
Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)	(Chairman)	(as chairman from 1 May 2011)
Mr. Gao Pei Ji	(Independent Non-executive Director)		(appointed on 1 May 2011)
Mr. Ngai Man	(Independent Non-executive Director)		

The members of the committee possess appropriate professional qualifications and/or experience in financial matters. None of the committee members is or was a partner of the existing external auditors.

The committee meets as and when required to perform its responsibilities, and at least twice in each financial year of the Company. Two meetings were held in the year and all members attended the meetings. The committee reviewed, together with senior management and the external auditors, the financial statements for the year ended 31 December 2010 and the financial statements for the six months ended 30 June 2011, the accounting principles and practices adopted by the Company, statutory compliance, other financial reporting matters and internal control systems.

The company secretary is responsible for taking the minutes. Drafts of minutes are sent to committee members for comment within a reasonable time after each meeting. The minutes are kept by the company secretary.

The committee recommended to the Board (which endorsed the recommendation) that, subject to shareholders' approval at the forthcoming annual general meeting, Ernst & Young be re-appointed as the external auditors for the Company for 2012.

Attendance at Meetings of the Board and the Board Committees

		Number of meetings held during the year			
		Attended/Eligible to attend			
		Board	Remuneration committee	Nomination committee	Audit committee
Executive Directors:					
Mr. Sun Xinguo		4/4			
Mr. Zeng Chen		4/4			
Mr. Guo Tinghu	(appointed on 1 May 2011)	3/3			
Ms. Li So Mui		4/4			
Non-executive Directors:					
Mr. Kong Dan	(resigned on 1 May 2011)	1/1		0/1	
Mr. Mi Zengxin		4/4		1/1	
Mr. Qiu Yiyong		4/4			
Mr. Tian Yuchuan		4/4			
Mr. Wong Kim Yin		3/4			
Mr. Zhang Jijing		4/4	1/1	2/2	
Independent Non-executive Directors:					
Mr. Fan Ren Da, Anthony		4/4	1/1	2/2	2/2
Mr. Gao Pei Ji	(appointed on 1 May 2011)	3/3	1/1	1/1	1/1
Mr. Ngai Man		4/4	1/1	2/2	2/2
Mr. Tsang Link Carl, Brian	(resigned on 1 May 2011)	1/1		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 Board considers that, through a review made by the audit committee, the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function are adequate.

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 pages 41 and 42 of this annual 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 system of internal control 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. The internal audit team assesses and reports on the adequacy and effectiveness of the system of internal control by performing necessary reviews and testing.

The chief financial officer reports to the audit committee once a year on key findings regarding internal controls. 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 internal audit team reported that no serious deficiencies were identified. The Board therefore considered the system of internal control of the Group effective and complied with the code provisions of the CG Code.

Auditors' Remuneration

Ernst & Young were re-appointed by shareholders at the annual general meeting held on 22 June 2011 as the Company's external auditors until the next annual general meeting. They are primarily responsible for providing audit services in connection with the financial statements of the Group for the year ended 31 December 2011.

For the year, HK$10,900,000 was incurred as remuneration to Ernst & Young for the provision of audit services to the Group, and HK$12,000 was paid to other certified public accountant firms for the provision of audit services to the Company's subsidiaries located in the PRC. During the year, HK$2,362,000 was incurred as remuneration to Ernst & Young for the provision of non-audit services to the Group.

Communication with Shareholders

To enhance transparency, the Company endeavours to maintain open dialogue 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.

Pursuant to bye-law 58 of the Company's 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 to vote 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 provisions of Section 74(3) of the Companies Act 1981 of Bermuda (as amended).

A separate resolution is proposed for each substantially separate issue at a general meeting by the chairman of that meeting, including the election and re-election of a 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 chairman of the independent board committee is available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

Paragraph E.1.2 of the CG Code provides that the chairman of the board of directors should attend the annual general meeting. The chairman of the Board was unable to attend the annual general meeting of the Company held on 22 June 2011 due to other important business engagements. In accordance with bye-law 63 of the Company's bye-laws, the directors present elected the chief executive officer of the Company to chair the meeting.

The Company ensures compliance with the requirements about voting by poll contained in the Listing Rules and the Company's bye-laws. The 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, their results are subsequently published on the websites of the Stock Exchange at http://www.hkexnews.hk and the Company at http://www.irasia.com/listco/hk/citicresources.

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.

Investor Relations

The Company holds press conferences with the media and briefings with investment analysts from time to time including 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 to better understand investors' 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@citicresources.com".

Report of the Directors

The directors present their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2011.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in notes 1 and 16 to the financial statements. During the year, there were no significant changes in the nature of the Group's principal activities.

The Group completed the following transactions during the year:

(a) the issue of 1,815,170,111 ordinary shares by way of the rights issue at HK$1.38 per rights share on the basis of three rights shares for every ten existing ordinary shares held as at the close of business on 25 May 2011 (the "**Rights Issue**"). The Company obtained funds of HK$2,504.9 million (before expenses);

(b) the partial disposal of its interest in the Codrilla project (a greenfield coal prospect in the Bowen Basin, Queensland, Australia) at a consideration of A$51.2 million (HK$405.8 million). Following completion of the disposal, the Group now holds 7% interest of the Codrilla project; and

(c) the disposal of 49,356,013 shares held in Macarthur Coal Limited ("**Macarthur Coal**"), being the Group's entire 16.34% interest in Macarthur Coal, at a consideration of A$802.0 million (HK$6,356.1 million). Following completion of the disposal, Macarthur Coal ceased to be an associate of the Group.

Segment Information

An analysis of the Group's revenue and contribution to results by principal operating activities and the Group's revenue and non-current assets by geographical area of operations for the year ended 31 December 2011 is set out in note 4 to the financial statements.

Results and Dividends

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Group and of the Company at that date are set out in the financial statements on pages 43 to 147.

The directors do not recommend the payment of any dividend in respect of the year.

Summary of Financial Information

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 148. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group and of the Company during the year are set out in note 13 to the financial statements.

Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year are set out in notes 34 and 35 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's 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 of the Group during the year are set out in note 36(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2011, the Company had no reserves available for distribution. In accordance with the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution or payment of dividends to shareholders provided that the Company is able to pay off its debts as and when they fall due. The Company's share premium account, with a balance of HK$9,718,600,000 as at 31 December 2011, may be distributed in the form of fully paid bonus shares.

Charitable Contributions

During the year, the Group made charitable contributions totalling HK$10,000 (2010: HK$37,412,000).

Major Customers and Major Suppliers

In the year under review, sales to the Group's five largest customers accounted for 46.6% of the total sales for the year and sales to the largest customer included therein amounted to 12.7%. Purchases from the Group's five largest suppliers accounted for 75.5% of the total purchases for the year and purchases from the largest supplier included therein amounted to 62.0%.

CITIC Metal Company Limited ("**CITIC Metal**"), a wholly-owned subsidiary of 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)) ("**CITIC Group**"), was one of the Group's five largest customers. Details of the transactions are set out in the section headed "Continuing Connected Transactions" below.

Save as aforesaid, none of the directors of the Company or any of their associates or any shareholders (which, to the best of the 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 or suppliers.

Directors

The directors of the Company during the year and up to the date of this report are as follows:

Executive Directors:

Mr. Sun Xinguo		
Mr. Zeng Chen		
Mr. Guo Tinghu		(appointed on 1 May 2011)
Ms. Li So Mui		

Non-executive Directors:

Mr. Kong Dan		(resigned on 1 May 2011)
Mr. Mi Zengxin		(resigned on 1 March 2012)
Mr. Ju Weimin		(appointed on 1 March 2012)
Mr. Qiu Yiyong		
Mr. Tian Yuchuan		
Mr. Wong Kim Yin		
Mr. Zhang Jijing		
Ms. Yap Chwee Mein	(Alternate to Mr. Wong Kim Yin)	(resigned on 1 May 2011)

Independent Non-executive Directors:

Mr. Fan Ren Da, Anthony		
Mr. Gao Pei Ji		(appointed on 1 May 2011)
Mr. Ngai Man		
Mr. Tsang Link Carl, Brian		(resigned on 1 May 2011)

The non-executive directors, including independent non-executive directors, of the Company are not appointed for specific terms and all of the directors, including executive directors, are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's bye-laws.

In accordance with bye-law 86(2) of the Company's bye-laws, Mr. Ju Weimin will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with bye-laws 87(1) and 87(2) of the Company's bye-laws, Mr. Sun Xinguo, Ms. Li So Mui, Mr. Tian Yuchuan and Mr. Ngai Man will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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 of the independent non-executive directors meet the guidelines for assessing independence as set out in rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and, as at the date of this report, still considers them to be independent.

Directors' and Senior Management's Biographies

Biographical details of the directors and senior management of the Company are set out on pages 17 to 20 of this annual report.

Directors' Service Contracts

No director 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.

Directors' Interests in Contracts

During the year, no director had an interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

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 subsisting contract or arrangement which is significant in relation to the businesses of the Group taken as a whole.

Directors' Competing Interests

Mr. Zhang Jijing is an executive director and the managing director of CITIC Pacific Limited ("**CITIC Pacific**") (Stock Code: 267) listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). CITIC Pacific is engaged in a diversified range of businesses, including, but not limited to, the manufacturing of special steel, iron ore mining, property development and investment, basic infrastructure (such as energy, tunnels and communications) and marketing and distribution. Further details of the nature, scope and size of the businesses of CITIC Pacific as well as its management can be found in the latest annual report of CITIC Pacific. In the event that there are transactions between CITIC Pacific and the Company, Mr. Zhang will abstain from voting. Save as disclosed above, Mr. Zhang is 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 had any interest in a business apart from the businesses of the Group which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

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

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 Securities and Futures Ordinance (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 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:

Long positions in shares and underlying shares of the Company

Name of director	Nature of interest	Number of ordinary shares of HK$0.05 each held	Number of underlying shares pursuant to share options	Percentage of the total issued share capital of the Company
Mr. Mi Zengxin	Directly beneficially owned	—	10,594,315	0.13
Mr. Sun Xinguo	Directly beneficially owned	5,883,500	—	0.07
Mr. Zeng Chen	Directly beneficially owned	—	10,598,532	0.13
Ms. Li So Mui	Directly beneficially owned	224,000	2,165,524	0.03
Mr. Zhang Jijing	Directly beneficially owned	—	10,594,315	0.13

Long positions in share options of the Company

Name of director	Number of options directly beneficially owned
Mr. Mi Zengxin	10,594,315
Mr. Zeng Chen	10,598,532
Ms. Li So Mui	2,165,524
Mr. Zhang Jijing	10,594,315
	33,952,686

Long positions in shares and underlying shares of associated corporations of the Company

Name of director	Name of associated corporation	Shares/equity derivatives	Number of shares/equity derivatives held	Nature of interest	Percentage of the total issued share capital of the associated corporation
Mr. Mi Zengxin	CITIC Dameng Holdings Limited	Share options	10,000,000	Directly beneficially owned	0.33
Ms. Li So Mui	CITIC Dameng Holdings Limited	Ordinary shares	3,154	Directly beneficially owned	—
Mr. Qiu Yiyong	CITIC Dameng Holdings Limited	Share options	15,000,000	Directly beneficially owned	0.50
Mr. Tian Yuchuan	CITIC Dameng Holdings Limited	Share options	12,000,000	Directly beneficially owned	0.40
Mr. Zhang Jijing	CITIC Pacific	Share options	500,000	Directly beneficially owned	0.01
Mr. Gao Pei Ji	CITIC Pacific	Ordinary shares	20,000	Directly beneficially owned	—

In addition to the above, one of the directors has non-beneficial shareholding interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

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

(a) 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

(b) none of the directors was a director or employee of a company which 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.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above and in the section headed "Share Option Scheme" below, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate of the Group.

Share Option Scheme

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. Further details of the share option scheme are disclosed in note 35 to the financial statements.

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

Name and category of participant	Number of share options: At 1 January 2011	Reclassification during the year [(1)]	Adjustment for the Rights Issue [(2)]	Lapsed during the year [(3)]	At 31 December 2011 [(4)]	Date of grant [(5)]	Exercise period	Exercise price per share [(2)] HK$
Directors of the Company								
Mr. Kong Dan	20,000,000	(20,000,000)	—	—	—			
Mr. Mi Zengxin	10,000,000	—	594,315	—	10,594,315	02-06-2005	02-06-2006 to 01-06-2013	1.018
Mr. Zeng Chen	5,000,000	—	297,158	—	5,297,158	02-06-2005	02-06-2006 to 01-06-2013	1.018
Mr. Zeng Chen	5,000,000	—	301,374	—	5,301,374	28-12-2005	28-12-2006 to 27-12-2013	1.000
Ms. Li So Mui	2,000,000	—	165,524	—	2,165,524	02-06-2005	02-06-2006 to 01-06-2013	1.018
Mr. Zhang Jijing	10,000,000	—	594,315	—	10,594,315	02-06-2005	02-06-2006 to 01-06-2013	1.018
	52,000,000	(20,000,000)	1,952,686	—	**33,952,686**			
Eligible participants	—	20,000,000	1,202,926	(21,202,926)	—	07-03-2007	07-03-2008 to 06-03-2012	2.897
	1,000,000	—	106,093	—	1,106,093	02-06-2005	02-06-2006 to 01-06-2013	1.018
	1,000,000	20,000,000	1,309,019	(21,202,926)	**1,106,093**			
	53,000,000	—	3,261,705	(21,202,926)	**35,058,779**			

Notes:

(1) The share options granted to Mr. Kong Dan have been re-classified to "Eligible participants" on 1 May 2011 when he ceased to be a director of the Company.

(2) Following completion of the Rights Issue in June 2011, the number of outstanding share options and the exercise price thereof have been adjusted in accordance with the terms of the share option scheme of the Company.

(3) Share options lapsed 90 calendar days after Mr. Kong Dan ceased to be a director of the Company, i.e. 29 July 2011.

(4) No share option was granted, exercised or cancelled during the year.

(5) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

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

As at 31 December 2011, the interests and short positions of the substantial shareholders and other persons in the shares or underlying shares of the Company, as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name of shareholder	Nature of interest	Number of ordinary shares of HK$0.05 each held as long positions	Percentage of the total issued share capital of the Company
CITIC Group	Corporate	4,483,777,697 (1)	57.00
中國中信股份有限公司	Corporate	3,733,363,904 (2)	47.46
CITIC Projects Management (HK) Limited	Corporate	3,733,363,904 (3)	47.46
Keentech Group Limited	Corporate	3,733,363,904 (4)	47.46
CITIC Australia Pty Limited	Corporate	750,413,793 (5)	9.54
Temasek Holdings (Private) Limited	Corporate	901,909,243 (6)	11.47
Temasek Capital (Private) Limited	Corporate	576,247,750 (7)	7.33
Seletar Investments Pte. Ltd.	Corporate	576,247,750 (8)	7.33
Baytree Investments (Mauritius) Pte. Ltd.	Corporate	576,247,750 (9)	7.33

Notes:

(1) The figure represents an attributable interest of CITIC Group through its interest in 中國中信股份有限公司 (CITIC Limited) ("**CITIC Limited**") and CITIC Australia Pty Limited ("**CA**"). CITIC Group is a company established in the People's Republic of China (the "**PRC**").

(2) The figure represents an attributable interest of CITIC Limited through its interest in CITIC Projects Management (HK) Limited ("**CITIC Projects**"). CITIC Limited, a company established in the PRC, is a direct wholly-owned subsidiary of CITIC Group.

(3) The figure represents an attributable interest of CITIC Projects through its interest in Keentech Group Limited ("**Keentech**"). CITIC Projects, a company incorporated in the British Virgin Islands, is a direct wholly-owned subsidiary of CITIC Limited. Mr. Mi Zengxin, Mr. Ju Weimin and Mr. Qiu Yiyong are directors of CITIC Projects.

(4) Keentech, a company incorporated in the British Virgin Islands, is a direct wholly-owned subsidiary of CITIC Projects. Mr. Ju Weimin, Mr. Sun Xinguo, Mr. Qiu Yiyong and Mr. Zhang Jijing are directors of Keentech.

(5) CA, a company incorporated in Australia, is a direct wholly-owned subsidiary of CITIC Group. In CA, Mr. Zeng Chen is the chairman, Mr. Guo Tinghu is the managing director and Mr. Mi Zengxin is a director.

(6) The figure represents an attributable interest of Temasek Holdings (Private) Limited ("**Temasek Holdings**") through its interest in Temasek Capital (Private) Limited ("**Temasek Capital**") and an indirect interest in Ellington Investments Pte. Ltd. ("**Ellington**"), which holds 325,661,493 shares representing 4.14% of the total issued share capital of the Company. Temasek Holdings is a company incorporated in Singapore. Ellington, a company incorporated in Singapore, is an indirect wholly-owned subsidiary of Temasek Holdings.

(7) The figure represents an attributable interest of Temasek Capital through its interest in Seletar Investments Pte. Ltd. ("**Seletar**"). Temasek Capital, a company incorporated in Singapore, is a direct wholly-owned subsidiary of Temasek Holdings.

(8) The figure represents an attributable interest of Seletar through its interest in Baytree Investments (Mauritius) Pte. Ltd. ("**Baytree**"). Seletar, a company incorporated in Singapore, is a direct wholly-owned subsidiary of Temasek Capital.

(9) Baytree, a company incorporated in Mauritius, is a direct wholly-owned subsidiary of Seletar.

Save as disclosed herein and so far as is known to the directors, as at 31 December 2011, no person had an interest or a short position in the shares or underlying shares of the Company required to be recorded in the register to be kept under section 336 of the SFO.

Continuing Connected Transactions

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

On 8 November 2010, CITIC Australia Commodity Trading Pty Limited ("**CACT**") entered into a new cooperation agreement (the "**2011 Cooperation Agreement**") with CITIC Metal, which provides a framework to enable CACT to continue with the sale of iron ore and to engage in the sale of coal to CITIC Metal during the three years ending 31 December 2013, and in each case in accordance with the terms of the 2011 Cooperation Agreement and subject to their respective annual caps. The prices paid by CITIC Metal in respect of its purchase of iron ore and coal from CACT are determined on an arm's length basis and with reference to prevailing market prices.

CACT is an indirect wholly-owned subsidiary of the Company. CITIC Metal is a wholly-owned subsidiary of CITIC Group, and is a connected person of the Company. The transactions under the 2011 Cooperation Agreement constitute continuing connected transactions of the Company. Details of the 2011 Cooperation Agreement, transactions and annual caps for the three years ending 31 December 2013 are set out in the announcement of the Company dated 8 November 2010 and the circular of the Company dated 29 November 2010.

During the year, the total sales of iron ore and coal by CACT to CITIC Metal did not exceed their respective approved annual caps of US$460,000,000 (HK$3,588,000,000) and US$90,000,000 (HK$702,000,000).

