悅達礦業控股有限公司
Yue Da Mining Holdings Limited

Stock code : 629

Annual Report 2011

Contents

Corporate Information

REGISTERED OFFICE:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

Office nos. 3321–3323 and 3325
33/F, China Merchants Tower
Shun Tak Centre
No. 168–200 Connaught Road Central
Sheung Wan
Hong Kong

MEMBERS OF THE BOARD:

Executive directors

Mr. Dong Li Yong, Mr. Liu Xiaoguang and Mr. Hu Huaimin

Non-executive directors

Mr. Chen Yunhua and Mr. Qi Guangya

Independent non-executive directors

Ms. Leung Mei Han, Mr. Cui Shuming, Mr. Han Runsheng and Dr. Liu Yongping

AUDIT COMMITTEE:

Ms. Leung Mei Han (Chairman), Mr. Qi Guangya and Mr. Cui Shuming

REMUNERATION COMMITTEE:

Mr. Cui Shuming (Chairman), Mr. Dong Li Yong and Mr. Han Runsheng

AUTHORISED REPRESENTATIVES:

Mr. Dong Li Yong
Mr. Liu Xiaoguang

COMPANY SECRETARY:

Mr. Ong Chi King

INDEPENDENT AUDITOR:

Deloitte Touche Tohmatsu,
Certified Public Accountants

LEGAL ADVISERS AS TO HONG KONG LAW:

Chiu & Partners

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE:

HSBC Trustee (Cayman) Limited
P.O. Box 484
HSBC House
68 West Bay Road
Grand Cayman
Cayman Islands
KY1-1006

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE:

Hong Kong Registrars Limited
Shop 1712–1716, 17/F,
Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong

PLACE OF LISTING:

Main Board of The Stock Exchange of Hong Kong Limited
Stock code: 00629

PRINCIPAL BANKERS:

Industrial and Commercial Bank of China (Asia) Limited
Standard Chartered Bank

Chairman's Statement

> **The Mining and Mineral Trading Operations recorded an operating revenue of RMB386,644,000 with a gross profit of RMB135,492,000 and gross profit margin of approximately 35.0%.**

Chen Yunhua
Chairman

On behalf of the board ("Board") of directors ("Directors") of Yue Da Mining Holdings Limited (the "Company"), I am pleased to present to the shareholders the results of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2011 (the "Year").

FINANCIAL PERFORMANCE

Turnover and gross operating profit of the Group for the Year amounted to RMB416,795,000 and RMB131,145,000, representing an increase of approximately 18.8% and 1.6%, respectively, over the year ended 31st December, 2010 ("2010"). Audited profit and total comprehensive income attributable to owners of the Company amounted to RMB105,022,000 for the Year, representing an increase of approximately 195.6% over 2010. Basic earnings per share was RMB15.3 cents for the Year.

BUSINESS DEVELOPMENT

The Group is principally engaged in the mining as well as cleansing and processing of metal minerals (the "Mining Operations") and trading of iron ore and related products (the "Mineral Trading Operations", altogether "Mining and Mineral Trading Operations"), and the operation of a toll road (the "Toll Road Operations").

Mining and Mineral Trading Operations

Amidst the negative impact of the global financial turmoil that surfaced in the third quarter of 2008, the demands for zinc, lead, iron and gold ore concentrates have started to improve since the third quarter of 2009 after the slow recovery of the world's economy to the present. As a result of the improvement in demands, both revenue and segment profit of Mining Operations have increased.

Chairman's Statement

During the Year, Tengchong Ruitu Mining and Technology Company Limited ("Tengchong Ruitu") completed the project of upgrading the technology and enhancing the production capacity of its plant and its operations commenced as planned. The production of mine No. 10 commenced successfully, thus providing a strong assurance of a daily ores processing volume of 2,000 tons.

Baoshan Feilong Nonferrous Metal Co., Ltd. ("Baoshan Feilong") has further strengthened its effort in exploration activities and has made a smooth progress as planned. The processing plant achieved remarkable results in its technology improvements, and developed a catalyst in improving the grade and the extent of recovery of ore concentrates. On 8th April, 2011, the Group acquired additional 8.5% equity interests in and related shareholder's loan to Baoshan Feilong. After the acquisition, Baoshan Feilong has become an indirect wholly-owned subsidiary of the Group. More details of the acquisition are included in the section headed "Acquisition of additional 8.5% equity interests in Baoshan Feilong" of this report.

Yaoan Feilong Mining Co., Ltd. ("Yaoan Feilong") achieved a better result in mining activities of mine No. 8 in order to supply ores required by the processing plant for its normal production. Currently, Yaoan Feilong is under further improvement of production optimization and technology of its processing plant, it is expected that the grade and the extent of recovery of ore concentrates will be improved significantly after completion.

Zhen'an County Daqian Mining Development Co., Ltd. ("Daqian Mining") in Shaanxi Province of the PRC is expanding its exploration activities as planned by speeding up the preparation of construction of a new processing plant with a daily processing volume of 600 tons.

On 16th August, 2011, the Group entered into a disposal agreement for the disposal of 41.1% equity interests in and the related shareholder's loans to the holding companies of the mining project located in Wengniute Banner of Inner Mongolia (the "Disposal Group"). More details of the disposal are included in the section headed "Disposal of Subsidiaries" of this report.

On 30th June, 2010, the Group completed the acquisition of 70% equity interests in Tong Ling Guan Hua Mining Company Limited ("Tong Ling Guan Hua") being the holder of mining rights of a gold mine and an exploration licence of an iron mine in Anhui Province, the PRC. The Group has focused on improving technology and increasing production capacity during the period from the completion of the acquisition to 31st December, 2011. The Group has received a compensation of approximately RMB74,182,000 in relation to the shortfall of performance by Tong Ling Guan Hua for the period from March 2011 to May 2011 and from July 2011 to August 2011 due to an unanticipated temporary suspension of mining operation for regional safety inspection by local government authority. Since January 2012, Tong Ling Guan Hua has been under full production capacity. On 26th September, 2011, the Group entered into a conditional sale and purchase agreement for the proposed acquisition of additional 22% equity interests in Tong Ling Guan Hua. More details of the proposed acquisition are included in section headed "Proposed acquisition of additional 22% equity interests in Tong Ling Guan Hua" of this report.

To strengthen the upstream development of the Group, on 28th April 2011, the Company entered into a geological exploration strategic services agreement with Jiangsu East China Geological Surveying Company Limited ("Jiangsu East China") for the supply of geological exploration technical support and advisory services by Jiangsu East China in respect of the Group's mining resources exploration projects within and outside China for a period of ten years commencing on 28th April, 2011.

To maintain recurring sales and cashflow to the Group, four strategic co-operation agreements with a term of 10 years were entered with Zhuzhou Smelter Group Co. Limited, Yunnan Yuntong Zinc Alloy Company Limited, Panzhihua Steel Group International Economic Trading Company Limited and Wugang Group Kunming Iron and Steel Company Limited, a subsidiary of Wuhan Iron and Steel (Group) Corp., details of which were disclosed in the announcements of the Company dated 21st November, 2008, 9th December, 2008 and 22nd December, 2009, respectively. The above agreements continued to be in force during the Year.

PROSPECTS

The Group has from time to time sought to enhance its exploration and mining activities by identifying suitable exploration and mining methods, improve and enhance explosive and blasting technology by setting up appropriate explosive and blasting method in order to maximize explosive effects. Such measures aim at raising production capacity of the Group's existing mines as well as reducing its mining costs. To reduce cleansing and processing costs, the Group will further emphasis on technology improvements, optimize production processes of processing plant and maximize grade and recovery of ore concentrates.

In 2012, on one hand, the Group's strategy is to realize its potential processing capacity as well as to further enhance its production processes and technology improvements for achieving cost efficiency. On the other hand, the Group is making preparations for an acquisition of peripheral mining rights with high potential at an appropriate time. At the same time, the Group aims to capture opportunities for acquisition of projects with rich reserves, high quality, immense value-added potentials, quick cashflow returns, in order to allow the Group to further expand its scale of production, diversify into new profit streams and deliver higher returns to our shareholders.

APPRECIATION

Finally, I would like to take this opportunity to express my gratitude to the Directors, management personnel and all staff for their contributions to the development of the Group. Likewise, I would like to express my appreciation to the shareholders for their support. The Group is fully committed to do its best to bring better returns to the shareholders.

By Order of the Board
Chen Yunhua
Chairman

Hong Kong, 30th March, 2012

Management Discussion and Analysis

The Mining Operations included the processing of such metal ore concentrates as zinc ore concentrates of 5,572.14 metal tons, lead ore concentrates (including silver) of 2,276.86 metal tons, iron ore concentrates of 265,616.73 tons and gold of 238.88 kilograms.

FINANCIAL HIGHLIGHTS

The Group recorded an operating revenue of RMB416,795,000 in the Year, representing an increase of approximately 18.8% over RMB350,816,000 in 2010. Gross operating profit amounted to RMB131,145,000 in the Year, representing an increase of approximately 1.6% as compared to RMB129,063,000 in 2010. The nonferrous metal market has continued to improve since the third quarter of 2009 after the global financial turmoil that surfaced in the third quarter of 2008. The audited profit and total comprehensive income attributable to the owners of the Company for the Year amounted to RMB105,022,000, representing an increase of approximately 195.6% over RMB35,529,000 in 2010 and basic earnings per share amounted to RMB15.3 cents for the Year.

DIVIDENDS

The Board did not recommend the payment of any final dividend for the Year (2010: nil).

BUSINESS REVIEW

Overview

The Group is principally engaged in Mining and Mineral Trading Operations and Toll Road Operations. During the Year, the Mining and Mineral Trading Operations realized an operating revenue of RMB386,644,000 with a segment profit of RMB81,200,000. The Toll Road Operations recorded a net operating revenue of RMB30,151,000 and a segment loss of RMB11,169,000.

Mining and Mineral Trading Operations

During the Year, the Mining and Mineral Trading Operations recorded an operating revenue of RMB386,644,000 with a gross profit of RMB135,492,000 and gross profit margin of approximately 35.0%. The Mining Operations (excluding Mineral Trading Operations i.e the trading of iron ore and related products) recorded an operating revenue of RMB342,950,000 (corresponding period of last year: RMB286,293,000) with a gross profit of RMB133,862,000 (corresponding period of last year: RMB104,918,000) and gross profit margin of approximately 39.0% (corresponding period of last year: 36.6%). The Group commenced the Mineral Trading Operations in December 2010. During the Year, the Mineral Trading Operations recorded an operating revenue of RMB43,694,000 (corresponding period of last year: Nil) and a gross profit of RMB1,630,000 (corresponding period of last year: Nil).

The ores extracted during the Year amounted to 1,289,835 tons with a unit mining cost (including gold ores) of approximately RMB69 per ton (2010: RMB61 per ton) and a unit processing cost (including gold ores) of approximately RMB44 per ton (2010: RMB49 per ton). The Mining Operations included the processing of metal ore concentrates such as zinc ore concentrates of 5,572.14 metal tons, lead ore concentrates (including silver) of 2,276.86 metal tons, iron ore concentrates of 265,616.73 tons and gold of 238.88 kilograms. During the Year, the metal ore concentrates were sold at an average price (after tax) of RMB9,146 per metal ton for zinc ore concentrates, RMB16,109 per metal ton for lead ore concentrates (with silver content), RMB686 per ton for iron ore concentrates and RMB321.56 per gram of gold.

Toll Road Operations

Wen An Section of the National Highway 106 in Hebei Province (the "Wen An Section") is located in Langfang, Hebei Province and is in the proximity to Beijing. It has a toll collection station at Wen An. Annual average daily traffic (AADT) was 17,841 during the Year (2010: 26,483) while the operating revenue achieved RMB30,151,000, which represented a decrease of approximately 53.3% from RMB64,523,000 in 2010. The Board believes that the significant decrease in operating revenue was attributable to the commencement of operation of the Da Guang Highway, which is near to the National Highway 106, in December 2010.

The Wen An Section has also implemented a computer-aided toll fee and control system to effectively uphold the standard of the toll road operations. No adjustment was made to the toll fee for the Wen An Section during the Year. Regular maintenance and repair works were carried out on the Wen An Section to maintain the quality of the road during the Year. However, no large-scale maintenance works have been carried out.

Co-operation with 四川省鹽源縣平川鐵礦 Sichuan Province Yanyuan County Pingchuan Iron Mine ("Pingchuan Iron")

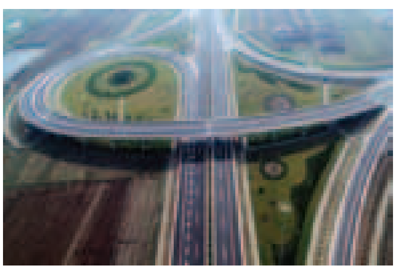
On 20th May, 2010, Pingchuan Iron and Yue Da Pingchuan Limited ("Yue Da Pingchuan"), a wholly owned subsidiary of the Company, entered into a joint venture agreement with Pingchuan Iron in relation to the formation of 涼山州悅川礦業有限責任公司 Liangshan Prefecture Yuechuan Mining Co., Limited ("Yuechuan JV") in the PRC. On 2nd July, 2010, Pingchuan Iron and Yue Da Pingchuan entered into a supplemental joint venture agreement in relation to the development of Pingchuan Iron Reserve Mine (Lanzhichang lot), a mine situated at Yanyuan County, Sichuan Province, the PRC ("Pingchuan Iron Mine") by Yuechuan JV. Yuechuan JV, a limited liability company, was formed on 8th July, 2010. The registered capital of Yuechuan JV is RMB100 million and the equity interest of which is owned as to 49% by Yue Da Pingchuan and 51% by Pingchuan Iron. Yue Da Pingchuan and Pingchuan Iron contributed RMB49 million and RMB51 million respectively to the registered capital of Yuechuan JV. The board of directors of Yuechuan JV consists of five directors of which two directors were nominated by Pingchuan Iron and three directors were nominated by Yue Da Pingchuan. As Yue Da Pingchuan has the right to appoint a majority of the board of directors of Yuechuan JV, Yuechuan JV is regarded as a non-wholly owned subsidiary of the Company. Yuechuan JV is expected to embark on the development of Pingchuan Iron Mine which includes, without limitation:

(i) the exploitation, mining and processing of the reserves in Pingchuan Iron Mine which mainly comprise of iron;

(ii) the acquisition, restructuring and/or investment in other iron mining enterprises in Yanyuan County, Sichuan Province, the PRC, targeted to be implemented towards the end of 2013;

(iii) the in-depth exploration of other mining sites in Yanyuan County, Sichuan Province, the PRC, the reserves in which are mainly expected to be iron, copper and gold; and

(iv) the cleansing and processing of copper of other mining sites in Yanyuan County, Sichuan Province, the PRC.



The production model at the Pingchuan Iron Mine, which is proposed to be further developed by Yuechuan JV, is currently planned on a preliminary scale of about 800,000 tonnes of ores to be produced annually when the Pingchuan Iron Mine reaches its production capacity, it is currently expected the infrastructure period for the development of the Pingchuan Iron Mine to reach the aforesaid annual production scale will take about three years and the preliminary amount of investment for the infrastructure period will not exceed HK$250 million.

Acquisition of additional 8.5% equity interests in Baoshan Feilong

On 8th April, 2011, Yue Da Mining Limited ("YDM"), a wholly owned subsidiary of the Company completed the acquisition of 100% interests in Moral Well Enterprises Limited ("Moral Well") and related shareholder's loan at a total consideration of RMB22.5 million. Moral Well is an investment holding company and directly owns 8.5% equity interests in Baoshan Feilong. Following the completion of the acquisition of Moral Well, Baoshan Feilong has become a wholly owned subsidiary of the Company and therefore the Group has had full control of the operations of and become entitled to all the profits from Baoshan Feilong.

Disposal of Subsidiaries

On 16th August, 2011, YDM, entered into a disposal agreement with Feng Hua Group Limited to dispose the 41.1% equity interests and related shareholder's loans of each of the holding companies of the mining project located in Wengniute Banner at a total consideration of RMB91,000,000. The disposal was completed on 30th December, 2011. Upon completion of the disposal, such holding companies of the Wengniute Banner mining project ceased to be the subsidiaries of our Group and our Group would not be involved in the management, financial and operating decisions, and day-to-day operations of Disposal Group. Accordingly, the remaining 49% equity interests in Disposal Group is classified as available-for-sale investments of the Group.

Proposed acquisition of 80% equity interests in a silver, lead and zinc mine in Lao People's Democratic Republic ("Lao PDR")

On 3rd November, 2011, the Company announced that the Company was currently in preliminary negotiation with Yue Da Enterprise Group (HK) Co., Limited ("YD Enterprise"), an associate of Jiangsu Yue Da Group Company Limited ("Jiangsu Yue Da") being a substantial shareholder of the Company, in respect of a proposed acquisition of a wholly-owned subsidiary of YD Enterprise, which would in turn own about 80% interest in a company ("Lao Company") established in Lao PDR. According to YD Enterprise, the Lao Company holds the exploitation and exploration right of silver, lead and zinc mine and exploration rights of certain other mines located in Lao PDR. The Company is currently conducting due diligence work on the Lao Company and engaging in further negotiation of the terms of the proposed acquisition.

Proposed acquisition of additional 22% equity interests in Tong Ling Guan Hua

On 26th September, 2011, Ample Source Investment Limited ("Ample Source"), an indirect wholly owned subsidiary of the Company, entered into a conditional sale and purchase agreement ("Tong Ling Agreement") with Mr. Bao Dongbin, Mr. Bao Enwei and Mr. Bao Jikun for the proposed acquisition of an aggregate of 22% equity interests in Tong Ling Guan Hua at an aggregate consideration of RMB100 million. As at the date of Tong Ling Agreement, each of Mr. Bao Dongbin and Mr. Bao Jikun respectively held 10.5% equity interests in Tong Ling Guan Hua and Mr. Bao Enwei is the brother of Mr. Bao Dongbin and Bao Jikun, therefore each vendor is a connected person of the Company and the proposed acquisition constitutes a connected transaction of the Company. Tong Ling Guan Hua is the holder of mining rights of Tong Ling Guan Hua Mining Company Limited

Qizichong Gold Mine (a gold and polymetallic mining site situated in Anhui Province, the PRC) and an exploration licence of Anhui Tong Ling Liangshishan Iron (Gold) Mine (an iron mining site situated in Anhui Province, the PRC). The Company is currently preparing the information such as Competent Person's Report and Valuation Report (as defined in Chapter 18 of the Listing Rules) to be included in the circular to shareholders in connection with (and before) the convening of a shareholders' meeting to approve the proposed acquisition. The proposed acquisition is expected to be completed on or before 30th June, 2012.

Open Offer and event(s) after the end of the annual reporting period ended 31st December, 2011

The open offer of 228,922,969 offer shares at the subscription price of HK$0.5 per offer share (net price being HK$0.47 per offer share) (on the basis of one offer share for every three then existing shares of the Company held on the record date on 21st February, 2012) became unconditional on 9th March, 2012 and the Company raised a gross proceeds of approximately HK$114 million as a result of such open offer and which has been applied or received for the following purposes:

(i) approximately HK$50 million for the repayment of a bank loan due to Industrial and Commercial Bank of China (Asia) Limited where the final installment will be due on 28th June, 2012;

(ii) approximately HK$10 million for the repayment of promissory note due 31st July, 2012 arising from the acquisition of Absolute Apex Limited as disclosed in the announcement of the Company dated 16th April, 2010; and

(iii) the balance as general working capital for business operations and maintain liquidity of the Group, including but not limited to the enhancement of the exploration activities to increase reserves of the Group, investigation and improvement of the production process and technology, and the daily operating expenses such as staff costs, rental expenses, professional fees and finance costs of the mining business of the Group.

