Integrating Businesses to Create Sustainable Value

業務整合 創造價值

2012
Annual Report 年報

China Vanadium Titano-Magnetite Mining Company Limited

中國釩鈦磁鐵礦業有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock Code 股份代號: 00893

打造一流企業
We aim to be a top-notch mineral mining company

China VTM Mining revolutionising Vanadium and Titanium

中國鐵鈦，太(鈦)不平凡(釩)

With integrity, we endeavour to explore and excel to deliver on our commitments

誠信、開拓、責任

We reward our shareholders and care for the community

回報股東，回報社會

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Jiang Zhong Ping *(Chairman)*
Mr. Liu Feng *(Chief Executive Officer)*
Mr. Yu Xing Yuan *(Chief Investment Officer)*

Non-executive Directors

Mr. Wang Jin
Mr. Teo Cheng Kwee

Independent Non-executive Directors

Mr. Yu Haizong
Mr. Gu Peidong
Mr. Liu Yi

AUDIT COMMITTEE

Mr. Yu Haizong *(Chairman)*
Mr. Gu Peidong
Mr. Liu Yi

REMUNERATION COMMITTEE

Mr. Gu Peidong *(Chairman)*
Mr. Wang Jin
Mr. Yu Haizong

NOMINATION COMMITTEE

Mr. Jiang Zhong Ping *(Chairman)*
Mr. Yu Haizong
Mr. Liu Yi

COMPANY SECRETARY

Mr. Kong Chi Mo, Roy *(FCCA, FCIS, FCS (PE) & MHKIoD)*

AUTHORISED REPRESENTATIVES

Mr. Jiang Zhong Ping
Mr. Kong Chi Mo, Roy *(FCCA, FCIS, FCS (PE) & MHKIoD)*

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STOCK CODE

00893

SHARE INFORMATION

Board lot size: 1000

FINANCIAL CALENDAR

1 January to 31 December

FIVE-YEAR FINANCIAL SUMMARY

SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets, liabilities and non-controlling interests of the Group for the last five financial years is as follows:

Results

	For the year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**1,533,732**	1,712,978	1,576,428	1,103,001	799,556
Cost of sales	**(840,550)**	(886,407)	(735,982)	(598,967)	(369,342)
Gross profit	**693,182**	826,571	840,446	504,034	430,214
Other income and gains	**64,360**	109,742	69,868	435,671	25,355
Selling and distribution expenses	**(45,921)**	(46,473)	(47,283)	(32,753)	(23,583)
Administrative expenses	**(118,138)**	(102,219)	(88,678)	(44,607)	(39,890)
Other expenses	**(20,576)**	(19,035)	(38,802)	(422,464)	(54,076)
Finance costs	**(42,599)**	(21,120)	(17,968)	(9,951)	(4,587)
Share of profits and losses of jointly-controlled entities	**517**	34	–	–	–
Share of loss of an associate	**–**	–	(4,477)	(9,569)	(5,321)
PROFIT BEFORE TAX	**530,825**	747,500	713,106	420,361	328,112
Income tax expense	**(120,223)**	(134,775)	(117,316)	(68,696)	(26,560)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**410,602**	612,725	595,790	351,665	301,552
Attributable to:					
Owners of the Company	**403,042**	605,892	541,816	319,650	239,918
Non-controlling interests	**7,560**	6,833	53,974	32,015	61,634
	410,602	612,725	595,790	351,665	301,552
Earnings per Share attributable to ordinary equity holders of the Company (RMB) – Basic and diluted	**0.19**	0.29	0.26	0.20	0.16
Proposed final dividend per Share (HK$)	**–**	0.073	0.062	–	–

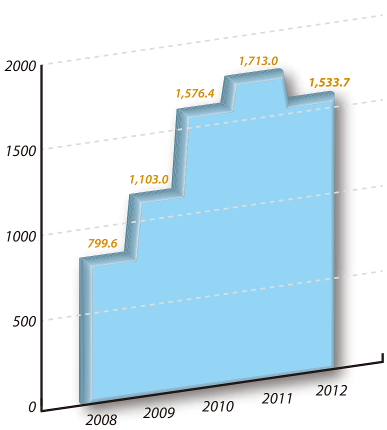
FIVE-YEAR FINANCIAL SUMMARY

Assets, Liabilities and Non-controlling Interests

	As at 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**3,085,440**	2,979,105	2,399,098	982,710	683,314
Current assets	**2,330,527**	1,479,313	1,480,726	2,431,626	425,153
Non-current liabilities	**(91,938)**	(118,938)	(171,273)	(43,817)	(58,657)
Current liabilities	**(1,777,556)**	(1,118,622)	(871,309)	(724,415)	(394,211)
Total equity	**3,546,473**	3,220,858	2,837,242	2,646,104	655,599
Non-controlling interests	**(29,437)**	(21,877)	(30,236)	(112,460)	(90,048)
Equity attributable to owners of the Company	**3,517,036**	3,198,981	2,807,006	2,533,644	565,551

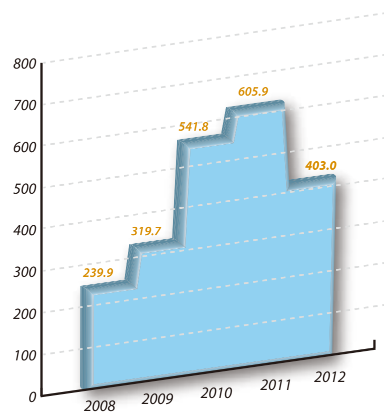
Revenue

RMB (million)



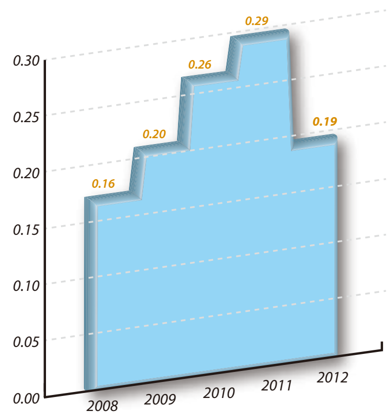
Profit and Total Comprehensive Income Attributable to Owners of the Company

RMB (million)



Earnings per Share

RMB



CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of China Vanadium Titano-Magnetite Mining Company Limited, I am pleased to present the annual results of our Group for the year ended 31 December 2012.

Over the past year, the global economy has faced a host of severe challenges. While the third quantitative easing monetary policy launched by the United States has helped the short-term economic outlook, large amounts of money that continue to flow into the market may trigger a number of problems, including vicious inflation and skyrocketing asset prices. In addition, the European sovereign debt crisis remains unresolved while Japan is still plagued with debt and resource concerns. Amidst all these issues, China's economic development is undergoing a crucial period with abundant opportunities as well as the challenges of slow economic growth and overcapacity. In general, the global economy has not yet fully recovered from the original financial crisis in 2008 and uncertainties remain for the economies of the United States, Europe and Japan in 2013.

Driven by external economic forces, the decline of international iron ore price was more serious than the situation in Sichuan. Due to the province's unique regional characteristics and largely independent market, the price of iron ore throughout the region was less volatile than the international iron ore price. According to the SteelHome China Imported Iron Ore Price Index (鋼之家進口鐵礦石價格指數), the price of iron ore (TFe content of 62%) delivered to China dropped to approximately USD90 per tonne in September 2012, the lowest level since the end of 2009. Nonetheless, among all countries, China contributed the most in terms of demand for steel, thanks to an economic growth of approximately 9.1% per annum over the past three years. The focus of the Group's products is in Sichuan, which is relatively independent and offers a stable demand for iron ore. For this reason, the impact of the global economic downturn on the Group's iron ore sales has been lessen.

For the year ended 31 December 2012, revenue of the Group amounted to approximately RMB1,533.7 million, representing a decrease of 10.5% over last year. Profit and total comprehensive income attributable to owners of the Company amounted to approximately RMB403.0 million, representing a decrease of 33.5% over last year. During the year, output of the Group's major products, vanadium-bearing iron concentrates and high-grade titanium concentrates reached 2,153.6 Kt and 146.7 Kt, respectively.

During the year, the domestic demand for high-grade titanium concentrates has been gradually increasing while market supply was tightened, resulting in an inevitable rise in the price of titanium concentrates. This product has become a key driver of the Group's growth. Since early 2012, the Group cooperated with two independent partners to produce high-grade titanium concentrates by using several production lines in our Group's processing plants. For the year ended 31 December 2012, revenue from high-grade titanium concentrates was approximately RMB173.7 million (2011: RMB114.2 million), representing an increase of 52.1% as compared to the previous year.

The Group currently owns four vanadium-titano magnetite mines, which include the Baicao Mine, the Xiushuihe Mine, the Yangqueqing Mine, the Cizhuqing Mine; and one ordinary iron ore mine, the Maoling-Yanglongshan Mine. The Group also has five processing plants, which include the Baicao Processing Plant, the Xiushuihe Processing Plant, the Hailong Processing Plant, the Heigutian Processing Plant and the Maoling Processing Plant; and two iron pelletising plants. Moreover, exploration of the Dashanshu Section of the Pingchuan Mine has been completed in April 2012, which will allow the Group to generate income from this area.

Sichuan is one of the key areas of development targeted in the "12th Five-Year Plan" ("Plan") of the great western development strategy (西部大開發) approved by the State Council of the PRC (中國國務院) in February 2012. According to this Plan, the resource processing industry in the western region will be optimised. Also, plans that encourage mergers and acquisitions among steel enterprises, which will strengthen the comprehensive processing and utilisation of non-ferrous metals and other resources, will form a number of important mineral resource reserve bases as well as contribute to the local development of deep processing industry. In addition, to build up the infrastructure in the western region, "The Highway and Waterway Transportation Development Plan for the In-Depth Implementation of the Great Western Development Strategy" (《深入實施西部大開發戰略公路水路交通運輸發展規劃綱要》) has proposed a strategic way for key highway construction across the western region in the coming 10 years. This will create a strong impetus for the development of Sichuan iron ore, in particular the demand for vanadium-titano magnetite. It is expected that steel consumption in western China will grow further and provide more opportunities for steel enterprises located in southwest China, which will also benefit upstream mining companies across the region.