The independent non-executive directors of the Company have reviewed the above continuing connected transactions and confirmed that the continuing connected transactions were entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(c) in accordance with the relevant contract on terms that are fair and reasonable and in the interests of shareholders as a whole.

The Board has received a letter from the auditors of the Company confirming that the above continuing connected transactions:

(a) have received the approval of the Board;
(b) are in accordance with the pricing policies of the Group;
(c) have been entered into in accordance with their respective contracts; and
(d) have not exceeded their respective approved annual caps as disclosed above for the year.

The Company has complied with the applicable requirements under the Listing Rules in respect of continuing connected transactions engaged in by the Group.

Sufficiency of Public Float

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 is held by the public as at the date of this report.

Audit Committee

The Company has an audit committee which was established in compliance with rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

The audit committee has reviewed this annual report with the management of the Company.

Auditors

Ernst & Young shall 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
Ju Weimin
Chairman

Hong Kong, 2 March 2012

Independent Auditors' Report

ERNST & YOUNG
安 永

To shareholders of CITIC Resources Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of CITIC Resources Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 43 to 147, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, 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.

Independent Auditors' Report

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

2 March 2012

Year ended 31 December HK$'000

Consolidated Income Statement

	Notes	2011	2010
REVENUE	5	**38,496,434**	32,252,330
Cost of sales		**(34,573,679)**	(29,310,818)
Gross profit		**3,922,755**	2,941,512
Other income and gains	5	**558,694**	224,906
Selling and distribution costs		**(1,942,661)**	(1,021,995)
General and administrative expenses		**(571,128)**	(646,742)
Other expenses, net		**(111,197)**	(367,902)
Finance costs	9	**(828,855)**	(841,223)
Share of profit of associates		**280,935**	250,920
		1,308,543	539,476
Gain on disposal of investment in an associate		**3,785,847**	—
Gain on loss of control of subsidiaries		**—**	2,650,160
Provision for impairment of items of property, plant and equipment		**(492,551)**	(2,514,060)
Provision for impairment of other asset		**(147,126)**	—
Impairment of goodwill		**(316,830)**	—
PROFIT BEFORE TAX	6	**4,137,883**	675,576
Income tax credit/(expense)	10	**(1,927,770)**	405,666
PROFIT FOR THE YEAR		**2,210,113**	1,081,242
ATTRIBUTABLE TO:			
Shareholders of the Company	11	**2,202,872**	1,101,660
Non-controlling interests		**7,241**	(20,418)
		2,210,113	1,081,242
			(Restated)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY	12		
Basic		**HK 30.92 cents**	HK 17.56 cents
Diluted		**HK 30.89 cents**	HK 17.52 cents

Year ended 31 December HK$'000

Consolidated Statement of Comprehensive Income

	Notes	2011	2010
PROFIT FOR THE YEAR		**2,210,113**	1,081,242
OTHER COMPREHENSIVE INCOME			
Available-for-sale investments:			
Changes in fair value	20	**(33,622)**	(2,384)
Income tax effect	20	**10,087**	715
		(23,535)	(1,669)
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year	25	**16,944**	82,714
Reclassification adjustments for losses/(gains) included in the consolidated income statement	25	**(24,343)**	7,599
Income tax effect	25	**3,291**	(19,025)
		(4,108)	71,288
Share of other comprehensive income of an associate		**(3,709)**	(28,398)
		(7,817)	42,890
Exchange differences on translation of foreign operations		**68,733**	671,951
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**37,381**	713,172
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,247,494**	1,794,414
ATTRIBUTABLE TO:			
Shareholders of the Company	11	**2,218,784**	1,793,449
Non-controlling interests		**28,710**	965
		2,247,494	1,794,414

31 December HK$'000

Consolidated Statement of Financial Position

	Notes	2011	2010
NON-CURRENT ASSETS			
Property, plant and equipment	13	**13,843,288**	13,264,914
Goodwill	14	**24,682**	341,512
Other asset	15	**244,915**	471,416
Investments in associates	19	**3,496,690**	6,357,156
Available-for-sale investments	20	**32,584**	65,625
Prepayments, deposits and other receivables	21	**664,681**	235,005
Derivative financial instruments	25	**23,272**	44,335
Deferred tax assets	33	**94,587**	145,360
Total non-current assets		**18,424,699**	20,925,323
CURRENT ASSETS			
Inventories	22	**1,951,756**	963,700
Trade receivables	23	**2,061,357**	2,107,644
Prepayments, deposits and other receivables	21	**611,318**	702,386
Equity investments at fair value through profit or loss	24	**2,963**	2,964
Derivative financial instruments	25	**38,795**	5,335
Tax recoverable		**12,515**	40,166
Cash and cash equivalents	26	**10,779,067**	2,315,488
Total current assets		**15,457,771**	6,137,683
CURRENT LIABILITIES			
Accounts payable	27	**1,162,127**	550,640
Tax payable		**1,718,493**	62,535
Accrued liabilities and other payables	28	**976,822**	587,757
Derivative financial instruments	25	**8,410**	111,049
Bank and other borrowings	29	**2,345,070**	1,355,536
Finance lease payables	30	**7,964**	14,924
Provisions	32	**60,578**	67,492
Total current liabilities		**6,279,464**	2,749,933
NET CURRENT ASSETS		**9,178,307**	3,387,750
TOTAL ASSETS LESS CURRENT LIABILITIES		**27,603,006**	24,313,073

31 December HK$'000

Consolidated Statement of Financial Position

	Notes	2011	2010
TOTAL ASSETS LESS CURRENT LIABILITIES		**27,603,006**	24,313,073
NON-CURRENT LIABILITIES			
Bank and other borrowings	29	**2,260,461**	3,290,136
Finance lease payables	30	**42,446**	50,423
Bond obligations	31	**7,666,272**	7,640,430
Deferred tax liabilities	33	**1,728,235**	2,034,277
Derivative financial instruments	25	**240,574**	217,949
Provisions	32	**735,330**	413,450
Other payable		**104,610**	—
Total non-current liabilities		**12,777,928**	13,646,665
NET ASSETS		**14,825,078**	10,666,408
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	34	**393,287**	302,528
Reserves	36(a)	**13,996,638**	9,875,118
		14,389,925	10,177,646
Non-controlling interests		**435,153**	488,762
TOTAL EQUITY		**14,825,078**	10,666,408

Zeng Chen
Director

Li So Mui
Director

Consolidated Statement of Changes in Equity

	Notes	Issued capital	Share premium account	Contributed surplus (note 36(a))	Capital reserve (note 36(a))
At 1 January 2010		302,528	7,319,707	65,527	(89,417)
Profit for the year		—	—	—	—
Other comprehensive income for the year:					
Changes in fair value of available-for-sale investments, net of tax		—	—	—	—
Cash flow hedges, net of tax		—	—	—	—
Exchange differences on translation of foreign operations		—	—	—	—
Total comprehensive income/(loss) for the year		—	—	—	—
Capital contribution from non-controlling shareholders		—	—	—	—
Dividends paid to non-controlling shareholders		—	—	—	—
Release upon disposal of partial investments in subsidiaries		—	—	—	8,625
Release upon loss of control of subsidiaries	37	—	—	—	42,213
Equity-settled share option arrangements	36(b)	—	—	—	—
At 31 December 2010		302,528	7,319,707 *	65,527 *	(38,579) *

	Notes	Issued capital	Share premium account	Contributed surplus (note 36(a))	Capital reserve (note 36(a))
At 1 January 2011		**302,528**	**7,319,707**	**65,527**	**(38,579)**
Profit for the year		—	—	—	—
Other comprehensive income for the year:					
Changes in fair value of available-for-sale investments, net of tax		—	—	—	—
Cash flow hedges, net of tax		—	—	—	—
Exchange differences on translation of foreign operations		—	—	—	—
Total comprehensive income/(loss) for the year		—	—	—	—
Dividends paid to non-controlling shareholders		—	—	—	—
Equity-settled share option arrangements	36(b)	—	—	—	—
Issue of shares under rights issue	34	**90,759**	**2,398,893**	—	—
Release upon disposal of investment in an associate		—	—	—	—
Transfer of share option reserve upon the lapse or expiry of share options		—	—	—	—
Share of reserve movements of an associate		—	—	**7,161**	—
At 31 December 2011		**393,287**	**9,718,600 ***	**72,688 ***	**(38,579) ***

* These reserve accounts comprise the consolidated reserves of HK$13,996,638,000 (2010: HK$9,875,118,000) in the consolidated statement of financial position.

HK$'000

Attributable to shareholders of the Company								
Exchange fluctuation reserve	Available-for-sale investment revaluation reserve	Hedging reserve	Share option reserve	Reserve funds (note 36(a))	Retained profits	Sub-total	Non-controlling interests	Total equity
(264,060)	33,505	210,774	22,355	49,594	784,195	8,434,708	1,335,321	9,770,029
—	—	—	—	—	1,101,660	1,101,660	(20,418)	1,081,242
—	(1,669)	—	—	—	—	(1,669)	—	(1,669)
—	—	42,890	—	—	—	42,890	—	42,890
650,568	—	—	—	—	—	650,568	21,383	671,951
650,568	(1,669)	42,890	—	—	1,101,660	1,793,449	965	1,794,414
—	—	—	—	—	—	—	123,930	123,930
—	—	—	—	—	—	—	(306,625)	(306,625)
—	—	—	—	—	—	8,625	13,274	21,899
(70,277)	—	—	—	(49,594)	7,381	(70,277)	(678,103)	(748,380)
—	—	—	11,141	—	—	11,141	—	11,141
316,231 *	31,836 *	253,664 *	33,496 *	— *	1,893,236 *	10,177,646	488,762	10,666,408

Attributable to shareholders of the Company								
Exchange fluctuation reserve	Available-for-sale investment revaluation reserve	Hedging reserve	Share option reserve	Reserve funds (note 36(a))	Retained profits	Sub-total	Non-controlling interests	Total equity
316,231	31,836	253,664	33,496	—	1,893,236	10,177,646	488,762	10,666,408
—	—	—	—	—	2,202,872	2,202,872	7,241	2,210,113
—	(23,535)	—	—	—	—	(23,535)	—	(23,535)
—	—	(7,817)	—	—	—	(7,817)	—	(7,817)
47,264	—	—	—	—	—	47,264	21,469	68,733
47,264	(23,535)	(7,817)	—	—	2,202,872	2,218,784	28,710	2,247,494
—	—	—	—	—	—	—	(82,319)	(82,319)
—	—	—	5,570	—	—	5,570	—	5,570
—	—	—	—	—	—	2,489,652	—	2,489,652
(593,761)	—	3,709	—	—	—	(590,052)	—	(590,052)
—	—	—	(15,240)	—	15,240	—	—	—
57,001	—	—	24,163	11,892	(11,892)	88,325	—	88,325
(173,265) *	8,301 *	249,556 *	47,989 *	11,892 *	4,099,456 *	14,389,925	435,153	14,825,078

Year ended 31 December HK$'000

Consolidated Statement of Cash Flows

	Notes	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,137,883**	675,576
Adjustments for:			
Interest income	5	**(100,292)**	(31,496)
Gain on disposal of available-for-sale investments	5	**(6,524)**	(18,825)
Equity-settled share option expense	6	**5,570**	11,141
Depreciation	6	**1,045,411**	1,101,552
Amortisation	6	**81,657**	85,421
Loss on disposal/write-off of items of property, plant and equipment	6	**39,665**	90,697
Provision for impairment of items of property, plant and equipment	6	**492,551**	2,514,060
Provision for impairment of other asset	6	**147,126**	—
Provision for long term employee benefits	6	**31,022**	13,537
Impairment of trade receivables, net	6	**1,632**	8,857
Write-down/(write-back) of inventories to net realisable value	6	**(35)**	11,344
Provision for ecological cost	6	**116,236**	3,951
Fair value losses/(gains) on derivative financial instruments	6	**(80,914)**	113,490
Gain on deemed disposal of investment in an associate	6	**—**	(68,957)
Gain on loss of control of subsidiaries	6	**—**	(2,650,160)
Fair value losses/(gains) on cash flow hedges (transferred from equity)	6	**(24,343)**	7,599
Finance costs	9	**828,855**	841,223
Share of profit of associates		**(280,935)**	(250,920)
Gain on disposal of investment in an associate	6	**(3,785,847)**	—
Gain on disposal of partial investment in jointly-controlled assets	5	**(271,024)**	—
Impairment of available-for-sale investments	6	**1,681**	—
Impairment of goodwill	6	**316,830**	—
		2,696,205	2,458,090
Decrease/(increase) in inventories		**(961,570)**	100,999
Decrease/(increase) in trade receivables		**64,158**	(253,425)
Increase in prepayments, deposits and other receivables		**(62,790)**	(444,017)
Increase/(decrease) in accounts payable		**622,845**	(61,311)
Increase in accrued liabilities and other payables		**397,277**	223,254
Decrease in provisions		**(33,476)**	(8,674)
Cash generated from operations		**2,722,649**	2,014,916
Australian income tax paid		**(102,922)**	(86,952)
Kazakhstan income tax paid		**(287,890)**	(224,500)
PRC income tax paid		**—**	(65,261)
Net cash flows from operating activities		**2,331,837**	1,638,203

Year ended 31 December HK$'000

Consolidated Statement of Cash Flows

	Notes	2011	2010
Net cash flows from operating activities		**2,331,837**	1,638,203
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**100,292**	31,496
Purchases of items of property, plant and equipment		**(2,004,308)**	(1,761,707)
Additions to other intangible assets		**—**	(1,468)
Additions to prepaid land lease premiums		**—**	(82,658)
Additions to available-for-sale investments		**(4,068)**	—
Proceeds from disposal of items of property, plant and equipment		**1,767**	9,721
Proceeds from disposal of available-for-sale investments		**8,306**	24,465
Net proceeds from disposal of investment in an associate		**6,327,161**	—
Net proceeds from disposal of partial investment in jointly-controlled assets		**57,727**	—
Acquisition of additional equity interest in an associate		**—**	(402,536)
Dividend received from an associate		**63,247**	82,586
Decrease in non-pledged time deposits with original maturity of more than three months when acquired		**—**	1,595,289
Loss of control of subsidiaries	37	**—**	(684,180)
Net cash flows from/(used in) investing activities		**4,550,124**	(1,188,992)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from rights issue, net of expenses	34	**2,489,652**	—
Dividends paid to non-controlling shareholders		**(82,319)**	(258,655)
Capital contribution from a non-controlling shareholder		**—**	21,899
New bank and other borrowings		**13,357,450**	17,771,078
Repayment of bank and other borrowings		**(13,385,505)**	(17,833,720)
Capital element of finance lease payables		**(19,366)**	(9,164)
Interest paid		**(719,344)**	(808,474)
Finance charges paid		**(5,033)**	(629)
Net cash flows from/(used in) financing activities		**1,635,535**	(1,117,665)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**8,517,496**	(668,454)
Cash and cash equivalents at beginning of year		**2,315,488**	2,885,047
Effect of foreign exchange rate changes, net		**(53,917)**	98,895
CASH AND CASH EQUIVALENTS AT END OF YEAR		**10,779,067**	2,315,488
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	**846,549**	891,256
Non-pledged time deposits	26	**9,932,518**	1,424,232
Cash and cash equivalents as stated in the consolidated statement of financial position		**10,779,067**	2,315,488

31 December HK$'000

Statement of Financial Position

	Notes	2011	2010
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,669**	2,466
Investments in subsidiaries	16	**8,437,555**	7,547,537
Prepayments, deposits and other receivables	21	**228**	2,958
Total non-current assets		**8,439,452**	7,552,961
CURRENT ASSETS			
Prepayments, deposits and other receivables	21	**13,977**	10,267
Cash and cash equivalents	26	**2,567,805**	1,114,497
Total current assets		**2,581,782**	1,124,764
CURRENT LIABILITIES			
Bank borrowing	29	**546,000**	—
Accrued liabilities and other payables	28	**1,410**	1,410
Total current liabilities		**547,410**	1,410
NET CURRENT ASSETS		**2,034,372**	1,123,354
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,473,824**	8,676,315
NON-CURRENT LIABILITY			
Bank borrowing	29	**1,092,000**	1,638,000
NET ASSETS		**9,381,824**	7,038,315
EQUITY			
Issued capital	34	**393,287**	302,528
Reserves	36(b)	**8,988,537**	6,735,787
TOTAL EQUITY		**9,381,824**	7,038,315

Zeng Chen
Director

Li So Mui
Director

Notes to Financial Statements

1. Corporate Information

CITIC Resources Holdings Limited is a limited liability company incorporated in Bermuda. The head office and principal place of business of the Company is located at Suites 3001-3006, 30/F, One Pacific Place, 88 Queensway, Hong Kong.

The principal activity of the Company is investment holding.

During the year, the Group was principally engaged in the following businesses:

(a) the operation of the Portland Aluminium Smelter (the "**PAS**") which sources alumina and produces aluminium ingots in Australia;

(b) the operation of coal mines and the sale of coal in Australia;

(c) the export of various commodity products such as aluminium ingots, iron ore, alumina and coal; and the import of other commodities and manufactured goods such as vehicle and industrial batteries, tyres, alloy wheels and various metals such as steel in Australia;

(d) the exploration, development, production and sale of oil from the Seram Island Non-Bula Block, the Republic of Indonesia ("**Indonesia**");

(e) the exploration, development, production and sale of oil from the Hainan-Yuedong Block in the Bohai Bay Basin in Liaoning Province, the People's Republic of China (the "**PRC**") (the "**Hainan-Yuedong Block**"); and

(f) the exploration, development, production and sale of oil from the Karazhanbas Oil and Gas Field in Mangistau Oblast, the Republic of Kazakhstan ("**Kazakhstan**") (the "**Karazhanbas oilfield**").

In 2010, for the purposes of the spin-off and separate listing (the "**Spin-off**") of CITIC Dameng Holdings Limited ("**CDH**"), a former 80%-owned subsidiary of the Group, CDH and its subsidiaries (collectively the "**CDH Group**") underwent and completed a reorganisation (the "**CDH Reorganisation**"). On 18 November 2010, CDH was listed (the "**CDH Listing**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Upon listing of CDH, the Group's interest in CDH was diluted to 38.98% and CDH became an associate of the Group. CDH is principally engaged in the operation of manganese mines and the sale of refined manganese products. Further details of these transactions are set out in note 37 to the financial statements.

On 21 October 2011, all the Group's equity interests in Macarthur Coal Limited ("**Macarthur Coal**"), a then 16.34%-owned associate of the Group, were disposed of to an independent third party for a cash consideration, before tax and expenses, of A$802,035,000 (HK$6,356,100,000). Macarthur Coal is engaged in the operation, exploration, development and mining activities in the Bowen Basin in the State of Queensland, Australia. Further details of this disposal are set out in note 19 to the financial statements.

In the opinion of the directors, the ultimate holding company of the Company is 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 established in the PRC.

Notes to Financial Statements

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 ("**HKICPA**"), 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 derivative financial instruments and certain equity investments which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

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.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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.