Prospect

The Group has from time to time sought to enhance its exploration and mining activities by identifying suitable exploration and mining methods, improve and enhance explosive and blasting technology by setting up appropriate explosive and blasting method in order to maximize explosive effects. Such measures aim at raising production capacity of the Group's existing mines as well as reducing its mining costs. To reduce cleansing and processing costs, the Group will further focus on technology improvements, optimize production processes of processing plant and maximize grade and recovery of ore concentrates. Through the completion of the project of upgrading technology and enhancing production capacity of the processing plant operated by Tengchong Ruitu, the commencement of production of mine No. 10 as planned, Baoshan Feilong having made a smooth progress in its exploration activities as planned and the entering of the long-term strategic co-operation agreements with Zhuzhou Smelter Group Co Ltd., Yunnan Yuntong Zinc Alloy Company Limited, Panzhihua Steel Group International Economic Trading Company Limited and Wugang Group Kunming Iron and Steel Company Limited, the Group has built a concrete foundation to have steady cash flow and reasonable level of profit. In addition, Daqian Mining has expanded its exploration activities as planned by accelerating the preparation of construction of a new processing plant with a daily processing volume of 600 tons in order to increase the exploration of mineral assets. Yaoan Feilong is taking further steps to improve production optimization and technology so as to improve the grade and recovery of ore concentrates. Tong Ling Guan Hua also contributed both revenue and profit to the Group. Meanwhile, the optimization and technology improvement of its operation flow is in progress. Looking forward, in 2012, the environment for the mining business is expected to be improved as compared to 2011. As market prices of non-ferrous metal have picked up, the Board plans to implement a number of strategies, including acceleration of the preparation steps for construction of the newly built processing plant of Daqian Mining and consolidation of the peripheral mineral resources of the existing mining companies. The Company also introduces measures in order to reduce its gearing ratio.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 8th June, 2012 to 14th June, 2012, both days inclusive, during which period no transfer of shares in the Company will be registered. In order to determine the identity of the shareholders of the Company who are entitled to attend and vote at the annual general meeting (the "AGM") of the Company to be held on 14th June, 2012, all transfer of shares in the Company accompanied by the relevant share certificates must be lodged with the Company's branch shares registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 7th June, 2012.

FINANCIAL POSITION

Liquidity and Financial Resources

As at 31st December, 2011, the Group's current assets were RMB381,580,000 (2010: RMB388,018,000), of which RMB127,614,000 (2010: RMB253,741,000) were bank balances and cash. As at 31st December, 2011, the net asset value of the Group amounted to RMB1,233,904,000, representing an increase of approximately 2.8% as compared to RMB1,199,751,000 in 2010. The gearing ratio (total liabilities/total assets) of the Group was approximately 34.8% (2010: 45.4%).

As at 31st December, 2011, the issued share capital of the Company was RMB64,874,000 (2010: RMB64,773,000). The Company's reserve and minority interests were RMB973,692,000 (2010: RMB863,233,000) and RMB195,338,000 (2010: RMB271,745,000), respectively. As at 31st December, 2011, the Group had total current liabilities of RMB298,507,000 (2010: RMB376,786,000), mainly comprising bank borrowings, promissory notes, taxation payable, amount due to a related company and trade and other payables. The total non-current liabilities of the Group amounted to RMB360,484,000 (2010: RMB619,437,000), mainly comprising bank borrowings, consideration payable for acquisition of subsidiaries and promissory notes having maturity over one year, as well as deferred tax liabilities. The Group's monetary assets, liabilities and transactions are mainly denominated in Renminbi and Hong Kong dollars. During the Year, most of the transactions were denominated and settled in Renminbi. The Group believes that its exposure to exchange rate risk is minimal.

CONTINGENT LIABILITIES AND CHARGE ON THE GROUP'S ASSETS

As at 31st December, 2011, except for the guarantees and charges in the amount of HK$360,000,000 provided to Industrial and Commercial Bank of China (Asia) Limited by the Group, the Company did not have any guarantees and charges nor any other material contingent liabilities.

EMPLOYEE AND REMUNERATION POLICY

As at 31st December, 2011, the Group had a total of approximately 1,742 employees in Hong Kong and the PRC, engaged in management, administration, toll collection functions and mining. The management reviewed the remuneration policy regularly on the basis of performance and experience of the employees as well as the prevailing industry practices. Social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations. Insurance and mandatory provident fund schemes are also maintained for its Hong Kong staff. During the Year, the Group provided various training courses on relevant business or skills for its management and staff at different levels. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labour dispute.

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the listed securities of the Company during the Year.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Group has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the Year, except that the Chairman of the Board was not able to attend the annual general meeting of the Company held on 9th June, 2011 (the "2010 AGM") (deviated from code provision E.1.2) due to other business commitment. However, one of the independent non-executive Directors attended and acted as the Chairman of the 2010 AGM.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by the Directors of the Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). All the Directors, in response to specific enquiries made by the Company, confirmed that they complied with the requirements set out in the Model Code throughout the Year.

AUDIT COMMITTEE

The Company's audit committee currently comprises Ms. Leung Mei Han (Chairman of the audit committee, an independent non-executive Director), Mr. Qi Guang Ya (a non-executive Director) and Mr. Cui Shuming (an independent non-executive Director). Duties of the audit committee include reviewing all matters relating to the scope of audit, such as the financial statements and internal control, with an aim to safeguard the interest of the shareholders of the Company. At a meeting held on 30th March, 2012, the audit committee reviewed the accounting principles and practices adopted by the Group, the annual results of the Group for the Year and the continuing connected transactions carried out by the Group during the Year, and discussed matters relating to audit, internal control and financial reporting with the management.

REMUNERATION COMMITTEE

The Company has set up with written terms of reference a remuneration committee, whose members are currently Mr. Cui Shuming (Chairman of the remuneration committee, an independent non-executive Director), Mr. Han Runsheng (an independent non-executive Director) and Mr. Dong Li Yong (an executive Director). Regular meetings are held by the committee to review and discuss matters relating to the remuneration policy, remuneration levels and the remuneration of executive Directors.

Corporate Governance Report

The Company, as a listed company in Hong Kong, is committed to enhancing its corporate governance level.

The Board and the management of the Company understand that they are responsible for the formulation and strict implementation of a sound corporate governance structure and code, so as to improve the accountability system and transparency of the Company, protect the interests of and create value for shareholders.

The Board considered that the Group has adopted and complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules, except that the chairman of the Board was not able to attend the annual general meeting (the "2010 AGM") of the Company held on 9th June, 2011 (deviated from Code provision E.1.2) due to other business commitment. However, one of the independent non-executive Directors attend and acted as the chairman of the 2010 AGM.

The status of the Company's compliance with the Code during the Year is set out below.

A. DIRECTORS

A.1 The Board

Pursuant to the Code, an issuer should be headed by an effective board of directors which should assume responsibility for leadership and control of the company and be collectively responsible for promoting the success of the company by directing and supervising the company's affairs. Directors should make decisions objectively in the interests of the Company. The Board is committed to improving the corporate governance system of the Company and is ultimately responsible for formulating and implementing strategies and the operating results of the Company. The main duties of the Board include:

1) to determine the strategies, objectives, policies and business plans of the Company and monitor the implementation of the strategies of the Company;

2) to monitor and control the operating and financial performance of the Company and establish appropriate risk management policies and procedures to ensure the implementation of the Company's strategic objectives;

3) to supervise the performance of the senior management and determine their remuneration; and

4) to perfect the corporate governance structure and facilitate communication with shareholders.

The Company has established internal guidelines to clarify matters which require approval of the Board. Under the guidelines, the Board's approval is required for significant financing programs of the Company, such as investment plans, merger and acquisition or disposal of major assets, major capital expenditure and external borrowings.

The Board has set up two standing committees, namely, the audit committee (the "Audit Committee") and the remuneration committee (the "Remuneration Committee") with specific duties, power and written terms of reference. The chairman of each committee reports to the Board regularly and advises on matters for discussion when necessary. Attendance of each of the Directors to meetings of the Board and each of the committees during the Year was set out as follows:

	Board	Audit Committee	Remuneration Committee
Number of meetings held	6	2	1
Attendance			
Dong Li Yong	6		1
Liu Xiaoguang	5		
Hu Huaimin (Note)	2		
Chen Yunhua	1		
Qi Guangya	3	2	
Leung Mei Han	3	2	
Cui Shuming	4	1	1
Han Runsheng	4		1
Liu Yongping	4		

Note:

Mr. Hu Huaimin was appointed as an executive Director on 31st August, 2011.

The Board and each of the committees adopted the principles, procedures and arrangement set out in Code provisions A.1.1 to A.1.8 under the Code, without deviation.

A.2 Chairman and Chief Executive Officer

Pursuant to the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual so as to ensure a balance of power and authority and that power is not concentrated in any one individual.

The functions of the Chairman and the chief executive officer of the Company ("Chief Executive Officer") are clearly segregated. The Chairman of the Board, Mr. Chen Yunhua, is responsible for providing leadership for the Board. His main responsibility is to ensure that the Board works effectively and that good corporate governance practices and procedures are established and followed. The Chairman is also responsible for ensuring that appropriate steps are taken to provide effective communication with the shareholders and that the views of shareholders are communicated to the Board as a whole.

The present Chief Executive Officer, Mr. Dong Li Yong, is responsible for managing the business operations and general operations of the Company, implementing significant strategies of the Board and making decisions regarding daily operations of the Company.

There is no relationship (whether financial, business, family and other material/relevant relationship) among the members of the Board of the Company (including between the chairman and the Chief Executive Officer).

There was no deviation from Code provisions A.2.1 to A.2.3 under the Code.

A.3 Board composition

Pursuant to the Code, the board of directors should have a balance of skills and experience appropriate for the requirements of the business of the company. A board of directors should include a balanced composition of executive and non-executive directors so as to ensure the independency of the board. The board of directors must include at least three independent non-executive directors, and it is suggested in the Code that independent non-executive directors should represent at least one-third of the board. The Board comprises 9 members, of whom 3 are executive directors, 2 are non-executive directors and 4 are independent non-executive directors.

At present, details of members of the Board and committees of the Company are as follows:

Board member

Name	**Office**
Dong Li Yong	*Executive director/Chief Executive Officer*
Liu Xiaoguang	*Executive director*
Hu Huaimin	*Executive director*
Chen Yunhua	*Chairman/Non-executive director*
Qi Guangya	*Non-executive director*
Leung Mei Han	*Independent non-executive director*
Cui Shuming	*Independent non-executive director*
Han Runsheng	*Independent non-executive director*
Liu Yongping	*Independent non-executive director*

Audit Committee member

Leung Mei Han	*Chairman*
Qi Guangya	
Cui Shuming	

Remuneration Committee member

Cui Shuming	*Chairman*
Dong Li Yong	
Han Runsheng	

The Company also maintains on its website (www.yueda.com.hk) an updated list of its directors identifying their roles and functions and whether or not they are independent non-executive directors. Each member of the Board, with different backgrounds and possessing different expertise, has extensive experience in corporate planning and operation management, capital market, financial accounting, auditing, geology and so forth. There are 4 independent non-executive Directors in the Company at present, representing more than one-third of the Board. The number of independent non-executive directors in the Board is in line with the recommended best practices under Code provision A.3.2 under the Code. The biographical details of the members of the Board are disclosed on pages 24 to 25 of this annual report.

There was no deviation from Code provisions A.3.1 under the Code.

A.4 Appointment, re-election and removal

Pursuant to the Code, there should be formal, due consideration and transparent procedures for the appointments of new directors to the board. There should be plans for orderly succession of board appointments. All directors should be subject to re-election at regular intervals. The Company has adopted measures for the nomination of directors to ensure the transparency of appointment and re-election processes of directors and evaluate the efficiency of the Board and the contribution of each director to the Board. According to the nomination measures, a director has to be nominated by the Board and shareholders severally or jointly holding the shares required by the Articles of Association and his/her election has to be approved in general meeting other than those elected by the Board to fill casual vacancy.

A candidate must consent with such nomination. The proposer shall fully understand the basic information of the nominee, including his occupation, academic qualification, position and detailed work experience, and provide written materials to the Company in such regard. The proposer of independent non-executive directors shall also express his opinions on the qualification and independence of the candidate as an independent non-executive director, and the nominee shall declare that he does not have any relationship with the Company which may affect his independent and objective judgment. The Company shall disclose detailed information of the candidate before convening the general meeting to ensure that shareholders have full understanding about the candidate. The candidate should provide a written confirmation prior to the general meeting that he accepts the nomination and undertakes the information disclosed about him is true, accurate and complete and warrants that he will duly perform his duties as a director upon his appointment. On expiry of a term of office of a director, the Board will consider his nomination for re-election after taking into account of the then business development requirement of the Company, performance of the relevant director in achieving designated objectives during his term, his dedication and commitment and performance in other material aspects.

The above nomination measures have also provided for the qualifications of a directorship candidate, including but not limited to, the expertise, skills and quality in modern corporate management, finance and law which are necessary for the candidate to perform his duties, understanding of the corporate operating rules under the market economy conditions and upholding of the principle of maximization of interests of the Company and the shareholders as a whole. The candidate should ensure that he can devote sufficient time and attention to discharging his duties during his term of office, to carefully review and consider all the business and financial reports of the Company and material news reports regarding the Company by public media and to understand and continually care for the business operation and management of the Company. The candidate should also ensure that he is, in principle, able to attend Board meetings in person, to exercise in a reasonably careful and dedicated manner and to clearly express his opinions on the matters for discussion. Candidate for the post of an independent non-executive director shall also possess the independence required by the Listing Rules, the basic knowledge of the operation of a listed company, extensive working experience in operation management, economic research, teaching, legal or financial fields and shall ensure that he can devote sufficient time and attention to discharging his duties as a director of the Company.

On 31st August, 2011, Mr. Hu Huaimin was appointed as an executive Director.

Save for the above, there was no other change in the composition of the Board in the Year.

Mr Chen Yunhua has been appointed as non-executive Director for a term of three years with effect from 13th November, 2009 whereas Dr. Liu Yongping have been appointed as an independent non-executive Director for a term of one year with effect from 15th June, 2011. Mr. Dong Li Yong, Mr. Liu Xiaoguang, Mr. Hu Huaimin, Mr. Qi Guang Ya, Ms. Leung Mei Han, Mr. Cui Shumung and Mr. Han Runsheng have not entered into any service contract with the Company and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association of the Company.

Pursuant to Article 108(A) of the Articles of Association of the Company, Mr. Qi Guang Ya, Mr. Cui Shuming and Ms. Leung Mei Han will retire by rotation. Mr. Qi Guang Ya, Mr. Cui Shuming and Ms. Leung Mei Han, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. Further, in accordance with Article 112 of the Articles of Association, Mr. Hu Huaimin (appointed by the Board as an executive Director with effect from 31st August, 2011) shall hold office until the first general meeting after his appointment. i.e. the forthcoming annual general meeting and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

There was no deviation from Code provisions A.4.1 and A.4.2 under the Code.

A.5 Responsibilities of directors

Pursuant to the Code, every director is required to keep abreast of his responsibilities as a director of a company and of the conduct, business activities and development of the company. Non-executive directors shall have the same duties of care and skill and fiduciary duties as executive directors. Every newly-appointed director of the Company received a comprehensive, formal and tailor-made introduction on the first occasion of his appointment to ensure that he has a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities under the relevant statutes and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

The Company has in place a set of written guidelines for trading in the Company's securities by employees which provide strict requirements in respect of trading in the Company's securities conducted by its employees and are more stringent than the standards contained in the Model Code for Securities Transactions by directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). In addition, the Company notified all directors, senior management and relevant employees to follow such guidelines two months prior to the publication of the 2011 annual results. Having made specific enquiries of all directors, the directors confirmed that they had complied with the Model Code and the written guidelines for trading in the Company's securities by employees.

The Company encouraged the directors of the Company to participate in the continuous professional development programme to develop and update their knowledge and skills to ensure that they are equipped with all the information and can continue to contribute to the Board when required. The Company is responsible for the costs of such programme.

The Company invited its non-executive Directors and/or independent non-executive Directors to act as members of the Audit Committee and the Remuneration Committee and to contribute by providing independent and constructive opinions to the Company.

There was no deviation from Code provisions A.5.1 to A.5.4 under the Code.

A.6 Supply of and access to information

Pursuant to the Code, directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors. In respect of regular Board meetings and committee meetings, the Company adopts the policy of giving 14-day-notice prior to the intended date of meeting, and sending in full an agenda and the relevant documents to all Directors at least 3 days before the meeting so that the directors can understand the matters to be discussed. All Directors are eligible to have access to relevant materials for Board Meetings. The management has an obligation to supply the Directors with complete and reliable information regarding the matters or subjects for discussion and explain the situations to the Board to enable them to make informed decisions. The management should also update the Board with the latest development of the Company in a timely manner, including information disclosure, investor relations activities and capital market performance. The Company has also set up internal procedures so that each Director can have separate and independent access to the senior management as appropriate. All directors are eligible to make further enquiries in respect of the business development of the Company.

There was no deviation from Code provisions A.6.1 to A.6.3 under the Code.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1 Level and structure of remuneration

Pursuant to the Code, an issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. Levels of remuneration should be sufficient to attract and retain the directors required to run the company successfully, but companies should avoid paying more than is necessary for this purpose. No director should be involved in deciding his own remuneration. The Board has established the Remuneration Committee. As a standing committee of the Board, the Remuneration Committee is mainly responsible for supervising the remuneration policy of the Company, determining the level of remuneration of executive directors and senior management and evaluating the performance of executive directors. The members of the Remuneration Committee comprised Mr. Dong Li Yong, executive Director, and Mr. Cui Shuming and Mr. Han Runsheng, independent non-executive Directors, with Mr. Cui Shuming as the chairman of the Remuneration Committee.

The main duties of the Remuneration Committee include:

(1) to make recommendations to the Board on the policy and structure of the Company for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(2) to determine the specific remuneration packages of all executive directors and senior management, including any non-monetary benefits-in-kind, pension rights, incentive payments and any compensation payable for loss or termination of office or appointment, and make recommendations to the Board on the remuneration of non-executive directors;

(3) to evaluate the performance of executive directors, review and approve performance-based remuneration as well as approving terms and conditions of executive directors' service contracts by reference to corporate goals and objectives resolved by the Board from time to time;

(4) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms;

(5) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that the compensation payment is reasonable and appropriate.

The Remuneration Committee held one meeting during the Year. The Remuneration Committee has reviewed the remuneration policy and structure and performance evaluation system of the Group, made recommendations regarding directors' fees and the remuneration level of the senior management to the Board, discussed the execution of the share option scheme of the Company.

The remuneration of the Directors and senior management of the Company comprises three sections, namely, basic salaries, year-end bonuses and share options. The Company will consider the annual results of the Company and individual performance in determining the bonuses of executive directors and senior management. The Company also offers a share option scheme, which aims at retaining valuable talents and ensuring executive directors, senior management and the employees share the same benefits as shareholders.

Details of the directors' remuneration of the Company and the share option scheme are disclosed in notes 8 and 36 to the financial statements in this annual report.

There was no deviation from Code provisions B.1.1 to B.1.5 under the Code.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

Pursuant to the Code, a board of directors should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects. The Directors understand its responsibilities for the preparation of the financial statements for each financial period which give a true and fair view of the operation and financial position of the Company. In preparation of the financial statements for the Year, the Directors:

(1) have applied appropriate accounting policies.

(2) have made reasonable judgment and estimate on a going concern basis.

(3) have acknowledged their responsibilities in preparing the accounts.

There was no departure from Code provisions C.1.1 to C.1.3 under the Code.

C.2 Internal controls

Pursuant to the Code, a board of directors should ensure that the company maintains sound and effective internal controls to safeguard shareholders' investment and company's assets. The Board has conducted periodic review on the efficiency of the Group's internal control systems, including financial, operation and compliance control and risk management procedures. The Board authorised the financial controller of the Company to set up the scope of review and work timetable of the internal control system under the supervision of the Audit Committee, to seek help from a qualified international or Hong Kong accounting firm in respect of the designated scope as deemed necessary by the Audit Committee, to engage an external accounting firm to assist in reviewing the internal control system within the budget approved by the Board and to report the contents and results of such review to the Board and shareholders.

The Company has not set up a specialised internal control department yet, but it has required its financial department to specifically take up the responsibility of reviewing the internal control system of the Group.

The Board believes that the Group is responsible to improve the internal control system continuously in order to give heed to the risk of the deficiency in the operating system, if any, with an aim to achieve the Group's objectives.

There was no deviation from Code provision C.2.1 to C.2.2 under the Code.

C.3 Audit Committee

Pursuant to the Code, a board of directors should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established by an issuer pursuant to the Listing Rules should have clear terms of reference.

The Board has established the Audit Committee. As a standing committee of the Board, the Audit Committee is mainly responsible for monitoring the completeness of the financial statements and regular reports issued by the Company and reviewing the financial control, internal control and risk management system of the Company. The members of the Audit Committee comprised Ms. Leung Mei Han and Mr. Cui Shuming, independent non-executive Directors, and Mr. Qi Guangya, a non-executive Director, with Ms. Leung Mei Han as the chairman of the Audit Committee.