Looking to the future, with the support of the great western development strategy, it is expected that economic growth and infrastructure construction will bring considerable stable downstream demand for the steel industry throughout the southwest region. In line with the ongoing industrial restructuring of steel enterprises in Sichuan and Chongqing, coupled with the production capacity ramping up of the steel plants in southwest China, further importance will be placed on the iron ore market throughout the region. In addition, the first draft of the urbanisation plan by the National Development and Reform Commission of the PRC (中國國家發展和改革委員會) was completed at the end of 2012. This plan suggests that, in the coming 10 years, urbanisation will attract a huge amount of investment – RMB40 trillion and boost overall infrastructure and transport development in the region as well as in neighbouring cities. All of these ideas will bring about huge business opportunities for the Group which is prudently optimistic about the future demand for iron ore products and output of crude steel in China in 2013.

In November 2012, Trisonic International, the Company's Controlling Shareholder, informed the Board that it was interested in pursuing a proposal for the privatisation of the Company. The Company will announce the latest progress about the privatisation proposal in accordance with the relevant rules and regulations.

On behalf of the Board, I wish to take this opportunity to express my heartfelt gratitude to our Shareholders, business partners and fellow colleagues for their continuous support throughout the year. Forging ahead, we aim to become a leading operator of iron ore mines in the PRC and will make every effort to encourage further development of our entire business operations.

By order of the Board
China Vanadium Titano-Magnetite Mining Company Limited
Jiang Zhong Ping
Chairman

Hong Kong, 28 March 2013

Leveraging Our Advantages

to Achieve Sustainable Development

MARKET REVIEW

During 2012, the complex global economy experienced a great deal of volatility. Despite of the United States launching another round of economic stimulus measures and the Eurozone putting forth great efforts to strengthen its fiscal situation, the global economic outlook remained uncertain and growth rates hovered at low levels. International market demand has been shrinking, which has had a significant impact on China's foreign trade. Meanwhile, economic growth across the mainland has also undergone adjustments with slowing growth rates.

MANAGEMENT DISCUSSION AND ANALYSIS

In view of the challenging economic conditions, the Chinese government has fast-tracked domestic development plans to stimulate the economy, particularly with respect to the nation's great western development strategy, which is entering its 13th year. According to the "China Western Development: Review for 2011 and the 2012 Work Plan" (《西部大開發2011年進展情況和2012年工作安排》) ("Work Plan") issued by the National Development and Reform Commission of the PRC, infrastructure construction is currently the key focus for driving growth. In 2012, 22 major western development projects were launched, with a total investment of RMB577.8 billion. These favourable policies will not only improve people's living standards in China's western region, but they will also boost local demand for steel throughout the entire area.

Due to inadequate demand from downstream industries, overproduction and the drop in steel prices, steel enterprises experienced a difficult period in 2012. According to the China Iron and Steel Association (中國鋼鐵工業協會), its affiliated enterprises recorded an aggregate loss of RMB28.9 billion in 2012. However, after recording overall industry losses for most months during the first three quarters of 2012, steel prices started to rebound in late September. The overall business environment continued to improve in the fourth quarter of 2012, resulting in profitability for various enterprises. By the end of 2012, steel demand gradually stabilised and steel enterprises are cautiously optimistic about the industry's outlook.

During the year, market price for iron ore in China was generally under pressure, dropping to the lowest level in September 2012. Nonetheless, after a continuous paring down of excess supply during the first half of the year, inventories dropped to a healthier level and the price of iron ore recovered to a relatively stable range of USD120-130 by the end of 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2012, domestic demand for titanium concentrates and titanium dioxide continued to be strong while supply remained tight. Over the second half of 2012, industry demand for titanium dioxide grew weaker as downstream enterprises slacked off their purchases, resulting in an overall reduction of production volume. This was mainly a consequence of a national policy aimed at suppressing the real estate industry. Since about 60% to 70% of all titanium dioxide is used in the paint industry, the demand for paint dropped and subsequently caused a significant decrease in orders for titanium dioxide.

BUSINESS AND OPERATIONS REVIEW

During the year, the Group's revenue decreased by 10.5% to approximately RMB1,533.7 million as compared to last year. Gross profit of the Group also decreased by 16.1% to approximately RMB693.2 million as compared to last year. 2012 saw the end of the tax holiday for foreign investment enterprise of the PRC and therefore the corporate income tax rate of the Group's major subsidiary – Huili Caitong, increased from 12.5% to 25.0% for the year. Despite this, Xiushuihe Mining and Aba Mining each started to enjoy a tax holiday. Benefiting from the great western development strategy, their corporation tax rates were dropped from 25% to 15% since 2012. Profit and total comprehensive income attributable to owners of the Company decreased by 33.5% to approximately RMB403.0 million as compared to last year.

As at 31 December 2012, the Group owned the Baicao Mine, the Xiushuihe Mine, the Yangqueqing Mine, the Cizhuqing Mine and the Maoling-Yanglongshan Mine. Apart from these mines, in August 2011 the Group also entered into an agreement to develop the Dashanshu Section of the Pingchuan Mine through a joint venture arrangement. The exploration of the Dashanshu Section of the Pingchuan Mine was completed in April 2012 and the preliminary exploration report was concluded. Moreover, in December 2011 the Group entered into an agreement to acquire Panzhihua Yixingda, which owns the exploration right of the Haibaodang Mine.

On 21 May 2012, the Company announced that pursuant to the Aba Mining Acquisition Agreement, the warranties and guarantees given by Chuan Wei, a connected person to the Group, with respect to the volume of resources and reserves of the Maoling Extended Exploration Area and the Yanglongshan Mine, the average iron content of the ore at the Maoling Extended Exploration Area as well as Aba Mining's profit for the year 2011 have all been met. With respect to the geological exploration report on the Yanglongshan Mine received by Lingyu, an indirect wholly-owned subsidiary of the Company, the average iron content of the ore at the site is 21.6%, which is above the minimum acceptable average iron content level of 20%. Nevertheless, since the average iron content is below 23% as warranted by Chuan Wei, Chuan Wei is obliged to compensate Lingyu in the amount of RMB9.13 million in accordance with the Aba Mining Acquisition Agreement. Moreover, on 19 May 2012, Lingyu and Chuan Wei entered into a supplemental agreement to the Aba Mining Acquisition Agreement with the total consideration being adjusted by the compensatory amount from RMB150.0 million to RMB140.87 million. Please refer to the Company's announcement dated 21 May 2012 for further details.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2012, the Group owned the Baicao Processing Plant, the Xiushuihe Processing Plant, the Hailong Processing Plant, the Heigutian Processing Plant and two iron pelletising plants in the Panxi Region. Furthermore, the Group also owned the Maoling Processing Plant in the Aba Prefecture. As at 31 December 2012, the Group's annual self-production capacity (on a wet basis) of vanadium-bearing iron concentrates, ordinary iron concentrates, iron pellets and high-grade titanium concentrates amounted to 2,600.0 Ktpa, 150.0 Ktpa, 1,360.0 Ktpa and 280.0 Ktpa, respectively.

The following table summarised the breakdown of the total production volume and total sales volume of the Group's five products:

	For the year ended 31 December		
	2012 (Kt)	2011 (Kt)	Change (%)
Vanadium-bearing iron concentrates			
Baicao Processing Plant	**549.3**	532.8	3.1
Xiushuihe Processing Plant	**679.5**	797.6	-14.8
Heigutian Processing Plant	**709.2**	648.9	9.3
Hailong Processing Plant	**215.6**	240.5	-10.4
Independent third party processing contractors	**–**	1.3	-100.0
Total production volume	**2,153.6**	2,221.1	-3.0
Total sales volume	**1,453.9**	1,452.6	0.1
Ordinary iron concentrates			
Maoling Processing Plant	**60.4**	27.8	117.3
Total production volume	**60.4**	27.8	117.3
Total sales volume	**63.3**	26.6	138.0

	For the year ended 31 December		
	2012 (Kt)	2011 (Kt)	Change (%)
Iron pellets			
Old Iron Pelletising Plant	**86.4**	266.3	-67.6
New Iron Pelletising Plant	**329.9**	118.2	179.1
Independent third party pelletising contractors	**82.2**	228.9	-64.1
Total production volume	**498.5**	613.4	-18.7
Total sales volume	**494.2**	666.2	-25.8
Medium-grade titanium concentrates			
Baicao Processing Plant	**5.1**	66.3	-92.3
Xiushuihe Processing Plant	**–**	32.2	-100.0
Hailong Processing Plant	**–**	4.5	-100.0
Total production volume	**5.1**	103.0	-95.0
Total sales volume	**5.3**	81.2	-93.5
High-grade titanium concentrates			
Baicao Processing Plant	**35.6**	28.4	25.4
Xiushuihe Processing Plant	**49.6**	21.8	127.5
Heigutian Processing Plant	**61.5**	57.5	7.0
Total production volume	**146.7**	107.7	36.2
Total sales volume	**147.8**	105.4	40.2

During the year, total production volume and total sales volume of vanadium-bearing iron concentrates remained relatively stable, despite the fact that the production was adversely affected by the occasional power suspension and power supply restriction measures adopted for upgrading of the power grid during the first half of 2012 in the Panxi Region, the region where the Group's major processing plants are located.

During the year, total production volume and total sales volume of iron pellets decreased by 18.7% and 25.8%, respectively as compared to the previous year. This is mainly due to the decrease in customers' demand. As such, the production of iron pellets at the Old Iron Pelletising Plant has been suspended temporarily since August 2012.