Notes to Financial Statements

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	Amendments 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 HKAS24 (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 the financial statements.

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 adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 43 to the financial statements.

Notes to Financial Statements

2.2 Changes in Accounting Policy and Disclosures (continued)

(b) Improvements to HKFRSs 2010

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 of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 Business Combinations: The amendments 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

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 the 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]
	Amendments to HKFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities [5]
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	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 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

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. For these fair value option 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. 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 other comprehensive income would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the fair value option 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.

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.

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 other comprehensive income. 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.

Notes to Financial Statements

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

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.

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.

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 interpretation has no financial impact on the Group.

2.4 Summary of Significant Accounting Policies

Subsidiaries

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

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

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

Jointly-controlled assets

Jointly-controlled assets are assets in a joint venture over which the Group has joint control with other venturers in accordance with contractual arrangements and through the joint control of which the Group has control over its share of future economic benefits earned from the assets.

The Group's share of jointly-controlled assets and any liabilities incurred jointly with other venturers are recognised in the consolidated statement of financial position and classified according to their nature. Liabilities and expenses incurred directly in respect of its investments of jointly-controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of the jointly-controlled assets, together with its share of any expenses incurred by the joint ventures, are recognised in the consolidated income statement when it is probable that the economic benefits associated with the transactions will flow to or from the Group. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are accounted for by the proportionate consolidation method, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. The Group's equity voting rights in Macarthur Coal was less than 20% during the period from 24 June 2009 to 21 October 2011, the date immediately before the date on which the Group disposed of its entire 16.34% equity interest in Macarthur Coal, details of which are included in note 19 to the financial statements. However, the Group was able to exercise significant influence over Macarthur Coal and the investment was accounted for as an associate of the Group.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of the associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

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 elect 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.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

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 derivative 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 re-measured 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 re-measured. 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 assessment, recognised in profit or loss as a gain on bargain purchase.

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.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), 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 the consolidated income statement 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 the consolidated income statement in the period in which it arises.

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;

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Related parties (continued)

(b) (continued)

(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); or

(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 oil and gas properties, capital works and 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 the consolidated income statement 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. Plant and machinery, which include the furnace, water system, pot room and ingot mill, and buildings and structures used in the PAS, are estimated to have a useful life up to 2030.

Other property, plant and equipment are estimated to have the following useful lives:

Leasehold improvements	10 to 12 years or over the unexpired lease terms, whichever is shorter
Motor vehicles, plant, machinery, tools and equipment	5 to 26 years
Furniture and fixtures	4 to 5 years
Buildings and structures	10 to 30 years

Freehold land is not depreciated.

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.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement 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 building and structure 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.

Oil and gas properties

For oil and gas properties, the successful effort method of accounting is adopted. The Group capitalises initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgment. Upon discovery of commercial reserves, acquisition costs are transferred to proved properties. The costs of drilling and equipping successful exploratory wells are all classified as development costs, including those renewals and betterment which extend the economic lives of the assets. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

Exploratory wells are evaluated for economic viability within one year of completion. Exploratory wells that discover potential economic reserves in areas where major capital expenditure will be required before production could begin and when the major capital expenditure depends upon successful completion of further exploratory work remain capitalised, and are reviewed periodically for impairment.

Oil and gas properties are stated at cost less accumulated depreciation and depletion, and any impairment losses. The depreciation and depletion of oil and gas properties with a life longer than or equal to the licence life is estimated on a unit-of-production basis, in the proportion of actual production for the period to the total estimated remaining reserves of the oilfield. The remaining reserves figure is the amount estimated up to the licence expiration date plus the production for the period. Oil and gas properties with a useful life less than the licence life is calculated based on a straight-line basis over each asset's estimated useful life that ranges from three to ten years. Costs associated with significant development projects are not depleted until commercial production commences and the reserves related to those costs are excluded from the calculation of depletion.

Capitalised acquisition costs of proved properties are amortised by the unit-of-production method on a property-by-property basis computed based on the total estimated units of proved reserves.

The Group estimates future dismantlement costs for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement required in accordance with the current legislation and industry practices. The associated cost is capitalised and the liability is discounted and an accretion expense is recognised using the credit-adjusted risk-free rate in effect when the liability is initially recognised. No market-risk premium has been included in the calculation of asset retirement obligation balances since no reliable estimate can be made.

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

Capital works

Capital works represent exploration and development expenditure in relation to the Group's mining activities, which are carried forward to the extent that:

(a) such costs are expected to be recouped through successful development and production of the areas or by their sale; or

(b) exploration activities in the area that have not reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves.

Costs are amortised from the date of commencement of production on a production output basis.

Other asset

Other asset represents the Group's interest in an electricity supply agreement (the "**ESA**"), a 30-year base power contract entered into with the State Electricity Commission of Victoria, Australia. The ESA provides steady electricity supply at a fixed tariff to the PAS for a period to 31 October 2016. Other asset is stated at cost less accumulated amortisation, provided on a straight-line basis over the term of the base power contract, and any impairment losses.

Investments and other financial assets

Initial recognition and measurement

Financial assets of the Group within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. 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, available-for-sale investments, trade receivables, financial assets included in prepayments, deposits and other receivables, equity investments at fair value through profit or loss and derivative financial instruments.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationship as defined by HKAS 39. Derivatives, including separated embedded derivative, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivative are measured at fair value with changes in fair value recognised in the consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

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 the consolidated income statement. The loss arising from impairment is recognised in the consolidated income statement 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 equity investments. 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.

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 consolidated income statement 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 consolidated income statement 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 consolidated income statement as other income in accordance with the policies set out for "Revenue recognition" below.

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 the consolidated income statement.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

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 has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to Financial Statements

2.4 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 carrying amount of the asset 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 original effective interest rate of the financial asset (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. 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 subsequently recovered, the recovery is credited to other expenses in the consolidated income statement.

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 investment 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 the consolidated income statement, is removed from other comprehensive income and recognised in the consolidated income statement.

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 the consolidated income statement – is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the consolidated income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include accounts payable, accrued liabilities and other payables, bank and other borrowings, bond obligations, derivative financial instruments and finance lease payables.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivative are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the consolidated income statement. The net fair value gain or loss recognised in the consolidated income statement does not include interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

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 the consolidated income statement 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 recognised in the consolidated income statement.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities (continued)

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 one 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 the consolidated income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, forward commodity contracts, interest rate swap contracts, embedded derivative and electricity hedge agreement to hedge its foreign currency risk, price risk, interest rate risk and inflation risk. These derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative as defined by HKAS 39 is recognised in the consolidated income statement in cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the consolidated income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

For the purpose of hedge accounting, hedges of the Group are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for as follows:

- The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the consolidated income statement in other income and gains or other expenses.

- Amounts recognised in other comprehensive income are transferred to the consolidated income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

- If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity are transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting (continued)

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current or non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivative that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Except for the costs of crude oil and exported goods held for re-sale which are determined on the first-in, first-out basis, 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.

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 consolidated and Company statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

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 the consolidated income statement.

Provision for long term employee benefits represents the estimated future payments in respect of past services provided by employees. Consideration is given to expected future wages and salary levels, past record of employee departure and period of service. Expected future payments are discounted using market yields at the reporting date and currency that match, as closely as possible, the estimated future cash flows.

Provision for rehabilitation cost represents the estimated costs of rehabilitation relating to the areas disturbed during the operation of the PAS and the coal mines in Australia. The Group is required to return the sites to the Australian authorities in their original condition. The Group has estimated and provided for the expected costs of removal and clean-up on a periodical basis, based on the estimates provided by the environmental authorities when they reviewed the sites.

Provision for abandonment cost represents the estimated costs of abandoning oil and gas properties. The provision for abandonment cost has been classified under non-current liabilities. The associated cost is capitalised and the liability is discounted and an accretion expense is recognised using the credit-adjusted risk-free interest rate in effect when the liability is initially recognised.

Provision for the ecological cost represents the estimated costs for restoring the Group's oilfield in Kazakhstan to their original condition and cleaning all accumulated wastes. The Group has estimated and provided for the expected costs of removal and clean-up on a periodical basis, and the liability is discounted using the average long-term risk-free interest rates adjusted for risks specific to the Kazakhstan market.

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 the 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.

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

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, associates and joint ventures, 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 assets 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 assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realised or the liabilities are 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.

Dividend income derived from the Group's subsidiaries and jointly-controlled entities established in the PRC and Kazakhstan is subject to withholding tax under the prevailing tax rules and regulations.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition

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

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

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

(c) handling service fee, when the services have been rendered; and

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance lease, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Employee benefits

Share-based payment transactions

The Group 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 (the "**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 on which they are granted. The fair value is determined by using the Black-Scholes option pricing model.

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 the consolidated income statement 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.

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.

When the share options are lapsed after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve is transferred to the retained profits.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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 contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the central pension scheme.

The Group operates a defined contribution retirement benefit scheme (the "**RB Scheme**") under the superannuation legislation of the Australian government for those employees in Australia who are eligible to participate. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the RB Scheme. The assets of the RB Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the RB Scheme.

The Group's jointly-controlled entities, with operations domiciled in Kazakhstan, pay certain post retirement insurance, which represents their contribution to the post retirement benefits for their employees.

In accordance with the Law of Kazakhstan "Pension Provisioning in the Republic of Kazakhstan" effective from 1 January 1998, which replaced the state mandated pension system, all employees have the right to receive pension payments from the individual pension accumulation accounts. The accumulating pension funds comprise the compulsory pension contributions of 10% from employees' income subject to a maximum statutory limit.

Paid leave carried forward

The Group provides paid leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, any paid leave that remains untaken as at the end of the reporting period is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the year by the employees of the subsidiaries and carried forward.

2.4 Summary of Significant Accounting Policies (continued)

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.

Government grants

Government grants are recognised at their fair value where there is a 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.

Foreign currencies

The 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 re-translated 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 the consolidated income statement.

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 (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, jointly-controlled assets and entities and associates are currencies other than the Hong Kong dollars. 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 income statements 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 the consolidated income statement.

2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies (continued)

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries, jointly-controlled assets and entities 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, jointly-controlled assets and entities which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. 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:

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 treatment of certain transactions and also assessment on the probability that adequate future taxable profits will be available to recover the deferred tax assets.

Employee benefits – share-based payment transactions

The valuation of the fair value of share options granted requires judgement in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate during the life of the options and the number of share options that are expected to become exercisable. Where the actual outcome of the number of exercisable options is different from the previously estimated number of exercisable options, such difference will have an impact on the consolidated income statement in the remaining vesting period of the relevant share options.

Fair value of financial instruments

Where fair value of financial assets and financial liabilities cannot be derived from active markets, they are determined using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Notes to Financial Statements

3. Significant Accounting Judgements and Estimates (continued)

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.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also a suitable discount rate to calculate the present value of those cash flows. Further details are set out in note 14 to the financial statements.

Oil and gas reserves and mining reserves

The most significant estimates in the oil and gas and mining operations pertain to the volumes of oil and gas reserves and mining reserves and the future development, purchase price allocation, provision for rehabilitation cost and abandonment cost, as well as estimates relating to certain oil and gas reserves and mining revenues and expenses. Actual amounts could differ from those estimates and assumptions. Further details are set out in notes 13 and 32 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions at arm's length of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate to calculate the present values of those cash flows.

Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. Further details are set out in note 23 to the financial statements.

Net realisable value of inventories

The Group performs regular review of the carrying amounts of its inventories with reference to aged analyses of the Group's inventories and projections of expected future saleability of goods, and also based on management's experience and judgement. Based on this review, write-down of inventories is made when the estimated net realisable values decline below their carrying amounts of inventories. Due to changes in technological, market and economic environment and customers' preference, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation. As at 31 December 2011, impairment losses of HK$48,758,000 (2010: HK$49,109,000) have been recognised for inventories.

Notes to Financial Statements

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management's judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are set out in note 33 to the financial statements.

4. 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 aluminium smelting segment comprises the operation of the PAS which sources alumina and produces aluminium ingots in Australia;

(b) the coal segment comprises the operation of coal mines and the sale of coal in Australia;

(c) the import and export of commodities segment represents the export of various commodity products such as aluminium ingots, iron ore, alumina and coal; and the import of other commodities and manufactured goods such as vehicle and industrial batteries, tyres, alloy wheels and various metals such as steel and aluminium extrusion products in Australia; and

(d) the crude oil segment comprises the operation of oilfields and the sale of oil in Indonesia, the PRC and Kazakhstan.

Other than the above operating segments, in 2010, the Group also had a manganese segment, contributed solely by CDH, comprising the operation of manganese mines and the sales of refined manganese products in the PRC, and the exploration of manganese mine in Gabon, West Africa. Following the listing of CDH on 18 November 2010, CDH ceased to be a subsidiary, and became an associate, of the Group. Accordingly, the operating results of the manganese segment are included in the share of profit of associates as from 18 November 2010.

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

Segment assets exclude available-for-sale investments, derivative financial instruments, deferred tax assets, equity investments at fair value through profit or loss, tax recoverable, cash and cash equivalents, investments in associates and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude bank and other borrowings, finance lease payables, bond obligations, deferred tax liabilities, derivative financial instruments, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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4. Operating Segment Information (continued)

Year ended 31 December 2011	Aluminium smelting	Coal	Import and export of commodities	Crude oil	Total
Segment revenue:					
Sales to external customers	1,338,896	529,011	30,829,332	5,799,195	38,496,434
Other income	75,927	31,449	42,303	8,341	158,020
	1,414,823	560,460	30,871,635	5,807,536	38,654,454
Segment results	90,377	124,804	349,435	996,005	1,560,621
Reconciliation:					
Interest income and unallocated gains					129,650
Gain on disposal of partial investment in jointly-controlled assets					271,024
Gain on disposal of investment in an associate					3,785,847
Provision for impairment of items of property, plant and equipment					(492,551) *
Provision for impairment of other asset					(147,126) *
Impairment of goodwill					(316,830) *
Unallocated expenses					(104,832)
Unallocated finance costs					(828,855)
Share of profit of associates					280,935
Profit before tax					4,137,883
Segment assets	1,273,822	850,434	2,657,741	14,317,661	19,099,658
Reconciliation:					
Investment in an associate					3,496,690
Unallocated assets					11,286,122
Total assets					33,882,470
Segment liabilities	427,532	188,462	739,111	1,508,588	2,863,693
Reconciliation:					
Unallocated liabilities					16,193,699
Total liabilities					19,057,392
Other segment information:					
Depreciation and amortisation	152,245	20,516	758	948,506	1,122,025
Unallocated amounts					5,043
					1,127,068
Other non-cash expenses	—	43	—	1,554	1,597
Capital expenditure	9,713	56,327	912	1,850,832	1,917,784
Unallocated amounts					2,329
					1,920,113 **

* Provision for impairment of items of property, plant and equipment, other asset and goodwill related to the aluminium smelting segment

** Capital expenditure consists of additions to property, plant and equipment.

HK$'000

4. Operating Segment Information (continued)

Year ended 31 December 2010	Aluminium smelting	Coal	Import and export of commodities	Manganese	Crude oil	Total
Segment revenue:						
Sales to external customers	1,215,445	507,230	24,536,161	2,190,567	3,802,927	32,252,330
Other income	4,293	6,678	45,861	19,709	34,232	110,773
	1,219,738	513,908	24,582,022	2,210,276	3,837,159	32,363,103
Segment results	(36,675)	122,296	300,489	267,832	516,357	1,170,299
Reconciliation:						
Interest income and unallocated gains						45,176
Gain on deemed disposal of investment in an associate						68,957
Gain on loss of control of subsidiaries						2,650,160
Provision for impairment of items of property, plant and equipment						(2,514,060) *
Unallocated expenses						(154,653)
Unallocated finance costs						(841,223)
Share of profit of associates						250,920
Profit before tax						675,576
Segment assets	2,337,219	427,432	1,854,261	—	13,327,632	17,946,544
Reconciliation:						
Investments in associates						6,357,156
Unallocated assets						2,759,306
Total assets						27,063,006
Segment liabilities	371,715	40,615	242,049	—	625,466	1,279,845
Reconciliation:						
Unallocated liabilities						15,116,753
Total liabilities						16,396,598
Other segment information:						
Depreciation and amortisation	137,401	18,341	1,016	146,312	879,625	1,182,695
Unallocated amounts						4,278
						1,186,973
Other non-cash expenses	—	5,040	—	3,817	11,344	20,201
Capital expenditure	10,595	1,696	722	526,020	1,334,098	1,873,131
Unallocated amounts						1,059
						1,874,190 **

* Provision for impairment of items of property, plant and equipment related to the crude oil segment

** Capital expenditure consists of additions to property, plant and equipment, prepaid land lease premiums and other intangible assets.

Year ended 31 December HK$'000

Notes to Financial Statements

4. Operating Segment Information (continued)

Geographical information

(a) Revenue from external customers

	2011	2010
The PRC	**28,305,600**	23,176,884
Australia	**1,825,219**	1,995,287
Europe	**6,914,549**	4,530,718
North America	**39,893**	96,776
Kazakhstan	**168,177**	140,476
Other Asian countries	**1,190,779**	950,015
Others	**52,217**	1,362,174
	38,496,434	32,252,330

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

(b) Non-current assets

	2011	2010
Hong Kong	**4,307**	8,731
The PRC	**8,194,960**	6,621,739
Australia	**1,497,524**	5,084,386
Kazakhstan	**7,627,907**	7,838,945
Other Asian countries	**704,643**	644,786
	18,029,341	20,198,587

The non-current assets information above is based on the location of assets and excludes available-for-sale investments, derivative financial instruments, deferred tax assets and other asset.

Information about major customers

Revenue from major customers, each of whom amounted to 10% or more of the Group's revenue, are set out below:

	Operating segment	2011	2010
Customer A	Import and export of commodities	**4,906,861**	3,826,829
Customer B	Crude oil	**4,795,412**	3,450,591

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Notes to Financial Statements

5. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold during the year, after allowances for returns, trade discounts and royalties.

An analysis of the Group's revenue, other income and gains is as follows:

	Notes	2011	2010
Revenue			
Sale of goods:			
Aluminium smelting		**1,338,896**	1,215,445
Coal		**529,011**	507,230
Import and export of commodities		**30,829,332**	24,536,161
Manganese		**—**	2,190,567
Crude oil		**5,799,195**	3,802,927
		38,496,434	32,252,330
Other income and gains			
Interest income		**100,292**	31,496
Handling service fees		**49,327**	45,392
Gain on disposal of available-for-sale investments	20	**6,524**	18,825
Sale of scrap		**5,827**	13,158
Government subsidies and value added tax rebate *		**—**	6,821
Gain on deemed disposal of investment in an associate		**—**	68,957
Gain on disposal of partial investment in jointly-controlled assets **	6	**271,024**	—
Fair value gains on derivative financial instruments	6	**80,914**	—
Others		**44,786**	40,257
		558,694	224,906
		39,055,128	32,477,236

* Various government grants have been received for employing handicapped workers and setting up research activities. There were no unfulfilled conditions or contingencies relating to these subsidies.