The main duties of the Audit Committee include, but not limited to:

(1) to be responsible for making recommendations to the Board on the appointment, re-election and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor, and to handle any questions on resignation or dismissal of any relevant auditor;

(2) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

(3) to develop and implement policy on the engagement of an external auditor to supply non-audit services. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

(4) to monitor the integrity of the financial statements, annual report and accounts, and interim report and to review significant financial reporting opinions contained therein;

(5) to review the Company's financial control, internal control and risk management systems;

(6) to discuss the internal control system with the management and ensure that management has discharged its duty in establishing an effective internal control system;

(7) to consider any findings of major investigations of internal control matters and management responses as delegated by the Board or on its own initiative;

(8) to review the Group's financial and accounting policies and practices;

(9) to review the external auditor's management letter to the management of the Company, any material queries raised by the auditor to the management in respect of accounting records, financial accounts or systems of control and management's response;

(10) to ensure that the Board will provide a timely response to the issues raised in the management letter from the external auditor to the management; and

(11) to report to the Board on the matters set out in the Code; and consider other topics, as defined by the Board.

The Audit Committee held two meetings during the Year, at which the Audit Committee reviewed the annual report and interim report of the Company and matters relating the connected transactions and made recommendations to the Board. The Audit Committee also reviewed the internal control system of the Company. The Board and the Audit Committee concurred in their opinions regarding the election and appointment of the external auditor.

In the Year, the fee paid/payable by the Company to the external auditor, Deloitte Touche Tohmatsu, was HK$4,000,000 (including HK$1,500,000 for review of interim results).

There was no deviation from Code provisions C.3.1 to C.3.6 under the Code.

D. DELEGATION BY THE BOARD

D.1 Management functions

Pursuant to the Code, a company should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to the management as to the matters that must be approved by the board before decisions are made on behalf of the Company. The Board is principally responsible for formulating strategies, objectives, policies and business plans of the Company, supervising the implementation of strategies of the Company, supervising and controlling the operation and financial performance of the Company and formulating appropriate risk management policies and procedures in order to achieve the Group's strategic objectives. Moreover, the Board is also equipped with an effective corporate governance structure to facilitate communication with shareholders.

The Board authorized the management under the Chief Executive Officer's leadership to implement the strategies and plans established by the Board and make decisions on daily operations. However, the Board's approval is required for significant financing programs of the Company, such as, merger and acquisition or disposal of material assets, material capital expenditure and external borrowing. Management is responsible for reporting the operation and financial performance of the Company to the Board.

There was no deviation from Code provisions D.1.1 to D.1.2 under the Code.

D.2 Board committees

Pursuant to the Code, board committees should be formed with specific written terms of reference which deal clearly with the authority and duties of the committees. The Company has prescribed sufficiently clear terms of reference to enable the two Board committees (i.e. the Audit Committee and the Remuneration Committee) to discharge their functions properly and require the two committees to report to the Board on their decisions or recommendations.

There was no deviation from Code provisions D.2.1 to D.2.2 under the Code.

E. COMMUNICATION WITH SHAREHOLDERS

Pursuant to the Code, a board of directors should endeavour to maintain an on-going dialogue with shareholders and, in particular, to communicate through annual general meetings with shareholders and encourage their participation. The company should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the company.

The Company, the Board and the management place high regard on the opinions and needs of shareholders. The Company attempts to enhance the communication with its shareholders through publishing interim and annual results and reports and press releases as well as announcing publicly its latest developments on its website (www.yueda.com.hk). Shareholders may also receive the latest information released by the Company electronically.

The annual general meeting of the Company is a communication channel between the shareholders with the Board members, including independent non-executive Directors, and senior management. The chairman of the Board and chairmen of each committee shall try their best to attend the meeting to answer questions raised by the shareholders. During the Year, the Company held two general meetings (including the 2010 AGM), at which a separate resolution was proposed in respect of each motion. The procedures for and the rights of shareholders to demand a poll and details of the proposed resolutions were disclosed in the circular sent to shareholders prior to each of the general meeting.

The Company also facilitates communication with the shareholders through various investor relations activities.

Save for the deviation from Code provision E.1.2 set out page 13, there was no departure from Code provisions E.1.1 to E.2.3 under the Code.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTOR

Mr DONG Li Yong, aged 41, joined the Group in 1995. Mr Dong has been an executive Director of the Company since 2001. While remaining as an executive Director of the Company, he also holds office of vice chairman of the Board and chief executive officer of the Company. He is primarily responsible for the overall business operations of the Group focusing on strategic planning, business development, investors' relationship as well as corporate finance. He graduated from the People's University of China, Beijing in 1995 with a bachelor degree in economics, majored in marketing. In May 2005, Mr Dong graduated from the Haas School of Business, University of California, Berkeley with a master degree in business administration. Mr Dong is a director of each of Yue Da Mining Limited, Yue Da Infrastructure Limited and eleven other subsidiaries of Yue Da Mining Limited incorporated in the BVI, all being direct/indirect subsidiaries of the Company. Mr Dong is also a non-executive director of Xiangyu Dredging Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange.

Mr LIU Xiaoguang, aged 58, joined the Group as a non-executive Director in January 2007. He is a senior economist in the PRC. He graduated from Soochow University with a bachelor degree in jurisprudence. He has over 18 years' experience in corporate planning and management. In 1991, Mr Liu joined Jiangsu Yue Da and had been an assistant to general manager, deputy general manager and chief secretary to the board of directors of Jiangsu Yue Da. Mr Liu is a director of Yue Da Group (H.K.) Co., Limited ("Yue Da HK"), a substantial shareholder of the Company and a wholly owned subsidiary of Jiangsu Yue Da.

Mr HU Huaimin, aged 38, joined the Group in January 2007 and is the executive vice president of the Company. His major job responsibilities include the operation and management of mining projects of the Group. Also, he is currently a director of each of Feilong Nonferrous Metal Co. Ltd. (保山市飛龍有色金屬有限責任公司), Tengchong Ruitu Mining and Technology Company Limited* (騰沖縣瑞土礦業有限責任公司), Yaoan Feilong Mining Co., Ltd.* (姚安縣飛龍礦業有限責任公司), Zhen'an County Daqian Mining Development Co., Ltd.* (鎮安縣大乾礦業發展有限公司), Tong Ling Guan Hua and Yuechuan JV, all of which are the subsidiaries of the Company. Mr Hu graduated from the Law School of Nanjing University and is qualified as a Chinese lawyer and an economist. He has over 15 years of experience in the Chinese legal practice, corporate legal affairs, investment project operation and management.

NON-EXECUTIVE DIRECTORS

Mr CHEN Yunhua, aged 58, joined the Group in November 2009, is the chairman of the Board and is a senior economist in the PRC. He graduated from 鹽城師範專科學校 with post-secondary qualification, majoring in Chinese in 1977. He has over 30 years' experience in political and economics business management. Previously, Mr Chen assumed supervisory posts at the PRC bureau at Yancheng City, Jiangsu Province, the PRC. He is a deputy to the tenth Provincial People's Congress of Jiangsu, a deputy to the fourth Municipal People's Congress of Yancheng, the vice president of the sixth Municipal Committee of the Chinese People's Political Consultative Conference of Yancheng, a director of Yue Da HK and the chairman of the board of Jiangsu Yue Da.

Mr QI Guangya, aged 42, joined the Group as a non-executive Director since January 2007. He is a senior accountant and a certified public accountant in the PRC and a senior international finance manager certified by International Finance Management Association (國際財務管理協會). He graduated from Jiangsu Provincial Party Committee School (江蘇省委黨校) with a postgraduate degree. He has over 20 years' experience in financial management. In 1991, Mr Qi joined a subsidiary of Jiangsu Yue Da, and has been a director, chief accountant and deputy general manager of Jiangsu Yue Da.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr HAN Runsheng, aged 47, has been appointed as an independent non-executive Director of the Company in January 2007. He graduated from the Kunming University of Science and Technology with a doctoral degree in mineral resource prospecting and exploration (礦產普查與勘探) and completed the postdoctoral fellowship at the Institute of Geochemistry of the Chinese Academy of Sciences (中國科學院地球化學研究所). Mr Han was a researcher and tutor to doctoral degree candidates at the Kunming University of Science and Technology. Mr Han was also the head of Southwest Geology Survey Centre of the Institute of Mineral and Geology Survey of Nonferrous Metals (有色金屬礦產地質調查中心西南地質調查所所長) and a part-time professor at Southwest University of Science and Technology. In addition, Mr Han is currently the Cross-Century Young Academic and Technical Leader of the Yunnan Province (雲南省跨世紀中青年學術和技術帶頭人) and the State-level candidate of the project of "Hundreds, Thousands, and Ten Thousands of Talents for the New Century" (新世紀百千萬人才工程) of the Ministry of Education. Mr Han's major areas of research study are the research and teaching of the location forecasting of concealed ore-body, tectonic geochemistry, dynamic tectonic mineralization and mineral and geology survey.

Ms LEUNG Mei Han, aged 53, has been appointed as an independent non-executive Director of the Company since January 2007. She is a fellow member of CPA Australia. She graduated from the University of Queensland with a bachelor degree in commerce. Ms Leung is an executive director of AMCO United Holdings Limited, the shares of which are listed on the main board of the Stock Exchange. Ms Leung is the chairman and an executive director of Optima Capital Limited (a firm of corporate finance advisers and a licensed corporation under the SFO). She has over 27 years' experience in accounting, securities, corporate finance and related areas. Ms Leung is also an independent non-executive director of Bossini International Holdings Limited, Four Seas Mercantile Holdings Limited and Xiangyu Dredging Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange.

Mr CUI Shuming, aged 74, has been appointed as an independent non-executive Director of the Company since January 2007. He is a senior economist in the PRC and graduated from the People's University of China. He has over 40 years' experience in international finance and corporate planning and management. Mr Cui was deputy head of the Bank of China, Jiangsu Branch, and managing director of the National Commercial Bank Ltd. (浙江興業銀行) and the general manager of its Hong Kong branch. Mr Cui was a director and deputy chief executive officer of CITIC International Financial Holdings Limited, an independent non-executive director of Burwill Holdings Limited and China LotSynergy Holdings Limited, the shares of which are listed on the Main Board and the Growth Enterprise Market of the Stock Exchange respectively.

Dr LIU Yongping, aged 56, is a consultant of a firm of solicitors in Hong Kong. Dr Liu graduated from Renmin University of China (中國人民大學) in 1983 with a bachelor degree in law, and graduated from the University of London in 1987 with a master degree in law. In 1994, Dr Liu graduated from the University of Oxford with a doctor of philosophy. Previously, Dr Liu worked for the People's Government of Beijing. At present, Dr Liu is a practicing solicitor in Hong Kong. Dr Liu has profound knowledge in the laws of the PRC, Hong Kong and England. Since 1994, Dr Liu has embarked in areas on listing application for PRC based companies in Hong Kong and work on merger and acquisition. Dr Liu is acquainted with matters concerning the Listing Rules.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Dong Guang Yong, aged 47, joined the Group in November 2007 and is a vice president of the Company. He is primarily responsible for project development. He graduated from Huadong Polytechnic University with a master degree in engineering. He has over 10 years' of experience in project development and corporate management. He was a lecturer of Yancheng Normal College, Jiangsu Province, head of the development section of the management committee of the Jiangsu Yue Da Development Zone, deputy managing director of Yancheng Yue Da Real Estate Company Limited and deputy division head, division head and secretary to the board of Yue Da Investment.

Mr. Bai Zhaoxiang, aged 49, joined the Group in August 2008 and is the financial controller and vice president of the Company. Mr. Bai is a college graduate majoring in industrial accounting and a senior accountant in the PRC. Mr Bai is primarily responsible for accounting and financial matters. Mr. Bai has over 29 years' of experience in accounting. Prior to joining the Company, Mr. Bai has worked as a financial controller of a foreign-invested enterprise in the PRC for about 13 years.

Directors' Report

The board of directors presents its annual report and the audited consolidated financial statements for the year ended 31st December, 2011.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its principal subsidiaries are engaged in (i) exploration, mining and processing of zinc, lead, iron and gold and trading of iron ore and related products; and (ii) management and operation of toll highway and bridge in the People's Republic of China (the "PRC").

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2011 are set out in the consolidated statement of comprehensive income on page 38.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past financial years is set out on page 112.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately RMB47,453,000 on property, plant and equipment.

Details of the above and other movements in the property, plant and equipment of the Group during the year are set out in Note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital as at 31st December, 2011 are set out in Note 35 to the consolidated financial statements.

During the year, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the shares in the Company.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31st December, 2011, which represent the share premium, contributed surplus and accumulated losses, were RMB815,738,000.

Directors' Report

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Dong Li Yong
Mr. Liu Xiaoguang
Mr. Hu Huaimin (appointed on 31st August, 2011)

Non-executive directors:

Mr. Chen Yunhua *(Chairman)*
Mr. Qi Guangya

Independent non-executive directors:

Ms. Leung Mei Han
Mr. Cui Shu Ming
Mr. Han Run Sheng
Dr. Liu Yongping

In accordance with Article 108(A) of the Company's Articles of Association, Mr. Qi Guangya, Mr. Cui Shuming and Ms. Leung Mei Han will retire by rotation. Mr. Qi Guangya, Mr. Cui Shuming and Ms. Leung Mei Han, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Further, in accordance with Article 112 of the Company's Articles of Association, Mr. Hu Huaimin shall hold office only until the first general meeting after his appointment i.e. the forthcoming annual general meeting, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

CONFIRMATION BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all the independent non-executive directors to be independent.

DIRECTORS' SERVICE CONTRACTS

None of the directors (including those being proposed for re-election at the forthcoming annual general meeting of the Company) has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The term of office of each of the non-executive directors and the independent non-executive directors is the period up to his/her retirement by rotation as required by the Company's Articles of Association.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES OR ANY ASSOCIATED CORPORATION OF THE COMPANY

As at 31st December, 2011, the interests of each director and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name	**Name of the Company/ associated corporation**	**Capacity**	**Number of ordinary shares** (note i)	**Approximate percentage of issued share capital of the Company** (note ii)	**Number of options granted and underlying shares**
Dong Li Yong	The Company	Beneficial Owner	3,000,000 (L)	0.44%	350,865 (note iii)
	The Company	Beneficial Owner	—	—	1,052,595 (note iv)
Liu Xiaoguang	The Company	Beneficial Owner	600,000 (L)	0.09%	350,865 (note iii)
	The Company	Beneficial Owner	—	—	350,865 (note iv)
Hu Huaimin	The Company	Beneficial Owner	848,000 (L)	0.12%	409,342 (note iii)
	The Company	Beneficial Owner	—	—	701,730 (note iv)
Qi Guangya	The Company	Beneficial Owner	—	—	701,730 (note iv)
Chen Yunhua	The Company	Beneficial Owner	—	—	1,500,000 (note v)

notes:

i. The letter "L" represents the director's long position in the ordinary shares of the Company.

ii. The percentage of issued share capital of the Company is calculated by reference to 686,768,907 shares in issue as at 31st December, 2011.

iii. These represent shares which would be allotted and issued upon the exercise in full of the options offered to the directors on 27th May, 2009 under the share option scheme of the Company. These options are exercisable at the subscription price of HK$0.91 per share during the period from 28th May, 2009 to 26th May, 2019.

iv. These represent shares which would be allotted and issued upon the exercise in full of the options offered to the directors on 9th July, 2009 under the share option scheme of the Company. These options are exercisable at the subscription price of HK$0.91 per share during the period from 9th July, 2009 to 24th May, 2018.

v. These represent share which would be allotted and issued upon the exercise in full of the options offered to the director on 19th April, 2010 under the share option scheme of the Company. These options are exercisable at the subscription price of HK$1.72 per share during the period from 20th April, 2010 to 19th April, 2020.

Other than as disclosed above and in this annual report, none of the directors, chief executives nor their associates had any interests or short positions in any shares, underlying shares or debenture of the Company or any of its associated corporations as at 31st December, 2011.

SHARE OPTIONS

The Company's share option scheme was adopted pursuant to a resolution passed on 12th November, 2001 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group and was terminated on 9th June, 2011. A new share option scheme (the "Scheme") was adopted by the Company on 9th June, 2011. Under the Scheme, the directors may, at their discretion, invite any person belonging to any of the following classes of participants to take up options to subscribe for shares in the Company:

(i) any employee (whether full time or part time) of the Company, any of its subsidiaries or any entity in which the Group holds an equity interest ("Invested Entity"), including any executive director of the Company, any of such subsidiaries or any Invested Entity;

(ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and

(viii) any other group or classes of participants from time to time determined by the directors as having contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group, and, for the purposes of the Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of shares in the Company or other securities of the Group to any person who fall within any of the above classes of participants shall not, solely by itself, unless the directors otherwise determine, be construed as a grant of option under the Scheme.

The basis of eligibility of any of the above classes of participants to the grant of any options shall be determined by the directors from time to time.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the relevant class of securities of the Company in issue from time to time. Unless with prior approval from the Company's shareholders, the total number of shares in respect of which options might be granted at the same time under the Scheme and any other share option scheme of the Group was not permitted to exceed 10% of the shares of the Company in issue at the date of adoption of the New Share Option Scheme (i.e. on 9th June, 2011, the 10% limit being 68,665,195 shares of the Company).

Without prior approval from the Company's shareholders, the number of shares in respect of which options may be granted to any participant in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time. Options granted to directors, chief executives or substantial shareholders of the Company or any of their respective associates must be approved by independent non-executive directors of the Company (excluding any independent non-executive director who is the grantee of the options). Options granted to substantial shareholders or independent non-executive directors or any of their respective associates in the 12-month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

The subscription price for shares under the Scheme shall be a price determined by the directors, but shall not be less than the higher of (i) the closing price of shares as stated in the Stock Exchange's daily quotations on the date of the offer for grant; (ii) the average closing price of shares as stated in the daily quotations of the Stock Exchange for the five business days immediately preceding the date of the offer for grant; and (iii) the nominal value of the shares.

Further particulars of the Scheme are set out in Note 36 to the consolidated financial statements.

Details of movements during the year in the options granted by the Company under the Scheme are as follows:

	Date of grant	Exercise price per share HK$	Exercisable period	Outstanding at 1st January, 2011	Transfer during the year (note)	Exercised during the year	Outstanding at 31st December, 2011
Directors of the Company	27th May, 2009	0.9063	28th May, 2009 to 26th May, 2019	701,730	409,342	—	1,111,072
	9th July, 2009	0.9063	9th July, 2009 to 24th May, 2018	2,105,190	701,730	—	2,806,920
	19th April, 2010	1.716	20th April, 2010 to 19th April, 2020	1,500,000	—	—	1,500,000
				4,306,920	1,111,072	—	5,417,992
Employees	27th May, 2009	0.9063	28th May, 2009 to 26th May, 2019	4,946,021	(409,342)	(374,256)	4,162,423
	9th July, 2009	0.9063	9th July, 2009 to 24th May, 2018	6,792,734	(701,730)	(839,723)	5,251,281
	19th April, 2010	1.716	20th April, 2010 to 19th April, 2020	700,000	—	—	700,000
	19th April, 2010	1.716	20th April, 2011 to 19th April, 2020	150,000	—	—	150,000
	19th April, 2010	1.716	20th April, 2012 to 19th April, 2020	150,000	—	—	150,000
	16th December, 2010	1.35	17th December, 2010 to 16th December, 2020	144,000	—	—	144,000
	16th December, 2010	1.35	17th December, 2011 to 16th December, 2020	108,000	—	—	108,000
	16th December, 2010	1.35	17th December, 2012 to 16th December, 2020	108,000	—	—	108,000
				13,098,755	(1,111,072)	(1,213,979)	10,773,704
	Total			17,405,675	—	(1,213,979)	16,191,696
	Exercisable at the end of the year			16,889,675			15,933,696
	Weighted average exercise price (HK$)			1.03		0.91	1.04

note: The options transferred relates to appointment of a director of the Company, Mr. Hu Huaimin, on 31st August, 2011, who received the options in his capacity as an employee before the appointment as director.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Company's share option scheme disclosed above, at no time during the year was the Company, or any of its holding companies, subsidiaries and fellow subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance, to which the Company, or any of its holding companies, subsidiaries and fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

The following are the continuing connected transactions that took place during the year ended 31st December, 2011 and which were not exempted under Rule 14A.31, Rule 14A.33 or Rule 14A.65 of the Listing Rules.

i. Tenancy agreement ("HK Office Tenancy Agreement") with Yue Da HK and YD Enterprise

On 27th August, 2010, the Company (as tenant) entered into the HK Office Tenancy Agreement with Yue Da HK (as landlord) for renting the Company's office in Hong Kong for a term of three years from 1st September, 2010 to 31st August, 2013. The rental payable to Yue Da HK is HK$200,000 per month (excluding rates, management fees and utility charges). Yue Da HK is a controlling shareholder of the Company and accordingly is a connected party. Further, the Company has also entered into two tenancy agreements with Yue Da HK and YD Enterprise for staff quarter purpose, each for a term of three years from 1st January, 2010 to 31st December, 2012 and at a monthly rental of HK$25,000 and HK$20,000, respectively. YD Enterprise is a fellow subsidiary of the Company and deemed to be a connected party. During the year ended 31st December, 2011, the total rentals paid by the Company to Yue Da HK and YD Enterprise are HK$2,700,000 (equivalent to RMB2,249,000) and HK$240,000 (equivalent to RMB200,000), respectively. These transactions constituted continuing connected transactions of the Company and are subject to announcement and reporting requirements under Chapter 14A of the Listing Rules, details of which were disclosed in the announcement of the Company dated 27th August, 2010.

ii. Iron ore supply agreement between Yuechuan JV and Pingchuan Iron

On 14th December, 2010, Yuechuan JV, a non-wholly owned subsidiary of the Company entered into an agreement with, Pingchuan Iron, a substantial shareholder of Yuechuan JV, in respect of the purchase of iron ores and related products by Yuechuan JV from Pingchuan Iron on an ongoing basis. As Pingchuan Iron is a substantial shareholder of Yuechuan JV and is interested in 51% of the equity interest in Yuechuan JV, it is a connected party of the Company. During the year ended 31st December, 2011, the total purchase amount was RMB34,309,000.