During the year, total production volume and total sales volume of high-grade titanium concentrates increased by 36.2% and 40.2%, respectively. As high-grade titanium concentrates were in short supply and enjoyed higher profitability, such product has become a key growth driver for the Group. During the year, high-grade titanium concentrates contributed approximately 11.3% (2011: 6.7%) of the total revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

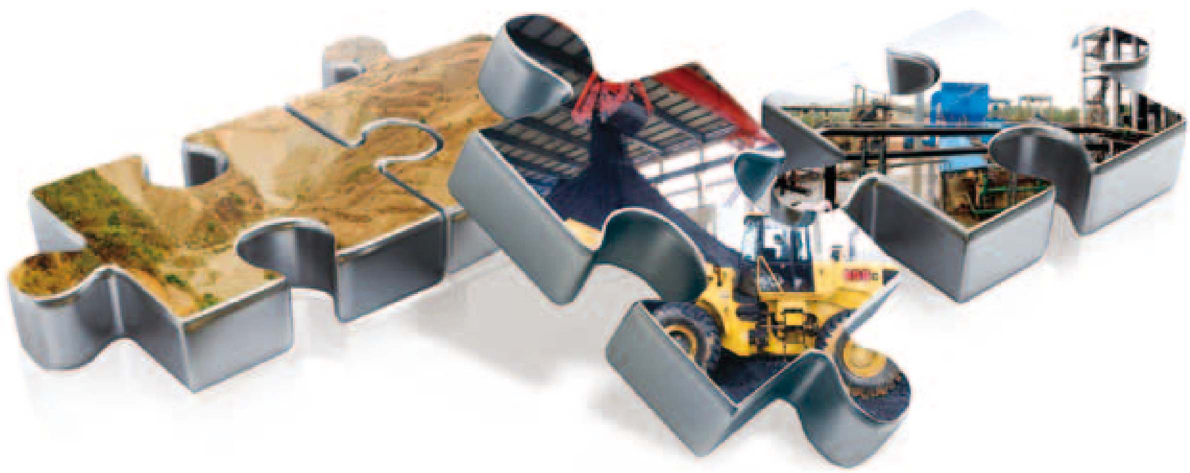
For the year ended 31 December 2012, the Group's revenue was approximately RMB1,533.7 million (2011: RMB1,713.0 million), representing a decrease of 10.5% as compared to the previous year. Such decrease was primarily due to the decrease in sales volume of iron pellets and the decrease in the average selling prices of iron ore products. Thanks to increased sales volume and selling price of high-grade titanium concentrates, the adverse effect of iron pellets and the decreased average selling prices of iron ore products were partially offset.

Cost of Sales

Cost of sales primarily included mining and stripping contracting fees, processing contracting fees, pelletising contracting fees, materials, labour, power and other utilities, repair and maintenance, as well as depreciation and amortisation. For the year ended 31 December 2012, the Group's cost of sales was approximately RMB840.6 million (2011: RMB886.4 million), representing a decrease of 5.2% as compared to the previous year. Such decrease was primarily due to the decrease in sales volume of iron pellets.

Gross Profit and Margin

As a result of the foregoing, the gross profit for the year ended 31 December 2012 decreased by 16.1%, from approximately RMB826.6 million for the year ended 31 December 2011 to approximately RMB693.2 million. The gross profit margin decreased from 48.3% for the year ended 31 December 2011 to 45.2% for the year ended 31 December 2012. The decrease in gross profit margin was primarily because of the decreased selling prices of iron ore products due to unfavorable market conditions, coupled with the impact of increased unit production costs such as increased stripping costs, levied resource tax, depreciation and other miscellaneous expenses.



Other Income and Gains

The other income and gains decreased by 41.3%, from approximately RMB109.7 million for the year ended 31 December 2011 to approximately RMB64.4 million for the year ended 31 December 2012. The other income and gains of the Group mainly included bank interest income and fair value gains on the Exchangeable Notes.

Selling and Distribution Expenses

The selling and distribution expenses slightly decreased by 1.3%, from approximately RMB46.5 million for the year ended 31 December 2011 to approximately RMB45.9 million for the year ended 31 December 2012. The selling and distribution expenses primarily consisted of transportation fees, which mainly represented the road transportation costs, the goods loading and unloading fees, platform storage and administration fees.

Administrative Expenses

The administrative expenses increased by 15.6%, from approximately RMB102.2 million for the year ended 31 December 2011 to approximately RMB118.1 million for the year ended 31 December 2012. The increase in administrative expenses was mainly due to the increase in staff costs as a result of the increased number of management and administrative staff as well as increased staff welfare expenditure during the year.

The equity-settled share option expenses of approximately RMB28.3 million for the year ended 31 December 2012 (2011: RMB28.6 million) were incurred because three batches of share options were granted to certain Directors, senior management and employees of the Group on 29 December 2009, 1 April 2010 and 23 May 2011, respectively.

Other Expenses

The other expenses increased by 8.4%, from approximately RMB19.0 million for the year ended 31 December 2011 to approximately RMB20.6 million for the year ended 31 December 2012. The other expenses mainly included impairment provision related to property, plant and equipment at the Old Iron Pelletising Plant, bank charges and other miscellaneous operating expenses.

Finance Costs

The finance costs significantly increased by 101.9%, from approximately RMB21.1 million for the year ended 31 December 2011 to approximately RMB42.6 million for the year ended 31 December 2012, primarily due to the increase in interest on bank loans and discounted bills receivable.

Income Tax Expense

The income tax expense decreased by 10.8%, from approximately RMB134.8 million for the year ended 31 December 2011 to approximately RMB120.2 million for the year ended 31 December 2012. Such decrease was primarily because of the decrease in profit before tax for the year which was partially offset by the increased corporate income tax rate, as Huili Caitong ceased enjoying the tax holiday for foreign investment enterprise of the PRC since 1 January 2012, and its corporate income tax rate was therefore increased from 12.5% to 25.0%.

Profit and Total Comprehensive Income for the Year

As a result of the foregoing, profit and total comprehensive income for the year decreased by 33.0%, from approximately RMB612.7 million for the year ended 31 December 2011 to approximately RMB410.6 million for the year ended 31 December 2012.

Profit and Total Comprehensive Income Attributable to Owners of the Company

Profit and total comprehensive income attributable to owners of the Company decreased by 33.5%, from approximately RMB605.9 million for the year ended 31 December 2011 to approximately RMB403.0 million for the year ended 31 December 2012. The Net Profit Margin decreased from 35.4% for the year ended 31 December 2011 to 26.3% for the year ended 31 December 2012.

Final Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: HK$0.073 per Share).

LIQUIDITY AND CAPITAL RESOURCES

The following table sets out certain information regarding the Group's consolidated statement of cash flows for the years ended 31 December 2012 and 2011:

	For the year ended 31 December			
	2012		2011	
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and cash equivalents as stated in the consolidated statement of cash flows at beginning of year		**196,830**		671,843
Net cash flows from operating activities	**1,090,413**		688,217	
Net cash flows used in investing activities	**(901,698)**		(1,046,020)	
Net cash flows used in financing activities	**(10,200)**		(117,446)	
Net increase/(decrease) in cash and cash equivalents		**178,515**		(475,249)
Effect of foreign exchange rate changes, net		**1**		236
Cash and cash equivalents as stated in the consolidated statement of cash flows at end of year		**375,346**		196,830

Net Cash Flows from Operating Activities

The Group's net cash flows from operating activities increased by 58.4%, from approximately RMB688.2 million for the year ended 31 December 2011 to approximately RMB1,090.4 million for the year ended 31 December 2012. It primarily included the profit before tax of RMB530.8 million and the increase in trade and bills payables.

Net Cash Flows used in Investing Activities

The Group's net cash flows used in investing activities decreased by 13.8%, from approximately RMB1,046.0 million for the year ended 31 December 2011 to approximately RMB901.7 million for the year ended 31 December 2012. It primarily included the increase in time deposits with maturity of over three months of approximately RMB523.8 million; (ii) the purchase of items of property, plant and equipment and intangible assets of approximately RMB161.7 million; (iii) the increase in pledged bank balance for issuance of bills payable of approximately RMB156.8 million and (iv) the deposit for acquisition of Panzhihua Yixingda and the paid-up capital to establish Weichuan Mining of RMB50.0 million and RMB10.5 million, respectively.

Net Cash Flows used in Financing Activities

The Group's net cash flows used in financing activities significantly decreased by 91.3%, from approximately RMB117.4 million for the year ended 31 December 2011 to approximately RMB10.2 million for the year ended 31 December 2012. It primarily included the payment of the acquisition of Aba Mining of approximately RMB10.9 million, the payment of 2011 final dividend of approximately RMB122.4 million and the net repayment of borrowings of approximately RMB26.2 million, which were partially offset by the net proceeds from the issuance of commercial papers of RMB149.3 million by Huili Caitong.

Analysis of Inventories

The Group's inventories increased by 31.1%, from approximately RMB137.3 million as at 31 December 2011 to approximately RMB180.0 million as at 31 December 2012. It is primarily because of increased production in the last quarter since the Group forecasted an increase in selling prices of iron ore products after the year end.

Analysis of Trade and Bills Receivables

The Group's trade and bills receivables decreased by 18.8%, from approximately RMB134.4 million as at 31 December 2011 to approximately RMB109.1 million as at 31 December 2012. Trade receivable turnover days were approximately 25 days (2011: 26 days) and the Group generally has the one-month credit period given to the customers.

Analysis of Trade and Bills Payables

The Group's trade and bills payables significantly increased by 139.3%, from approximately RMB341.2 million as at 31 December 2011 to approximately RMB816.6 million as at 31 December 2012, primarily due to the significant increase of settlement to suppliers through the usage of bills during the year.

Analysis of Net Current Assets Position

The Group's net current assets position increased by 53.3%, from approximately RMB360.7 million as at 31 December 2011 to approximately RMB553.0 million as at 31 December 2012, primarily attributable to profits realised during the year, which outweighed the capital expenditure incurred as well as the payment of 2011 final dividend.