** In May 2011, CITIC Bowen Basin Pty Limited, an indirect wholly-owned subsidiary of the Group, entered into sale and purchase agreements with certain independent third parties for the sale of an 8% interest in the Codrilla project for an aggregate cash consideration, before tax and expenses, of A$51,200,000 (HK$405,760,000). During the year, the Group has received part of the cash consideration, amounting to A$10,240,000 (HK$81,152,000), and the remaining amount of A$40,960,000 (HK$324,608,000) is to be received by instalments.

Year ended 31 December HK$'000

Notes to Financial Statements

6. Profit before Tax

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

	Notes	2011	2010
Cost of inventories sold *		**34,573,679**	29,310,818
Depreciation	13	**1,045,411**	1,101,552
Amortisation of other asset	15	**81,657**	72,888
Amortisation of other intangible assets		**—**	6,973
Amortisation of prepaid land lease premiums		**—**	5,560
Exploration and evaluation costs **		**49,259**	18,671
Minimum lease payments under operating leases on land and buildings		**19,339**	38,144
Auditors' remuneration		**10,912**	20,626
Employee benefit expenses (including directors' remuneration (note 7)):			
Wages and salaries		**729,232**	808,738
Equity-settled share option expense	35, 36(b)	**5,570**	11,141
Pension scheme contributions		**8,250**	7,608
Provision for long term employee benefits	32	**31,022**	13,537
		774,074	841,024
Loss on disposal/write-off of items of property, plant and equipment **		**39,665**	90,697
Exchange losses/(gains), net **		**(22,808)**	91,270
Write-down/(write-back) of inventories to net realisable value		**(35)**	11,344
Impairment of trade receivables, net **	23	**1,632**	8,857
Fair value losses/(gains) on derivative financial instruments		**(80,914)**	113,490
Fair value losses/(gains) on cash flow hedges (transferred from equity)	25	**(24,343)**	7,599
Provision for ecological cost		**116,236**	3,951
Gain on deemed disposal of investment in an associate		**—**	(68,957)
Gain on disposal of partial investment in jointly-controlled assets	5	**(271,024)**	—
Gain on disposal of investment in an associate	19	**(3,785,847)**	—
Gain on loss of control of subsidiaries	37	**—**	(2,650,160)
Provision for impairment of items of property, plant and equipment	13	**492,551**	2,514,060
Provision for impairment of other asset	15	**147,126**	—
Impairment of goodwill	14	**316,830**	—
Impairment of available-for-sale investments **		**1,681**	—

* Cost of inventories sold for the year included an aggregate amount of HK$1,662,648,000 (2010: HK$1,686,830,000), which comprised an employee benefit expense, provision for inventories, depreciation and amortisation of the ESA and other intangible assets. Such amount was also included in the respective expense items disclosed above.

** These amounts were included in "Other expenses, net" in the consolidated income statement.

Year ended 31 December HK$'000

Notes to Financial Statements

7. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2011	2010
Fees:		
Executive directors and non-executive directors	**700**	420
Independent non-executive directors	**1,075**	1,015
	1,775	1,435
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	**10,764**	9,964
Bonuses	**25,699**	11,005
Equity-settled share option expense	**5,403**	10,806
Pension scheme contributions	**434**	165
	42,300	31,940
	44,075	33,375

In 2010, the maturity dates of the share options granted to certain directors under the share option scheme of the Company were extended for three years. Further details of the share option scheme are disclosed in note 35 to the financial statements. The fair value of such options, which has been recognised in the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements was included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2011	2010
Fan Ren Da, Anthony	**375**	355
Ngai Man	**350**	330
Tsang Link Carl, Brian [1]	**116**	330
Gao Pei Ji [2]	**234**	—
	1,075	1,015

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

1 Resigned on 1 May 2011
2 Appointed on 1 May 2011

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Notes to Financial Statements

7. Directors' Remuneration (continued)

(b) Executive directors and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Bonuses	Equity-settled share option expense	Pension scheme contributions	Total remuneration
2011						
Executive Directors:						
Sun Xinguo	—	2,418	4,500	—	12	6,930
Zeng Chen	—	3,951	11,519	1,722	10	17,202
Li So Mui	—	2,526	2,960	335	12	5,833
Guo Tinghu [3]	100	1,869	6,720	—	400	9,089
Non-executive Directors:						
Kong Dan [2]	—	—	—	—	—	—
Mi Zengxin	—	—	—	1,673	—	1,673
Qiu Yiyong	150	—	—	—	—	150
Tian Yuchuan	150	—	—	—	—	150
Wong Kim Yin	150	—	—	—	—	150
Zhang Jijing	150	—	—	1,673	—	1,823
Yap Chwee Mein [2]	—	—	—	—	—	—
	700	10,764	25,699	5,403	434	43,000
2010						
Executive Directors:						
Sun Xinguo	—	2,348	2,220	—	12	4,580
Zeng Chen	—	3,134	3,897	3,443	129	10,603
Li So Mui	—	2,452	1,980	669	12	5,113
Non-executive Directors:						
Kong Dan	—	—	—	—	—	—
Mi Zengxin	—	—	—	3,347	—	3,347
Qiu Yiyong [1]	140	—	—	—	—	140
Tian Yuchuan [1]	—	2,030	2,908	—	12	4,950
Wong Kim Yin	140	—	—	—	—	140
Zhang Jijing	140	—	—	3,347	—	3,487
Yap Chwee Mein	—	—	—	—	—	—
	420	9,964	11,005	10,806	165	32,360

During the years ended 31 December 2011 and 2010, Mr. Kong Dan and Mr. Mi Zengxin elected not to receive any fee from the Group. Saved as aforesaid, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.

1 Re-designated as non-executive directors on 18 November 2010
2 Resigned on 1 May 2011
3 Appointed on 1 May 2011

Year ended 31 December HK$'000

Notes to Financial Statements

8. Five Highest Paid Employees

The five highest paid employees during the year included four (2010: four) directors and one (2010: one) senior management personnel. Details of the remuneration of these directors are set out in note 7 and details of the remuneration of such senior management personnel are as follows:

	2011	2010
Salaries, allowances and benefits in kind	1,544	1,856
Bonuses	4,352	3,993
Pension scheme contributions	—	179
	5,896	6,028

9. Finance Costs

An analysis of finance costs is as follows:

	Group 2011	2010
Interest expense on bank and other borrowings	194,950	284,257
Interest expense on fixed rate senior notes, net	524,394	524,217
Interest expense on finance leases	1,257	1,588
Total interest expense on financial liabilities not at fair value through profit or loss	720,601	810,062
Amortisation of fixed rate senior notes	23,027	23,027
Less: Interest capitalised	—	(28,357)
	743,628	804,732
Other finance charges:		
Increase in discounted amounts of provisions arising from the passage of time (note 32)	44,394	32,159
Others	40,833	4,332
	828,855	841,223

Year ended 31 December HK$'000

Notes to Financial Statements

10. Income Tax

	Group 2011	2010
Current – Hong Kong	—	—
Current – Elsewhere		
Charge for the year	**2,114,028**	438,196
Underprovision/(overprovision) in prior years	**1,598**	(2,731)
Deferred (note 33)	**(187,856)**	(841,131)
Total tax expense/(credit) for the year	**1,927,770**	(405,666)

The statutory tax rate of Hong Kong profits tax was 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the year (2010: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

Australia
Australian income tax has been provided at the statutory rate of 30% (2010: 30%) on the estimated taxable profits arising in Australia during the year.

Indonesia
The corporate tax rate applicable to the subsidiary which is operating in Indonesia was 30% (2010: 30%) during the year.

The Group's subsidiary owning a participating interest in the oil and gas properties in Indonesia is subject to branch tax at an effective tax rate of 14% (2010: 14%).

The PRC
The Group's subsidiaries registered in the PRC are subject to corporate income tax at a rate of 25% (2010: 25%). No provision for the PRC corporate income tax has been made as the Group had no taxable profits arising in the PRC during the year.

Kazakhstan
The corporate tax rate applicable to the Group's jointly-controlled entities established and operating in Kazakhstan was 20% in 2011 (2010: 20%). The Group shall also pay excess profit tax ("**EPT**") on its profit after corporate income tax each year. EPT is calculated based on annual profitability at progressive rates ranging from 10% to 60%.

According to HKAS 12 Income Taxes, 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.

Year ended 31 December HK$'000

Notes to Financial Statements

10. Income Tax (continued)

A reconciliation of the tax expense/(credit) applicable to profit before tax at the Hong Kong statutory rate to the tax expense/(credit) at the Group's effective tax rate is as follows:

	Group 2011	2010
Profit before tax	**4,137,883**	675,576
Tax at the Hong Kong statutory rate of 16.5% (2010: 16.5%)	**682,751**	111,470
Higher tax rates on profits arising elsewhere	**1,142,509**	29,792
Lower tax rate/tax holiday or concessions for specific provinces or enacted by local authorities	**—**	(45,185)
Adjustments in respect of current tax of previous periods	**1,598**	(2,731)
Effect on deferred tax of decrease in rates	**—**	(164,853)
Profit attributable to associates	**(46,354)**	(41,402)
Income not subject to tax	**(62,588)**	(601,908)
Expenses not deductible for tax	**120,888**	332,023
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries and Kazakhstan jointly-controlled entities	**37,492**	7,953
Tax losses utilised from previous periods	**—**	(30,825)
Tax losses not recognised	**51,474**	—
Tax expense/(credit) at the Group's effective rate	**1,927,770**	(405,666)

The share of tax attributable to associates, amounting to HK$74,057,000 (2010: HK$75,564,000), is included in "Share of profit of associates" in the consolidated income statement.

The Group has unrecognised deferred tax assets from tax losses arising in Hong Kong and the PRC in an aggregate amount of HK$198,598,000 (2010: HK$227,688,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. In respect of tax losses arising in the PRC, the losses are available for offsetting against future taxable profits for a maximum period of five years. Deferred tax assets have not been recognised in respect of these tax losses because they have arisen in companies that have been loss-making for some years and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

11. Profit attributable to Shareholders of the Company

The consolidated profit attributable to shareholders of the Company for the year ended 31 December 2011 includes a loss of HK$152,324,000 (2010: a profit of HK$74,270,000) which has been dealt with in the financial statements of the Company.

Year ended 31 December HK$'000

Notes to Financial Statements

12. Earnings per Share attributable to Ordinary Shareholders of the Company

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share amount is based on the profit for the year attributable to ordinary shareholders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share amounts are based on:

	2011	2010
Earnings		
Profit attributable to ordinary shareholders of the Company used in the basic earnings per share calculation	**2,202,872**	1,101,660

	Number of shares	
	2011	2010 (Restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**7,124,302,322**	6,273,832,962
Effect of dilution – weighted average number of ordinary shares: share options	**7,304,908**	14,335,990
	7,131,607,230	6,288,168,952

The weighted average number of ordinary shares used in the calculation of the basic earnings per share and the effect of dilution in 2010 have been retrospectively adjusted for a rights issue of the Company completed on 20 June 2011 (the "**Rights Issue**").

HK$'000

Notes to Financial Statements

13. Property, Plant and Equipment

Group

31 December 2011	Notes	Oil and gas properties	Freehold land	Leasehold improvements	Motor vehicles, plant, machinery, tools and equipment	Construction in progress	Furniture and fixtures	Buildings and structures	Capital works	Total
Cost:										
At 1 January 2011		21,804,547	9,754	6,172	1,860,158	935,452	31,847	535,223	196,161	25,379,314
Change in provision for abandonment cost	32	154,410	–	–	–	–	–	–	–	154,410
Change in provision for rehabilitation cost	32	–	–	–	–	–	–	–	436	436
Additions		509,688	1,201	–	61,766	1,301,563	2,719	9,561	33,615	1,920,113
Disposals/write-off		(19,397)	–	–	(40,074)	–	(487)	(511)	(7,253)	(67,722)
Transfers		926,711	–	–	–	(926,711)	–	–	–	–
Exchange realignment		13,772	(16)	60	2,897	41,861	(161)	1,034	(327)	59,120
At 31 December 2011		23,389,731	10,939	6,232	1,884,747	1,352,165	33,918	545,307	222,632	27,445,671
Accumulated depreciation and impairment:										
At 1 January 2011		11,229,210	–	5,171	638,132	–	12,937	171,754	57,196	12,114,400
Depreciation provided during the year	6	917,508	–	338	92,715	–	3,129	28,716	3,005	1,045,411
Disposals/write-off		(10,917)	–	–	(14,899)	–	(389)	(85)	–	(26,290)
Provision for impairment	6	–	–	–	389,147	–	–	103,404	–	492,551
Exchange realignment		(21,991)	–	39	(1,335)	–	(44)	(315)	(43)	(23,689)
At 31 December 2011		12,113,810	–	5,548	1,103,760	–	15,633	303,474	60,158	13,602,383
Net carrying amount:										
At 31 December 2011		11,275,921	10,939	684	780,987	1,352,165	18,285	241,833	162,474	13,843,288

As at 31 December 2011, net carrying amount of the Group's property, plant and equipment included plant and machinery of HK$48,334,000 (2010: HK$67,477,000) held under finance leases.

Freehold land of the Group is located in Australia.

HK$'000

13. Property, Plant and Equipment (continued)

Group

31 December 2010	Notes	Oil and gas properties	Freehold land	Leasehold improvements	Motor vehicles, plant, machinery, tools and equipment	Construction in progress	Furniture and fixtures	Buildings and structures	Capital works	Total
Cost:										
At 1 January 2010		20,830,002	8,608	5,462	2,374,568	830,498	39,997	1,328,651	229,531	25,647,317
Change in provision for abandonment cost		(3,275)	—	—	—	—	—	—	—	(3,275)
Change in provision for land reclamation		—	—	—	—	1,300	—	—	—	1,300
Change in provision for rehabilitation cost		—	—	—	—	—	—	—	5,752	5,752
Additions		429,790	—	631	51,174	1,293,010	3,822	10,561	1,076	1,790,064
Disposals/write-off		(82,953)	—	—	(45,887)	—	(26)	(4,542)	(4,117)	(137,525)
Loss of control of subsidiaries	37	—	—	—	(875,511)	(494,899)	(13,577)	(961,966)	(14,297)	(2,360,250)
Transfers		568,124	—	—	126,268	(726,663)	646	77,893	(46,268)	—
Exchange realignment		62,859	1,146	79	229,546	32,206	985	84,626	24,484	435,931
At 31 December 2010		21,804,547	9,754	6,172	1,860,158	935,452	31,847	535,223	196,161	25,379,314
Accumulated depreciation and impairment:										
At 1 January 2010		7,845,698	—	4,846	666,350	7,654	14,191	203,637	57,730	8,800,106
Depreciation provided during the year	6	854,512	—	285	171,377	—	5,460	64,962	4,956	1,101,552
Disposals/write-off		(470)	—	—	(35,671)	—	(901)	(65)	—	(37,107)
Loss of control of subsidiaries	37	—	—	—	(245,115)	(7,656)	(6,292)	(122,193)	(12,473)	(393,729)
Provision for impairment	6	2,514,060	—	—	—	—	—	—	—	2,514,060
Exchange realignment		15,410	—	40	81,191	2	479	25,413	6,983	129,518
At 31 December 2010		11,229,210	—	5,171	638,132	—	12,937	171,754	57,196	12,114,400
Net carrying amount:										
At 31 December 2010		10,575,337	9,754	1,001	1,222,026	935,452	18,910	363,469	138,965	13,264,914

As at 31 December 2010, the directors considered that certain oil and gas properties in the Karazhanbas oilfield, Kazakhstan were impaired and therefore impairment losses of HK$2,514,060,000 were recognised in the consolidated income statement for the year ended 31 December 2010. The triggers for the impairment tests were primarily due to the combined effect of the imposition of new export duty and a downward revision of the estimate of original oil in place in the Karazhanbas oilfield, which reduced the estimated recoverable amounts of these related assets as at 31 December 2010.

As at 31 December 2011, the directors considered that certain property, plant and equipment in the Portland Aluminium Smelter joint venture (the "**PAS JV**") were impaired and therefore impairment losses of HK$492,551,000 were recognised in the consolidated income statement for the year ended 31 December 2011. Further details are set out in note 14 to the financial statements.

HK$'000

Notes to Financial Statements

13. Property, Plant and Equipment (continued)

In assessing whether impairment is required for the carrying value of a potentially impaired asset, its carrying value is compared with its recoverable amount. Assets are tested for impairment either individually or as part of a cash-generating unit. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers are taking place. Consequently, unless indicated otherwise, the recoverable amount used in assessing the impairment charges described below is value in use.

The Group generally estimates value in use using a discounted cash flow model. The future cash flows are adjusted for risks specific to the asset and discounted using a pre-tax discount rate of 13.8% (2010: 14.8%). This discount rate was derived from the Group's pre-tax weighted average cost of capital.

Company

31 December 2011	Leasehold improvements	Motor vehicles and equipment	Total
Cost:			
At 1 January 2011	**1,267**	**3,147**	**4,414**
Additions	**61**	**155**	**216**
At 31 December 2011	**1,328**	**3,302**	**4,630**
Accumulated depreciation:			
At 1 January 2011	**455**	**1,493**	**1,948**
Provided during the year	**288**	**725**	**1,013**
At 31 December 2011	**743**	**2,218**	**2,961**
Net carrying amount at 31 December 2011	**585**	**1,084**	**1,669**

31 December 2010	Leasehold improvements	Motor vehicles and equipment	Total
Cost:			
At 1 January 2010	677	2,346	3,023
Additions	590	801	1,391
At 31 December 2010	1,267	3,147	4,414
Accumulated depreciation:			
At 1 January 2010	249	845	1,094
Provided during the year	206	648	854
At 31 December 2010	455	1,493	1,948
Net carrying amount at 31 December 2010	812	1,654	2,466

HK$'000

14. Goodwill

	Group 2011	2010
Cost:		
At 1 January and 31 December	**341,512**	341,512
Accumulated impairment:		
At 1 January	**—**	—
Impairment during the year (note 6)	**316,830**	—
At 31 December	**316,830**	—
Net carrying amount:		
At 31 December	**24,682**	341,512

Goodwill acquired through business combinations has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- aluminium smelting cash-generating unit; and
- import and export of commodities cash-generating unit.

Aluminium smelting cash-generating unit

The recoverable amount of the aluminium smelting cash-generating unit is determined based on a value in use calculation, using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 9.2% (2010: 8.3%).

Import and export of commodities cash-generating unit

The recoverable amount of the import and export of commodities cash-generating unit is determined based on a value in use calculation, using cash flow projections based on financial budgets covering a five-year period approved by senior management.