The annual cap approved by shareholders of the Company at the extraordinary general meeting held on 11th February, 2011 for the year ended 31st December, 2011 was RMB200,000,000.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditor of the Company to perform certain agreed-upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported the factual findings on these procedures to the board of directors. The independent non-executive directors of the Company have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions were entered into by the Group in the ordinary course of its business; on normal commercial terms, or on terms no less favourable than terms available to or from (as the case may be) independent third parties, and in accordance with the terms of the agreements governing such transactions that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Details of the above continuing connected transactions and other disclosable connected transactions are set out in Note 45 to the consolidated financial statements.

CONTROLLING AND SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTEREST

The register of controlling and substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that as at 31st December, 2011, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Name	**Name of the company/ associated corporation**	**Capacity**	**Number of issued ordinary shares held** (note i)	**Percentage of the issued share capital of the Company** (note ii)
Yue Da HK	The Company	Beneficial owner	402,330,868 (L) (note iv)	58.58%
Jiangsu Yue Da (note iii)	The Company	Interest of a controlled corporation	402,330,868 (L) (note iv)	58.58%

notes:

(i) The letter "L" represents the entity's long positions in the shares.

(ii) The percentage of issued share capital of the Company is calculated by reference to 686,768,907 shares in issue as at 31st December, 2011.

(iii) Jiangsu Yue Da holds 100% interests in Yue Da HK and is accordingly deemed to be interested in the shares of the Company beneficially owned by Yue Da HK under the SFO.

(iv) The balance of 150,314,868 shares of the Company includes the underwriting commitment by Yue Da HK under the underwriting agreement dated 15 December 2011 and entered into between the Company and Yue Da HK as underwriter.

Other than as disclosed above, the Company has not been notified of any other persons who as at 31st December, 2011, had interests of 5% or more in any shares or underlying shares of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers during the year accounted for approximately 65% of the Group's total revenue and the largest customer accounted for approximately 18% of the Group's total revenue. The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 65% of the Group's total purchases and the largest suppliers accounted for approximately 43% of the Group's total purchases. None of the directors of the Company and their respective associates and the substantial shareholders of the Company has interest in any of the five largest customers nor five largest suppliers of the Company.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of the employees' merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive for directors and eligible employees. Details of the scheme are set out in the section headed "Share Options" in this report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2011.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Chen Yunhua
CHAIRMAN
Hong Kong

30th March, 2012

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF YUE DA MINING HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Yue Da Mining Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 111, which comprise the consolidated statement of financial position as at 31st December, 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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 auditor's judgment, 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 auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

30th March, 2012

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2011

	NOTES	**2011 RMB'000**	2010 RMB'000
Revenue	5	**416,795**	350,816
Cost of sales		**(251,152)**	(181,375)
Direct operating costs		**(34,498)**	(40,378)
Gross profit		**131,145**	129,063
Other income		**5,739**	3,952
Other gains and losses	7	**83,429**	10,874
Gain on bargain purchase of acquisition of subsidiaries	39	**—**	13,405
Administrative expenses		**(77,661)**	(67,414)
Finance costs	9	**(24,540)**	(29,529)
Other expenses	10	**—**	(1,313)
Profit before tax		**118,112**	59,038
Income tax expense	11	**(17,488)**	(15,436)
Profit and total comprehensive income for the year	12	**100,624**	43,602
Profit and total comprehensive income for the year attributable to:			
— Owners of the Company		**105,022**	35,529
— Non-controlling interests		**(4,398)**	8,073
		100,624	43,602
Earnings per share	13		
— Basic		**RMB15.30 cents**	RMB5.71 cents
— Diluted		**RMB15.27 cents**	RMB5.65 cents

Consolidated Statement of Financial Position

At 31st December, 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current Assets			
Property, plant and equipment	14	**168,886**	202,670
Prepaid lease payments	15	**3,853**	2,504
Mining rights	16	**1,218,948**	1,507,303
Available-for-sale investments	17	**70,457**	—
Goodwill	18	**482**	482
Other intangible assets	19	**42,530**	63,938
Long term deposits	20	**6,159**	7,455
Other financial asset	21	**—**	23,604
		1,511,315	1,807,956
Current Assets			
Prepaid lease payments	15	**238**	208
Inventories	22	**38,557**	32,957
Trade and other receivables	23	**185,113**	68,720
Amounts due from related companies	24	**30,058**	32,392
Bank balances and cash	25	**127,614**	253,741
		381,580	388,018
Current Liabilities			
Trade and other payables	26	**70,836**	49,885
Amount due to a related company	24	**845**	25,996
Amounts due to directors	27	**365**	344
Taxation payable		**10,070**	9,342
Promissory notes — due within one year	28	**7,722**	40,957
Bank borrowings — due within one year	29	**206,232**	250,262
Obligations under finance leases	30	**2,437**	—
		298,507	376,786
Net Current Assets		**83,073**	11,232
Total Assets Less Current Liabilities		**1,594,388**	1,819,188

Consolidated Statement of Financial Position

At 31st December, 2011

	NOTES	**2011 RMB'000**	2010 RMB'000
Capital and Reserves			
Share capital	35	**64,874**	64,773
Reserves		**973,692**	863,233
Equity attributable to owners of the Company		**1,038,566**	928,006
Non-controlling interests		**195,338**	271,745
Total equity		**1,233,904**	1,199,751
Non-current Liabilities			
Other payables	26	**20,756**	22,106
Promissory notes — due after one year	28	**—**	54,668
Bank borrowings — due after one year	29	**—**	87,592
Obligations under finance leases	30	**766**	—
Consideration payable for acquisition of subsidiaries	31	**—**	55,984
Provisions	32	**261**	2,496
Deferred tax liabilities	33	**308,280**	364,315
Deferred income	34	**30,421**	32,276
		360,484	619,437
		1,594,388	1,819,188

The consolidated financial statements on pages 38 to 111 were approved and authorised for issue by the board of directors on 30th March, 2012 and are signed on its behalf by:

Dong Liyong
DIRECTOR

Liu Xiaoguang
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2011

	Attributable to owners of the Company										
	Share capital	Share premium	Non-distributable reserves	Special reserve	Capital contribution	Share options reserve	Other reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(note i)	(note ii)	(note iii)		(note iv)				
At 1st January, 2010	33,122	487,322	22,393	157,178	32,400	18,460	(59,372)	(164,579)	526,924	126,184	653,108
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	35,529	35,529	8,073	43,602
Deemed distribution to the ultimate parent from early repayment of non-current interest-free loan	–	–	–	–	(5,466)	–	–	–	(5,466)	–	(5,466)
Deemed distribution to a shareholder from early repayment of promissory notes	–	–	–	–	(4,217)	–	–	–	(4,217)	–	(4,217)
Deemed contribution from a shareholder	–	–	–	–	644	–	–	–	644	–	644
Acquisition of subsidiaries (Note 39)	–	–	–	–	–	–	–	–	–	93,000	93,000
Shares issued (Note 35)	31,290	343,661	–	–	–	–	–	–	374,951	–	374,951
Transaction cost attributable to issue of shares	–	(5,624)	–	–	–	–	–	–	(5,624)	–	(5,624)
Recognition of equity-settled share-based payments	–	–	–	–	–	1,962	–	–	1,962	–	1,962
Exercise of share options	361	4,718	–	–	–	(1,776)	–	–	3,303	–	3,303
Capital contribution from non-controlling interests (note v)	–	–	–	–	–	–	–	–	–	51,000	51,000
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(6,512)	(6,512)
Transfer	–	–	7,181	–	–	–	–	(7,181)	–	–	–
At 31st December, 2010	64,773	830,077	29,574	157,178	23,361	18,646	(59,372)	(136,231)	928,006	271,745	1,199,751
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	105,022	105,022	(4,398)	100,624
Deemed distribution to a shareholder from early repayment of promissory notes (Note 28)	–	–	–	–	(1,644)	–	–	–	(1,644)	–	(1,644)
Acquisition of additional interest in a non-wholly owned subsidiary (Note 21)	–	–	–	–	–	–	5,908	–	5,908	(52,593)	(46,685)
Disposal of subsidiaries (Note 40)	–	–	–	–	–	–	–	–	–	(11,998)	(11,998)
Recognition of equity-settled share-based payments	–	–	–	–	–	355	–	–	355	–	355
Exercise of share options	101	1,269	–	–	–	(451)	–	–	919	–	919
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(7,418)	(7,418)
Transfer	–	–	1,444	–	–	–	–	(1,444)	–	–	–
At 31st December, 2011	64,874	831,346	31,018	157,178	21,717	18,550	(53,464)	(32,653)	1,038,566	195,338	1,233,904

notes:

(i) The non-distributable reserves represent statutory reserves appropriated from the profit after tax of the Company's subsidiaries established in the People's Republic of China (the "PRC") under the PRC laws and regulations and capital deficit arising from capital injections by the Group into the Company's subsidiaries in the PRC in the form of foreign currencies.

(ii) The special reserve represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation in 2001 and the surplus arising on the capitalisation of an amount payable to a fellow subsidiary as part of the group reorganisation.

(iii) The capital contribution represents deemed contribution from (distribution to) the ultimate parent and a shareholder arising from:

(a) compensation in relation to the termination of the acquisition of Balin Zuo Qi Hong Ling Lead and Zinc Mine ("Hong Ling") paid on behalf of the Group without any consideration by Yue Da Enterprise (Group) HK Ltd. ("Yue Da Enterprise"), which is a fellow subsidiary of the Company and a related party as it is a subsidiary of Jiangsu Yue Da Group Company Limited ("Jiangsu Yue Da"), the ultimate parent of the Company. In 2008, a settlement deed was entered with the vendor of Hong Ling and the Group agreed to pay compensation of RMB7,827,000 for termination of the acquisition. The entire amount was subsequently paid by Yue Da Enterprise for the Group without any consideration, and was recognised as a deemed capital contribution from the ultimate parent;

(b) non-current interest-free loan granted and extension of their repayment date by Yue Da Enterprise, and their early repayment. In prior periods, the difference between the nominal value and the fair value on inception date and the difference between the carrying value and the fair value on extension date of the non-current interest-free loan were recognised as deemed contribution by the ultimate parent, and the difference between the carrying value and nominal value on the date of early repayment of the non-current interest-free loan was recognised as deemed distribution to the ultimate parent. On 30th June, 2011, the Group fully repaid the remaining portion of the loan with a nominal value of RMB26,333,000. Details are set out in Note 24;

(c) promissory notes issued and extension of their repayment dates by an affiliate of Mr. Yang Long. Mr. Yang Long had significant influence over the mining subsidiaries of the Company and therefore he and his affiliates were related parties. This relationship ceased from 1st October, 2010 onwards. Mr. Yang Long was and continues to be a shareholder of the Company. In prior periods, the difference of the nominal value and the fair value on inception date and the differences between the carrying value and the fair value on extension dates of the promissory notes were recognised as a deemed contribution by a shareholder, and the difference between the carrying value and nominal value on the date of early repayment of the promissory notes was recognised as deemed distribution to a shareholder. During the year ended 31st December, 2011, the Group early repaid a portion of the promissory notes with a nominal value of RMB16,674,000. A difference of RMB1,644,000 between the carrying value and the nominal value of this repaid portion of promissory notes at the date of early repayment has been recognised as a deemed distribution to a shareholder. Details are set out in Note 28.

(iv) The other reserve represents the difference between the fair value and the book value of the mining rights attributable to additional interests acquired in 2007 and the difference between amount of non-controlling interests acquired and the fair value of consideration paid during the year ended 31st December, 2011.

(v) This represented the non-controlling interest share of Liangshan Prefecture Yuechuan Mining Co., Limited ("Yuechuan JV") which was incorporated on 8th July, 2010.

Consolidated Statement of Cash Flows

For the year ended 31st December, 2011

	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**118,112**	59,038
Adjustments for:		
Amortisation of mining rights	**38,411**	36,090
Finance costs	**24,540**	29,529
Depreciation of property, plant and equipment	**39,374**	27,024
Amortisation of other intangible assets	**21,408**	20,297
Share-based payment expenses	**355**	1,962
Release of prepaid lease payments	**140**	129
Loss on disposal of property, plant and equipment	**5,732**	18
Fair value change in contingent consideration	**(74,182)**	—
Loss arising on early repayment of promissory notes	**1,873**	—
Gain on disposal of subsidiaries	**(8,930)**	—
Gain on bargain purchase of acquisition of subsidiaries	**—**	(13,405)
Net loss (income) arising on early repayment and repayment extension of consideration payable for acquisition of subsidiaries	**5,024**	(4,007)
Interest income	**(3,775)**	(1,972)
Imputed interest income on deferred income	**(1,855)**	(1,293)
Gain from change in fair value of financial asset designated as at fair value through profit or loss	**(641)**	(1,155)
Operating cash flows before movements in working capital	**165,586**	152,255
Increase in long term deposits	**(2,378)**	(4,607)
Increase in inventories	**(7,599)**	(10,502)
Increase in trade and other receivables	**(3,744)**	(49,651)
Increase in amounts due from related companies	**(2,081)**	(5,123)
Increase in trade and other payables	**30,810**	9,024
Cash generated from operations	**180,594**	91,396
Income tax paid	**(15,155)**	(10,039)
NET CASH FROM OPERATING ACTIVITIES	**165,439**	81,357

Consolidated Statement of Cash Flows

For the year ended 31st December, 2011

	NOTES	2011 RMB'000	2010 RMB'000
INVESTING ACTIVITIES			
Acquisition of subsidiaries (net of cash and cash equivalents acquired of)	39	—	(95,676)
Purchase of property, plant and equipment		(40,796)	(23,152)
Repayment from (advance to) related companies		4,415	(405)
Repayment of consideration payable for acquisition of subsidiaries	31	(61,535)	(13,318)
Interest received		3,775	1,972
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	40	24,224	380
Proceeds from disposal of property, plant and equipment		8,390	46
Addition of prepaid lease payments		(1,519)	—
NET CASH USED IN INVESTING ACTIVITIES		(63,046)	(130,153)
FINANCING ACTIVITIES			
Proceeds on open offer of new shares		—	343,922
Bank borrowings raised		137,550	167,052
Capital contribution from non-controlling interest		—	51,000
Proceeds from issue of shares upon exercise of share options		919	3,303
Repayment of bank borrowings		(269,172)	(165,278)
Repayment of promissory notes		(16,674)	(59,699)
Repayment to a related company		(26,333)	(42,264)
Advance from a related company		845	—
Interest paid		(13,760)	(14,136)
Acquisition of additional interest in a non-wholly owned subsidiary	21	(22,440)	—
Dividend paid to non-controlling shareholders		(7,418)	(6,512)
Transaction cost attributable to issue of shares		—	(5,624)
Repayment under finance leases		(3,794)	—
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(220,277)	271,764
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(117,884)	222,968
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		253,741	34,481
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(8,243)	(3,708)
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash		127,614	253,741

1. GENERAL

The Company is incorporated and registered as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands with limited liability. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors of the Company, the Company's parent is Yue Da Group (H.K.) Co., Limited ("Yue Da HK"), a company incorporated in Hong Kong with limited liability, and the Company's ultimate parent is Jiangsu Yue Da, a state-owned enterprise established with limited liability in the PRC. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries are (i) exploration, mining and processing of zinc, lead, iron and gold and trading of iron ore and related products; and (ii) management and operation of toll highway and bridge in the PRC.

As all of the Group's operations are in the PRC, the consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) — Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — CONTINUED

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

Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets[1]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred tax — Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1st July, 2011.
2 Effective for annual periods beginning on or after 1st January, 2013.
3 Effective for annual periods beginning on or after 1st January, 2015.
4 Effective for annual periods beginning on or after 1st January, 2012.
5 Effective for annual periods beginning on or after 1st July, 2012.
6 Effective for annual periods beginning on or after 1st January, 2014.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") — CONTINUED

HKFRS 9 Financial Instruments — continued

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate that the adoption of HKFRS 9 in the future will affect the classification and measurement in respect of the Group's available-for-sale investments but not on the Group's other financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

3. SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Basis of consolidation — continued

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1st January, 2010 onwards).

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1st January, 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1st January, 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, using the cost of the acquisition and fair value information at the date of each acquisition with goodwill or a bargain purchase gain being recognised where appropriate. Any adjustments to those fair values relating to previously held interests are accounted for as an increase in "other reserve". For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset is remeasured at subsequent reporting dates in accordance with HKAS 39, with the corresponding gain or loss being recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purpose, other than construction in progress, are stated in the consolidated financial statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Mining rights

Mining rights are stated at cost less subsequent accumulated amortisation and accumulated impairment losses. Mining rights are amortised using the units of production method based on the proven and probable mineral reserves.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that are expected to benefit from the synergies of the acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Goodwill — continued

A CGU to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Other intangible assets

Other intangible assets, which represent the cost incurred to obtain the right to operate a highway and bridge infrastructure, are stated at cost less amortisation and any accumulated impairment losses. Amortisation is provided to write off the cost of other intangible assets over the remaining concessionary period of the toll highway and bridge, using the straight-line method.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials, and where applicable, direct labour cost and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as financial assets at FVTPL, loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Financial instruments — continued

Financial assets — continued

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at FVTPL

Financial assets at FVTPL are those designated as at FVTPL on initial recognition.

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including long term deposits, trade and other receivables, amounts due from related companies and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Financial instruments — continued

Financial assets — continued

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of loans and receivables is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Financial instruments — continued

Financial assets — continued

Impairment of financial assets — continued

For available-for-sale equity investments which are measured at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in the subsequent periods.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instrument is recognised and deducted directly in equity. No gain or loss is recognised in profit and loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

The Group's financial liabilities (including trade and other payables, amounts due to a related company/ directors, obligations under finance leases, promissory notes, bank borrowings and consideration payable for acquisition of subsidiaries) are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Financial instruments — continued

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised is recognised in profit or loss.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

The Group is required to make payments for restoration and rehabilitation of certain land after the underground sites have been mined. Provision for restoration, rehabilitation and environmental cost is required when the Group has a present obligation as a result of past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provision is measured in accordance with the relevant rules and regulations applicable in the PRC at the end of the reporting period, and using the cash flows estimated to settle the present obligation. Its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Government grants

Government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants related to imputed interest portion of non-current mining fee payables are presented as deferred income and are released to income over the extraction period of respective mines upon the recognition of imputed interest expense of non-current mining fee payables.

3. SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of sales related taxes.

Toll revenue is recognised on receipt.

Revenue from sale of goods are recognised when the goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measures reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Retirement benefit costs

Payments to state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When the share options are exercised, the amount previously recognised in the share options reserve will be transferred to share premium.

At the time when the Group modifies the terms and conditions of the share options previously granted, if the modification increases the fair value of the equity instruments granted measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs after vesting date, the incremental fair value granted is recognised immediately.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share options reserve will be transferred to accumulated losses.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Taxation — continued

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. When current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The following are 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.

Useful lives of mining rights

The Group's management determines the estimated useful lives of 13 to 25 years (2010: 8 to 25 years) for its mining rights based on the proven and probable reserves. However, the mining rights were granted for terms of five to eight years (2010: one to eight years). The directors of the Company are of the opinion that the Group will be able to continuously renew the mining rights and the business licences of the respective mining subsidiaries without significant costs. Accordingly, the Group has used the proven and probable reserves as a basis of estimation for the useful lives of its mining rights.

Amortisation rates are determined based on estimated proven and probable mine reserve volume with reference to the independent technical assessment report. The estimates involve subjective judgements in developing such information and have taken into account the technical information about each mine. The capitalised cost of mining rights are amortised using the units of production method. Any change to the estimated proven and probable mine reserves will affect the amortisation charge of those mining rights. Management will reassess the useful lives whenever the ability to renew the mining rights and business licences is changed. As at 31st December, 2011, the carrying amount of mining right was RMB1,218,948,000 (2010: RMB1,507,303,000).

Operation period of toll highway and bridge

The operating period granted to the Group in respect of its toll highway and bridge will end in 2013. The Group is currently negotiating with the relevant government authorities to extend the operating period for a further 10 years to end of 2023. The government has preliminary agreed to extend the operating period but the year of extension is yet to be agreed. The operation rights of the toll highway and bridge are being amortised on the basis that the operating period will end in 2013. Should there be an extension of the operating period, the basis of the amortisation will be revised. As at 31st December, 2011, the carrying amount of other intangible assets was RMB42,530,000 (2010: RMB63,938,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY — CONTINUED

Fair value of contingent consideration arising from business combination

Contingent consideration arising from business combination is valued using a discounted cash flow model, based on the estimated compensation received by the Group, discounted using the applicable prevailing market rate. The estimation of the compensation is based on i) the estimated profits of Tong Ling Guan Hua Mining Company Limited ("Tong Ling Guan Hua") attributable to the Group; ii) weight average unit selling price of the gold and; iii) the quantity of gold produced by Tong Ling Guan Hua.

The estimation of compensation involves assumptions, such as selling quantities, market prices of minerals and the unit of production of Tong Ling Guan Hua. Should there be significant changes in these assumptions or prevailing market rate, the fair value of contingent consideration arising from business combination will change from period to period. As at 31st December, 2011 and 2010, the fair value of contingent consideration for the remaining periods is estimated to be insignificant. During the year ended 31st December, 2011, a fair value change in contingent consideration of RMB74,182,000 was recognised in the consolidated statement of comprehensive income which was mainly due to an unanticipated temporary suspension of mining operation for regional safety inspection by local government authority during the year ended 31st December, 2011. Details are disclosed in note 7.

5. REVENUE

Revenue represents the aggregate of the net amounts received and receivable for toll revenue and the goods sold during the year and is analysed as follows:

	2011 **RMB'000**	2010 RMB'000
Sale of zinc, lead and iron ore concentrates	**339,975**	245,018
Sale of compound gold	**46,669**	41,275
Toll revenue	**30,151**	64,523
	416,795	350,816

6. SEGMENT INFORMATION

The Group's reportable and operating segments under HKFRS 8, based on information reported to the chief operating decision maker ("CODM"), represented by the executive directors, for the purposes of resource allocation and performance assessment are as follows:

— exploration, mining and processing of zinc, lead, iron and gold and trading of iron ore and related products ("Mining & Mineral Trading Operations")

— management and operation of toll highway and bridge ("Toll Road Operations")

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31st December, 2011

	Mining & Mineral Trading Operations RMB'000	Toll road Operations RMB'000	Consolidated RMB'000
SEGMENT REVENUE			
External sales	**386,644**	**30,151**	**416,795**
SEGMENT RESULTS			
Segment profit (loss)	**81,200**	**(11,169)**	**70,031**
Other income			**5,739**
Fair value change in contingent consideration			**74,182**
Other gains and losses			
— Net foreign exchange gains			**12,305**
— Gain from change in fair value of financial asset designated as at FVTPL			**641**
— Loss arising on early repayment of consideration payable for acquisition of subsidiaries			**(5,024)**
— Loss arising on early repayment of promissory notes			**(1,873)**
— Gain on disposal of subsidiaries			**8,930**
Central administration costs			**(22,279)**
Finance costs			**(24,540)**
Profit before tax			**118,112**

6. SEGMENT INFORMATION — CONTINUED

Segment revenues and results — continued

For the year ended 31st December, 2010

	Mining & Mineral Trading Operations RMB'000	Toll road Operations RMB'000	Consolidated RMB'000
SEGMENT REVENUE			
External sales	286,293	64,523	350,816
SEGMENT RESULTS			
Segment profit	61,484	14,721	76,205
Other income			3,952
Other gains and losses			
— Net foreign exchange gains			5,730
— Gain from change in fair value of financial asset designated as at FVTPL			1,155
— Gain arising on early repayment of consideration payable for acquisition of subsidiaries			4,007
Gain on bargain purchase of acquisition of subsidiaries			13,405
Central administration costs			(14,574)
Finance costs			(29,529)
Other expenses			(1,313)
Profit before tax			59,038

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies described in Note 3. Segment profit (loss) represents the profit (loss) resulted in each segment without allocation of other income, other gains and losses as described above, central administration costs, finance costs and other expenses. This is the measure reported to the executive directors of the Company for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

Amounts of segment assets and liabilities of the Group are not reviewed by the CODM or otherwise regularly provided to the CODM, accordingly, segment assets and liabilities are not presented.

6. SEGMENT INFORMATION — CONTINUED

Other segment information

Amounts included in the measure of segment profit (loss):

For the year ended 31st December, 2011

	Mining & Mineral Trading Operations RMB'000	**Toll Road Operations RMB'000**	**Segment Total RMB'000**	**Unallocated RMB'000**	**Total RMB'000**
Depreciation and amortisation	**77,097**	**22,203**	**99,300**	**33**	**99,333**

For the year ended 31st December, 2010

	Mining & Mineral Trading Operations RMB'000	Toll Road Operations RMB'000	Segment Total RMB'000	Unallocated RMB'000	Total RMB'000
Depreciation and amortisation	62,454	21,053	83,507	33	83,540

Revenue from major products and services

The analysis of the Group's revenues from its major products and services are set out in Note 5.

Geographical information

All of external revenues of the Group in both years are attributable to customers established in the PRC, the place of domicile of the Group's major operating entities. More than 99% (2010: 99%) of the Group's non-current assets excluding other financial assets are located in the PRC.

Information about major customers

Revenues from customers contributing over 10% of the total sales of the Group are as follows:

	2011 RMB'000	2010 RMB'000
Customer A (note i)	**60,570**	84,121
Customer B (note i)	**76,531**	53,683
Customer C (note i)	**51,141**	(note ii)
Customer D (note i)	**43,693**	(note ii)

6. SEGMENT INFORMATION — CONTINUED

Information about major customers — continued

notes:

(i) The above customers are related to mining and mineral trading operations.

(ii) The corresponding revenue did not contribute over 10% of the total sales of the Group.

7. OTHER GAINS AND LOSSES

	2011 **RMB'000**	2010 RMB'000
Fair value change in contingent consideration (note)	**74,182**	—
Loss arising on early repayment of promissory notes	**(1,873)**	—
Net (loss) income arising on early repayment and repayment extension of consideration payable for acquisition of subsidiaries (Note 31)	**(5,024)**	4,007
Gain from change in fair value of financial asset designated as at FVTPL (Note 21)	**641**	1,155
Loss on disposal of property, plant and equipment	**(5,732)**	(18)
Gain on disposal of subsidiaries (Note 40)	**8,930**	—
Net foreign exchange gains	**12,305**	5,730
	83,429	10,874

note: During the year ended 31st December, 2010, the Group completed the acquisition of the entire equity interest in Absolute Apex Limited, an investment holding company (the "Acquisition"), from Bright Harvest Holdings Limited ("Bright Harvest"), an independent third party. Absolute Apex Limited owned the entire equity interest in Ample Source Investment Limited, which owned 70% equity interest in Tong Ling Guan Hua, which are engaged in investment holding, and mining and processing of gold, respectively. Bright Harvest has also agreed to compensate the Group in relation to the shortfall of performance by Tong Ling Guan Hua for certain periods. The amount represented the change in fair value of the contingent consideration receivable from Bright Harvest as the compensation in relation to the shortfall of performance by Tong Ling Guan Hua relating to the period from 1st July, 2010 to 31st December, 2011. The shortfall was mainly due to an unanticipated temporary suspension of mining operation for regional safety inspection by local government authority from March 2011 to May 2011 and from July 2011 to August 2011. As a result, a fair value change in contingent consideration of RMB74,182,000 was recognised in the consolidated statement of comprehensive income for the year ended 31st December, 2011. It was settled by an offset against the promissory note issued to Bright Harvest in prior year as part of the consideration for the acquisition of Absolute Apex Limited and its subsidiary (Note 28). In the absence of the unanticipated temporary suspension, it is expected the performance of Tong Ling Guan Hua will be back on track and the fair value of contingent consideration for the remaining periods is estimated to be insignificant as at the end of the reporting period.

8. DIRECTORS AND EMPLOYEES' REMUNERATION

The emoluments paid or payable to each of the nine (2010: nine) directors were as follows:

2011

	Executive directors			Non-executive directors						
	Mr. Dong Li Yong RMB'000	Mr. Liu Xiaoguang RMB'000	Mr. Hu Huaimin RMB'000 (note i)	Mr. Chen Yunhua RMB'000	Mr. Qi Guangya RMB'000	Ms. Leung Mei Han RMB'000	Mr. Cui Shu Ming RMB'000	Mr. Han Run Sheng RMB'000	Dr. Liu Yong Ping RMB'000	Total RMB'000
Fees	—	—	—	—	—	206	206	124	165	701
Other emoluments										
Salaries and other benefits	1,235	—	353	—	—	—	—	—	—	1,588
Discretionary bonus (note iii)	285	—	106	—	—	—	—	—	—	391
Contributions to retirement benefits schemes	142	—	26	—	—	—	—	—	—	168
Share-based payments	—	—	—	—	—	—	—	—	—	—
Total emoluments	1,662	—	485	—	—	206	206	124	165	2,848

2010

	Executive directors			Non-executive directors						
	Mr. Dong Li Yong RMB'000	Mr. Liu Xiaoguang RMB'000	Mr. Chen Yunhua RMB'000	Mr. Qi Guangya RMB'000	Mr. Cai Chuan Bing RMB'000 (note ii)	Ms. Leung Mei Han RMB'000	Mr. Cui Shu Ming RMB'000	Mr. Han Run Sheng RMB'000	Dr. Liu Yong Ping RMB'000	Total RMB'000
Fees	—	—	—	—	130	217	217	130	76	770
Other emoluments										
Salaries and other benefits	1,136	—	—	—	—	—	—	—	—	1,136
Contributions to retirement benefits schemes	145	—	—	—	—	—	—	—	—	145
Share-based payments	—	—	1,187	—	—	—	—	—	—	1,187
Total emoluments	1,281	—	1,187	—	130	217	217	130	76	3,238

notes:

(i) This director was appointed on 31st August, 2011.

(ii) This director resigned on 26th May, 2010.

(iii) Discretionary bonus was determined by the remuneration committee having regard to the performance of directors and the Group's operating result.

8. DIRECTORS AND EMPLOYEES' REMUNERATION — CONTINUED

Of the five individuals with the highest emoluments in the Group, two (2010: two) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining three (2010: three) individuals, none of which exceeded HK$1,000,000 individually, was as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other benefits	**1,469**	944
Discretionary bonus	**244**	—
Contributions to retirement benefits schemes	**133**	43
	1,846	987

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year.

9. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Interest on bank borrowings wholly repayable within five years	**11,367**	11,215
Effective interest on promissory notes	**5,185**	7,629
Effective interest on finance leases	**340**	—
Imputed interest on:		
— non-current interest-free amount due to a related company	**1,135**	2,268
— consideration payable for acquisition of subsidiaries (Note 31)	**2,244**	5,600
— other payables (Note 26)	**1,855**	1,292
— provisions (Note 32)	**21**	229
Bank loan arrangement fees	**2,393**	1,296
	24,540	29,529

10. OTHER EXPENSES

Other expenses represented acquisition-related costs of RMB1,313,000 in relation to the acquisition of subsidiaries during the year ended 31st December, 2010 as set out in Note 39.

11. INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
PRC Enterprise Income Tax		
— current year	**15,581**	16,202
— underprovision in prior years	**302**	27
	15,883	16,229
Deferred tax (Note 33)		
— current year	**1,605**	(793)
	17,488	15,436

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the Law of PRC on Enterprise Income Tax (the "EIT" Law) and the Implementation Regulation of the EIT Law, the tax rate of Zhen'an County Daqian Mining Development Co., Ltd. ("Daqian Mining"), Weng Niu Te Qi San Xiang Mining Co., Ltd. ("San Xiang"), Weng Niu Te Qi Xiang Da Mining Co., Ltd. ("Xiang Da"), Chi Feng Yi Da Mining Co., Ltd. ("Yi Da"), Tong Ling Guan Hua and Yuechuan JV is 25% from 1st January, 2008 onwards.

Pursuant to the relevant regulations applicable to enterprises situated in the western regions of the PRC, the Company's other PRC mining subsidiaries, Baoshan Feilong Nonferrous Metal Co., Ltd ("Baoshan Feilong"), Yaoan Feilong Mining Co., Ltd. ("Yaoan") and Tengchong Ruitu Mining and Technology Company ("Tengchong Ruitu"), enjoy a preferential tax rate of 15% up to 2011. In addition, Yaoan and Tengchong Ruitu are entitled to an exemption from PRC Enterprise Income Tax for the two years starting from their first profit-making year, followed by a 50% tax deduction in the three years thereafter. The first profit-making year of these two PRC subsidiaries is 2007. Accordingly, Yaoan and Tengchong Ruitu were within the tax reduction period and subject to tax rate of 7.5% during the year ended 31st December, 2011. Pursuant to the revised western region preferential tax regulations issued in 2011, enterprises investing in encouraged industries in the western region are entitled to enjoy the preferential tax rate of 15% until 2020. However, up to the date of this report, the Catalogue for encouraged industries in the western region has not yet been issued. As such, the relevant subsidiaries have lodged the application for the extension of western region preferential tax of 15% to 2020. Up to the date of this report, the application is still in progress.

Langfang Tongda Highway Co., Ltd. ("Langfang Tongda") was subject to PRC Enterprise Income Tax at a preferential rate of 24% (2010: 22%) for the year ended 31st December, 2011 as it fulfilled the requirement of 5-year transition policy due to the qualification as an enterprise investing in public infrastructure projects in the PRC. Langfang Tongda will be subject to 25% tax rate for the financial year 2012.

11. INCOME TAX EXPENSE — CONTINUED

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2011 RMB'000	2010 RMB'000
Profit before tax	**118,112**	59,038
Tax at the domestic income tax rate of 15% (note)	**17,717**	8,856
Tax effect of expenses not deductible for tax purpose	**4,417**	4,405
Effect of tax concession/exemption granted to PRC subsidiaries	**(6,998)**	(6,214)
Tax effect of income not taxable for tax purpose	**(15,867)**	(4,797)
Underprovision in prior years	**302**	27
Tax effect of tax losses not recognised	**4,427**	2,251
Utilisation of tax losses previously recognised	**(24)**	(137)
Deferred tax provided on dividends withholding tax on PRC subsidiaries	**6,085**	6,889
Effect of different tax rates of subsidiaries	**7,429**	4,156
Income tax expense	**17,488**	15,436

note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

12. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

	2011 RMB'000	2010 RMB'000
Profit and total comprehensive income for the year has been arrived at after charging:		
Cost of inventories sold	**251,152**	181,375
Employee benefit expense, including directors' remuneration (Note 8) and share-based payment expense (Note 36)	**67,449**	59,467
Amortisation of mining rights (included in cost of sales)	**38,411**	36,090
Depreciation of property, plant and equipment	**39,374**	27,024
Amortisation of other intangible assets (included in direct operating costs)	**21,408**	20,297
Auditors' remuneration	**2,078**	2,183
Release of prepaid lease payments	**140**	129
and after crediting:		
Interest income from bank deposits	**3,775**	1,972
Imputed interest income on deferred income (Note 34)	**1,855**	1,293

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2011 RMB'000	2010 RMB'000
Earnings		
Profit for the year attributable to owners of the Company and profit for the purposes of basic and diluted earnings per share	**105,022**	35,529

	2011	2010
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**686,299,400**	622,537,830
Effect of dilutive potential ordinary shares — share options	**1,447,086**	5,878,913
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**687,746,486**	628,416,743

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Mining shafts	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST								
At 1st January, 2010	45,502	26,591	47,865	90,272	10,970	10,294	60,615	292,109
Additions	—	635	9,376	4,104	687	1,106	7,244	23,152
Acquired on acquisition of subsidiaries (Note 39)	—	—	—	7,576	37	—	5,245	12,858
Disposals	—	—	—	—	(114)	(368)	—	(482)
Transfer	2,173	819	31,472	36	—	—	(34,500)	—
At 31st December, 2010	47,675	28,045	88,713	101,988	11,580	11,032	38,604	327,637
Additions	200	501	7,393	11,433	1,069	1,810	25,047	47,453
Disposed upon disposal of subsidiaries (Note 40)	(1,224)	(7,700)	(16,022)	(36,094)	(153)	(1,605)	—	(62,798)
Disposals	(6,325)	(3,086)	(4,436)	(3,967)	(738)	—	—	(18,552)
Transfer	17,773	2,606	—	4,399	—	—	(24,778)	—
At 31st December, 2011	58,099	20,366	75,648	77,759	11,758	11,237	38,873	293,740
DEPRECIATION AND IMPAIRMENT								
At 1st January, 2010	13,368	3,673	25,151	32,373	7,666	4,729	11,401	98,361
Charge for the year	2,284	1,355	9,892	9,214	2,214	2,065	—	27,024
Eliminated on disposals	—	—	—	—	(87)	(331)	—	(418)
At 31st December, 2010	15,652	5,028	35,043	41,587	9,793	6,463	11,401	124,967
Charge for the year	3,968	1,560	18,355	12,416	1,450	1,625	—	39,374
Eliminated on disposals	(1,563)	(776)	(655)	(802)	(634)	—	—	(4,430)
Eliminated upon disposal of subsidiaries (Note 40)	(402)	(2,108)	(14,113)	(16,977)	(93)	(1,364)	—	(35,057)
At 31st December, 2011	17,655	3,704	38,630	36,224	10,516	6,724	11,401	124,854
CARRYING VALUE								
At 31st December, 2011	40,444	16,662	37,018	41,535	1,242	4,513	27,472	168,886
At 31st December, 2010	32,023	23,017	53,670	60,401	1,787	4,569	27,203	202,670

The buildings are situated in the PRC under medium-term leases.

14. PROPERTY, PLANT AND EQUIPMENT — CONTINUED

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, as follows:

Buildings	Over the shorter of 20 years or remaining terms of the lease
Leasehold improvement	Over the shorter of 20 years or remaining terms of the lease
Mining shafts	5 years
Plant and machinery	5–10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

Certain buildings of the Group are erected in the PRC with respect to which the Group had not been granted formal title of ownership. As at 31st December, 2011, the carrying value of such buildings amounted to RMB33,833,000 (2010: RMB26,237,000). In the opinion of directors, the absence of formal title does not impair the value of the relevant buildings. The directors also believe that formal title of these buildings will be granted to the Group in due course.

The carrying value of property, plant and equipment in respect of assets held under finance leases was RMB5,897,000 (2010: nil).