Borrowings

As at 31 December 2012, the Group's borrowings mainly included: (i) an unsecured short-term bank loan of RMB150.0 million with an annual interest rate of 6.56% from China Construction Bank ("CCB") Xichang branch to Huili Caitong in February 2012 and the unsecured long-term bank loans of RMB100.0 million with annual interest rates ranging from 6.4% to 7.05% from CCB Xichang branch to Huili Caitong in February 2010, of which RMB25.0 million is repayable within one year. In accordance with the loan agreements entered into between Huili Caitong and CCB Xichang branch, Huili Caitong agreed not to mortgage or pledge Huili Caitong's mining right of the Baicao Mine and its vanadium-bearing iron concentrate production line with an annual production capacity of 500.0 Ktpa to any parties and CCB Xichang branch will be entitled to a pre-emption right in the event of such mortgage or pledge; (ii) a secured short-term bank loan of US$15.0 million (approximately RMB94.3 million) with an annual interest rate of prevailing LIBOR plus 2% from OCBC to the Company in May 2011 which was renewed in April 2012 and secured by a deposit of RMB100.0 million pledged by Huili Caitong at OCBC Chengdu branch; and (iii) two short-term bank loans of RMB48.0 million with annual interest rates ranging from 5.76% to 7.59% from CCB Aba branch to Aba Mining in 2011 and 2012, respectively, which were jointly guaranteed by Chuan Wei and Chengyu Vanadium Titano.

Commercial Papers

Huili Caitong issued the first tranche of one-year commercial papers of RMB150.0 million with an annual interest rate of 5.8% valid on 19 December 2012.

Contingent Liabilities

As at 31 December 2012, the Group did not have any material contingent liabilities.

Pledge of Assets

As at 31 December 2012, Huili Caitong pledged its deposit of RMB100.0 million at OCBC Chengdu branch for the bank loan of US$15.0 million (equivalent to approximately RMB94.3 million) obtained by the Company from OCBC and deposits of RMB168.8 million at banks for the issuance of bills payable.

Foreign Currency Risk

The Group's businesses are located in the PRC and its operating transactions are conducted in Renminbi. Most of its assets and liabilities are denominated in Renminbi, except for certain payables to professional parties and administrative expenses in the Hong Kong office that are denominated in Hong Kong dollars, and the bank loan obtained from OCBC and the Exchangeable Notes that are denominated in US dollars.

The Renminbi is not freely convertible. There is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends it declares if such dividend is to be exchanged or converted into foreign exchange. The Group has not entered into any hedging transaction to manage the potential fluctuation in foreign currencies. The Group does not consider that it has any significant exposure to the risk of fluctuation in the exchange rate between HK$, US$ and RMB, as a possible change of 5% in RMB against HK$ and US$ would have no significant financial impact on the Group's financial performance.

Interest Rate Risk

The Group's income and operating cash flows are not substantially affected by changes in market interest rates. We have no significant interest-bearing assets, except for pledged time deposits and cash and cash equivalents. The Group manages its interest rate exposure arising from all of its interest-bearing loans through a mix of fixed and variable rates. In addition, the Group has not used any interest rate swap to hedge against interest rate risk.

Contractual Obligations

As at 31 December 2012, the Group's contractual obligations amounted to approximately RMB470.8 million, and decreased by RMB35.6 million as compared to approximately RMB506.4 million as at 31 December 2011, which was primarily due to the progressive completion of major construction works at the Baicao Mine and the Xiushuihe Mine and further payment in respect of the deposit paid for the acquisition of Panzhihua Yixingda during the year.

Capital Expenditure

The Group's total capital expenditure decreased by RMB161.6 million from approximately RMB347.6 million in 2011 to approximately RMB186.0 million in 2012. The capital expenditure consisted of (i) construction and improvement of tailing storage facilities to cope with expanded production capacity at the Xiushuihe Processing Plant, the Heigutian Processing Plant and the Baicao Processing Plant aggregate to approximately RMB69.8 million; (ii) the tunnel construction at the Maoling Mine of approximately RMB25.8 million; (iii) further improvement to enlarge the storage capacity of waste piles at the Baicao Mine and the Yangqueqing Mine aggregate to RMB20.2 million; (iv) further improvement to the Xiushuihe Processing Plant and the Hailong Processing Plant aggregate to RMB15.1 million; (v) further improvement to the first phase of the New Iron Pelletising Plant with an annual production capacity of 1,000.0 Kt of approximately RMB14.3 million; (vi) exploration and evaluation costs in respect of the Maoling-Yanglongshan Mine and obtaining mining right of the Xiushuihe Mine (including expansion) aggregate to RMB5.8 million; and (vii) development of the construction of miscellaneous projects and acquisition of machinery equipment aggregate to approximately RMB35.0 million.

Financial Instruments

As at 31 December 2012, the Group had the Exchangeable Notes in the principal amount of US$30.0 million. The Exchangeable Notes are accounted for as financial assets at fair value through profit or loss.

Gearing Ratio

Gearing ratio is a measure of financial leverage, which is calculated by net debt divided by "total equity plus net debt". Net debt is defined as interest-bearing bank loans, net of cash and cash equivalents and excludes liabilities incurred for working capital purposes. Total equity includes equity attributable to owners of the Company and non-controlling interests. As at 31 December 2012, the Group's cash and cash equivalents exceeded the interest-bearing bank loans. As such, no gearing ratio as at 31 December 2012 is presented.

RESOURCE AND RESERVE OF MINES UNDER THE JORC CODE AS AT 1 JANUARY 2013

Resource and Reserve Summary of the Baicao Mine and the Xiushuihe Mine including expansion

(a) *JORC Mineral Resource Category*

	Tonnage		Grades			Contained Metals	
	(Mt)	TFe (%)	TiO_2 (%)	V_2O_5 (%)	TFe (Kt)	*TiO_2 (Kt)	V_2O_5 (Kt)
Baicao Mine							
Measured	30.46	25.14	10.75	0.20	7,657.64	3,274.45	60.92
Indicated	43.92	24.15	10.03	0.21	10,606.68	4,405.18	92.23
Total (M+I)	**74.38**	**24.56**	**10.32**	**0.21**	**18,264.32**	**7,679.63**	**153.15**
Inferred	28.16	26.63	10.98	0.23	7,499.01	3,091.97	64.77
Xiushuihe Mine including expansion							
Measured	50.76	25.31	6.23	0.23	12,849.44	3,160.18	116.35
Indicated	32.44	23.87	5.69	0.19	7,745.01	1,844.28	62.69
Total (M+I)	**83.20**	**24.75**	**6.01**	**0.22**	**20,594.45**	**5,004.46**	**179.04**
Inferred	7.23	22.43	7.40	0.17	1,621.69	535.02	12.29

* Only 50% of the Xiushuihe Mine's expansion mineralisation is expected to produce TiO_2 – contained metals have been adjusted.

(b) *JORC Ore Reserve Category*

	Tonnage		Grades			Contained Metals	
	(Mt)	TFe (%)	TiO_2 (%)	V_2O_5 (%)	TFe (Kt)	*TiO_2 (Kt)	V_2O_5 (Kt)
Baicao Mine							
Proved	14.85	25.00	10.50	0.22	3,712.50	1,559.25	32.67
Probable	26.40	25.90	10.20	0.22	6,837.60	2,692.80	58.08
Total	**41.25**	**25.58**	**10.31**	**0.22**	**10,550.10**	**4,252.05**	**90.75**
Xiushuihe Mine including expansion							
Proved	37.14	24.60	9.50	0.22	9,136.44	2,172.50	81.71
Probable	23.23	23.80	8.60	0.20	5,528.74	1,325.50	46.46
Total	**60.38**	**24.29**	**9.15**	**0.21**	**14,665.18**	**3,498.00**	**128.17**

* Only 50% of the Xiushuihe Mine's expansion mineralisation is expected to produce TiO_2 – contained metals have been adjusted.

Resource Summary of the Maoling-Yanglongshan Mine

JORC Mineral Resource Category

	Tonnage	Grades	Contained Metals
	(Mt)	TFe (%)	TFe (Kt)
Maoling-Yanglongshan Mine			
Measured	–	–	–
Indicated	13.19	22.67	2,989.94
Total (M+I)	**13.19**	**22.67**	**2,989.94**
Inferred	47.24	22.86	10,801.10

Resource Summary of the Yangqueqing Mine, the Cizhuqing Mine and the Yangqueqing Mine's Expansion

The resources of the Yangqueqing Mine, the Cizhuqing Mine and the Yangqueqing Mine's Expansion under the JORC Code have not been changed since the disclosure in our 2011 interim report.

EMPLOYEES AND EMOLUMENT POLICIES

As at 31 December 2012, the Group had a total of 2,051 dedicated full time employees (31 December 2011: 2,030 employees), including 185 management and administrative staff, 100 technical staff, 11 sales and marketing staff and 1,755 operational staff. For the year ended 31 December 2012, the employee benefit expense (including Directors' remuneration in the form of salaries, equity-settled share option expenses and other allowances) was approximately RMB129.3 million (2011: RMB105.1 million). Details are set out in note 7 to financial statements of this annual report.

The emolument policies of the Group are based on performance, experience, competence and market comparables. Remuneration package generally comprises salary, housing allowance, contribution to pension scheme and discretionary bonus relating to the performance of the Group. The Group has also adopted share option schemes for its employees, providing incentives and rewards to eligible participants with reference to their contributions. For details, please refer to the Directors' Report.

OTHER SIGNIFICANT EVENTS

(i) On 21 May 2012, the Group announced that the below warranties and guarantees given by Chuan Wei, a connected person to the Group, had been met:

(a) the volume of resources and reserves of the Maoling Extended Exploration Area and the Yanglongshan Mine;

(b) the average iron content of the ore at the Maoling Extended Exploration Area; and

(c) Aba Mining's profit for the year 2011 pursuant to the Aba Mining Acquisition Agreement.