The net carrying amount of goodwill allocated to each of the cash-generating units are as follows:

	Group 2011	2010
Cash-generating unit:		
Aluminium smelting	**—**	316,830
Import and export of commodities	**24,682**	24,682
At 31 December	**24,682**	341,512

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Notes to Financial Statements

14. Goodwill (continued)

Due to the continuous appreciation of the Australian dollar and the lower than expected aluminium prices in 2011 as well as the introduction of the Clean Energy Legislation Package in Australia in 2011, the estimated value in use of the aluminium smelting cash-generating unit dropped significantly during the year. The directors, based on the cash flow projections of the aluminium smelting cash-generating unit, considered that goodwill related to this cash-generating unit was impaired. Accordingly, goodwill related to the aluminium smelting cash-generating unit of HK$316,830,000 was fully provided for during the year.

15. Other Asset

	Group	
	2011	2010
Cost:		
At 1 January	**1,017,558**	898,020
Exchange realignment	**(256)**	119,538
At 31 December	**1,017,302**	1,017,558
Accumulated amortisation and impairment:		
At 1 January	**546,142**	410,642
Amortisation provided during the year (note 6)	**81,657**	72,888
Impairment during the year (note 6)	**147,126**	—
Exchange realignment	**(2,538)**	62,612
At 31 December	**772,387**	546,142
Net carrying amount:		
At 31 December	**244,915**	471,416

Other asset represents the Group's interest in the ESA.

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Notes to Financial Statements

16. Investments in Subsidiaries

	Company 2011	2010
Unlisted shares, at cost	**173,133**	173,133
Due from subsidiaries	**9,423,951**	8,395,237
Due to subsidiaries	**(78,227)**	(78,227)
	9,518,857	8,490,143
Impairment	**(1,081,302)**	(942,606)
	8,437,555	7,547,537

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts due from subsidiaries included in the investments in subsidiaries above are considered as quasi-equity loans to the subsidiaries.

Particulars of the subsidiaries of the Company as at 31 December 2011 were as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Directly held				
SEA Wood Investment Holdings Limited	British Virgin Islands/ Hong Kong	US$10,000	100	Investment holding
Starbest Venture Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Star Elite Venture Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Resources Finance (2007) Limited ("**CR Finance**")	British Virgin Islands/ Hong Kong	US$1	100	Financing
Indirectly held				
Feston Manufacturing Limited	British Virgin Islands/ Hong Kong	US$10,000	100	Dormant
Nusoil Manufacturing Limited	British Virgin Islands/ Hong Kong	US$100	100	Investment holding
Wing Lam (International) Timber Limited	Hong Kong	HK$60,000,000	100	Dormant

Notes to Financial Statements

16. Investments in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
Global Enterprises (HK) Limited	Hong Kong	HK$2	100	Provision of management services
Maxpower Resources Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC New Highland Petroleum Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Toplight Resources Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Resources Australia Pty Limited	State of Victoria, Australia	A$377,650,000	100	Investment holding
CITIC Portland Holdings Pty Limited	State of Victoria, Australia	A$196,791,454	100	Investment holding
CITIC Australia (Portland) Pty Limited	State of Victoria, Australia	A$45,675,117	100	Aluminium smelting
CITIC Portland Surety Pty Limited	State of Victoria, Australia	A$1	100	Investment holding
CITIC Nominees Pty Limited	State of Victoria, Australia	A$2	100	Investment holding
CITIC Portland Finance 1 Pty Limited	State of Victoria, Australia	A$2	100	Financing
CITIC (Portland) Nominees I Pty Limited *	State of Victoria, Australia	A$2	100	Investment holding
CITIC (Portland) Nominees II Pty Limited *	State of Victoria, Australia	A$2	100	Investment holding
CITIC Nominees Pty Limited Partnership	State of Victoria, Australia	A$6,693,943	100	Investment holding

Notes to Financial Statements

16. Investments in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
CITIC Australia Coal Pty Limited	State of Victoria, Australia	A$220,605,959	100	Investment holding
CITIC Australia Coal Exploration Pty Limited	State of Victoria, Australia	A$2,845,375	100	Exploration, development of coal mines and mining of coal
CITIC Australia Coppabella Pty Limited	State of Victoria, Australia	A$5,000,002	100	Mining and production of coal
CITIC Olive Downs Pty Limited	State of Victoria, Australia	A$99,958	100	Exploration and development of coal mines
CITIC Bowen Basin Pty Limited	State of Victoria, Australia	A$378,353	100	Exploration and development of coal mines
CITIC Capricorn Pty Limited	State of Victoria, Australia	A$9,549	100	Exploration and development of coal mines
CITIC Moorvale West Pty Limited	State of Victoria, Australia	A$108,333	100	Exploration and development of coal mines
CITIC West/North Burton Pty Limited	State of Victoria, Australia	A$34,238	100	Exploration and development of coal mines
CITIC West Rolleston Pty Limited	State of Victoria, Australia	A$196,390	100	Exploration and development of coal mines
CITIC West Walker Pty Limited	State of Victoria, Australia	A$91,812	100	Exploration and development of coal mines

Notes to Financial Statements

16. Investments in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
CITIC Mining Equipment Pty Limited	State of Victoria, Australia	A$2	100	Equipment lease holding
CITIC Australia Trading Pty Limited ("**CATL**")	State of Victoria, Australia	A$4,710,647	100	Investment holding
CITIC Australia Commodity Trading Pty Limited	State of Victoria, Australia	A$500,002	100	Import and export of commodities and manufactured goods
CATL Sub-holdings Pty Limited	State of Victoria, Australia	A$1	100	Investment holding
CITIC Autoparts Pty Limited	State of Victoria, Australia	A$100	100	Import of tyres and alloy wheels
Tyre Choice Pty Limited	State of Victoria, Australia	A$1	100	Dormant
CITIC Batteries Pty Limited	State of Victoria, Australia	A$2	100	Dormant
CITIC Nickel Pty Limited	State of Victoria, Australia	A$2	100	Investment holding
CITIC Nickel Australia Pty Limited	State of Victoria, Australia	A$2	100	Exploration and development of nickel mines
CITIC Nickel International Pty Limited	State of Victoria, Australia	A$2	100	Exploration and development of nickel mines
北京千泉投資顧問有限公司 # + (Beijing Springs Investment Consultants Co. Limited)	the PRC	RMB1,243,173	100	Consulting

16. Investments in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
北京怡信美城商務信息諮詢有限公司 # + (Beijing Yi Xin Mei Cheng Commercial Information Consulting Co. Ltd.)	the PRC	RMB500,000	100	Consulting
Cogent Assets Limited	British Virgin Islands/ Hong Kong	US$2	100	Investment holding
CITIC Petrochemical Holdings Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Petrochemical Investments Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Group Smart Resources Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Highkeen Resources Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Indonesia Energy Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Seram Energy Limited	British Virgin Islands/ Indonesia	US$1	100	Exploration, development and operation of oilfields
CITIC Haiyue Energy Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Tincy Group Energy Resources Limited	Hong Kong/ the PRC	HK$10,000,000	90	Exploration, development and operation of oilfields
CITIC Liaobin Investments Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding

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16. Investments in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
CITIC Liaobin Energy (HK) Limited	Hong Kong	HK$1	100	Investment holding
CITIC Oil & Gas Holdings Limited	British Virgin Islands/ Hong Kong	US$100	100	Investment holding
Renowned Nation Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
KBM Energy Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Netherlands Energy Coöperatief U.A.	Netherlands/ Hong Kong	EUR100	100	Investment holding
Perfect Vision Investments Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
KAZCITIC Investment LLP	Kazakhstan	KZT682,705,099	100	Property holding
Ample Idea Investments Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
中信石油技術開發(北京)有限公司 # + (CITIC Petroleum Technology Development (Beijing) Limited)	the PRC	US$100,000	100	Oil technology development
CITIC PNG Investments Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC PNG Energy Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Splendor Venture Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding

* These two companies jointly own CITIC Nominees Pty Limited Partnership which owns the interest in the PAS JV.

\# The statutory financial statements were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

\+ Limited liability company registered under the PRC law

17. Investments in Jointly-Controlled Entities

The Group's jointly-controlled entities primarily engage in the exploration, development, production and sale of oil and provision of oilfield related services in Kazakhstan. Particulars of the jointly-controlled entities as at 31 December 2011 were as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Group	Principal activities
CITIC Canada Energy Limited	Canada	US$1	50	Investment holding
CITIC Canada Petroleum Limited	Canada	US$96,374,882	50	Investment holding
JSC Karazhanbasmunai ("**KBM**")	Kazakhstan	Ordinary shares: KZT2,045,035,000 Preference shares: KZT116,077,000	47.3	Exploration, development, production and sale of oil
Argymak TransService LLP	Kazakhstan	KZT200,000	50	Provision of transportation services and other oilfield related logistic services
Tulpar Munai Service LLP	Kazakhstan	KZT100,000	50	Provision of oil well drilling, construction and workover services

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17. Investments in Jointly-Controlled Entities (continued)

The following table illustrates the summarised financial information of the Group's proportionate share of the jointly-controlled entities, which was proportionately consolidated by the Group as at 31 December 2011 and for the year then ended.

	2011	2010
Proportionate share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	**7,600,564**	7,807,670
Current assets	**1,374,834**	1,333,830
Current liabilities	**(5,069,459)**	(5,477,494)
Non-current liabilities	**(2,264,433)**	(2,221,388)
Net assets	**1,641,506**	1,442,618

	2011	2010
Proportionate share of the jointly-controlled entities' results:		
Revenue	**5,335,963**	3,591,067
Other income	**3,408**	9,571
	5,339,371	3,600,638
Total expenses	**(4,335,301)**	(5,549,993)
Tax credit/(expense)	**(698,507)**	509,653
Profit/(loss) after tax	**305,563**	(1,439,702)

18. Investments in Jointly-Controlled Assets

As at 31 December 2011, the Group held the interests in the following joint ventures:

(a) 22.5% participating interest in the PAS JV, the principal activity of which is aluminium smelting;

(b) 16% participating interest in the spent potlining project joint venture at Portland, the principal activity of which is the processing of spent potlining;

(c) 7% participating interest in the Coppabella and Moorvale coal mines joint venture (the "**CMJV**"), the principal activities of which are the mining and sale of coal;

(d) 50% participating interest in the CB Exploration joint venture, the principal activity of which is the exploration of coal;

(e) 10% participating interest in the Olive Downs joint venture, the principal activity of which is the exploration of coal;

(f) 15% participating interest in the Capricorn joint venture, the principal activity of which is the exploration of coal;

(g) 10% participating interest in the Moorvale West joint venture, the principal activity of which is the exploration of coal;

(h) 10% participating interest in the West/North Burton joint venture, the principal activity of which is the exploration of coal;

(i) 10% participating interest in the West Rolleston joint venture, the principal activity of which is the exploration of coal;

(j) 15% participating interest in the West Walker joint venture, the principal activity of which is the exploration of coal;

(k) 15% participating interest in the Bowen Basin Coal joint venture, the principal activity of which is the exploration of coal;

(l) 51% participating interest in the production sharing contract (the "**Seram Interest**") relating to the Seram Island Non-Bula Block; and

(m) the petroleum contract dated 24 February 2004 (as supplemented) for the exploration, development and production of petroleum from the Hainan-Yuedong Block.

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Notes to Financial Statements

18. Investments in Jointly-Controlled Assets (continued)

The jointly-controlled assets as detailed in (c) to (k) above have different reporting dates to that of the Group, being 30 June compared to 31 December. The jointly-controlled assets as detailed in (a) to (j) are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The Group's interests in the net assets employed in the PAS JV are included in the consolidated statement of financial position under the classifications shown below:

	2011	2010
Non-current assets	**2,100,339**	2,818,482
Current assets	**126,332**	105,678
Current liabilities	**(163,429)**	(204,311)
Non-current liabilities	**(462,281)**	(344,946)
Share of net assets employed in the PAS JV	**1,600,961**	2,374,903

The Group's interests in the net assets employed in the Seram Interest are included in the consolidated statement of financial position under the classifications shown below:

	2011	2010
Non-current assets	**809,912**	797,511
Current assets	**351,193**	256,395
Current liabilities	**(65,849)**	(46,642)
Non-current liabilities	**(53,165)**	(47,685)
Share of net assets employed in the Seram Interest	**1,042,091**	959,579

The Group's interests in the combined net assets employed in the remaining jointly-controlled assets are included in the consolidated statement of financial position under the classifications shown below:

	2011	2010
Non-current assets	**3,333,618**	1,933,292
Current assets	**845,035**	393,640
Current liabilities	**(2,478,699)**	(1,236,358)
Non-current liabilities	**(31,962)**	(28,007)
Share of net assets employed in the remaining jointly-controlled assets	**1,667,992**	1,062,567

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19. Investments in Associates

	Notes	Group 2011	2010 (Restated)
Share of net assets:			
Listed in Hong Kong	(a)	**2,406,882**	2,182,452
Listed in Australia	(b)	**—**	3,084,896
Goodwill on acquisition	(a)	**1,089,808**	1,089,808
		3,496,690	6,357,156
Market value of listed shares		**1,355,925**	8,075,200

Notes:

(a) Upon completion of the CDH Listing on 18 November 2010, the Group was required to re-measure all of the identifiable assets and liabilities underlying its investment in CDH at their fair values, i.e., to effectively perform a new purchase price allocation. As at 31 December 2010, the purchase price allocation was incomplete and subject to the finalisation of the valuation of certain property, plant and equipment and intangible assets (the "**Valuation**"), and the determination of the tax basis of the assets and liabilities acquired. During the year, the purchase price allocation was completed following the finalisation of the Valuation. As a result, the Group's relevant share of the fair values of CDH's net identifiable assets and goodwill on acquisition were adjusted retrospectively. The effect of this adjustment was to increase the Group's share of net assets listed in Hong Kong by HK$886,819,000 and to reduce goodwill on acquisition by HK$886,819,000 as of 31 December 2010. This had no impact to the Group's net profit for the year ended 31 December 2010 and the Group's overall investments in associates as at 31 December 2010.

(b) As at 31 December 2010, the Group recorded an investment in Macarthur Coal of HK$3,084,896,000. On 21 October 2011, the Group disposed of its entire 16.34% equity interest in Macarthur Coal to PEAMCoal Pty Ltd. ("**PEAMCoal**"), an independent third party, for a cash consideration, before tax and expenses, of A$802,035,000 (HK$6,356,100,000). The purchase consideration was fully paid by PEAMCoal in November 2011 and a gain on disposal of Macarthur Coal of HK$3,785,847,000 (note 6) was recorded by the Group during the year.

Particulars of the Group's associate as at 31 December 2011 were as follows:

Name	Registered ordinary share capital	Place of incorporation/ registration	Percentage of equity interest attributable to the Group 2011	2010	Principal activity
CDH	HK$302,479,500	Bermuda/ Hong Kong	**38.98**	38.98	Investment holding

The Group's investment in CDH is indirectly held by the Company.

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19. Investments in Associates (continued)

The following table illustrates the summarised financial information of the CDH Group extracted from its financial statements for the year ended 31 December 2011:

	2011	2010
Assets	**8,896,731**	6,835,679
Liabilities	**4,518,884**	3,433,680
Revenue	**3,654,690**	389,106 #
Profit after tax	**346,300**	96,307 #

Being the operating results of the CDH Group from its listing date of 18 November 2010 to 31 December 2010

20. Available-for-sale Investments

	Group	
	2011	2010
Non-current equity investments:		
Listed equity investments in Australia, at fair value	**32,584**	65,625

The fair values of the above investments were based on quoted market prices.

During the year, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$33,622,000 (2010: HK$2,384,000), of which HK$1,681,000 (2010: Nil) was reclassified from other comprehensive income to the consolidated income statement. In addition, a gain on disposal of available-for-sale investments of HK$6,524,000 (2010: HK$18,825,000) (note 5) was recognised by the Group in the consolidated income statement for the year.

21. Prepayments, Deposits and Other Receivables

	Group		**Company**	
	2011	2010	**2011**	2010
Prepayments	**446,266**	272,206	**3,101**	5,824
Deposits and other receivables	**829,733**	665,185	**11,104**	7,401
	1,275,999	937,391	**14,205**	13,225
Portion classified as current assets	**(611,318)**	(702,386)	**(13,977)**	(10,267)
Non-current portion	**664,681**	235,005	**228**	2,958

None of the above assets was either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

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22. Inventories

	Group 2011	2010
Raw materials	**371,848**	432,769
Work in progress	**164,218**	181,879
Finished goods	**1,415,690**	349,052
	1,951,756	963,700

23. Trade Receivables

	Group 2011	2010
Trade receivables	**2,084,827**	2,129,505
Impairment	**(23,470)**	(21,861)
	2,061,357	2,107,644

The Group normally offers credit terms of 30 to 120 days to its established customers.

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

	Group 2011	2010
Within one month	**1,101,795**	1,076,496
One to two months	**691,282**	535,572
Two to three months	**70,277**	104,454
Over three months	**198,003**	391,122
	2,061,357	2,107,644

The movements in the provision for impairment of trade receivables were as follows:

	Group 2011	2010
At 1 January	**21,861**	22,073
Impairment losses recognised (note 6)	**18,195**	8,857
Amount written off as uncollectible	**—**	(3,503)
Amount written back (note 6)	**(16,563)**	—
Loss of control of subsidiaries	**—**	(8,264)
Exchange realignment	**(23)**	2,698
At 31 December	**23,470**	21,861

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23. Trade Receivables (continued)

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$23,470,000 (2010: HK$21,861,000) with an aggregate carrying amount before provision of HK$23,470,000 (2010: HK$21,861,000). The individually impaired trade receivables relate to customers that were in financial difficulties and the receivables are not expected to be recovered.

An aged analysis of the trade receivables that were not considered to be impaired was as follows:

	Group 2011	2010
Neither past due nor impaired	**1,974,325**	1,999,096
Less than one month past due	**57,896**	68,400
One to three months past due	**1,611**	12,704
Over three months past due	**27,525**	27,444
	2,061,357	2,107,644

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 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.

Included in the trade receivables is an amount due from the Group's fellow subsidiary of HK$402,537,000 (2010: HK$511,524,000) which is repayable on similar credit terms to those offered to other customers of the Group.

24. Equity Investments at Fair Value through Profit or Loss

	Group 2011	2010
Current unlisted equity investments, at fair value:		
Australia	**2,963**	2,964

The above equity investments were classified as held for trading for both years.

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25. Derivative Financial Instruments

	Group			
	2011		2010	
	Assets	**Liabilities**	Assets	Liabilities
Forward currency contracts	**15,164**	**—**	5,211	20,966
Forward commodity contracts	**23,631**	**—**	124	7,658
Interest rate swap contracts	**—**	**4,590**	—	4,437
Derivative financial instrument – embedded derivative	**—**	**244,394**	—	295,937
EHA (as defined below)	**23,272**	**—**	44,335	—
	62,067	**248,984**	49,670	328,998
Portion classified as non-current:				
Derivative financial instrument – embedded derivative	**—**	**(240,574)**	—	(217,949)
EHA (as defined below)	**(23,272)**	**—**	(44,335)	—
Non-current portion	**(23,272)**	**(240,574)**	(44,335)	(217,949)
Current portion	**38,795**	**8,410**	5,335	111,049

Certain members of the Group entered into derivative financial instruments in the normal course of business in order to hedge their exposure to fluctuations in foreign exchange rates, commodity prices, interest rates and inflation.