15. PREPAID LEASE PAYMENTS

	2011 **RMB'000**	2010 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Medium-term lease	**4,091**	2,712
Analysed for reporting purposes as:		
Current asset	**238**	208
Non-current asset	**3,853**	2,504
	4,091	2,712

As at 31st December, 2011, the carrying value of land use rights in respect of which the Group was not yet granted formal title of ownership amounted to RMB444,000 (2010: RMB979,000). In the opinion of directors, the absence of formal title to these land use rights does not impair the value of the relevant properties to the Group. The directors also believe that formal title of these land use rights will be granted to the Group in due course.

16. MINING RIGHTS

	RMB'000
COST	
At 1st January, 2010	1,435,110
Acquired on acquisition of subsidiaries (Note 39)	403,149
At 31st December, 2010	1,838,259
Disposed upon disposal of subsidiaries (Note 40)	(283,018)
At 31st December, 2011	1,555,241
AMORTISATION AND IMPAIRMENT	
At 1st January, 2010	294,866
Charge for the year	36,090
At 31st December, 2010	330,956
Charge for the year	38,411
Disposed upon disposal of subsidiaries (Note 40)	(33,074)
At 31st December, 2011	336,293
CARRYING VALUE	
At 31st December, 2011	1,218,948
At 31st December, 2010	1,507,303

The mining rights represent the rights to conduct mining activities in various locations in the PRC, and have legal lives of five to eight years (2010: one to eight years). The Group's mining rights are expiring in the period from February 2012 to December 2014. In the opinion of the directors, the Group will be able to renew the mining rights with the relevant government authorities continuously without significant costs.

Up to the date of this report, the application of renewal of Yaoan Mining Right which was expired in February 2012, is still in progress. The directors are of the opinion that such approval will be granted to the Group in due course.

The mining rights are amortised over a period between 13 and 25 years (2010: 8 and 25 years) using the units of production method based on the proven and probable mineral reserves under the assumption that the Group can renew the mining rights indefinitely till all proven reserves have been mined.

17. AVAILABLE-FOR-SALE INVESTMENTS

	2011 RMB'000	2010 RMB'000
Unlisted equity securities, at cost less impairment	**70,457**	—

Unlisted equity securities issued by private entities incorporated in the British Virgin Islands. The amount represents 49% of the equity interest of the Disposal Group (as defined in note 40) retained by the Group after the disposal as disclosed in note 40 and is measured at fair value at initial recognition. Since the Disposal Group does not have a quoted market price in an active market, in the opinion of the directors, the fair values of these unlisted equity securities cannot be measured reliably subsequent to initial recognition and are measured at cost less any identified impairment losses.

18. GOODWILL

	RMB'000
COST	
At 1st January, 2010, 31st December, 2010 and 2011	10,533
IMPAIRMENT	
At 1st January, 2010, 31st December, 2010 and 2011	(10,051)
CARRYING VALUE	
At 31st December, 2010 and 2011	482

As at 31st December, 2011, for the purpose of impairment testing, the recoverable amount of the CGU relating to the goodwill attributable to the Toll Road Operation has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a two-year period and a discount rate of 19% (2010: 18%) per annum. The key assumption for the value in use calculation relates to the forecast traffic flows. Management of the Group has determined that there is no impairment of the CGU containing goodwill.

19. OTHER INTANGIBLE ASSETS

	RMB'000
COST	
At 1st January, 2010, 31st December, 2010 and 2011	247,798
AMORTISATION	
At 1st January, 2010	163,563
Provided for the year	20,297
At 31st December, 2010	183,860
Provided for the year	21,408
At 31st December, 2011	205,268
CARRYING VALUE	
At 31st December, 2011	42,530
At 31st December, 2010	63,938

The operating rights of toll highway and bridge were granted by the Hebei Provincial Government to the Group for 16 years, which is from 1997 to 2013. During the concessionary period, the Group has the rights of operation and management of Wen An section of National Highway 106 and the toll-collection rights thereof. The Group is required to manage and operate the toll highway and bridge in accordance with the regulations promulgated by the Ministry of Transport of the PRC and relevant government authorities.

The Group's right to operate the toll highway and bridge is amortised over the remaining concessionary period of the toll highway and bridge, using the straight-line method.

The operating period granted to the Group in respect of its toll highway and bridge will end in 2013. The Group is currently negotiating with the relevant government authorities to extend the operating period for a further 10 years to end of 2023. The government has preliminary agreed to extend the operating period but the year of extension is yet to be agreed. Up to the date of approval of these financial statements, the negotiation is still in progress.

20. LONG TERM DEPOSITS

Long term deposits represent environmental rehabilitation deposits paid to the local government in the PRC, carrying interest at prevailing market rate of 0.5% (2010: 0.36%) per annum. The amounts will be refunded at the cessation of mining activities or closure of mines if and only if the environmental rehabilitation work of the relevant mines meets government's requirements. They are not expected to be refunded within the next twelve months.

21. OTHER FINANCIAL ASSET

	2011 **RMB'000**	2010 RMB'000
Financial asset designated as at FVTPL	–	23,604

During the year ended 31st December, 2008, the Group entered into an agreement with Mr. Yang Long and his affiliates, pursuant to which the Group had agreed to pay the mining fees on behalf of Mr. Yang Long and his affiliates in exchange for (a) the transfer by Mr. Yang Long and his affiliates of their distributable profits in Baoshan Feilong Nonferrous Metal Co., Ltd. ("Baoshan Feilong") for the period from 2008 to 2015 to the Group; and (b) RMB5,000,000 cash paid by Mr. Yang Long and entities under his control to the Group. Accordingly, the Group recognised a financial asset designated as at FVTPL of RMB26,921,000 in connection with the right to share of profit of Baoshan Feilong for the period from 2008 to 2015 (the "Right") on initial recognition. Any excess or shortfall of the estimated distributable profit of Baoshan Feilong to the Group given up by Mr. Yang Long and his affiliates will not be repaid to or recovered from them. At initial recognition, the financial asset was measured based on the estimated distributable profit of Baoshan Feilong given up by Mr. Yang Long and his affiliates at an effective interest rate of 23% per annum. At the end of each reporting period, the fair value of the financial asset varied depending on the estimated distributable profit of Baoshan Feilong and the effective interest rate at that time. During the year ended 31st December, 2010, the change of fair value of RMB1,155,000 had been credited to profit or loss.

On 8th April, 2011, Yue Da Mining Limited, a wholly-owned subsidiary of the Company, agreed to acquire and completed the acquisition of the entire issued share capital of Moral Well Enterprises Limited ("Moral Well") together with a shareholder's loan from Feilong Holdings which is beneficially owned by Mr. Yang Long, for a total consideration included cash of RMB22,440,000 and the release of the Right with a fair value of RMB24,245,000. Moral Well is a limited liability company incorporated in the British Virgin Islands and held the non-controlling 8.5% equity interests in Baoshan Feilong. Following the acquisition, Baoshan Feilong has become indirect wholly-owned subsidiary of the Group. The Right was derecognised accordingly. The fair value of the Right immediately before the date of acquisition of Moral Well was RMB24,245,000. The increase in fair value of the financial asset of RMB641,000 has been credited to profit or loss. The difference of RMB5,908,000 between the carrying amount of non-controlling interests acquired and the fair value of the total consideration transferred has been credited to other reserve at the date of acquisition.

	RMB'000
Cash consideration paid	22,440
Other financial asset derecognised	24,245
	46,685
Less: non-controlling interest acquired	(52,593)
Credit to other reserve	(5,908)

22. INVENTORIES

	2011 RMB'000	2010 RMB'000
Raw materials and consumables	**15,877**	19,624
Finished goods	**22,680**	13,333
	38,557	32,957

23. TRADE AND OTHER RECEIVABLES

	2011 RMB'000	2010 RMB'000
Trade receivables	**9,372**	59,078
Bills receivable	**17,000**	3,000
	26,372	62,078
Deferred consideration receivable (note i)	**66,550**	—
Amount due from Disposal Group (as defined in note 40) (note ii)	**61,962**	—
Amount due from a third party (note iii)	**15,906**	—
Advance payments to suppliers	**4,265**	3,142
Other receivables and prepayments	**10,058**	3,500
	185,113	68,720

notes:

(i) The amount is receivable from Feng Hua Group Limited ("Feng Hua") as disclosed in note 40. The amount is unsecured, interest-free and repayable on or before 30th June, 2012. In determining the recoverability of this receivable that were neither past due nor impaired, the Group considers any significant change in the credit quality of Feng Hua from the date credit was initially granted up to the report date. In view of there is no significant change in the credit quality and the amount is within its credit period, the directors of the Company considered that no impairment is required.

(ii) Included in the balance, an amount of RMB38,035,000 is unsecured, interest-free and repayable on or before 30th June, 2012. The remaining balance is unsecured, interest-free and repayable on demand. In determining the recoverability of this balance, the Group considers any significant change in the credit quality of the Disposal Group. In view of there is no significant change in the credit quality, the directors of the Company considered that no impairment is required.

(iii) The amount is unsecured, interest-free and repayable on demand. The directors of the Company considered that the amount will be repaid within one year from the end of the reporting period.

23. TRADE AND OTHER RECEIVABLES — CONTINUED

The Group allows its trade customers an average credit period of 60–90 days. The following is an aged analysis of trade receivables and bills receivable presented based on the invoice date at the end of the reporting period:

	Trade receivables		Bills receivable	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
0–60 days	**7,401**	59,078	**—**	—
61–120 days	**—**	—	**2,000**	3,000
121–180 days	**—**	—	**15,000**	—
over 180 days	**1,971**	—	**—**	—
	9,372	59,078	**17,000**	3,000

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits. Credit sales are made to customers with a satisfactory trustworthy history. Credit limits attributed to customers are reviewed regularly.

In determining the recoverability of trade and bills receivables that were neither past due nor impaired, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the report date. In view of no default payment history was noted and the amounts are within its credit period, the directors of the Company considered that no impairment is required. As at 31st December, 2011, the trade receivables of RMB1,971,000 (2010: nil) were past due but not impaired as there has not been a significant change in credit quality and the amounts are still considered recoverable. The trade receivables past due but not impaired for were aged over 180 days and with no historical default of payments. Accordingly, the directors of the Company considered that no impairment is required.

24. AMOUNTS DUE FROM/TO RELATED COMPANIES

	Due from	
	2011 RMB'000	2010 RMB'000
Langfang Municipal Communications Bureau ("Langfang Bureau") and entities under its control (note i)	**20,242**	23,010
Yue Da Enterprise and its fellow subsidiaries	**—**	422
Pingchuan Iron Mining Company (note ii)	**9,816**	8,960
	30,058	32,392
Trade nature	**14,620**	12,539
Non-trade nature	**15,438**	19,853
	30,058	32,392

24. AMOUNTS DUE FROM/TO RELATED COMPANIES — CONTINUED

The Group allows its related companies an average credit period of 60 days for trade balances. The following is an aged analysis of amounts due from related companies which are principally trade nature based on the invoice date at the end of the reporting period:

	2011 RMB'000	2010 RMB'000
0–60 days	**14,620**	12,539

At the end of the reporting period, the entire balances due from related companies were neither past due nor impaired. In view of no default payment history was noted and the trade balances are within its credit period, the directors of the Company considered that no impairment is required.

	Due to	
	2011 RMB'000	2010 RMB'000
Non-trade nature		
Yue Da Enterprise (note iii)	**845**	25,996

The Group has financial risk management policies in place to ensure that all payables are within the allowable credit period. The Group's amount due to a related company that are denominated in a currency other than the functional currency of the relevant group entity are set out below:

	2011 RMB'000	2010 RMB'000
Hong Kong Dollars ("HKD")	**845**	25,996

notes:

(i) Langfang Bureau is a non-controlling shareholder of the Company's toll highway and bridge subsidiary, Langfang Tongda. The amount is unsecured and interest-free. Apart from trade balances of RMB4,804,000 (2010: RMB3,157,000), the remaining balance is repayable on demand.

(ii) Pingchuan Iron Mining Company is a non-controlling shareholder of the Company's subsidiary, Yuechuan JV. The amount is trade nature, unsecured and interest-free.

(iii) The amount as at 31st December, 2010 was unsecured and interest-free loan. On 30th June, 2011, the Group fully repaid the remaining portion of the loan with a nominal value of RMB26,333,000.

The amount at 31st December, 2011 is unsecured, interest-free and repayable on demand.

25. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The bank balances carry interest at market rates which range from 0.01% to 0.5% (2010: 0.01% to 0.36%) per annum.

The Group's bank balances and cash that are denominated in a currency other than the functional currency of the relevant group entity are set out below:

	2011 RMB'000	2010 RMB'000
HKD	**8,832**	128,291

26. TRADE AND OTHER PAYABLES

	2011 RMB'000	2010 RMB'000
Current		
Trade payables	**5,151**	5,597
Other payables (note)	**65,685**	44,288
	70,836	49,885
Non-current		
Other payables (note)	**20,756**	22,106
	91,592	71,991

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2011 RMB'000	2010 RMB'000
0–60 days	**3,567**	5,597
61–120 days	**1,321**	—
over 120 days	**263**	—
	5,151	5,597

The average credit period on purchases of goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit period.

note: As at 31st December, 2011, included in the other payables is a mining fee payable of RMB28,710,000 (2010: RMB30,176,000) in which RMB20,756,000 (2010: RMB22,106,000) is non-current portion and RMB7,954,000 (2010: RMB8,070,000) is classified as current. It is unsecured, interest-free and repayable in accordance with the requirement of the PRC rules and regulations in which its payment method is based on the annual actual extraction volume. The fair value of non-current mining fee payable at initial recognition was determined using cash flows discounted at an effective interest rate of 9.3% per annum, the difference of RMB30,421,000 (2010: RMB32,276,000) was considered as government grant and was recognised as deferred income (see Note 34).

27. AMOUNTS DUE TO DIRECTORS

The amounts are unsecured, interest-free and repayable on demand. The entire amounts are denominated in HKD, a currency other than the functional currency of the relevant group entity.

28. PROMISSORY NOTES

	2011 RMB'000	2010 RMB'000
Promissory notes		
Feilong Holdings (note i)	—	16,999
Bright Harvest (note ii)	7,722	78,626
	7,722	95,625
Analysed as:		
Current	7,722	40,957
Non-current	—	54,668
	7,722	95,625

notes:

(i) The promissory notes were issued to Feilong Holdings, a company beneficially owned by Mr. Yang Long, and are unsecured, carry at a fixed interest rate of 3.5% (2010: 3.5%) per annum. Mr. Yang Long had significant influence over the mining subsidiaries of the Company and therefore he and his affiliates were related parties. This relationship ceased from 1st October, 2010 onwards. Mr. Yang Long was and continues to be a shareholder of the Company.

During the year ended 31st December, 2011, the Group early repaid the remaining portion of the promissory notes. A difference of RMB1,644,000 between the carrying value and the nominal value of this repaid portion of promissory notes at the date of repayment has been recognised as a deemed distribution to a shareholder.

(ii) On 30th June, 2010, the Company issued a promissory note comprising two tranches, each with a principal sum of HKD50,000,000 (equivalent to RMB43,825,000), as part of the consideration for the Acquisition as disclosed in Note 39.

The promissory note is unsecured and interest-free. The first and second tranches are repayable on 31st July, 2011 and 31st July, 2012 respectively. The fair value of these two tranches on the date of issue are RMB40,033,000 and RMB36,820,000, respectively, determined using cash flows discounted at an effective rate of 8.7% per annum.

During the year ended 31st December, 2011, the Group early settled the promissory note amounting to HKD90,000,000 (equivalent to RMB74,182,000) with a contingent consideration receivable from Bright Harvest at the same amount in relation to the shortfall of performance by Tong Ling Guan Hua for the period from 1st July, 2010 to 31st December, 2011 (Note 7). A difference of RMB1,873,000 between the carrying value and the nominal value of this portion of promissory notes at the date of settlement has been recognised as other losses in the consolidated statement of comprehensive income.

The entire balance is denominated in HKD, a currency other than the functional currency of the relevant group entity.

29. BANK BORROWINGS

	2011 RMB'000	2010 RMB'000
Bank loans		
Secured	**82,590**	151,002
Unsecured	**123,642**	186,852
	206,232	337,854
The floating-rate bank loans are repayable*:		
Within one year	**82,590**	143,610
More than one year, but not exceeding two years	**—**	87,592
	82,590	231,202
Carrying amount of bank loans that are repayable within one year from the end of the reporting period but contain a repayable on demand clause (shown under current liabilities)	**123,642**	106,652
	206,232	337,854
Less: Amount due within one year shown under current liabilities	**(206,232)**	(250,262)
	—	87,592

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings is 1.17% to 7.54% (2010: 1.18% to 6.39%) per annum.

As at 31st December 2011, the HKD bank loan with carrying amount of RMB82,590,000 (2010: RMB151,002,000) is secured by the Company's equity interests in certain subsidiaries and the RMB bank loans with carrying amount of RMB75,000,000 (2010: RMB80,000,000) are guaranteed by Jiangsu Yue Da.

The Group's bank borrowings that are denominated in a currency other than the functional currency of the relevant group entities is set out below:

	2011 RMB'000	2010 RMB'000
HKD	**131,232**	217,854

30. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases:				
Within one year	**2,643**	—	**2,437**	—
In the second to fifth year inclusive	**784**	—	**766**	—
	3,427	—	**3,203**	—
Less: Future finance charges	**(224)**	—	**N/A**	—
Present value of lease obligations	**3,203**	—	**3,203**	—
Less: Amount due for settlement within one year			**(2,437)**	—
Amount due for settlement after one year			**766**	—

The Group leased certain of its plant and machinery under finance leases with terms of 5 years. The effective interest rates were ranged from 7.8% to 16.69% per annum during the lease term. Interest rates were fixed at the contract dates. The leases were on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group's obligations under the finance leases are secured by the lessor's charge over the leased assets.

31. CONSIDERATION PAYABLE FOR ACQUISITION OF SUBSIDIARIES

In March 2008, the Group completed the acquisition of certain subsidiaries and the outstanding consideration of RMB78,228,000, which was unsecured, interest-free and payable on 1st July, 2011. During the year ended 31st December, 2010, the Group early repaid a portion of consideration with a nominal value of RMB13,318,000 and the vendor agreed to extend the repayment date of the remaining portion of consideration to 1st July, 2012. A difference of RMB1,006,000 between the carrying value and the nominal value of the repaid portion of consideration at the date of repayment and the difference of RMB5,013,000 between the carrying value and fair value (determined using cash flows discounted at an effective interest rate of 8.7% per annum) of the extended portion of consideration at the date of extension has been recognised in other income in the consolidated statement of comprehensive income.

During the year ended 31st December, 2011, the Group early repaid the remaining portion of consideration with a nominal value of RMB61,535,000. A difference of RMB5,024,000 between the carrying value and the nominal value of the repaid remaining portion of consideration at the date of repayment using cash flows discounted at an effective interest rate of 8.7% per annum has been recognised in other losses in the consolidated statement of comprehensive income.

The Group's consideration payable for acquisition of subsidiaries that is denominated in currency other than the functional currency of the relevant group entities is set out below:

	2011 **RMB'000**	2010 RMB'000
HKD	–	55,984

32. PROVISIONS

	RMB'000
Restoration, rehabilitation and environmental costs	
At 1st January, 2010	2,037
Acquired on an acquisition of a subsidiary	230
Imputed interest	229
At 1st January, 2011	2,496
Disposed upon disposal of subsidiaries (Note 40)	(2,256)
Imputed interest	21
At 31st December, 2011	261

In accordance with relevant PRC rules and regulations, the Group is obliged to accrue the costs for land reclamation and mine closures for certain of the Group's existing mines. The provisions for restoration, rehabilitation and environmental costs were determined by the directors based on their best estimates and recognised on its initial recognition at an effective interest rate of 8.7% per annum.

33. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities recognised and movements thereof during the current and prior years:

	Fair value adjustment on mining rights RMB'000	Decelerated tax depreciation RMB'000	Amortisation of other intangible assets RMB'000	Dividends withholding tax RMB'000	Total RMB'000
At 1st January, 2010	262,933	(7,464)	6,693	5,718	267,880
Acquisition of subsidiaries (Note 39)	97,228	—	—	—	97,228
(Credit) charge to profit or loss	(4,077)	(2,678)	(927)	6,889	(793)
At 1st January, 2011	356,084	(10,142)	5,766	12,607	364,315
Eliminated upon disposal of subsidiaries (Note 40)	(57,640)	—	—	—	(57,640)
(Credit) charge to profit or loss	(4,659)	1,379	(1,200)	6,085	1,605
At 31st December, 2011	293,785	(8,763)	4,566	18,692	308,280

At the end of the reporting period, the Group had unused tax losses of approximately RMB28,862,000 (2010: RMB53,877,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Such tax losses can be carried forward for five years following the loss year.