The Group further announced that the average iron content of the ore at the Yanglongshan Mine was above the minimum acceptable average iron content level but below the warranted average iron content level provided by Chuan Wei and Chuan Wei was obligated to compensate Lingyu for an amount of RMB9.13 million (the "Compensation Amount") in accordance with the Aba Mining Acquisition Agreement. The Directors expected that there would be no material impact in terms of the mining and beneficiation process and production cost in respect of the Yanglongshan Mine as a result of the minor difference between the actual and warranted average iron content. On 19 May 2012, Lingyu and Chuan Wei entered into a supplemental agreement to the Aba Mining Acquisition Agreement (the "Supplemental Agreement"), pursuant to which, the RMB20 million, being part of the total consideration for the acquisition of the entire equity interest in Aba Mining (the "Aba Mining Acquisition"), payable by Lingyu to Chuan Wei (the "RMB20 million Payment") has been adjusted by the Compensation Amount to RMB10.87 million. Accordingly, the total consideration for the Aba Mining Acquisition of RMB150 million has been adjusted by the Compensation Amount to RMB140.87 million. Upon the payment by Lingyu to Chuan Wei of RMB10.87 million, Chuan Wei would be deemed to have paid the Compensation Amount and fulfilled its obligation under the relevant warranty on the average iron content of the ore at the Yanglongshan Mine under the Aba Mining Acquisition Agreement. Please refer to the Company's announcement dated 21 May 2012 for further details.

Based on the terms of the Supplemental Agreement, the independent non-executive Directors are of the opinion that by agreeing to the terms of the Supplemental Agreement whereby the RMB20 million Payment had been adjusted by the Compensation Amount to RMB10.87 million, Chuan Wei has fulfilled its obligations under the relevant warranty on the average iron content of the ore at the Yanglongshan Mine in the Aba Mining Acquisition Agreement.

(ii) As announced on 5 November 2012, the Board confirmed that it had received a letter from Trisonic International, in which Trisonic International informed the Board that it was interested in pursuing a proposal for the privatisation of the Company by Keen Talent. Trisonic International had indicated in the letter that it expected to implement the proposal by way of a Scheme. Please refer to the Company's announcement dated 5 November 2012 for further details.

On 21 December 2012, Keen Talent requested the Board to put forward the privatisation proposal to the Scheme Shareholders which, if approved and implemented, would result in the Company becoming wholly-owned by Keen Talent and Trisonic International and the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules. If the Scheme becomes effective, the Scheme Shareholders will receive from Keen Talent the consideration of HK$1.93 in cash for every Scheme Share cancelled. Pursuant to Rule 13 of the Takeovers Code, Keen Talent will make an appropriate cash offer to the optionholders to cancel their share options, and the option offer will be conditional upon the Scheme becoming effective. Keen Talent will finance the aggregate consideration and option amount payable under the privatisation proposal by a combination of external debt financing provided by the bank facility and the internal cash resources of Trisonic International and its subsidiaries (other than the Group). The Directors (other than members of the IBC) believed that, in view of the relatively thin trading liquidity and persistently weak performance of the Shares since the IPO, the Scheme provides an opportunity for the Scheme Shareholders to realise their Shares in return for cash. The IBC would advise and make a recommendation to the Independent Shareholders as to whether the privatisation proposal is, or is not, fair and reasonable and as to what action they should take in respect of the privatisation proposal and to the optionholders as to whether the option offer is, or is not, fair and reasonable and as what action they should take in respect of the option offer. Please refer to the joint announcement of the Company, Trisonic International and Keen Talent dated 21 December 2012.

(iii) On 19 December 2012, Huili Caitong, an indirect wholly-owned subsidiary of the Company, completed the issue of the short-term commercial papers in the PRC for a total registered principal amount of up to RMB700 million. The short-term commercial papers have a term of 365 days at the fixed interest rate of 5.8% per annum and the interest has accrued since 19 December 2012. As at 19 December 2012, the total amount raised was RMB150 million which will be used to fund the mining operations of Huili Caitong. Please refer to the Company's announcement dated 27 December 2012 for further details.

OUTLOOK

Benefiting from Favourable Government Policies

According to the 18th National Congress of The Communist Party of China (中國共產黨第十八次全國代表大會), rapid reform of the western development is considered a top priority. To this end, the Chinese government is actively encouraging urban development, promoting the construction of highways, railway transport, gas pipelines and other infrastructure projects. 22 key projects of the western development have already begun, including a number of railway ventures, such as the Chongqing-Wanzhou (重慶至萬州) railway, the additional line of the west railway from Xi'an to Hefei (西安至合肥), and several airport development projects, including the construction of a branch airport in the western region.

Regarding gas pipeline projects, construction of the 7,378 km West-East Gas Pipeline (西氣東輸) has already begun. It is estimated that the total national investment amount for this project is over RMB120 billion, which requires large volumes of steel pipe. These gas line projects are also expected to set a precedent in terms of domestic equipment and materials usage, which will, in turn, drive the development of the steel, machinery, metallurgy and other related industries in China.

All of the above policies will spur industry demand and further benefit domestic Chinese upstream mining companies, especially those located in the western region. In addition, the China Metallurgical Industry Planning and Research Institute (中國冶金工業規劃研究院), expects that in 2013 the demand for iron ore products will reach 1.1 billion tonnes, representing a year-on-year growth of 4%.

Business Strategy

To cope with future demand, the Group will strive to actively develop its own valuable mineral resources. With respect to the Maoling-Yanglongshan Mine, because its resource volumes, reserve warranties and guarantees have all been met, the Group will start developing it with expected commercial production beginning by the end of 2014. The exploration of the Dashanshu Section of the Pingchuan Mine was completed in April 2012 and the preliminary exploration report has been completed. The Haibaodang Mine, though, is still under exploration. Upon various conditions such as level of resources and grading of these two mines meet the terms and conditions the Company which have been agreed upon with the sellers or partners, the Group will proceed and complete the acquisition and commence its capacity expansion plan. Following the gradual completion of all the plans, the Group's mining resources will be significantly enhanced.

Furthermore, the Group will adopt the following strategies:

– To increase resources and reserves in sustainable ways, including boundary extensions of existing mines as well as acquisitions of new mines;

– To enhance production processing capacity by further expanding production volume through the use of innovative technologies; and

– To maintain cost competitiveness strengths in order to leverage all opportunities, and carry out prudent overseas investments to maximise profits.

Going forward, as the industry's leader and prime integrator, the Group will continue to consolidate its economic advantages and proactively seek out all viable market opportunities. The Group will fully leverage its leading position in the iron ore mining industry and strive for satisfactory business performance.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Jiang Zhong Ping（蔣中平）

Mr. Jiang, aged 47, is an executive Director and the chairman of the Company. Mr. Jiang is primarily responsible for the overall management, strategic planning and business development of the Group. Mr. Jiang joined the Group in March 2008 as a director of Huili Caitong. Mr. Jiang has over 19 years of experience in production and quality control in the steel industry. Mr. Jiang was a technician, head of quality control department and the chief manager of the audit department of Chuan Wei from August 1989 to April 2008. Mr. Jiang graduated from Chongqing Steel and Iron College（重慶鋼鐵專科學校）in Chongqing in July 1989 with a college degree in iron and steel rolling.

Mr. Liu Feng（劉峰）

Mr. Liu, aged 44, is an executive Director and the chief executive officer of the Company. Mr. Liu is primarily responsible for the management of daily operations and development of the operations of the Group. Mr. Liu joined the Group in December 2004 as the vice general manager of Huili Caitong. Mr. Liu has over 20 years of experience in civil engineering, quality control and technology applications in the steel industry. Mr. Liu was a technician, deputy head of civil engineering department, and deputy general managers of a number of subsidiaries of Chuan Wei from August 1988 to October 2005. Mr. Liu graduated from Chongqing Architecture University（重慶建築大學）in Chongqing in December 1996 with a college degree in construction engineering.

Mr. Yu Xing Yuan（余興元）

Mr. Yu, aged 43, is an executive Director and the chief investment officer of the Company. Mr. Yu is primarily responsible for the business development of the Group. Mr. Yu joined the Group in October 2004 as a director of Huili Caitong. Mr. Yu has 15 years of experience in steel production, technology applications and operations management in the steel industry. Mr. Yu was a technician, technical chief and the head of technical development department of Chuan Wei from August 1992 to September 2003. Mr. Yu graduated from Northeast Industrial Institute（東北工學院）in Shenyang, Liaoning in July 1992 with a bachelor's degree in mining engineering. Mr. Yu received a master's degree from Chongqing University（重慶大學）in Chongqing in December 2004 in metallurgy engineering.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Wang Jin（王勁）

Mr. Wang, aged 50, is a non-executive Director of the Company. Mr. Wang is the chairman and chief executive officer of Chuan Wei. Mr. Wang joined the Group in April 2008 as a Director of the Company. Mr. Wang obtained the qualification of senior economist（高級經濟師）from Sichuan Professional Title Reform Leading Group（四川省職稱改革領導小組）, a PRC governmental authority in April 2000. Mr. Wang has accumulated over 20 years of experience in steel production, raw material procurement and operations management in the steel industry. Mr. Wang joined Chuan Wei in September 1987 and was promoted to the chairman of Chuan Wei in May 1998. Mr. Wang graduated from Chongqing University in Chongqing in July 1987 with a bachelor's degree in viscous pressure. Mr. Wang received a master's degree in industrial engineering from Chongqing University in Chongqing in December 2002. He served as a deputy to the 10th National People's Congress（第十屆全國人大代表）from March 2003 to March 2008 and the 11th National People's Congress（第十一屆全國人大代表）from March 2008 to March 2013. He is currently serving as a deputy to the 12th National People's Congress（第十二屆全國人大代表）. He is also currently the director of the China Confederation of the Iron and Steel Industry（中國鋼鐵工業聯合會常務理事）, the vice-chairman of the Sichuan Province General Chamber of Commerce China（四川省工商業聯合會副主席）, and the vice-chairman of the Sichuan Enterprise Confederation and Sichuan Entrepreneur Association（四川省企業聯合會暨企業家協會副會長）.