Forward currency contracts – cash flow hedges

The Group's export business in Australia involves transactions where both sales revenue and majority of the related costs of goods sold are denominated in United States dollars. Forward currency contracts are entered into to hedge its net foreign currency exposures in relation to such transactions.

Imports of the Group generally involve transactions where the purchases of imported goods (as well as some of the costs related to such purchases) are denominated in United States dollars. However, subsequent sales of such goods are generally denominated in Australian dollars. Therefore, to enable the Group to manage such business operations, including setting the Australian dollar selling prices of the imported goods, forward currency contracts are entered into to hedge current and anticipated future purchases.

The terms of the forward currency contracts were negotiated to match the terms of related purchases and sales commitments. Forward currency contracts described above are considered to be cash flow hedges, and are accounted for in accordance with the accounting policies set out in note 2.4 to the financial statements.

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Notes to Financial Statements

25. Derivative Financial Instruments (continued)

Forward currency contracts – cash flow hedges (continued)

As at 31 December, the terms of the outstanding forward currency contracts held by the Group were as follows:

	2011 Weighted average exchange rate	**2011** Contractual amount	2010 Weighted average exchange rate	2010 Contractual amount
Forward currency contracts:				
(i) Sell A$/Buy US$				
Less than three months	**1.0154**	**343,602**	0.9689	497,636
(ii) Buy A$/Sell US$				
Less than three months	**0.9730**	**188,397**	0.9566	95,124
In three to twelve months, inclusive	**0.9495**	**117,543**	—	—

The amounts disclosed above represent currencies sold and were measured at the contracted rates.

The portion of gain or loss on the hedging instruments that is determined to be an effective hedge is recognised directly in equity. When a cash flow occurs, the Group adjusts the initial measurement of the component recognised in the consolidated statement of financial position by the related amount in equity.

Forward commodity contracts – cash flow hedges

The Group has also committed to the following contracts in order to protect the Group from adverse movements in aluminium prices.

Forward commodity contracts are normally settled other than by physical delivery of the underlying commodities and hence are classified as financial instruments. On maturity, the forward price is compared to the spot price and the difference is applied to the contracted quantity in calculating the gain or loss of the Group under such contract.

Aluminium forward contracts are entered into for the purpose of hedging the volatility of future aluminium prices. The contracts are considered to be cash flow hedges and are accounted for in accordance with the accounting policies set out in note 2.4 to the financial statements.

As at 31 December, the terms of the Group's outstanding forward commodity contracts were as follows:

	2011 Quantity hedged tonnes	**2011** Average price per tonne HK$	**2011** Contractual amount	2010 Quantity hedged tonnes	2010 Average price per tonne HK$	2010 Contractual amount
Aluminium forward contracts (sold):						
Less than three months	**600**	**20,518**	**12,311**	50	21,284	1,064

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25. Derivative Financial Instruments (continued)

Interest rate swap contracts – cash flow hedges

The Group has entered into interest rate swap contracts to hedge against unfavourable movements in interest rates payable on floating rate borrowings. The Group is obliged to pay interest at fixed rates and receive interest at floating rates on the notional principal amount of the interest rate swap contracts, with settlement being made on a net basis.

The contracts require settlement of net interest receivable or payable at specified intervals which coincide with the dates on which interest is payable on the underlying debts. Such net receipts or payments are recognised as an adjustment to interest expense at the time the floating rates are set for each interval. The floating rates for Australian dollar denominated interest rate swap contracts are set by reference to the bank bill swap reference rates and those for United States dollar denominated interest rate swap contracts are set by reference to the London interbank offered rates ("**LIBOR**").

Currently, there is one interest rate swap contract in place which covers 50% of the outstanding balance of a term loan of US$52,000,000 (HK$405,770,000) borrowed by CITIC Australia (Portland) Pty Limited and is timed to expire as each loan repayment falls due. The interest rate is fixed at 1.97% p.a. over the whole term of the contract and the floating interest rates are set by reference to three-month LIBOR.

As at 31 December, the remaining term, notional principal amount and other major terms of the Group's outstanding interest rate swap contract were as follows:

	2011		2010	
	Weighted average rate %	**Notional amount**	Weighted average rate %	Notional amount
US$ interest rate swap contract:				
Within one year	**1.97**	**23,410**	1.97	23,400
One to two years	**1.97**	**179,475**	1.97	23,400
Two to three years	**—**	**—**	1.97	179,396

The terms of the forward currency contracts, forward commodity contracts and interest rate swap contracts have been negotiated to match the terms of the commitments. The cash flow hedges of expected future sales, expected future purchases and expected future interest payments were assessed to be highly effective and a net loss, after deferred tax, of HK$4,108,000 (2010: a net gain of HK$71,288,000) was included in the hedging reserve as follows:

	2011
Total fair value gains included in the hedging reserve	**16,944**
Reclassified from other comprehensive income and recognised in the consolidated income statement (note 6)	**(24,343)**
Deferred tax	**3,291**
Net loss on cash flow hedges	**(4,108)**

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Notes to Financial Statements

25. Derivative Financial Instruments (continued)

Derivative financial instrument – embedded derivative

The pricing mechanism used in the ESA between the Group and its supplier includes a component that is subject to variability of the aluminium prices. It has been determined that an embedded derivative exists and that the derivative component has been separated from its host agreement. The embedded derivative is revalued at the end of each reporting period with its fair value gain or loss recognised in the consolidated income statement.

Electricity hedge agreement

In 2010, the Group, together with the other joint venture partners of the PAS, entered into a new base load electricity contract (the "**EHA**") with Loy Yang Power, an independent electricity supplier, to secure the supply of electricity to the PAS from 2016 through 2036. The EHA effectively allows the PAS to secure electricity supply when the ESA expires in 2016. The pricing mechanism used in the EHA includes a component that is subject to certain escalation factors which, in turn, are affected by the consumer price index, producer price index and labour costs.

26. Cash and Cash Equivalents

	Group		Company	
	2011	2010	**2011**	2010
Cash and bank balances	**846,549**	891,256	**18,429**	87,714
Time deposits *	**9,932,518**	1,424,232	**2,549,376**	1,026,783
	10,779,067	2,315,488	**2,567,805**	1,114,497

* As at 31 December 2011, the Group placed time deposits of HK$133,000 (2010: HK$23,832,000) with CITIC Bank International Limited. As at 31 December 2010, the Company placed time deposits of HK$23,699,000 with CITIC Bank International Limited.

Cash at banks earns interest at the rates quoted by the banks. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

At the end of the reporting period, the cash and bank balances and time deposits of the Group and of the Company denominated in Renminbi ("**RMB**") amounted to HK$391,444,000 (2010: HK$74,125,000) and HK$2,258,000 (2010: HK$289,000), respectively, and the cash and bank balances and time deposits of the Group denominated in Kazakhstan Tenge ("**KZT**") amounted to HK$41,549,000 (2010: HK$56,179,000). Although RMB and KZT are not freely convertible into other currencies, the Group is permitted to exchange RMB and KZT for other currencies through those banks which are authorised to conduct foreign exchange business under the foreign exchange control regulations of the PRC and Kazakhstan.

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27. Accounts Payable

An aged analysis of the accounts payable as at the end of the reporting period, based on the invoice date, was as follows:

	Group 2011	2010
Within one month	**1,113,747**	519,054
One to two months	**28,795**	14,919
Two to three months	**13,415**	8,931
Over three months	**6,170**	7,736
	1,162,127	550,640

The accounts payable are non-interest-bearing and are normally settled on terms of 30 to 90 days.

28. Accrued Liabilities and Other Payables

	Group 2011	2010	Company 2011	2010
Other payables	**682,743**	409,117	**110**	260
Accruals	**294,079**	178,640	**1,300**	1,150
	976,822	587,757	**1,410**	1,410

Other payables are non-interest-bearing and have an average term of three months.

Included in the total amount of accrued liabilities and other payables is an amount of HK$1,695,000 (2010: HK$1,940,000) due to CITIC New Standard Investment Limited ("**CITIC New Standard**"), an indirect wholly-owned subsidiary of the ultimate holding company of the Company, being an interest expense payable on a loan of US$37,000,000 (HK$288,721,000) (2010: US$37,000,000 (HK$288,594,000)) advanced by CITIC New Standard (note 29(d)).

29. Bank and Other Borrowings

	Notes	Group 2011	2010	Company 2011	2010
Bank loans:					
– secured @	(a)	**405,770**	452,392	**—**	—
– unsecured #	(b)	**3,907,094**	3,897,867	**1,638,000**	1,638,000
Other loans:					
– secured *	(c)	**3,946**	6,819	**—**	—
– unsecured #	(d)	**288,721**	288,594	**—**	—
		4,605,531	4,645,672	**1,638,000**	1,638,000

@ Floating rate but including the effects of a related interest rate swap contract as further detailed in note 25 to the financial statements

\# Floating rate

* Fixed rate

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Notes to Financial Statements

29. Bank and Other Borrowings (continued)

Notes:

(a) The secured bank loan is a loan of US$52,000,000 (HK$405,770,000), which is interest-bearing at LIBOR plus margin and secured by the Group's 22.5% participating interest in the PAS JV.

(b) The unsecured bank loans include:

(i) trade finance totalling A$46,072,000 (HK$365,123,000) and US$120,575,000 (HK$940,877,000), which is interest-bearing at LIBOR (or cost of fund) plus margin; and

(ii) loans totalling US$335,000,000 (HK$2,601,094,000), which are interest-bearing at LIBOR plus margin.

(c) The secured other loans include:

(i) a loan of A$166,000 (HK$1,314,000) obtained from the State Government of Queensland, Australia, which is interest-bearing at 5.85% p.a. and repayable by quarterly instalments by 30 September 2012; and

(ii) a loan of A$332,000 (HK$2,632,000) obtained from the manager of the CMJV, which is interest-bearing at 6% p.a. and repayable by annual instalments by 10 December 2013.

(d) The unsecured other loan is a loan obtained from CITIC New Standard, an indirect wholly-owned subsidiary of the ultimate holding company of the Company and thereby a fellow subsidiary of the Company, which is interest-bearing at LIBOR plus 1.50% p.a. and repayable by instalments by 2 September 2012.

	Group		Company	
	2011	2010	**2011**	2010
Bank loans repayable:				
Within one year or on demand	**2,053,757**	1,337,065	**546,000**	—
In the second year	**1,450,950**	1,562,400	**1,092,000**	546,000
In the third to fifth years, inclusive	**808,157**	1,450,794	**—**	1,092,000
	4,312,864	4,350,259	**1,638,000**	1,638,000
Other loans repayable:				
Within one year	**291,313**	18,471	**—**	—
In the second year	**1,354**	275,587	**—**	—
In the third to fifth years, inclusive	**—**	1,355	**—**	—
	292,667	295,413	**—**	—
Total bank and other borrowings	**4,605,531**	4,645,672	**1,638,000**	1,638,000
Portion classified as current liabilities	**(2,345,070)**	(1,355,536)	**(546,000)**	—
Non-current portion	**2,260,461**	3,290,136	**1,092,000**	1,638,000

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30. Finance Lease Payables

The Group leases certain of its plant and machinery for its coal mine operation. The leases are classified as finance leases and have remaining lease terms ranging from two to ten years.

At the end of the reporting period, the total future minimum lease payments under finance lease payables and their present values were as follows:

Group

	Minimum lease payments		Present values of minimum lease payments	
	2011	2010	**2011**	2010
Amounts payable:				
Within one year	**11,357**	19,366	**7,964**	14,924
In the second year	**12,101**	11,351	**9,415**	7,966
In the third to fifth years, inclusive	**23,268**	27,681	**18,115**	21,126
Beyond five years	**16,191**	23,892	**14,916**	21,331
Total minimum finance lease payments	**62,917**	82,290	**50,410**	65,347
Future finance charges	**(12,507)**	(16,943)		
Total net finance lease payables	**50,410**	65,347		
Portion classified as current liabilities	**(7,964)**	(14,924)		
Non-current portion	**42,446**	50,423		

31. Bond Obligations

	Group	
	2011	2010
Senior notes, listed in Singapore	**7,666,272**	7,640,430

On 17 May 2007, CR Finance, a direct wholly-owned subsidiary of the Company, issued US$1,000,000,000 senior notes (the "**Notes**") at the issue price of 99.726%. The Notes bear interest at the rate of 6.75% p.a. and the interest is payable semi-annually. The obligations of CR Finance under the Notes are guaranteed by the Company and the Notes will mature on 15 May 2014.

The Notes shall become immediately due and payable in the case of an event of default, and are subject to redemption on the occurrence of certain events. In addition, the Company and its subsidiaries may incur additional indebtedness when the Group is in compliance with the terms and conditions of the Notes.

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32. Provisions

Group

	Notes	Provision for long term employee benefits	Provision for rehabilitation cost	Provision for abandonment cost	Provision for ecological cost	Total
At 1 January 2011		106,820	180,491	143,864	49,767	480,942
Provision	6, 13	31,022	436	154,410	124,014	309,882
Amounts utilised during the year		(5,431)	(1,931)	(3,296)	(22,818)	(33,476)
Increase in discounted amounts arising from the passage of time	9	—	29,581	10,856	3,957	44,394
Exchange realignment		(248)	(340)	(3,284)	(1,962)	(5,834)
At 31 December 2011		132,163	208,237	302,550	152,958	795,908
Portion classified as current liabilities		(44,987)	(2,108)	—	(13,483)	(60,578)
Non-current portion		87,176	206,129	302,550	139,475	735,330

The provisions were based on estimates of future payments made by management and discounted at rates in the range of 5.0% to 16.0%. Changes in assumption could significantly affect these estimates.

The provision for long term employee benefits represents the estimated future payments in respect of past services provided by employees. Consideration was given to expected future wages and salary levels, past record of employee departure and period of service. Expected future payments were discounted using market yields at the reporting date and currency that matched, as closely as possible, the estimated future cash flows.

The provision for rehabilitation cost represents the estimated costs of rehabilitation relating to the areas disturbed during the operation of the PAS and the coal mines in Australia at the end of their useful lives up to 2030. The Group has estimated and provided for the expected costs of removal and clean-up on a periodical basis, based on the estimates provided by the environmental authorities when they reviewed the sites.

The provision for abandonment cost represents the estimated costs of abandoning oil and gas properties. These costs are expected to be incurred upon removal of equipment and facilities in the first half of 2020.

The provision for ecological cost represents the cost of restoring the Group's oilfield in Kazakhstan to their original condition and cleaning all the accumulated wastes. The Group has estimated and provided for the expected costs of removal and clean-up on a periodical basis from 2011 to 2013.

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33. Deferred Tax

The movements in the Group's deferred tax liabilities and assets during the year were as follows:

Deferred tax liabilities – 2011

	Depreciation allowance in excess of related depreciation	Change in fair value of financial instruments	Withholding taxes	Total
At 1 January 2011	1,852,013	51,093	131,171	2,034,277
Deferred tax charged/(credited) to the consolidated income statement during the year (note 10)	(276,121)	—	37,492	(238,629)
Deferred tax credited to equity during the year	—	(13,378)	—	(13,378)
Exchange realignment	4,639	14,423	(583)	18,479
Withholding tax paid on repatriation of earnings from jointly-controlled entities	—	—	(72,514)	(72,514)
Deferred tax liabilities at 31 December 2011	1,580,531	52,138	95,566	1,728,235

Deferred tax assets – 2011

	Losses available for offsetting against future taxable profits
At 1 January 2011	145,360
Deferred tax charged to the consolidated income statement during the year (note 10)	(50,773)
Deferred tax assets at 31 December 2011	94,587
Net deferred tax liabilities at 31 December 2011	1,633,648

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33. Deferred Tax (continued)

Deferred tax liabilities – 2010

	Depreciation allowance in excess of related depreciation	Change in fair value of financial instruments	Withholding taxes	Total
At 1 January 2010	2,600,361	72,647	166,297	2,839,305
Deferred tax charged/(credited) to the consolidated income statement during the year (note 10)	(618,531)	(44,438)	7,953	(655,016)
Effect of decrease in tax rate (note 10)	(164,853)	—	—	(164,853)
Deferred tax charged to equity during the year	—	18,310	—	18,310
Loss of control of subsidiaries (note 37)	(12,382)	—	(3,232)	(15,614)
Exchange realignment	47,418	4,574	1,448	53,440
Withholding tax paid on repatriation of earnings from jointly-controlled entities	—	—	(41,295)	(41,295)
Deferred tax liabilities at 31 December 2010	1,852,013	51,093	131,171	2,034,277

Deferred tax assets – 2010

	Losses available for offsetting against future taxable profits
At 1 January 2010	187,729
Deferred tax credited to the consolidated income statement during the year (note 10)	21,262
Loss of control of subsidiaries (note 37)	(65,348)
Exchange realignment	1,717
Deferred tax assets at 31 December 2010	145,360
Net deferred tax liabilities at 31 December 2010	1,888,917

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

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33. Deferred Tax (continued)

Pursuant to the Kazakhstan Corporate Income Tax Law, a 20% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Kazakhstan. A lower withholding tax rate may be applied if there is an applicable tax treaty between Kazakhstan and the jurisdiction of the foreign investors. The Group is currently liable to 5% withholding tax on dividends distributed by its jointly-controlled entities established in Kazakhstan.

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

34. Share Capital

Shares

	2011	2010
Authorised: 10,000,000,000 (2010: 10,000,000,000) ordinary shares of HK$0.05 each	**500,000**	500,000
Issued and fully paid: 7,865,737,149 (2010: 6,050,567,038) ordinary shares of HK$0.05 each	**393,287**	302,528

Pursuant to the Rights Issue approved by the board resolution on 3 May 2011, the Company issued 1,815,170,111 ordinary shares at the subscription price of HK$1.38 per rights share on the basis of three rights shares for every ten existing ordinary shares. The total cash consideration, before expenses, was HK$2,504,935,000. Further details of the Rights Issue are set out in the announcements of the Company dated 3 May 2011, 17 May 2011 and 17 June 2011 and the circular of the Company dated 26 May 2011.

The movements in the Company's issued share capital during the year were as follows:

	Number of shares in issue	Issued capital	Share premium account	Total
At 31 December 2010 and 1 January 2011	**6,050,567,038**	**302,528**	**7,319,707**	**7,622,235**
Rights issue	**1,815,170,111**	**90,759**	**2,414,176**	**2,504,935**
Share issue expenses	**—**	**—**	**(15,283)**	**(15,283)**
At 31 December 2011	**7,865,737,149**	**393,287**	**9,718,600**	**10,111,887**

Share options

Details of the share option scheme of the Company and the share options issued under the scheme are set out in note 35 to the financial statements.