In addition, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have been recognised was RMB268,654,000 (2010: RMB168,363,000).

34. DEFERRED INCOME

The amount represents the imputed interest portion of non-current mining fees payables (Note 26). The amount will be released to income over the extraction period of respective mines upon the recognition of imputed interest expense of non-current mining fee payables.

35. SHARE CAPITAL

	Number of shares	Amount	Shown in the consolidated financial statements
		HK$'000	RMB'000
Ordinary shares of HK$0.10 each:			
Authorised			
At 1st January, 2010, 31st December, 2010 and 2011	2,000,000,000	200,000	N/A
Issued and fully paid			
At 1st January, 2010	325,569,333	32,557	33,122
Open offer (note)	325,869,333	32,587	28,660
Exercise of share options	4,116,262	412	361
Issue in consideration of subsidiaries (Note 39)	30,000,000	3,000	2,630
At 31st December, 2010	685,554,928	68,556	64,773
Exercise of share options	1,213,979	121	101
As 31st December, 2011	686,768,907	68,677	64,874

note: On 4th March, 2010, the Company completed an open offer of 325,869,333 shares (the "Offer Share") on the basis of one Offer Share for every existing share, at the subscription price of HK$1.2 (equivalent to RMB1.06) each per share. The proceeds are used for general working capital and possible future development of mining sites.

36. SHARE-BASED PAYMENTS

The Company's share option scheme (the "Scheme") was adopted by a written resolution passed on 12th November, 2001 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group and expired on 11th November, 2011. Under the Scheme, the directors of the Company may grant options to any director or employee of the Company and its subsidiaries or other eligible participants to subscribe for shares in the Company.

An option may be accepted by a participant upon payment of HK$1 per option and within such time as may be specified in the offer for grant of the option, which shall not be later than 21 days of the date of the offer. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the directors at the time of such grant to each grantee, which period commence on the date of acceptance of the offer for the grant of option but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

As at 31st December, 2011, the number of shares in respect of which options were outstanding under the Scheme was 16,191,696 (2010: 17,405,675), representing 2% (2010: 3%) of the shares of the Company in issue at that date.

36. SHARE-BASED PAYMENTS — CONTINUED

The following table discloses details of the Company's share options held by directors and employees during the year:

	Date of grant	Exercise price per share HK$	Exercisable period	Outstanding at 1st January, 2011	Transfer during the year (note b)	Exercised during the year	Outstandings at 31st December, 2011
Directors of the Company	27th May, 2009	0.9063	28th May, 2009 to 26th May, 2019	701,730	409,342	—	1,111,072
	9th July, 2009	0.9063	9th July, 2009 to 24th May, 2018	2,105,190	701,730	—	2,806,920
	19th April, 2010	1.716	20th April, 2010 to 19th April, 2020	1,500,000	—	—	1,500,000
				4,306,920	1,111,072	—	5,417,992
Employees	27th May, 2009	0.9063	28th May, 2009 to 26th May, 2019	4,946,021	(409,342)	(374,256)	4,162,423
	9th July, 2009	0.9063	9th July, 2009 to 24th May, 2018	6,792,734	(701,730)	(839,723)	5,251,281
	19th April, 2010	1.716	20th April, 2010 to 19th April, 2020	700,000	—	—	700,000
	19th April, 2010	1.716	20th April, 2011 to 19th April, 2020	150,000	—	—	150,000
	19th April, 2010	1.716	20th April, 2012 to 19th April, 2020	150,000	—	—	150,000
	16th December, 2010	1.35	17th December, 2010 to 16th December, 2020	144,000	—	—	144,000
	16th December, 2010	1.35	17th December, 2011 to 16th December, 2020	108,000	—	—	108,000
	16th December, 2010	1.35	17th December, 2012 to 16th December, 2020	108,000	—	—	108,000
				13,098,755	(1,111,072)	(1,213,979)	10,773,704
Total				17,405,675	—	(1,213,979)	16,191,696
Exercisable at the end of the year				16,889,675			15,933,696
Weighted average exercise price (HK$)				1.03		0.91	1.04

36. SHARE-BASED PAYMENTS — CONTINUED

The following table discloses details of the Company's share options held by directors and employees during the prior year:

	Date of grant	Exercise price per share HK$ (note a)	Exercisable period	Outstanding at 1st January, 2010	Exercised before adjustment during the year	Adjustment during the year (note a)	Exercised after adjustment during the year	Granted during the year	Forfeiture during the year	Outstanding at 31st December, 2010
Directors of the Company	27th May, 2009	0.9063	28th May, 2009 to 26th May, 2019	1,300,000	—	220,415	(818,685)	—	—	701,730
	9th July, 2009	0.9063	9th July, 2009 to 24th May, 2018	3,900,000	(300,000)	610,380	(2,105,190)	—	—	2,105,190
	19th April, 2010	1.716	20th April, 2010 to 19th April, 2020	—	—	—	—	1,500,000	—	1,500,000
				5,200,000	(300,000)	830,795	(2,923,875)	1,500,000	—	4,306,920
Employees	27th May, 2009	0.9063	28th May, 2009 to 26th May, 2019	4,590,000	—	778,235	(422,214)	—	—	4,946,021
	9th July, 2009	0.9063	9th July, 2009 to 24th May, 2018	6,210,000	—	1,052,907	(470,173)	—	—	6,792,734
	19th April, 2010	1.716	20th April, 2010 to 19th April, 2020	—	—	—	—	980,000	(280,000)	700,000
	19th April, 2010	1.716	20th April, 2011 to 19th April, 2020	—	—	—	—	360,000	(210,000)	150,000
	19th April, 2010	1.716	20th April, 2012 to 19th April, 2020	—	—	—	—	360,000	(210,000)	150,000
	16th December, 2010	1.35	17th December, 2010 to 16th December, 2020	—	—	—	—	144,000	—	144,000
	16th December, 2010	1.35	17th December, 2011 to 16th December, 2020	—	—	—	—	108,000	—	108,000
	16th December, 2010	1.35	17th December, 2012 to 16th December, 2020	—	—	—	—	108,000	—	108,000
				10,800,000	—	1,831,142	(892,387)	2,060,000	(700,000)	13,098,755
Total				16,000,000	(300,000)	2,661,937	(3,816,262)	3,560,000	(700,000)	17,405,675
Exercisable at the end of the year				16,000,000						16,889,675
Weighted average exercise price (HK$)				1.06	1.06	0.91	0.91	1.68	1.72	1.03

notes:

(a) The exercise price and the number of share options outstanding at 31st December, 2010 have been adjusted to reflect the effect of the open offer on 4th March, 2010.

(b) The options transferred relates to appointment of a director of the Company, Mr. Hu Huaimin, on 31st August, 2011, who received the options in his capacity as an employee before the appointment as director.

36. SHARE-BASED PAYMENTS — CONTINUED

On 19th April, 2010, the following share options were granted:

(i) 2,480,000 share options exercisable commencing from 20th April, 2010 to 19th April, 2020, which vested immediately. The fair value of each option at the date of grant was approximately HK$0.90;

(ii) 360,000 share options exercisable commencing from 20th April, 2011 to 19th April, 2020, with vesting period from 20th April, 2010 to 19th April, 2011. The fair value of each share option at the date of grant was approximately HK$0.91;

(iii) 360,000 share options exercisable commencing from 20th April, 2012 to 19th April, 2020, with vesting period from 20th April, 2010 to 19th April, 2012. The fair value of each share option at the date of grant was approximately HK$0.98.

On 16th December, 2010, the following share options were granted:

(i) 144,000 share options exercisable commencing from 17th December, 2010 to 16th December, 2020, which vested immediately. The fair value of each option at the date of grant was approximately HK$0.75;

(ii) 108,000 share options exercisable commencing from 17th December, 2011 to 16th December, 2020, with vesting period from 17th December, 2010 to 16th December, 2011. The fair value of each option at the date of grant was approximately HK$0.75;

(iii) 108,000 share options exercisable commencing from 17th December, 2012 to 16th December, 2020, with vesting period from 17th December, 2010 to 16th December, 2012. The fair value of each option at the date of grant was approximately HK$0.78;

The fair value of the share options granted was calculated using the Black-Scholes pricing model. The variables and assumptions used in computing the fair value of the options are based on the directors' best estimate. The value of a share option varies with different variables of certain subjective assumptions.

36. SHARE-BASED PAYMENTS — CONTINUED

The following assumptions were used to calculate the fair value of the share option:

(i) Share options granted on 19th April, 2010

	Share options exercisable commencing on 20th April, 2010	Share options exercisable commencing on 20th April, 2011	Share options exercisable commencing on 20th April, 2012
Grant date share price	HK$1.66	HK$1.66	HK$1.66
Exercise price	HK$1.716	HK$1.716	HK$1.716
Expected life	2.37 years	2.43 years	3.25 years
Expected volatility	97.08%	96.42%	90.56%
Dividend yield	0%	0%	0%
Risk-free interest rate	0.83%	0.87%	1.29%

The closing price of the Company's shares immediately before the date of grant was HK$1.79.

(ii) Share options granted on 16th December, 2010

	Share options exercisable commencing on 17th December, 2010	Share options exercisable commencing on 17th December, 2011	Share options exercisable commencing on 17th December, 2012
Grant date share price	HK$1.35	HK$1.35	HK$1.35
Exercise price	HK$1.35	HK$1.35	HK$1.35
Expected life	2.37 years	2.43 years	3.25 years
Expected volatility	97.87%	96.30%	85.99%
Dividend yield	0%	0%	0%
Risk-free interest rate	0.82%	0.83%	1.12%

The closing price of the Company's shares immediately before the date of grant was HK$1.35.

Expected volatility was determined by using the historical volatility of the Company's share price. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised total share option expenses of RMB355,000 (2010: RMB1,962,000) for the year ended 31st December, 2011 in relation to the share options granted by the Company.

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debts, which include amount due to a related company, amounts due to directors, obligations under finance leases, promissory notes, bank borrowings and equity reserves attributable to owners of the Company, comprising issued share capital and various reserves.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues and share buy-backs as well as the issue of new debts or the redemption of existing debts.

38. FINANCIAL INSTRUMENTS

(i) Categories of financial instruments

	2011 **RMB'000**	2010 RMB'000
Financial assets		
Available-for-sale investments	**70,457**	—
Financial asset designated as at FVTPL	**—**	23,604
Loans and receivables (including cash and cash equivalents)	**325,347**	358,049
Financial liabilities		
Amortised cost	**259,018**	559,814

(ii) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, other financial asset, trade and other receivables, amounts due from related companies, bank balances and cash, trade and other payables, amounts due to a related company/directors, obligations under finance leases, promissory notes, bank borrowings and consideration payable for acquisition of subsidiaries. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

38. FINANCIAL INSTRUMENTS — CONTINUED

(ii) Financial risk management objectives and policies — continued

Market risk

(a) Currency risk

The carrying amounts of the Group's monetary assets and monetary liabilities which are denominated in a currency other than the functional currency of the relevant group entities at the end of the reporting period date are as follows:

	Liabilities		Assets	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**140,164**	395,803	**8,832**	128,291

Sensitivity analysis

The Group is mainly exposed to HKD exchange risk.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against HKD. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rate. The sensitivity analysis includes amount due to a related company, amounts due to directors, promissory notes, bank borrowings, consideration payable for acquisition of subsidiaries and bank balances that are denominated in HKD. On this basis, there will be an increase in post-tax profit for the year where RMB strengthens against the relevant foreign currencies by 5%, and vice versa.

	HKD Impact	
	2011	2010
	RMB'000	RMB'000
Profit for the year	**6,567**	13,311

The Group's sensitivity to foreign currency has decreased during the current year mainly due to a decrease in liabilities that are denominated in HKD.

38. FINANCIAL INSTRUMENTS — CONTINUED

(ii) Financial risk management objectives and policies — continued

Market risk — continued

(b) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to other financial asset, obligations under finance leases and promissory notes. Currently, the Group does not have a hedging policy. However, management monitors interest rate exposure and will consider hedging significant fixed rate borrowings should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to long term deposits, variable-rate bank balances and bank borrowings. It is the Group's policy to keep its bank balances and bank borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offer Rate and The People's Bank of China Base Lending Rate arising from the Group's bank borrowings and bank balances.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank borrowings at the end of the reporting period and management considers that such exposure for long term deposits and variable-rate bank balances is not significant. The analysis is prepared assuming the amounts of liabilities outstanding at the end of the reporting period were outstanding for the whole year. 50 basis points increase or decrease is used for bank borrowings respectively for the management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower for bank borrowings and all other variables were held constant, the Group's post-tax profit for the year ended 31st December, 2011 would decrease/increase by RMB882,000 (2010: profit increase/decrease by RMB1,465,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

(c) Other price risk

The Group's fair value exposure to contingent consideration arising from business combination and other financial asset designated as at FVTPL is in relation to the changes in forecast distributable profits of Tong Ling Guan Hua and Baoshan Feilong respectively. Details of the sensitivity analysis are set out in Note 38(iii). The management considers the exposure of other price risk for contingent consideration arising from business combination is not significant.

38. FINANCIAL INSTRUMENTS — CONTINUED

(ii) Financial risk management objectives and policies — continued

Credit risk

As at 31st December, 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties or related companies is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has concentration of credit risk on trade and other receivables and amounts due from related companies. Trade receivables were mainly due from two (2010: three) external customers within the Mining Operations while other receivables were mainly due from five external parties (2010: one external party). And the amounts due from related companies in trade nature and non-trade nature were mainly attributed to two (2010: two) related companies and one (2010: one) related company respectively.

In order minimise the credit risk, the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivable and amounts due from related companies at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

38. FINANCIAL INSTRUMENTS — CONTINUED

(ii) Financial risk management objectives and policies — continued

Liquidity risk — continued

Liquidity risk tables

	Weighted average effective interest rate	On demand or less than 1 month	1–3 months	3 months to 1 year	1–5 years	Over 5 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2011								
Non-derivative financial liabilities								
Trade and other payables (current)	—	33,536	—	—	—	—	33,536	33,536
Other payables (non-current)	9.3	—	—	—	9,561	41,616	51,177	20,756
Amount due to a related company	—	845	—	—	—	—	845	845
Amounts due to directors	—	365	—	—	—	—	365	365
Promissory notes	8.7	—	—	8,107	—	—	8,107	7,722
Bank borrowings (variable rate)	3.7	125,987	—	83,064	—	—	209,051	206,232
Obligations under finance leases	9.6	220	661	1,762	784	—	3,427	3,203
		160,953	661	92,933	10,345	41,616	306,508	272,659

	Weighted average effective interest rate	On demand or less than 1 month	1–3 months	3 months to 1 year	1–5 years	Over 5 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2010								
Non-derivative financial liabilities								
Trade and other payables (current)	—	29,828	—	—	—	—	29,828	29,828
Other payables (non-current)	9.3	—	—	—	9,974	44,243	54,217	22,106
Amount due to a related company	—	25,996	—	—	—	—	25,996	25,996
Amounts due to directors	—	344	—	—	—	—	344	344
Promissory notes	8.7	—	—	40,957	59,414	—	100,371	95,625
Bank borrowings (variable rate)	2.9	108,744	18,042	123,476	90,133	—	340,395	337,854
Consideration payable for acquisition of subsidiaries	8.7	—	—	—	64,910	—	64,910	55,984
		164,912	18,042	164,433	224,431	44,243	616,061	567,737

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31st December, 2011, the aggregate carrying amounts of these bank loans amounted to RMB123,642,000 (2010: RMB106,652,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid within one year after the reporting date in accordance with the scheduled repayment dates set out in the facility letter. The following tables disclose the maturity analysis in accordance with scheduled repayment dates set out in the facility letter.

38. FINANCIAL INSTRUMENTS — CONTINUED

(ii) Financial risk management objectives and policies — continued

Liquidity risk — continued

Liquidity risk tables — continued

	Weighted average effective interest rate	On demand or less than 1 month	1–3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2011						
Bank borrowings (variable rate)	**3.7**	**35,660**	**—**	**90,327**	**125,987**	**123,642**
2010						
Bank borrowings (variable rate)	2.9	—	35,483	73,261	108,744	106,652

The amounts included above for variable interest rate instruments is subject to change if interest rates differ to those determined at the end of the reporting period.

(iii) Fair value

The fair value of financial assets and financial liabilities, except other financial asset, are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

The consolidated financial statements also include other financial asset (see Note 21) and contingent consideration receivable (see Note 39) which are measured at fair value. Fair values are estimated using a discounted cash flow model and a probabilistic model respectively, which include some assumptions that are not supportable by observable market prices or rates.

The consolidated financial statements also include other financial asset which is measured at fair value (see Note 21). Fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates. In determining the fair value as at 31st December, 2010, estimated distributable profit of Baoshan Feilong and a risk adjusted discount rate of 25% per annum were used. The gain from change in fair value of other financial asset that was recognised in profit or loss during the year ended 31st December, 2010 was RMB1,155,000. If the estimated distributable profit of Baoshan Feilong was 5% higher/lower while all the other variables were held constant, the carrying amount of the other financial asset at 31st December, 2010 would increase/decrease by RMB963,000. In addition, if the discount rate was 5% higher/lower while all the other variables were held constant, the carrying amount of the other financial asset at 31st December, 2010 would decrease/increase by approximately RMB1 million.

In determining the fair value of contingent consideration receivable at the end of the reporting period, estimated distributable profit of Tong Ling Guan Hua, weighted average selling price of the gold, quantity of gold produced by Tong Ling Guan Hua and a risk adjusted discount rate of 17% (2010: 14%) per annum are used. In the opinion of the directors, the estimated fair value of the contingent consideration receivable is not significant as at both 31st December, 2011 and 31st December, 2010.

38. FINANCIAL INSTRUMENTS — CONTINUED

(iii) Fair value — continued

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instrument that is measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

— Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

— Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

— Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group did not have any level 1 and 2 financial instruments measured at fair value at the end of the reporting period.

	2010 Level 3 RMB'000
Financial asset at FVTPL	
Other financial asset	23,604

Reconciliation of Level 3 fair value measurements of financial assets

	Contingent consideration receivable RMB'000	**Other financial asset** RMB'000
At 1st January, 2010	—	22,449
Total gains — in profit or loss	—	1,155
At 1st January, 2011	—	23,604
Total gains — in profit or loss	74,182	641
Settlement/derecognition	(74,182)	(24,245)
At 31st December, 2011	—	—

Gain from change in fair value of other financial asset and contingent consideration are included in "Other gains and losses".

39. ACQUISITION OF SUBSIDIARIES

Acquisition of subsidiaries in 2010

On 30th June, 2010, the Group completed the Acquisition of the entire equity interest in Absolute Apex, an investment holding company, from Bright Harvest, an independent third party (the "Vendor"). Absolute Apex owned the entire equity interest in Ample Source and 70% equity interest in Tong Ling Guan Hua, which are engaged in investment holding, and mining and processing of gold, respectively. Absolute Apex was acquired so as to continue the expansion of the Group's mining operations.

Consideration transferred

	RMB'000
Cash consideration paid	10,518
Consideration shares issued (note i)	31,029
Promissory notes issued (Note 28)	76,853
Deferred consideration (note ii)	85,195
Total consideration	203,595

notes:

(i) As part of the consideration for the Acquisition, 30,000,000 ordinary shares of the Company with par value of HK$0.1 each were issued. The fair value of these shares, determined using the published share price available at the date of acquisition, amounted to RMB31,029,000.

(ii) The deferred consideration included in other payables has been settled during the year ended 31st December, 2010.

(iii) As part of the Acquisition, the Vendor has also agreed to compensate the Group in relation to the shortfall of performance by Tong Ling Guan Hua for specified periods as follows:

Original entitlement guarantee

For the period from 1st July, 2010 to 30th June, 2011

If the profit from Tong Ling Guan Hua attributable to the Group for the above period is less than RMB60 million, the Vendor will compensate the Group for the shortfall based on pre-agreed formula. The compensation of RMB44,186,000 was settled by offsetting against the promissory note (see note 28(ii)).