Mr. Teo Cheng Kwee（張青貴）

Mr. Teo, aged 60, is a non-executive Director of the Company. He joined the Group in July 2008 as a Director of the Company. Mr. Teo has more than 30 years of experience in the building and construction industry. Mr. Teo is the chief executive officer and founder of Sapphire Corporation Limited ("Sapphire"), a company listed on the Singapore Exchange Limited (Ticker symbol: NF1.SI). He has been appointed to the board of Sapphire since 26 November 1985 and is a member of the executive committee. He is responsible for the charting and reviewing of the corporate direction and strategy of Sapphire. He is also actively involved in the business development with emphasis on overseas markets, overall corporate management and finance matters.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yu Haizong（余海宗）

Mr. Yu, aged 48, is an independent non-executive Director of the Company since 4 September 2009. Mr. Yu was a chartered public accountant in Sichuan Tongde Certified Accountants Firm（四川同德會計師事務所）(formerly known as Chengdu Xinda Certified Accountants Firm（成都信達會計師事務所）) from 1994 to 2000. Mr. Yu was a chartered public accountant (non-practicing) in the PRC, a member of the Chartered Public Accountant Further Education Committee of Sichuan Association of Chartered Public Accountants（四川省註冊會計師協會CPA後續教育委員會）, a member of the expert panels of Department of Land and Resources of Sichuan（四川省國土資源廳）and Science and Technology Department of Sichuan（四川省科學技術廳）. Mr. Yu is a professor, master and doctoral supervisor of the Accounting Faculty of Southwestern University of Finance and Economics（西南財經大學）in Chengdu, Sichuan. Mr. Yu is also the dean of the Auditing Department at Southwestern University of Finance and Economics in Chengdu, Sichuan. Mr. Yu worked in the finance department of Weiyuan Steel Factory（威遠鋼鐵廠）from July 1988 to August 1990. Mr. Yu served as an independent non-executive director of Xinan Huaji Company Limited（西南化機股份有限公司）, a company listed on the Shenzhen Stock Exchange from 1998 to 2000 and he served as an independent non-executive director of Jinyu Checheng Company Limited（金宇車城股份有限公司）("Jinyu Checheng"), a company listed on the Shenzhen Stock Exchange, and was also a member of audit committee and remuneration committee of Jinyu Checheng from May 2004 to June 2010. As a member of the audit committee of Jinyu Checheng, Mr. Yu's duties included reviewing the internal control system and reviewing and analysing financial statements of the company. Currently, Mr. Yu is also an independent non-executive director and a member of audit committee of Chengdu Tianxing Instruments (Group) Co., Ltd.（成都天興儀表股份有限公司）, a company listed on the Shenzhen Stock Exchange. Mr. Yu received a bachelor's degree from Southwestern University of Finance and Economics in Chengdu, Sichuan in accounting in July 1988, a master's degree in economics (accounting) in December 1992 and a doctoral degree in management (accounting) in March 2002. Through his professional qualification as a chartered public accountant, his education background in accounting and his previous experience as an independent non-executive director of public companies, he meets the criteria for accounting and related financial management expertise as required by Rule 3.10(2) of the Listing Rules. The Directors are of the view that Mr. Yu's experience with internal controls and reviewing and analysing audited financial statements of a public company gained while serving as a member of audit committee of Jinyu Checheng enables him to meet the requirements under Rule 3.10(2) of the Listing Rules.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Gu Peidong（顧培東）

Mr. Gu, aged 56, is an independent non-executive Director of the Company since 4 September 2009. Mr. Gu is a PRC qualified lawyer. Mr. Gu is a commissioner of the Policy Advisory Committee of Sichuan Government（四川省政府決策諮詢委員會）. Mr. Gu was a teacher in Southwest University of Political Science and Law（西南政法大學）in Chongqing from 1984 to 1987. Mr. Gu was a director of the Graduate School of Development and Reform of the Sichuan Systems Reform Commission（四川省發展與改革研究所）from 1987 to 1995 and a secretary general of the Sichuan Economic Structure Reform Commission（四川省經濟體制改革委員會）. In 1995, Mr. Gu established his own law firm, Sichuan Zhongwei Law Firm（四川中維律師事務所）. Mr. Gu was a professor and doctoral supervisor at Southwest University of Political Science and Law in Chongqing in 2003 and is currently a professor and doctoral supervisor at Sichuan University（四川大學）. Mr. Gu received a bachelor's degree in law from Southwest University of Political Science and Law in Chongqing in December 1981 and a master's degree in civil procedure law in January 1984.

Mr. Liu Yi（劉毅）

Mr. Liu, aged 50, is an independent non-executive Director of the Company since 4 September 2009. Mr. Liu has been working at Sichuan Metallurgical Design and Research Institute（四川省冶金設計研究院）since July 1987, engaging in project consulting, beneficiation process and mining design, feasibility study and relevant engineering design work and specialising in mineral processing engineering. His past experiences in mining design projects include constructing iron concentrate production lines of various capacities, and mining operations planning for vanadium-bearing titano-magnetite mines. He is currently the director and chief project designer of the mining design office of Sichuan Metallurgical Design and Research Institute. Mr. Liu graduated from the faculty of mining resource engineering of Xi'an Metallurgy and Architecture College（西安冶金建築學院）in Shannxi and received a bachelor's degree in engineering in 1987.

SENIOR MANAGEMENT

Mr. Jiang Zhong Ping（蔣中平）

Mr. Jiang is the chairman of the Company. Details of his biography are set out above in this section.

Mr. Liu Feng（劉峰）

Mr. Liu is the chief executive officer of the Company. Details of his biography are set out above in this section.

Mr. Yu Xing Yuan（余興元）

Mr. Yu is the chief investment officer of the Company. Details of his biography are set out above in this section.

Mr. Kong Chi Mo, Roy（江智武）

Mr. Kong, aged 37, *FCCA, FCIS, FCS (PE) & MHKIoD*, is the chief financial officer of the Company since May 2008. Prior to joining the Company, Mr. Kong was an audit senior manager at KPMG's Beijing Office. In his eight years with KPMG, Mr. Kong was the engagement manager on audits for the initial public offerings and annual audits of several Chinese companies listed in Hong Kong and the United States. Prior to joining KPMG, Mr. Kong worked as a tax associate and finance trainee in PricewaterhouseCoopers and Hutchison Telecommunications (Hong Kong) Limited, respectively.

Mr. Kong has been a fellow member of the Association of Chartered Certified Accountants since February 2008, a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators since February 2012, and an associate member of the Hong Kong Institute of Directors ("HKIoD") since May 2010. Mr. Kong received bronze certificates of merit in continuing professional development in both 2010 and 2011 from the HKIoD. Mr. Kong graduated from the Chinese University of Hong Kong in May 1997 with a bachelor's degree in business administration.

COMPANY SECRETARY

Mr. Kong Chi Mo, Roy（江智武）

Mr. Kong is the company secretary of the Company. Mr. Kong is working for the Company on a full time basis. Details of his biography are set out above in this section.

DIRECTORS' REPORT

The Directors hereby present their report and the audited financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are mining, ore processing, iron pelletising and sale of iron concentrates, iron pellets and titanium concentrates in the PRC. Details of the Company's subsidiaries as at 31 December 2012 are set out in note 15 to financial statements of this annual report.

RESULTS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 59 of this annual report.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 10 May 2013 to Tuesday, 14 May 2013 (both days inclusive) during which period no transfer of Shares will be effected. In order to determine the entitlement to attend and vote at the 2013 AGM, all share transfers accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 9 May 2013.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2012.

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment of the Group for the year ended 31 December 2012 amounted to approximately RMB188.2 million. Details of the movements during the year in the Group's property, plant and equipment are set out in note 12 to financial statements of this annual report.

SHARE CAPITAL

Details of the movements during the year in the issued share capital of the Company are set out in note 32 to financial statements of this annual report.

DISTRIBUTABLE RESERVES

Details of the movements during the year ended 31 December 2012 in the reserves of the Group are set out in the consolidated statement of changes in equity on page 62 of this annual report.

As at 31 December 2012, the Company's reserves available for distribution to the Shareholders in accordance with the Articles of Association was RMB1,876.3 million.

Under the Companies Law, subject to the provision of its Articles, the share premium account may be applied by the Company in paying distributions or dividends to its members or in paying up unissued shares to be issued to its members as fully paid bonus shares provided that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

The reserves of the Company available for distribution depend on the dividend distributable by the Company's subsidiaries. For dividend purpose, the amount which the Company's subsidiaries in the PRC can legally distribute by way of a dividend is determined by reference to their distributable profits as reflected in the PRC statutory financial statements which are prepared in accordance with accounting principles generally accepted in the PRC. These distributable profits differ from those that are reflected in the Group's financial statements prepared in accordance with the IFRSs.

FINANCIAL SUMMARY

A summary of the results, assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on pages 4 to 5 of this annual report.

LOANS AND BORROWINGS

Details of the loans and borrowings of the Group are set out in notes 28 and 29 to financial statements of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the years ended 31 December 2012 and 2011, sales to the Group's five largest customers accounted for 80.5% and 78.0% of the total revenue of the Group, respectively, and sales to the largest customer included therein accounted for 21.5% and 17.4%, respectively.

For the years ended 31 December 2012 and 2011, purchases from the Group's five largest suppliers accounted for 55.1% and 45.5% of the total purchases of the Group, respectively, and purchases from the largest supplier included therein accounted for 29.4% and 31.8%, respectively.

None of the Directors or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest suppliers or customers.

DIRECTORS

The Directors during the year and up to the date of this annual report are as follows:

Executive Directors

Mr. Jiang Zhong Ping *(Chairman)*
Mr. Liu Feng *(Chief executive officer)*
Mr. Yu Xing Yuan *(Chief investment officer)*

Non-executive Directors

Mr. Wang Jin
Mr. Teo Cheng Kwee

Independent non-executive Directors

Mr. Yu Haizong
Mr. Gu Peidong
Mr. Liu Yi

Biographical details of the above Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 24 to 29 of this annual report.