35. Share Option Scheme

On 30 June 2004, a new share option scheme (the "**New Scheme**") was adopted by the Group to replace the share option scheme which was adopted by the Company on 21 August 1997 (the "**Old Scheme**"). The Old Scheme was terminated on 30 June 2004.

Pursuant to the New Scheme, the Company may grant options to eligible participants to subscribe for shares in the Company subject to the terms and conditions stipulated therein. A summary of the New Scheme is as follows:

(a)	Purpose	To enable the Company to grant options to Eligible Participants (as defined below) as incentives and rewards for their contributions to the Group.
(b)	Eligible Participants	Being employees or executives or officers of the Company or any of its subsidiaries (including their respective executive and non-executive directors) and consultants, business associates and advisers who will provide or have provided services to the Group.
(c)	Total number of shares available for issue under the New Scheme	The total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme shall not exceed 30% of the total number of shares of the Company in issue.
(d)	Maximum entitlement of each Eligible Participant	The total number of shares issued and to be issued upon exercise of the options granted to each Eligible Participant (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant shall not exceed 1% of the total number of shares of the Company in issue at the date of grant.
(e)	Period during which the shares must be taken up under an option	The period during which an option may be exercised is determined by the board of directors of the Company (the "**Board**") at its absolute discretion, except that no option may be exercised after 10 years from the grant date.
(f)	Minimum period for which an option must be held before it can be exercised	The minimum period for which an option must be held before it can be exercised is one year.
(g)	Basis of determining the exercise price	The exercise price payable in respect of each share must be at least the higher of (i) the closing price of the shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotation sheet on the date of grant (which must be a business day); (ii) the average closing prices of the shares of the Company on the Stock Exchange 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 share.
(h)	Remaining life of the New Scheme	The New Scheme remains in force until 29 June 2014 unless otherwise terminated in accordance with the terms stipulated therein.

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

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35. Share Option Scheme (continued)

The following share options were outstanding under the New Scheme as at the end of the reporting period:

	2011 Weighted average exercise price per share HK$	2011 Number of share options	2010 Weighted average exercise price per share HK$	2010 Number of share options
At 1 January	**1.825**	**53,000,000**	1.825	53,000,000
Adjustment for rights issue		**3,261,705**		—
Lapsed during the year	**2.897**	**(21,202,926)**		—
At 31 December	**1.007**	**35,058,779**	1.825	53,000,000

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

	Number of share options	Exercise price per share * HK$	Exercise period
2011	**29,757,405**	**1.018**	**02-06-2006 to 01-06-2013**
	5,301,374	**1.000**	**28-12-2006 to 27-12-2013**
	35,058,779		
2010	28,000,000	1.077	02-06-2006 to 01-06-2013 #
	5,000,000	1.057	28-12-2006 to 27-12-2013 #
	20,000,000	3.065	07-03-2008 to 06-03-2012 ^
	53,000,000		

* The exercise price of the share options is subject to adjustment in case of a rights issue or bonus issue, or other similar changes in the share capital of the Company.

\# The maturity dates of these share options were extended by three years from 1 June 2010 and 27 December 2010 to 1 June 2013 and 27 December 2013, respectively.

^ Share options lapsed 90 calendar days after Mr. Kong Dan ceased to be a director of the Company, i.e. 29 July 2011.

The fair value of the share options with maturity extended in 2010 was HK$0.722 each, representing a total increase of HK$16,711,000, of which the Group recognised the share option expenses of HK$5,570,000 during the year and HK$11,141,000 in 2010.

At the end of the reporting period, the Company had 35,058,779 share options outstanding under the New Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 35,058,779 additional ordinary shares of the Company, additional share capital of HK$1,753,000 and share premium of HK$33,841,000 (before expenses).

At the date of approval of the financial statements, the Company had 35,058,779 share options outstanding under the New Scheme, which represented 0.45% of the Company's shares in issue as at that date.

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36. Reserves

(a) Group

Movements in the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on pages 47 and 48 of the financial statements.

The contributed surplus of the Group represents the excess of the nominal value of the share capital of the holding company of the Group acquired by the Company pursuant to the Group reorganisation prior to the listing of the Company's shares over the nominal value of the share capital of the Company issued in exchange therefor.

The capital reserve arose from the acquisition of shares from non-controlling shareholders of CATL.

(b) Company

	Notes	Share premium account	Contributed surplus	Exchange fluctuation reserve	Share option reserve	Accumulated losses	Total
At 1 January 2010		7,319,707	172,934	409	22,355	(865,524)	6,649,881
Exchange realignment		—	—	495	—	—	495
Equity-settled share option arrangements	6, 35	—	—	—	11,141	—	11,141
Profit for the year	11	—	—	—	—	74,270	74,270
At 31 December 2010 and 1 January 2011		**7,319,707**	**172,934**	**904**	**33,496**	**(791,254)**	**6,735,787**
Exchange realignment		**—**	**—**	**611**	**—**	**—**	**611**
Equity-settled share option arrangements	6, 35	**—**	**—**	**—**	**5,570**	**—**	**5,570**
Transfer of share option reserve upon the lapse or expiry of share options		**—**	**—**	**—**	**(15,240)**	**15,240**	**—**
Issue of shares under rights issue	34	**2,398,893**	**—**	**—**	**—**	**—**	**2,398,893**
Loss for the year	11	**—**	**—**	**—**	**—**	**(152,324)**	**(152,324)**
At 31 December 2011		**9,718,600**	**172,934**	**1,515**	**23,826**	**(928,338)**	**8,988,537**

The contributed surplus of the Company represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group reorganisation detailed in note (a) above, over the nominal value of the share capital of the Company issued in exchange therefore. In accordance with the laws of Bermuda, the contributed surplus of the Company may be distributed in cash or in specie in certain prescribed circumstances.

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36. Reserves (continued)

(b) Company (continued)

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in share-based payment transactions in the accounting policies set out in note 2.4 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 lapsed.

37. Loss of Control of Subsidiaries

In 2010, the CDH Group underwent and completed the CDH Reorganisation for the purposes of the Spin-off. The CDH Group is principally engaged in the operation of manganese mines and the sale of refined manganese products.

Upon completion of the CDH Reorganisation and the CDH Listing on 18 November 2010 and the exercise of an over-allotment option granted by CDH in connection with the CDH Listing on 11 December 2010, an aggregate of 774,795,000 new ordinary shares of HK$0.10 each of CDH were issued at a price of HK$2.75 per share for aggregate proceeds of HK$2,130,686,000, before expenses. Following completion of the CDH Listing, the Group's interest in CDH was diluted to 38.98% and the Group ceased to have control over CDH. In accordance with HKAS 27, the Group has accounted for the investment retained in CDH as an associate which was stated at its fair value at the date the control was lost, resulting in a gain on loss of control of subsidiaries of HK$2,650,160,000 in 2010.

	Notes	2010
The net assets disposed of:		
Property, plant and equipment	13	1,966,521
Prepaid land lease premiums		165,933
Other intangible assets		314,727
Available-for-sale investment		4,331
Prepayments, deposits and other receivables		458,045
Deferred tax assets	33	65,348
Inventories		463,433
Trade receivables		463,733
Tax recoverable		6,547
Cash and cash equivalents		684,180
Accounts payable		(257,384)
Accrued liabilities and other payables		(448,760)
Provisions		(3,740)
Bank and other borrowings		(2,526,830)
Deferred tax liabilities	33	(15,614)
Non-controlling interests		(678,103)
		662,367

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37. Loss of Control of Subsidiaries (continued)

	Notes	2010
The net assets disposed of		662,367
Release of exchange fluctuation reserve		(70,277)
Gain on loss of control of subsidiaries	6	2,650,160
Total consideration		3,242,250
Satisfied by:		
38.98% of total listed equity instrument of CDH		3,242,250

An analysis of the net outflow of cash and cash equivalents in respect of loss of control of the CDH Group is as follows:

Cash and cash equivalents disposed of and outflow of cash and cash equivalents	684,180

38. Notes to the Consolidated Statement of Cash Flows

Major non-cash transactions

(a) During the year, the Group has offset value added tax ("**VAT**"), personal income tax and property tax receivables of HK$90,253,000, HK$3,982,000 and HK$1,770,000, respectively, included in prepayment, deposits and other receivables against tax payable.

(b) In April 2011, Macarthur Coal raised new equity through a dividend reinvestment plan. The Group participated in the plan and reinvested the dividend received of A$11,600,000 (HK$97,200,000) in Macarthur Coal, resulting in an increase of its shareholding in Macarthur Coal from 16.14% to 16.34%.

(c) In 2010, as a result of the Spin-off, the assets and liabilities of the CDH Group previously consolidated into the Group's consolidated statement of financial position were derecognised. Further details are set out in note 37 to the financial statements.

(d) In 2010, the Group offset VAT receivables of HK$119,027,000 included in prepayments, deposits and other receivables against tax payable.

(e) In 2010, dividend payable to a non-controlling shareholder of HK$47,970,000 was settled by the issue of new shares of CDH.

(f) In 2010, loan payable to a non-controlling shareholder of HK$75,960,000 was settled by the issue of new shares of CDH.

39. Litigation

In 2009, the customs authority of Kazakhstan conducted a customs audit on KBM and issued a claim against KBM (the "**Customs Duty Claim**"). In 2010, KBM filed several appeals to the courts but received unfavourable decisions. To avoid the imposition of additional penalties and forced collection via freezing of its bank accounts by the customs authority, KBM fully settled the Customs Duty Claim and related penalties in 2010.

On 12 July 2011, KBM filed a final appeal to the Supervisory Board of the Supreme Court of Kazakhstan but received again an unfavourable decision on 28 July 2011. Consequently, KBM fully wrote off the paid customs duty and related penalties during the year.

As a result, the Group's 50% share of the write-off of the paid customs duty and related penalties, amounting to KZT2,175,507,000 (HK$115,498,000) and KZT669,043,000 (HK$35,519,000), were charged to selling and distribution costs and general and administrative expenses for the year, respectively.

40. Contingent Liabilities

(a) As at 31 December 2011 and 2010, the Notes issued by CR Finance, a direct wholly-owned subsidiary of the Company, were guaranteed by the Company.

(b) During the year, the Kazakhstan tax authorities have conducted a tax inspection on KBM's tax obligations for the period from 1 January 2006 to 31 December 2008.

During the tax inspection, KBM was found to have claimed a 100% tax deduction in relation to the acquisition costs of certain technological equipment in the year when they were purchased which, in the opinion of the Kazakhstan tax authorities, should be capitalised and subject to depreciation over a period of three years for computing corporate income tax. Accordingly, KBM was assessed by the Kazakhstan tax authorities to have under reported corporate income tax and EPT of KZT642,096,000 (HK$33,589,000) and KZT506,190,000 (HK$26,479,000), respectively. KBM was also subject to fines and interest in an aggregate amount of KZT1,008,412,000 (HK$52,751,000).

According to the Subsoil Use Agreement (the operating agreement of KBM), KBM can select to deduct fully the costs it incurs in purchasing technological equipment in the year when such equipment are purchased or to depreciate them over three years in its corporate income tax computation. The directors, based on the advice from the Group's legal counsel who has made reference to the Subsoil Use Agreement, believe that KBM has a valid defence against this allegation. Accordingly, neither KBM has provided for any claim arising from this allegation nor has the Group provided for its relevant share of this claim of KZT1,078,349,000 (HK$56,410,000) during the year.

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41. Operating Lease Commitments

As at 31 December 2011 and 2010, the Group had total future minimum lease payments under non-cancellable operating leases in respect of plant and machinery, and land and buildings falling due as follows:

	Group 2011	2010
Within one year	**139,121**	36,698
In the second to fifth years, inclusive	**296,293**	20,224
Beyond five years	**135,828**	—
	571,242	56,922

42. Commitments

In addition to the operating lease commitments detailed in note 41 above, the Group had the following capital expenditure commitments at the end of the reporting period:

	Group 2011	2010
Contracted, but not provided for:		
Capital expenditure in respect of infrastructure and acquisition of items of property, plant and equipment	**3,850**	—
Authorised, but not contracted for:		
Minimum work programme for the Karazhanbas oilfield	**211,708**	573,300

As at 31 December 2011 and 2010, all capital commitments which were authorised but not contracted for fell due within one year.

In addition, the Group's share of the jointly-controlled assets' own capital commitments, which were not included in the above, are as follows:

	Group 2011	2010
Contracted, but not provided for:		
Capital expenditure in respect of infrastructure and acquisition of items of property, plant and equipment	**5,145,851**	5,603,138

In prior years, a subsidiary of the Group entered into a turnkey contract for the provision of integrated drilling in the Hainan-Yuedong Block with a total contract amount of RMB3,496,000,000 (HK$4,313,714,000). The contract amount is subject to the actual work confirmed by the Group and the contractor.

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43. Related Party Transactions and Connected Transactions

In addition to the transactions and balances disclosed elsewhere in the financial statements, the Group had the following material transactions with its related parties during the year:

(a)

	Notes	Group 2011	2010
Fellow subsidiaries:			
Sale of products	(i)	**3,020,218**	2,236,531
Interest expense	(ii)	**6,076**	9,015
Rental expense	(ix)	**3,932**	3,385
Related companies of a non-controlling shareholder:			
Sale of products	(i)	**—**	42,661
Purchase of inventories	(iii)	**—**	26,340
Subcontracting fee paid	(iv)	**—**	11,044
Non-controlling shareholders:			
Purchase of prepaid land lease premiums	(iii)	**—**	5,128
Guarantee fee paid	(v)	**—**	533
Service fee paid	(vi)	**—**	2,406
Underground mining service fee paid	(vii)	**—**	25,035
Payment for construction of infrastructure for underground mining work	(vii)	**—**	21,077
Sale of fuel and electricity	(viii)	**—**	2,090
Ultimate holding company:			
Rental expense	(ix)	**2,243**	2,144
Immediate holding company:			
Underwriting commission paid	(x)	**12,972**	—
Related company of the ultimate holding company:			
Financial advisory fee paid	(xi)	**1,550**	—
A subsidiary of a former associate:			
Purchase of inventories	(xii)	**655,636**	676,060
Associate:			
Tax indemnity claim	(xiii)	**4,105**	—

43. Related Party Transactions and Connected Transactions (continued)

(a) (continued)

Notes:

(i) The sales were made on normal commercial terms and conditions offered to the independent customers of the Group.

(ii) The interest expense was charged at (for US$) 1.50% p.a. over LIBOR (2010: ranging from 1.50% to 1.70% p.a. over LIBOR) and (for A$) 6.04% p.a. (2010: Nil).

(iii) The purchases from the related companies of a non-controlling shareholder and the purchase from a non-controlling shareholder were made according to the published prices and conditions offered by these companies to their independent customers.

(iv) The subcontracting fee was charged based on mutually agreed terms.

(v) The guarantee fee was charged at 1.50% p.a. on the bank borrowings of the Group which were guaranteed by a non-controlling shareholder.

(vi) The service fee related to the provision of staff quarters and other facilities and related management services by a non-controlling shareholder to the Group. The service fee was determined based on an actual cost reimbursement basis.

(vii) Provision for underground mining services and construction work was charged based on mutually agreed terms and was determined with reference to the actual costs incurred.

(viii) The sales were made at prices based on mutually agreed terms.

(ix) The rental expense was charged by a fellow subsidiary of the Company and the ultimate holding company of the Company, respectively, based on mutually agreed terms.

(x) The commission was charged at 1.50% flat on the aggregate subscription price of 626,662,373 underwritten rights shares which were issued at HK$1.38 per rights share.

(xi) The fee related to financial advice to the Company in connection with the Rights Issue.

(xii) The purchase of coal from Macarthur Coal Coppabella and Moorvale Management Pty Ltd ("**MCCMM**"), a subsidiary of Macarthur Coal, was transacted based on mutually agreed terms and conditions negotiated between the Group and MCCMM. The amount disclosed is up to the period prior to the Group's disposal of its interest in Macarthur Coal in October 2011. Transactions with MCCMM after the disposal date are no longer considered to be related party transactions.

(xiii) Pursuant to the deed of tax indemnity date 3 November 2010, Highkeen Resources Limited (an indirect wholly-owned subsidiary of the Company) indemnified several subsidiaries of CDH in respect of certain tax liabilities incurred prior to the completion of the listing of CDH.

(b) Details of the remuneration of the directors of the Company, who are the key management personnel of the Group, are set out in note 7 to the financial statements.

(c) On 26 December 2011, the Group entered into two 2-year lease agreements with its ultimate holding company for the leasing of office premises. The Group was contracted to pay total rental expenses of HK$2,267,000 in each of 2012 and 2013.