39. ACQUISITION OF SUBSIDIARIES — CONTINUED

Acquisition of subsidiaries in 2010 — continued

Consideration transferred — continued

notes: — continued

Original entitlement guarantee — continued

For the period from 1st July, 2011 to 30th June, 2012 ("Original Second 12-month Period")

(a) If the weighted average selling price of the gold produced by Tong Ling Guan Hua reaches RMB220 per gram and the profit from Tong Ling Guan Hua attributable to the Group for the above period is less than RMB70 million, the Vendor will compensate the Group for the shortfall based on pre-agreed formula.

(b) If the weighted average selling price of the gold produced by Tong Ling Guan Hua is less than RMB220 per gram and the quantity of gold produced by Tong Ling Guan Hua is less than 800 kilogram per annum, the Vendor will compensate the Group for the shortfall based on pre-agreed formula.

For the period from 1st July, 2012 to 30th June, 2013 ("Original Third 12-month Period")

(c) If the weighted average selling price of the gold produced by Tong Ling Guan Hua reaches RMB220 per gram and the profit from Tong Ling Guan Hua attributable to the Group for the above period is less than RMB80 million, the Vendor will compensate the Group for the shortfall based on pre-agreed formula.

(d) If the weighted average selling price of the gold produced by Tong Ling Guan Hua is less than RMB220 per gram and the quantity of gold produced by Tong Ling Guan Hua is less than 1,000 kilogram per annum, the Vendor will compensate the Group for the shortfall based on pre-agreed formula.

As the financial year-end of both the Company and its subsidiaries falls on 31st December, the determination of the original entitlement guarantee caused administrative inconvenience as well as additional costs and expenses (in both financial and human resource terms) to the Company. Accordingly, after further discussions with the Vendor, a supplemental agreement was signed on 12th September, 2011, so that the period-end dates of the Original Second 12-month Period and the Original Third 12-month Period for the original entitlement guarantee have been amended to be changed to a six-month period ended 31st December, 2011, a 12-month period ending 31st December, 2012 and a six-month period ending 30th June, 2013 as follows:

39. ACQUISITION OF SUBSIDIARIES — CONTINUED

Acquisition of subsidiaries in 2010 — continued

Consideration transferred — continued

notes: — continued

Revised entitlement guarantee

For the period from 1st July, 2011 to 31st December, 2011

(a) If the weighted average selling price of the gold to be produced by the Tong Ling Guan Hua reaches RMB220 per gram and the profit from Tong Ling Guan Hua attributable to the Group for the above period is less than RMB 35 million, the Vendor will compensate the Group for the shortfall based on pre-agreed formula.

(b) If the weighted average selling price of the gold produced by Tong Ling Guan Hua is less than RMB220 per gram and the quantity of gold produced by Tong Ling Guan Hua is less than 400 kilogram, the Vendor will compensate the Group for the shortfall based on pre-agreed formula.

The compensation of RMB29,996,000 was settled by offsetting against the promissory note (see note 28(ii)).

For the period from 1st January, 2012 to 31st December, 2012

(c) If the weighted average selling price of the gold to be produced by the Tong Ling Guan Hua reaches RMB220 per gram and the profit from Tong Ling Guan Hua attributable to the Group for the above period is less than RMB 75 million, the Vendor will compensate the Group for the shortfall based on pre-agreed formula.

(d) If the weighted average selling price of the gold produced by Tong Ling Guan Hua is less than RMB220 per gram and the quantity of gold produced by Tong Ling Guan Hua is less than 900 kilogram, the Vendor will compensate the Group for the shortfall based on pre-agreed formula.

For the period from 1st January, 2013 to 30th June, 2013

(e) If the weighted average selling price of the gold to be produced by the Tong Ling Guan Hua reaches RMB220 per gram and the profit from Tong Ling Guan Hua attributable to the Group for the above period is less than RMB 40 million, the Vendor will compensate the Group for the shortfall based on pre-agreed formula.

(f) If the weighted average selling price of the gold produced by Tong Ling Guan Hua is less than RMB220 per gram and the quantity of gold produced by Tong Ling Guan Hua is less than 500 kilogram, the Vendor will compensate the Group for the shortfall based on pre-agreed formula.

In the opinion of the directors, the estimated fair value of the contingent consideration receivable is not significant at the date of acquisition and the end of the reporting period.

(iv) Acquisition-related costs amounting to RMB1,313,000 have been excluded from the cost of acquisition and had been recognised as an expense in the year ended 31st December, 2010, within the “other expenses” line item in the consolidated statement of comprehensive income.

39. ACQUISITION OF SUBSIDIARIES — CONTINUED

Acquisition of subsidiaries in 2010 — continued

Fair value of assets acquired and liabilities at the date of acquisition:

	RMB'000
Property, plant and equipment	12,858
Mining right	403,149
Inventories	4,271
Other receivables	1,411
Bank balances and cash	37
Trade and other payables	(14,393)
Taxation	(105)
Deferred tax liability	(97,228)
	310,000

The gross contractual amounts and the fair value of other receivables on the date of acquisition amounted to HK$ 1,411,000. The entire amount of the contractual cash flows is expected to be collected at acquisition date.

The fair values of the mining right acquired by the Group were determined on the basis of the Income-Based Approach using the discounted cash flow analysis. The valuation was carried out regarding the fair values of the mining right as at the acquisition date. The fair value calculation used cash flow projections, based on financial budget approved by management covering a five-year period during the useful life of the mineral reserves and a discount rate of 23% per annum. Cash flows beyond the five-year period are extrapolated without application of any growth rate. The key assumptions for the fair value calculation relate to the estimated mine reserves in the technical report and the estimated prices of mineral resources by reference to current market condition.

39. ACQUISITION OF SUBSIDIARIES — CONTINUED

Acquisition of subsidiaries in 2010 — continued

Non-controlling interests

At the date of acquisition, the non-controlling interests are measured at the non-controlling interests' share of the fair value of the net identifiable assets.

Gain on bargain purchase on acquisition

	RMB'000
Consideration transferred	203,595
Plus: Non-controlling interests	93,000
Less: Fair value of identifiable net assets acquired	(310,000)
Gain on bargain purchase on acquisition	(13,045)

The gain on bargain purchase on acquisition was mainly attributable to the decline in market price of the consideration shares from the date of the conditional sale and purchase agreement to the date of completion of the acquisition.

Net cash outflow arising on acquisition

	RMB'000
Cash consideration paid	(95,713)
Cash and cash equivalents acquired	37
	(95,676)

Included in the profit for the year ended 31st December, 2010 was RMB5,996,000 attributable to the additional business generated by Absolute Apex and its subsidiaries. Revenue for the year ended 31st December, 2010 includes RMB41,275,000 generated.

Had the acquisition been completed on 1st January 2010, total group revenue for the year ended 31st December, 2010 would have been RMB363,387,000, and profit for the year ended 31st December, 2010 would have been RMB43,773,000. The proforma information is for illustration purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1st January, 2010, nor is it intended to be a projection of future results.

In determining the "pro-forma" revenue and profit of the Group had Absolute Apex been acquired at the beginning of the current reporting period, the directors have calculated the amortisation of the mining right acquired on the basis of the fair value arising in the business combination rather than the carrying amount recognised in the pre-acquisition financial statements.

40. DISPOSAL OF SUBSIDIARIES

On 16th August, 2011, the Group entered into a disposal agreement with Feng Hua, an independent third party, to dispose the 41.1% of the entire issued capital of certain subsidiaries, Pleasure Resources Limited, Joyous Field Investments Limited and Joyful Well Investments Limited, which held the entire equity interest in Xiang Da, Yi Da and San Xiang (collectively refer to as the "Disposal Group"), the principal activities of which are mining and processing of zinc and lead, at a cash consideration of RMB59,097,000. In addition, the Group's shareholder loan to the Disposal Group amounted to RMB31,903,000 has been assigned to Feng Hua. Total consideration amounted to RMB91,000,000 for the disposal of 41.1% of issued capital and the assignment of shareholder's loan. The disposal was completed on 30th December, 2011 on which date control of the Disposal Group was passed to the acquirer.

Upon completion of the disposal, the Group has retained 49% of the equity interest in Disposal Group and will not be entitled to appoint any director to Disposal Group nor allowed to involve in the management, financial and operating decisions, and day to day operations of Disposal Group. The future operations of the Disposal Group shall be funded solely by Feng Hua when necessary. Accordingly, the remaining 49% interest of Disposal Group owned by the Group is classified as available-for-sale investments of the Group (see note 17).

40. DISPOSAL OF SUBSIDIARIES — CONTINUED

The following are the assets and liabilities disposed of on the date of completion:

NET ASSETS DISPOSED OF	RMB'000
Property, plant and equipment	27,741
Mining rights	249,944
Long term deposits	3,674
Inventories	1,999
Other receivables	15,863
Bank balances and cash	226
Trade and other payables	(13,064)
Deferred tax liabilities	(57,640)
Amounts due to group companies	(93,865)
Provisions	(2,256)
	132,622
Non-controlling interests	(11,998)
	120,624
Add: assignment of shareholder's loan	31,903
Gain on disposal	8,930
Total consideration	161,457
Satisfied by:	
Cash	24,450
Deferred consideration	66,550
	91,000
Available-for-sale investments	70,457
	161,457
Net cash outflow arising on disposal:	
Cash consideration	24,450
Bank balances and cash disposed of	(226)
	24,224

The deferred consideration will be settled in cash by the acquirer on or before 30th June, 2012.

During the period between 1st January, 2011 and the date of disposal, the Disposal Group contributed a loss of RMB13,681,000 (2010: RMB11,625,000) to the Group's results. The Disposal Group disposed of during the year did not have material effect on the Group's cash flow.

41. RETIREMENT BENEFITS SCHEMES

The relevant PRC subsidiaries are required to make contributions to the state-managed retirement schemes in the PRC based on 20% (2010: 20%) of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

In addition, the Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes either 5% or 10% (2010: 5% or 10%) of the relevant payroll costs to the scheme, which contribution is matched by employees.

The total cost of RMB2,075,000 (2010: RMB1,931,000) recognised to profit or loss represents contributions payable to these schemes by the Group in respect of current year.

42. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of RMB6,657,000.

During the year ended 31st December, 2011, the compensation of RMB74,182,000 from Bright Harvest was settled by an offset against the promissory note issued to Bright Harvest with principal amount of RMB74,182,000 as agreed with Bright Harvest.

43. OPERATING LEASE COMMITMENTS

The minimum lease payments paid under operating leases in respect of rented premises and equipment during the year amounted to RMB5,288,000 (2010: RMB6,518,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2011 **RMB'000**	2010 RMB'000
Within one year	**2,759**	3,029
In the second to fifth year inclusive	**1,549**	4,538
	4,308	7,567

Included in the above are lease commitment to a fellow subsidiary and the ultimate parent of RMB3,774,000 (2010: RMB6,532,000) by the Group for certain of its office premises and staff quarters. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.

44. CAPITAL COMMITMENTS

	2011 **RMB'000**	2010 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**2,141**	460

45. PLEDGE OF ASSETS

At the end of the reporting period, the Company's equity interests in certain subsidiaries, which hold certain mining rights in the PRC, were pledged to a bank for credit facilities granted to the Group. As at 31st December, 2011, an amount of RMB82,590,000 (2010: RMB151,002,000) of such facilities was utilised.

46. RELATED PARTY DISCLOSURES

(i) The transactions and balances with government related entities are listed below:

The Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("government-related entities"). The Company is ultimately controlled by the PRC government. The Company's parent is Yue Da Group (H.K.) Co., Limited ("Yue Da HK"), a company incorporated in Hong Kong with limited liabilities, and the Company's ultimate parent is Jiangsu Yue Da, which is controlled by the Yancheng Municipal People's Government.

And Langfang Bureau is controlled by the People's Government of Langfang City.

(a) Transactions and balances with Jiangsu Yue Da and its subsidiaries:

Name of related parties	Nature of transactions	2011 RMB'000	2010 RMB'000
Immediate holding company			
Yue Da HK	Rentals paid on office premises and staff quarters by the Group (note)	**2,249**	2,358
Fellow subsidiaries			
Yue Da Enterprise	Deemed distribution arising from early repayment of interest-free loan	**–**	5,466
	Imputed interest arising from non-current interest-free loans granted to the Group	**1,135**	2,268
	Rentals paid on staff quarter by the Group (note)	**200**	210

46. RELATED PARTY DISCLOSURES — CONTINUED

(i) The transactions and balances with government related entities are listed below: — continued

(a) Transactions and balances with Jiangsu Yue Da and its subsidiaries: — continued

note: The rentals were charged in accordance with the relevant tenancy agreements.

As at 31st December, 2011, Jiangsu Yue Da had given corporate guarantees to banks in the PRC to secure the loan facility granted to the Group to the extent of RMB100,000,000 (2010: RMB180,000,000). The facilities are general working capital facilities for two years. As at 31st December, 2011, a total amount of RMB75,000,000 was utilised by the Group.

Details of the outstanding balances with Yue Da Enterprise and its fellow subsidiaries are set out in Note 24.

Details of the operating lease commitment with the related parties are set out in Note 43.

(b) Transactions and balances with non-controlling interests with significant influence over a PRC subsidiary:

Name of related parties	**Nature of transactions**	**2011 RMB'000**	2010 RMB'000
Langfang Bureau and entities under its control	Repairs and maintenance charges paid by the Group (note)	**5,745**	12,225

note: The repairs and maintenance charges in respect of the relevant toll highway are charged at 18% of the total amount of gross toll collected.

In addition, pursuant to the agreements between the Group, the non-controlling shareholder of the Group's toll highway and bridge subsidiary and the relevant government bureaus, the parties have agreed and confirmed that the Group has the right to use the land on which the toll highway and bridge is situated at no cost for the duration of the relevant joint venture term.

Details of the outstanding balances with Langfang Bureau and entities under its control are set out in Note 24.

(c) Transactions and balances with other government related entities:

Apart from the transactions with related parties disclosed above, the Group also conducts business with other government related entities. The directors of the Company consider those government related entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other government related entities, the Group does not differentiate whether the counter-party is a government related entity or not.

46. RELATED PARTY DISCLOSURES — CONTINUED

(ii) The transactions and balances with non-government related entities which are related to the Group are listed below:

Name of related parties	Nature of transactions	2011 RMB'000	2010 RMB'000
Non-controlling interests with significant influence over PRC subsidiaries			
Pingchuan Iron Mining Company	Purchase of materials by the Group (note i)	**34,309**	7,726
Mr. Yang Long and entities under his control (note ii)	Sale of finished goods by the Group (note iii)	**—**	13,488
	Deemed distribution arising from early repayment of promissory notes (note 28)	**—**	3,573
	Interest on promissory notes (note 28)	**—**	3,470

notes:

(i) The Company has entered into an ore purchase agreement with the non-controlling shareholder, pursuant to which the Company has agreed to purchase iron ores and related products from the non-controlling shareholder.

(ii) Mr. Yang Long and entities under his control ceased to be related party of the Group from 1st October, 2010 onwards. Details is set out in note (iii)(c) of consolidated statement of changes in equity.

(iii) Certain of the Company's subsidiaries have each entered into an ore supply agreement with the non-controlling shareholders, pursuant to which these subsidiaries have agreed to sell zinc and lead ore concentrates and related products to the non-controlling shareholders and its associates.

Details of the outstanding balances with Pingchuan Iron Mining Company are set out in Note 24.

(iii) Compensation of key management personnel

The remuneration of directors and key management during the year, which is determined by the remuneration committee having regard to the performance of individuals and market trends, is as follows:

	2011 RMB'000	2010 RMB'000
Short-term benefits (including share-based payments)	**4,023**	3,568
Post-employment benefits	**303**	210
	4,326	3,778

47. DIVIDEND

No dividend was paid or proposed during the year ended 31st December, 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

48. PARTICULARS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31st December, 2010 and 31st December, 2011 are as follows:

Name of subsidiary	Country of establishment and operations	Registered capital	Attributable equity interest held indirectly by the Company		Principal activities
			2011 %	2010 %	
Baoshan Feilong (note i & ii)	PRC	Registered capital — RMB34,500,000	**100**	91.5	Mining and processing zinc, copper and lead
Daqian Mining (note i)	PRC	Registered capital — RMB5,000,000	**100**	100	Mining and processing zinc and lead
Langfang Tongda (note iii)	PRC	Registered capital — US$11,250,000	**51**	51	Management and operation of the Wen An section of National Highway 106
San Xiang (note i)	PRC	Registered capital — RMB14,500,000	**–**	90.1	Mining zinc and lead
Tengchong Ruitu Mining and Technology Company Limited (note i)	PRC	Registered capital — RMB11,000,000	**100**	100	Mining and processing iron and zinc
Tong Ling Guan Hua (note i)	PRC	Registered capital — RMB18,000,000	**70**	70	Mining, processing and sales of gold
Xiang Da (note i)	PRC	Registered capital — RMB32,600,000	**–**	90.1	Processing zinc and lead
Yi Da (note i)	PRC	Registered capital — RMB20,300,000	**–**	90.1	Mining and processing zinc and lead
Yaoan Feilong (note i)	PRC	Registered capital — RMB17,400,000	**100**	100	Mining and processing zinc and lead

notes:

(i) The companies are wholly foreign-owned enterprises.

(ii) Pursuant to the profit distribution agreement disclosed in Note 21, all the profits will be shared by the Group from 2008 to 2015. The Right was released during the year ended 31st December, 2011.

(iii) Langfang Tongda is a sino-foreign cooperative joint venture.

48. PARTICULARS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES — CONTINUED

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

49. EVENT AFTER THE REPORTING PERIOD

(1) On 30th January, 2012, the Company has granted 26,000,000 share option to eligible grantee of the Company to subscribe for a total of 26,000,000 ordinary shares of HK$0.10 each of the Company at exercise price of HK$0.684 per share according to the share option scheme of the Company. The directors of the Company were in the progress of estimating the fair value of the share options granted. Up to the date of this report, there is no share option being exercised.

(2) In March, 2012, the Company completed an open offer of 228,922,969 shares at a subscription price of HK$0.5 per share on the basis of one new share for every three existing shares held (the "Open Offer"), resulting in net proceeds to the Company of approximately RMB87.6 million. The proceeds are intended to be applied for repayment of bank loans and promissory note and to finance the Group's general working capital requirements. Details of the Open Offer are set out in the Company's prospectus dated 22th February, 2012.

Financial Summary

	Year ended 31st December,				
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000	**2011 RMB'000**
Revenue	293,960	268,263	209,713	350,816	**416,795**
Cost of sales	(102,508)	(153,165)	(128,567)	(181,375)	**(251,152)**
Direct operating costs	(33,392)	(32,132)	(31,790)	(40,378)	**(34,498)**
Other income, gains and losses	28,966	21,057	10,118	14,826	**89,168**
Administrative expenses	(56,554)	(69,635)	(67,704)	(67,414)	**(77,661)**
Finance costs	(20,628)	(25,431)	(32,055)	(29,529)	**(24,540)**
Impairment losses on assets	(3,235)	(261,296)	—	—	**—**
Other expenses	—	(18,443)	—	(1,313)	**—**
Gain on redemption of convertible bonds	30,104	—	—	—	**—**
Gain on bargain purchase of acquisition of subsidiaries	17,942	—	—	13,405	**—**
Loss from fair value changes of convertible bonds' embedded derivatives	(101,608)	—	—	—	**—**
Profit (loss) before tax	53,047	(270,782)	(40,285)	59,308	**118,112**
Income tax (expense) credit	(54,404)	31,032	(6,895)	(15,436)	**(17,488)**
Profit (loss) for the year	(1,357)	(239,750)	(47,180)	43,602	**100,624**
Attributable to:					
Owners of the Company	7,571	(240,200)	(52,881)	35,529	**105,022**
Non-controlling interests	(8,928)	450	5,701	8,073	**(4,398)**
	(1,357)	(239,750)	(47,180)	43,602	**100,624**

	As at 31st December,				
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000	**2011 RMB'000**
Total assets	1,595,585	1,657,669	1,544,414	2,195,974	**1,892,895**
Total liabilities	(802,757)	(966,614)	(891,306)	(996,223)	**(658,991)**
	792,828	691,055	653,108	1,199,751	**1,233,904**
Equity attributable to owners of the Company	679,814	564,050	526,924	928,006	**1,038,566**
Non-controlling interests	113,014	127,005	126,184	271,745	**195,338**
	792,828	691,055	653,108	1,199,751	**1,233,904**