In accordance with Articles 84(1) and 84(2) of the Articles, Messrs. Teo Cheng Kwee, Yu Haizong and Gu Peidong will retire at the 2013 AGM and, being eligible, will offer themselves for re-election at the 2013 AGM.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has entered into a new service contract with the Company for a term of one year commencing from 8 October 2012. Each of our non-executive Directors and independent non-executive Directors has entered into a new letter of appointment with the Company for a term of one year commencing from 8 October 2012.

None of the Directors proposed for re-election at the 2013 AGM has entered into any service agreement with the Company which is not terminable within one year without payment of compensation (other than the statutory compensation).

REMUNERATION OF THE DIRECTORS

The remuneration of the Directors is determined with reference to the Directors' duties, responsibilities, performance and the results of the Group.

Details of the remuneration of the Directors are set out in note 8 to financial statements of this annual report.

EMOLUMENT POLICIES

The emolument policies of the Group are based on performance, experience, competence and market comparables. Remuneration package generally comprises salary, housing allowance, contribution to pension scheme and discretionary bonus relating to the performance of the Group.

When compared to other employees of the Group, the remuneration package of the Directors and senior management puts a heavier weighting on their contributions to the performance of the Group. This is achieved by way of share option scheme. The emolument policies of the Directors and senior management are overseen by the remuneration committee of the Company.

Details of the scheme are set out under the section headed "Share Options" in this report and note 33 to financial statements.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, are as follows:

(a) Long positions in Shares

	Number of Shares held, capacity and nature of interest		
Name of Director	Through parties acting in concert	Total	Percentage of the Company's issued share capital
Mr. Wang Jin	1,023,557,072 (L) (Notes 1, 2 & 3)	1,023,557,072 (L)	49.33% (L)

Notes:

1. The letter "L" represents the individual's long positions in the Shares.

2. 1,006,754,000 Shares were directly held by Trisonic International which was owned as to, inter alia, 42.6% by Mr. Wang Jin and 40% by Kingston Grand which in turn was owned as to 100% by Mr. Wang Jin. Since Trisonic International, Kingston Grand and Mr. Wang Jin were parties acting in concert, Mr. Wang Jin was deemed to be interested in 1,006,754,000 Shares held by Trisonic International.

3. 16,803,072 Shares were directly held by Sapphire. Since Mr. Wang Jin and Sapphire were deemed as parties acting in concert, Mr. Wang Jin was deemed to be interested in 16,803,072 Shares held by Sapphire.

(b) Long positions in share options granted by the Company

Number of share options held by the Directors and chief executives of the Company as at 31 December 2012:

Name	Number of share options held	Number of underlying Shares
Mr. Jiang Zhong Ping	8,500,000	8,500,000
Mr. Liu Feng	11,000,000	11,000,000
Mr. Yu Xing Yuan	14,500,000	14,500,000
Mr. Kong Chi Mo, Roy	7,500,000	7,500,000

The details of share options held by the Directors and chief executives of the Company are disclosed under the section headed "Share Options" of this report.

Save as disclosed above, as at 31 December 2012, so far as is known to any Directors and chief executives of the Company, none of the Directors and chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SHARE OPTIONS

The Company adopted a share option scheme (the "Old Option Scheme") on 4 September 2009. At the 2010 AGM, the Shareholders approved the adoption of a new share option scheme (the "New Option Scheme") and the termination of the operation of the Old Option Scheme (such that no further options shall thereafter be offered under the Old Option Scheme but in all other respects the provisions of the Old Option Scheme shall remain in full force and effect).

SUMMARY OF THE OLD OPTION SCHEME

The purpose of adopting the Old Option Scheme was to provide incentives or rewards to eligible persons for their contributions to, and continuing efforts to promote the interests of the Company and enabling our Group to recruit and retain high-calibre employees. The eligible persons include any Director or employee (whether full time or part time) of any member of the Group.

The maximum aggregate number of Shares which may be issued upon exercise of all outstanding options to be granted and yet to be exercised under the Old Option Scheme and any other share option schemes must not, in aggregate, exceed 30% of the Shares in issue from time to time. The maximum number of Shares issued and to be issued upon exercise of the options granted to any eligible person under the Old Option Scheme and any other share option schemes shall not in any 12-month period up to the date of grant exceed 1% of the issued share capital of the Company as of the date of grant. Any further grant of share options in excess of this limit is subject to the Shareholders' approval in general meeting. The period within which an option may be exercised under the Old Option Scheme will be determined by the Board at its absolute discretion. The exercise price in relation to each option shall be determined by the Board at its absolute discretion, but in any event shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of such option; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of such option; and (iii) the nominal value of a Share on the date of grant of such option.

On 29 December 2009, the options to subscribe for the new Shares were granted under the Old Option Scheme. The options shall entitle the grantees to subscribe for the new Shares upon the exercise of options at an exercise price of HK$5.05 per Share, which represented the highest of: (a) the closing price of HK$5.05 per Share as stated in the Stock Exchange's daily quotations sheet on the date of grant; (b) the average closing price of HK$4.86 per Share as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; and (c) the nominal value of the Shares of HK$0.1. The options shall be exercisable during the period of 10 years from the date of grant.

On 1 April 2010, the options to subscribe for the new Shares were granted under the Old Option Scheme. The options shall entitle the grantees to subscribe for the new Shares upon the exercise of options at an exercise price of HK$4.99 per Share, which represented the highest of: (a) the closing price of HK$4.86 per Share as stated in the Stock Exchange's daily quotations sheet on the date of grant; (b) the average closing price of HK$4.99 per Share as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; and (c) the nominal value of the Shares of HK$0.1. The options shall be exercisable during the period of 10 years from the date of grant.

Details of the share options outstanding as at 31 December 2012 which have been granted under the Old Option Scheme are as follows:

	Name or category of participant	Date of grant	Exercise period	Exercise price per share option	No. of share options held as at 01.01.2012	No. of share options exercised during the year	No. of share options held as at 31.12.2012
				HK$			
1.	**Directors/chief executives**						
	Mr. Jiang Zhong Ping	29.12.2009	29.06.2012 to 28.12.2019	5.05	1,500,000	–	1,500,000
			29.12.2014 to 28.12.2019	5.05	1,500,000	–	1,500,000
		01.04.2010	01.10.2012 to 31.03.2020	4.99	250,000	–	250,000
			01.04.2015 to 31.03.2020	4.99	250,000	–	250,000
	Mr. Liu Feng	29.12.2009	29.06.2012 to 28.12.2019	5.05	2,000,000	–	2,000,000
			29.12.2014 to 28.12.2019	5.05	2,000,000	–	2,000,000
		01.04.2010	01.10.2012 to 31.03.2020	4.99	1,250,000	–	1,250,000
			01.04.2015 to 31.03.2020	4.99	1,250,000	–	1,250,000
	Mr. Yu Xing Yuan	29.12.2009	29.06.2012 to 28.12.2019	5.05	3,500,000	–	3,500,000
			29.12.2014 to 28.12.2019	5.05	3,500,000	–	3,500,000
		01.04.2010	01.10.2012 to 31.03.2020	4.99	1,250,000	–	1,250,000
			01.04.2015 to 31.03.2020	4.99	1,250,000	–	1,250,000
	Mr. Kong Chi Mo, Roy	29.12.2009	29.06.2012 to 28.12.2019	5.05	1,500,000	–	1,500,000
			29.12.2014 to 28.12.2019	5.05	1,500,000	–	1,500,000
		01.04.2010	01.10.2012 to 31.03.2020	4.99	250,000	–	250,000
			01.04.2015 to 31.03.2020	4.99	250,000	–	250,000
2.	**Employees**	29.12.2009	29.06.2012 to 28.12.2019	5.05	1,600,000	–	1,600,000
	(in aggregate)		29.12.2014 to 28.12.2019	5.05	1,600,000	–	1,600,000
		01.04.2010	01.10.2012 to 31.03.2020	4.99	1,700,000	–	1,700,000
			01.04.2015 to 31.03.2020	4.99	1,700,000	–	1,700,000
Total					29,600,000	–	29,600,000

SUMMARY OF THE NEW OPTION SCHEME

The purposes of adopting the New Option Scheme are: (i) to broaden the scope of eligible persons to include all substantial Shareholders of the Company and any person whom the Board considers to have contributed to the development and growth of the Company; (ii) to provide incentive or reward to eligible persons for their contributions to, and continuing efforts to promote the interests of the Company; and (iii) to enable the Group to recruit and retain high-calibre employees. The eligible persons include Directors, chief executives, substantial Shareholders or employees (whether full time or part time) of any member of the Group and any person who the Board considers, at its sole discretion, have contributions or will contribute to the development and growth of the Group.

The maximum aggregate number of Shares which may be issued upon exercise of all outstanding options to be granted and yet to be exercised under the New Option Scheme and any other share option schemes must not, in aggregate, exceed 30% of the Shares of the Company in issue from time to time. The maximum number of Shares which may be issued upon exercise of all options to be granted under all schemes adopted by the Company, must not in aggregate exceed 207,500,000 Shares, being 10% of the total number of Shares in issue (the "Scheme Mandate Limit"). Options lapsed under the New Option Scheme or any other share option scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit. The maximum number of Shares issued and to be issued upon exercise of the options granted and to be granted to each eligible person under the New Option Scheme and any other share option schemes shall not in any 12-month period up to the date of grant exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to the Shareholders' approval in general meeting.

Any grant of options to a Director, chief executives or to a substantial Shareholder or any of their respective associates is required to be approved by the independent non-executive Directors (excluding independent non-executive Directors who are the grantees of the options). Any grant of options to a substantial Shareholder or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person in the 12 months up to and including the date of the offer of such grant: (1) representing in aggregate over 0.1% of the Shares in issue on the date of the offer; and (2) having an aggregate value in excess of HK$5 million, based on the closing price of the Shares as quoted on the Stock Exchange at the date of grant, any further grant of options are subject to the Shareholders' approval in general meeting at which all connected persons of the Company shall abstain from voting in favour at such meeting and other requirements prescribed under the Listing Rules from time to time.