Except for the purchase of inventories from a subsidiary of Macarthur Coal, the related party transactions disclosed above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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44. Financial Instruments by Category

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

Group – 2011

Financial assets	Financial assets at fair value through profit or loss – held for trading	Loans and receivables	Available-for-sale financial assets	Total
Available-for-sale investments	—	—	32,584	32,584
Trade receivables	—	2,061,357	—	2,061,357
Financial assets included in prepayments, deposits and other receivables	—	513,685	—	513,685
Equity investments at fair value through profit or loss	2,963	—	—	2,963
Derivative financial instruments	62,067	—	—	62,067
Cash and cash equivalents	—	10,779,067	—	10,779,067
	65,030	13,354,109	32,584	13,451,723

Financial liabilities	Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at amortised cost	Total
Accounts payable	—	1,162,127	1,162,127
Financial liabilities included in accrued liabilities and other payables	—	1,014,209	1,014,209
Derivative financial instruments	248,984	—	248,984
Bank and other borrowings	—	4,605,531	4,605,531
Finance lease payables	—	50,410	50,410
Bond obligations	—	7,666,272	7,666,272
	248,984	14,498,549	14,747,533

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44. Financial Instruments by Category (continued)

Group – 2010

Financial assets	Financial assets at fair value through profit or loss – held for trading	Loans and receivables	Available-for-sale financial assets	Total
Available-for-sale investments	—	—	65,625	65,625
Trade receivables	—	2,107,644	—	2,107,644
Financial assets included in prepayments, deposits and other receivables	—	191,905	—	191,905
Equity investments at fair value through profit or loss	2,964	—	—	2,964
Derivative financial instruments	49,670	—	—	49,670
Cash and cash equivalents	—	2,315,488	—	2,315,488
	52,634	4,615,037	65,625	4,733,296

Financial liabilities	Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at amortised cost	Total
Accounts payable	—	550,640	550,640
Financial liabilities included in accrued liabilities and other payables	—	568,391	568,391
Derivative financial instruments	328,998	—	328,998
Bank and other borrowings	—	4,645,672	4,645,672
Finance lease payables	—	65,347	65,347
Bond obligations	—	7,640,430	7,640,430
	328,998	13,470,480	13,799,478

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Notes to Financial Statements

44. Financial Instruments by Category (continued)

Company

Financial assets	Loans and receivables 2011	2010
Financial assets included in prepayments, deposits and other receivables	**11,104**	7,360
Cash and cash equivalents	**2,567,805**	1,114,497
	2,578,909	1,121,857

Financial liabilities	Financial liabilities at amortised cost 2011	2010
Due to subsidiaries	**78,227**	78,227
Financial liabilities included in accrued liabilities and other payables	**394**	1,410
Bank borrowing	**1,638,000**	1,638,000
	1,716,621	1,717,637

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45. Fair Value and Fair Value Hierarchy

The carrying amounts and fair values of the Group's and the Company's financial instruments as at the end of the reporting period were as follows:

Group	Carrying amounts 2011	Carrying amounts 2010	Fair values 2011	Fair values 2010
Financial assets				
Available-for-sale investments	**32,584**	65,625	**32,584**	65,625
Trade receivables	**2,061,357**	2,107,644	**2,061,357**	2,107,644
Financial assets included in prepayments, deposits and other receivables	**513,685**	191,905	**513,685**	191,905
Equity investments at fair value through profit or loss	**2,963**	2,964	**2,963**	2,964
Derivative financial instruments	**62,067**	49,670	**62,067**	49,670
Cash and cash equivalents	**10,779,067**	2,315,488	**10,779,067**	2,315,488
	13,451,723	4,733,296	**13,451,723**	4,733,296
Financial liabilities				
Accounts payable	**1,162,127**	550,640	**1,162,127**	550,640
Financial liabilities included in accrued liabilities and other payables	**1,014,209**	568,391	**1,014,209**	568,391
Derivative financial instruments	**248,984**	328,998	**248,984**	328,998
Bank and other borrowings	**4,605,531**	4,645,672	**4,575,902**	4,560,071
Finance lease payables	**50,410**	65,347	**58,713**	68,570
Bond obligations	**7,666,272**	7,640,430	**7,942,196**	7,889,660
	14,747,533	13,799,478	**15,002,131**	13,966,330

Company	Carrying amounts 2011	Carrying amounts 2010	Fair values 2011	Fair values 2010
Financial assets				
Financial assets included in prepayments, deposits and other receivables	**11,104**	7,360	**11,104**	7,360
Cash and cash equivalents	**2,567,805**	1,114,497	**2,567,805**	1,114,497
	2,578,909	1,121,857	**2,578,909**	1,121,857
Financial liabilities				
Due to subsidiaries	**78,227**	78,227	**78,227**	78,227
Financial liabilities included in accrued liabilities and other payables	**394**	1,410	**394**	1,410
Bank borrowing	**1,638,000**	1,638,000	**1,632,467**	1,599,249
	1,716,621	1,717,637	**1,711,088**	1,678,886

45. Fair Value and Fair Value Hierarchy (continued)

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.

(i) The fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, deposits and other receivables, accounts payable, amounts due to subsidiaries and financial liabilities included in accrued liabilities and other payables approximated to their carrying amounts largely due to the short-term maturities of these instruments.

(ii) The fair values of bank and other borrowings as well as finance lease payables were calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

(iii) The fair values of listed and unlisted equity investments and listed debt instruments were based on quoted market prices.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with high credit quality. Derivative financial instruments, including forward currency contracts, forward commodity contracts, interest rate swap contracts, embedded derivative and electricity hedge agreement are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various observable market inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts, forward commodity contracts, interest rate swap contracts, embedded derivative and electricity hedge agreement are the same as their fair values.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

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45. Fair Value and Fair Value Hierarchy (continued)

Group

Assets measured at fair value:

At 31 December 2011	Level 1	Level 2	Level 3	Total
Available-for-sale investments:				
Listed equity investments	**32,584**	**—**	**—**	**32,584**
Equity investments at fair value through profit or loss	**2,963**	**—**	**—**	**2,963**
Derivative financial instruments	**—**	**38,795**	**23,272**	**62,067**
	35,547	**38,795**	**23,272**	**97,614**

At 31 December 2010	Level 1	Level 2	Level 3	Total
Available-for-sale investments:				
Listed equity investments	65,625	—	—	65,625
Equity investments at fair value through profit or loss	2,964	—	—	2,964
Derivative financial instruments	—	5,335	44,335	49,670
	68,589	5,335	44,335	118,259

Liabilities measured at fair value:

At 31 December 2011	Level 1	Level 2	Level 3	Total
Derivative financial instruments	**—**	**4,590**	**244,394**	**248,984**

At 31 December 2010	Level 1	Level 2	Level 3	Total
Derivative financial instruments	—	33,061	295,937	328,998

Quoted market prices represent the fair values determined based on quoted prices in active markets as at the reporting date without any deduction of transaction costs. The fair values of the listed equity investments are based on quoted market prices.

HK$'000

45. Fair Value and Fair Value Hierarchy (continued)

For financial instruments of which the prices are not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which observable market prices exist, and other relevant models used by market participants. These valuation techniques use both observable and non-observable market inputs.

(i) The fair values of forward currency contracts, forward commodity contracts and interest rate swap contracts (which are not traded on any recognised exchange) are based on valuation techniques using only observable market inputs or non-observable market inputs that are not significant to the overall valuation.

(ii) The fair values of the ESA and the EHA as well as other investments that do not have an active market are based on valuation techniques using market data that is not observable.

The movements in fair value measurements in Level 3 during the year were as follows:

Derivative financial instruments

Assets	2011	2010
At 1 January	**44,335**	—
Total gains/(losses) recognised in the other comprehensive income	**(21,051)**	44,794
Exchange realignment	**(12)**	(459)
At 31 December	**23,272**	44,335

Liabilities	2011	2010
At 1 January	**295,937**	150,120
Total losses/(gains) recognised in the consolidated income statement	**(51,470)**	113,490
Exchange realignment	**(73)**	32,327
At 31 December	**244,394**	295,937

46. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise bank and other borrowings, finance lease payables, bond obligations, and cash and cash equivalents. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and accounts payable, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts, forward commodity contracts, interest rate swap contracts, embedded derivative and electricity hedge agreement. The purpose is to manage the foreign currency risk, price risk, interest rate risk and inflation risk arising from the Group's operations and its sources of finance. The details of the derivative financial instruments are set out in note 25 to the financial statements.

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Notes to Financial Statements

46. Financial Risk Management Objectives and Policies (continued)

It is, and has been, throughout the year under review, the Group's policy that trading in financial instruments shall be undertaken only with due care.

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

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The Group assesses the respective exposures of each of its operating units and enters into forward currency contracts of appropriate amounts to hedge those exposures. The forward currency contracts must be in the same currency as that of the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

It is the Group's policy to negotiate the terms of hedge derivatives to match the terms of the hedged item to maximise the effectiveness of the hedge.

The following table demonstrates the sensitivity of the Group's profit before tax and equity in response to changes in exchange rates (with all other variables held constant) to which the Group had significant exposure.

	Increase/ (decrease) in US$ rate %	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity *
2011			
If US$ weakens against A$	**(10.0)**	**(78,744)**	**36,510**
If US$ strengthens against A$	**10.0**	**100,785**	**(41,020)**
If US$ weakens against KZT	**(19.5)**	**78,716**	**77,561**
If US$ strengthens against KZT	**19.5**	**(78,716)**	**(77,561)**
2010			
If US$ weakens against A$	(10.0)	(65,892)	45,501
If US$ strengthens against A$	10.0	95,697	(34,142)
If US$ weakens against KZT	(19.5)	103,148	103,193
If US$ strengthens against KZT	19.5	(103,148)	(103,193)

* Excluding retained profits

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Notes to Financial Statements

46. Financial Risk Management Objectives and Policies (continued)

Price risk

The Group is exposed to share price risk and commodity price risk influenced by the changing demand and supply market conditions.

Listed investments

The Group has an interest in each of Mount Gibson Iron Limited and Toro Energy Limited, both of which are listed on the Australian Securities Exchange. At the end of the reporting period, these listed investments were required to be marked to fair value.

The following table demonstrates the sensitivity of the Group's profit before tax and equity in response to changes in share prices of the Group's listed investments (with all other variables held constant).

	Increase/ (decrease) in listed share prices %	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
2011			
Available-for-sale investments	**(10)**	—	**(3,019)**
Available-for-sale investments	**10**	—	**3,019**
2010			
Available-for-sale investments	(10)	—	(6,564)
Available-for-sale investments	10	—	6,564

Aluminium

The aluminium is a globally traded base metal. It has a spot and futures market that is traded on the London Metal Exchange (the "**LME**"). The Group enters into sales and supply contracts with its customers where the prices are negotiated by referencing and linking to the LME aluminium price. Aluminium prices quoted on the LME are determined by market forces. The Group is therefore exposed to price risk influenced by the changing market conditions. The Group mitigates such risk by entering into commodity derivatives to hedge against future adverse price changes. These financial instruments are considered to be cash flow hedges.

The Group's management actively reviews the market sentiments and trends with references to expert views and forecasts. At management's discretion and judgement, derivatives are entered into to lock in favourable prices to hedge portions of its future sales to mitigate adverse price risks.

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46. Financial Risk Management Objectives and Policies (continued)

Price risk (continued)

Aluminium (continued)

The following table demonstrates the sensitivity of the Group's profit before tax and equity in response to changes in market prices of aluminium (with all other variables held constant).

	Increase/ (decrease) in LME aluminium price %	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
2011			
Forward commodity contracts	**(10)**	**15,786**	**16,690**
Forward commodity contracts	**10**	**(11,829)**	**(12,537)**
2010			
Forward commodity contracts	(10)	(7,885)	(8,728)
Forward commodity contracts	10	21,311	23,543

Embedded derivative

The ESA, which has part of its pricing mechanism linked to the market price of aluminium, is considered to be an embedded derivative. Such embedded derivative needs to be marked to market at the end of each reporting period based on future aluminium prices.

The following table demonstrates the sensitivity of the Group's profit before tax and equity in response to changes in market prices of aluminium (with all other variables held constant).

	Increase/ (decrease) in LME aluminium price %	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
2011			
Embedded derivative	**(10)**	**180,275**	**178,384**
Embedded derivative	**10**	**(155,158)**	**(153,531)**
2010			
Embedded derivative	(10)	184,837	204,953
Embedded derivative	10	(174,393)	(193,371)

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Notes to Financial Statements

46. Financial Risk Management Objectives and Policies (continued)

Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to the Group's United States dollar debt obligations with floating interest rates.

The Group's policy is to manage its interest costs using a mix of fixed and floating rate debts with respect to the prevailing interest rate environment. To manage this mix in a cost-effective manner, the Group enters into interest rate swap contracts, in which the Group agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swap contracts are designated to hedge the underlying debt obligations. The Notes issued at fixed coupon expose the Group to fair value interest rate risk.

As at 31 December 2011, after taking into account the effect of an interest rate swap contract, 65% (2010: 65%) of the Group's debts bore interest at fixed rates.

The following table demonstrates the sensitivity of the Group's profit before tax and equity as well as the Company's equity in response to changes in interest rates of the Group's floating rate United States dollar debts (with all other variables held constant).

	Group			Company	
	Increase/ (decrease) in interest rate basis points	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity	Increase/ (decrease) in interest rate basis points	Increase/ (decrease) in equity
2011					
US$ debts	**(100)**	**40,336**	**33,696**	**(100)**	**16,380**
US$ debts	**100**	**(40,336)**	**(33,696)**	**100**	**(16,380)**
2010					
US$ debts	(100)	38,167	32,181	(100)	16,380
US$ debts	100	(38,167)	(32,181)	100	(16,380)

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Notes to Financial Statements

46. Financial Risk Management Objectives and Policies (continued)

Inflation risk

The Group entered into the EHA to secure a stable supply of electricity to the PAS from 2016 through 2036. The pricing mechanism used in the EHA includes a component that is subject to certain escalating factors which, in turn, are affected by the consumer price index, producer price index and labour costs. Therefore, the Group is exposed to inflation risk.

The following table demonstrates the sensitivity of the Group's profit before tax and equity in response to changes in inflation (with all other variables held constant).

	Increase/ (decrease) in inflation rate %	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
2011			
EHA	**(1)**	**—**	**(172,321)**
EHA	**1**	**—**	**209,046**
2010			
EHA	(1)	—	(82,171)
EHA	1	—	197,691

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the head of credit control.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale investments, certain other receivables and derivative financial instruments, arises from default of the counterparties with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, collateral is usually not required. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 23 to the financial statements.

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Notes to Financial Statements

46. Financial Risk Management Objectives and Policies (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivables) and projected cash flows from operations.

The Group's objectives are to maintain an optimal balance of cash holding and funding through the use of bank loans and other interest-bearing loans, to maintain liquidity and to maximise return to shareholders of the Company. As at 31 December 2011, 19.1% of the Group's debts would mature in less than one year (2010: 11.1%) based on the carrying values of the debts reflected in the financial statements.

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

Group

2011	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Accounts payable	**19,586**	**1,142,541**	**—**	**—**	**1,162,127**
Financial liabilities included in accrued liabilities and other payables	**20,301**	**913,297**	**—**	**—**	**933,598**
Derivative financial instruments	**—**	**8,457**	**—**	**339,865**	**348,322**
Bank and other borrowings	**—**	**287,794**	**2,165,280**	**2,367,464**	**4,820,538**
Finance lease payables	**—**	**—**	**11,642**	**52,456**	**64,098**
Bond obligations	**—**	**—**	**592,313**	**8,458,125**	**9,050,438**
	39,887	**2,352,089**	**2,769,235**	**11,217,910**	**16,379,121**

2010	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Accounts payable	16,667	533,973	—	—	550,640
Financial liabilities included in accrued liabilities and other payables	—	485,690	—	—	485,690
Derivative financial instruments	—	40,721	70,328	217,949	328,998
Bank and other borrowings	—	5,870	1,460,333	3,431,604	4,897,807
Finance lease payables	—	—	19,366	62,924	82,290
Bond obligations	—	—	592,313	8,984,625	9,576,938
	16,667	1,066,254	2,142,340	12,697,102	15,922,363

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Notes to Financial Statements

46. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

Company

2011	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Due to subsidiaries	**78,227**	—	—	—	**78,227**
Financial liabilities included in accrued liabilities and other payables	**394**	—	—	—	**394**
Bank borrowing	—	**273,000**	**301,829**	**1,112,093**	**1,686,922**
	78,621	**273,000**	**301,829**	**1,112,093**	**1,765,543**

2010	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Due to subsidiaries	78,227	—	—	—	78,227
Financial liabilities included in accrued liabilities and other payables	1,345	—	—	—	1,345
Bank borrowing	—	65	25,782	1,710,947	1,736,794
	79,572	65	25,782	1,710,947	1,816,366

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 businesses and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

In 2010, the Group monitored capital using total debts to total capital ratio, which is total debts divided by total capital. Total debts includes bank and other borrowings, finance lease payables and bond obligations. Total capital includes total debts and equity attributable to shareholders of the Company.

The ratio of net debt to net total capital was employed by the Group in the current year to manage capital with the inclusion of the parameter of liquidity. Net debt is total debts less cash and cash equivalents while net total capital is equity attributable to shareholders of the Company plus net debt. The Group's current objective is to maintain this ratio at a reasonable level.

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Notes to Financial Statements

46. Financial Risk Management Objectives and Policies (continued)

Capital management (continued)

The ratio of net debt to net total capital as at the end of the reporting period was as follows:

	Group 2011	2010
Bank and other borrowings	**4,605,531**	4,645,672
Finance lease payables	**50,410**	65,347
Bond obligations	**7,666,272**	7,640,430
Less: Cash and cash equivalents	**(10,779,067)**	(2,315,488)
Net debt	**1,543,146**	10,035,961
Equity attributable to shareholders of the Company	**14,389,925**	10,177,646
Add: Net debt	**1,543,146**	10,035,961
Net total capital	**15,933,071**	20,213,607
Net debt to net total capital	**9.7%**	49.7%

47. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the Board on 2 March 2012.

Five Year Financial Summary

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

Results

HK$'000

	Year ended 31 December				
	2011	2010	2009	2008	2007
Revenue	**38,496,434**	32,252,330	19,425,447	18,761,463	10,007,656
Profit/(loss) before tax	**4,137,883**	675,576	151,276	(4,700,772)	731,012
Income tax credit/(expense)	**(1,927,770)**	405,666	(2,731)	5,164,147	(209,630)
Profit for the year	**2,210,113**	1,081,242	148,545	463,375	521,382
Attributable to:					
Shareholders of the Company	**2,202,872**	1,101,660	115,687	204,256	282,777
Non-controlling interests	**7,241**	(20,418)	32,858	259,119	238,605
	2,210,113	1,081,242	148,545	463,375	521,382

Assets, Liabilities and Non-controlling Interests

HK$'000

	31 December				
	2011	2010	2009 (Restated)	2008	2007
Non-current assets	**18,424,699**	20,925,323	20,752,412	19,410,388	25,129,904
Current assets	**15,457,771**	6,137,683	8,779,188	9,147,819	5,877,734
Total assets	**33,882,470**	27,063,006	29,531,600	28,558,207	31,007,638
Current liabilities	**6,279,464**	2,749,933	4,145,049	5,452,415	4,419,749
Non-current liabilities	**12,777,928**	13,646,665	15,616,522	13,780,454	19,416,535
Total liabilities	**19,057,392**	16,396,598	19,761,571	19,232,869	23,836,284
Non-controlling interests	**435,153**	488,762	1,335,321	1,433,403	1,099,891
	14,389,925	10,177,646	8,434,708	7,891,935	6,071,463

Reserve Quantities Information

Proved Oil Reserves Estimate (Unaudited)

million barrels

	Indonesia (48.13%)	The PRC (100%)	Kazakhstan (50%)	Total
At 1 January 2011	**4.7**	**19.8**	**158.6**	**183.1**
Revision	**(0.7)**	**(0.5)**	**(9.0)**	**(10.2)**
Production	**(0.4)**	**(0.5)**	**(6.6)**	**(7.5)**
At 31 December 2011	**3.6**	**18.8**	**143.0**	**165.4**

The above figures represent the Group's net interests in the reserves held through subsidiaries and joint ventures.

Financial Highlights

- Revenue increased by 28.1% to HK$38,496.4 million *(2010: HK$30,061.8 million, exclusive of manganese segment)*
- Underlying EBIT increased by 54.8% to HK$2,137.4 million *(2010: HK$1,380.7 million)*
- Profit attributable to shareholders increased by 100.0% to HK$2,202.9 million *(2010: HK$1,101.7 million)*
- Net debt to net total capital improved to 9.7% *(2010: 49.7%)*

財務摘要

- 收入增加28.1%至38,496,400,000港元 *(2010年：30,061,800,000港元，除錳分類)*
- 核心息稅前溢利增加54.8%至2,137,400,000港元 *(2010年：1,380,700,000港元)*
- 股東應佔溢利增加100.0%至2,202,900,000港元 *(2010年：1,101,700,000港元)*
- 淨債務與淨總資本比率改善至9.7% *(2010年：49.7%)*

Design and Production: i.Link Group Limited **www.ilinkfin.com**