A consideration of HK$1.0 is payable by grantees on acceptance of the offer of the grant of an option. There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its absolute discretion any such minimum period at the time of grant of any particular option. Upon acceptance, the date of grant of any particular option is deemed to have taken effect from the date on which an offer is made. Any option may be exercised according to the terms of the New Option Scheme and the offer in whole or in part by the grantee (or his/her personal representatives) before its expiry giving notice in writing to the Company stating that the option is to be exercised and the number of Shares in respect of which it is exercised. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than ten years from the date of grant. No option may be granted more than ten years after the date of approval of the New Option Scheme.

The subscription price in relation to each option shall be determined by the Board at its absolute discretion, but in any event shall not be less than the highest of (i) the nominal value of the Shares; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option.

In the event of a grantee ceasing to be an eligible person for any reason other than (1) by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an eligible person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangement or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty; or (2) by death, the option may be exercised within one month after the date such cessation, which date shall be (i) if he is an employee of any member of the Group, his last actual working day with such member of the Group whether salary is paid in lieu of notice or not; or (ii) if he is not an employee of any member of the Group, the date on which the relationship constituting him an eligible person ceases.

Details of the share options outstanding as at 31 December 2012 which have been granted under the New Option Scheme are as follows:

	Name or category of participant	Date of grant	Exercise period	Exercise price per share option HK$	No. of share options held as at 01.01.2012	No. of share options exercised during the year	No. of share options held as at 31.12.2012
1.	**Directors/chief executives**						
	Mr. Jiang Zhong Ping	23.05.2011	23.05.2013 to 22.05.2021	3.60	5,000,000	–	5,000,000
	Mr. Liu Feng	23.05.2011	23.05.2013 to 22.05.2021	3.60	4,500,000	–	4,500,000
	Mr. Yu Xing Yuan	23.05.2011	23.05.2013 to 22.05.2021	3.60	5,000,000	–	5,000,000
	Mr. Kong Chi Mo, Roy	23.05.2011	23.05.2013 to 22.05.2021	3.60	4,000,000	–	4,000,000
2.	**Employees** (in aggregate)	23.05.2011	23.05.2013 to 22.05.2021	3.60	8,800,000	–	8,800,000
Total					27,300,000	–	27,300,000

Save as disclosed above, at no time during the year was the Company, its holding companies or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

To the best knowledge of the Directors or chief executives of the Company, as at 31 December 2012, persons (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provision of Division 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under Section 336 of the SFO are as follows:

Long position in Shares:

Name	Notes	Directly beneficially owned	Through parties acting in concert	Held in the capacity of investment manager	Total	Percentage of the Company's issued share capital
Trisonic International	1,2,4&5	1,006,754,000 (L)	16,803,072 (L)	–	1,023,557,072 (L)	49.33% (L)
Kingston Grand	1,2,3,4&5	–	1,023,557,072 (L)	–	1,023,557,072 (L)	49.33% (L)
Mr. Yang Xianlu	1&4	–	1,023,557,072 (L)	–	1,023,557,072 (L)	49.33% (L)
Mr. Wu Wendong	1&4	–	1,023,557,072 (L)	–	1,023,557,072 (L)	49.33% (L)
Mr. Li Hesheng	1,2&4	–	1,023,557,072 (L)	–	1,023,557,072 (L)	49.33% (L)
Mr. Shi Yinjun	1,2&4	–	1,023,557,072 (L)	–	1,023,557,072 (L)	49.33% (L)
Mr. Zhang Yuangui	1,2&4	–	1,023,557,072 (L)	–	1,023,557,072 (L)	49.33% (L)
Sapphire	1,4&6	16,803,072 (L)	1,006,754,000 (L)	–	1,023,557,072 (L)	49.33% (L)
Templeton Asset Management Ltd.	1	–	–	187,122,117 (L)	187,122,117 (L)	9.02% (L)

Notes:

1. The letter "L" represents the entity's/individual's long positions in the Shares.

2. The issued share capital of Trisonic International was owned as to 3% by Mr. Li Hesheng, 42.6% by Mr. Wang Jin, 7.2% by Mr. Shi Yinjun, 7.2% by Mr. Zhang Yuangui and 40% by Kingston Grand. The interests of Mr. Wang Jin in the Shares of the Company is disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

3. The issued share capital of Kingston Grand was owned as to 100% by Mr. Wang Jin.

4. As at 31 December 2012, 1,006,754,000 Shares and 16,803,072 Shares were held by Trisonic International and Sapphire, respectively. Since Sapphire, Trisonic International, Kingston Grand, Mr. Wang Jin, Mr. Yang Xianlu, Mr. Wu Wendong, Mr. Li Hesheng, Mr. Shi Yinjun and Mr. Zhang Yuangui were parties acting in concert:

   (i) Sapphire was deemed to be interested in 1,006,754,000 Shares held by Trisonic International;

   (ii) Trisonic International was deemed to be interested in 16,803,072 Shares held by Sapphire; and

   (iii) each of Kingston Grand, Mr. Yang Xianlu, Mr. Wu Wendong, Mr. Li Hesheng, Mr. Shi Yinjun and Mr. Zhang Yuangui were deemed to be interested in 1,006,754,000 Shares held by Trisonic International and 16,803,072 Shares held by Sapphire.

5. Mr. Wang Jin was a director of Trisonic International and Kingston Grand.

6. Mr. Teo Cheng Kwee, a non-executive Director, was the chief executive officer of Sapphire.

Save as disclosed above, as at 31 December 2012, the Company had not been notified by any persons (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DEED OF NON-COMPETITION

In order to restrict competition activities between the Controlling Shareholders and the Company, the Controlling Shareholders have entered into a deed of non-competition in favour of the Company dated 23 September 2009 (the "Non-Competition Deed").

The undertakings and covenants stipulated under the Non-Competition Deed cover any business which involves ore processing and sale of iron concentrates, iron pellets, titanium concentrates and titanium-related downstream products or any other business from time to time conducted by any member of the Group (the "Competing Business") in Hong Kong, the PRC or such other part of the world where any member of the Group carries on its business from time to time other than the mines owned or operated by Weixi Guangfa and Yanyuan Xiwei.

Pursuant to the Non-Competition Deed, the Controlling Shareholders having an opportunity to invest in, participate in, engage in, operate or manage any Competing Business (the "Business Opportunity") shall notify the Company about such Business Opportunity in writing. The Company shall have the first right of refusal under the same investment terms to such Controlling Shareholders. The Controlling Shareholders shall implement the project only if the Company has confirmed that it has no intention to invest, participate in, engage in or operate such Business Opportunity as approved by the Board.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

CONTRACTS OF SIGNIFICANCE

Except for the service contracts and share option schemes as disclosed in this annual report, there was no contracts of significance in relation to the business of the Group, to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a Controlling Shareholder of the Company or any of its subsidiaries subsisted at the end of year or at any time during the year.

No contracts of significance between the Company or any of its subsidiaries and a Controlling Shareholder of the Company or any of its subsidiaries subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, the interests of the Directors or their respective associates in business which competed or was likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules are as follows:

Name of Director	Name of company in which the relevant Director has interest	Principal activities of the competing company	Interest of the relevant Director in competing company
Mr. Wang Jin	Yanyuan Xiwei (Note 1)	Mining and sale of iron ore	Mr. Wang, through a company controlled by him and other parties acting in concert with him, holds 100% equity interest in Yanyuan Xiwei. Mr. Wang is also a director of the holding company of Yanyuan Xiwei.
	Weixi Guangfa (Note 2)	Exploration for, processing and sale of iron ore	Mr. Wang, interested in the equity interest of Weixi Guangfa through an entity (the "Beneficial Holder") controlled by him and other parties acting in concert with him. The Beneficial Holder indirectly owns equity interest of Weixi Guangfa through a trust and its subsidiaries. Mr. Wang is also a director of the Beneficial Holder.
	Target Company (Note 3)	Exploration and development of iron sand ore	Mr. Wang, through a company wholly-owned by him (the "Intermediary"), subscribed for an exchangeable note in the principal amount of US$4,600,000 issued by the Issuer which entitles the Intermediary to exchange all or some of the exchangeable note into shares in the Target Company pursuant to the terms of the note certificate of the exchangeable note.
Mr. Yu Xing Yuan	Yanyuan Xiwei (Note 1)	Mining and sale of iron ore	Mr. Yu is a director of the holding company of Yanyuan Xiwei.
	Weixi Guangfa (Note 2)	Exploration for, processing and sale of iron ore	Mr. Yu is a director of the Beneficial Holder which indirectly owns equity interest in Weixi Guangfa through a trust and its subsidiaries.

Notes:

1. The business of Yanyuan Xiwei does not pose material competitive threat to the Group, because if Yanyuan Xiwei were to sell any of its iron ore products to any customers in Sichuan, Yanyuan Xiwei would have to obtain consent from the Company prior to selling its iron ore products. Such consent will be reviewed and approved by the independent non-executive Directors.

2. Weixi Guangfa's target customer base will be customers located in Yunnan. In contrast, all of the Group's customers are located in Sichuan. Since the Group's customer base is substantially different from that of Weixi Guangfa, Weixi Guangfa will not compete with the Group.

   Further, if Weixi Guangfa were to sell any of its iron ore products to any customers outside of Yunnan, Weixi Guangfa would have to obtain prior consent from the Company. Such consent would be reviewed and approved by the independent non-executive Directors.

3. The Group has subscribed for an Exchangeable Note in the principal amount of US$30.0 million issued by the Issuer which entitles the Group to exchange all or some of such Exchangeable Note into shares in the Target Company. Please refer to the Company's announcements dated 2 May 2011, 9 August 2011, 30 September 2011, 18 November 2011, 25 November 2011 and 16 December 2011 for further details.

   The Group is capable of carrying on its business independently of, and at arm's length from, the business of the Target Company because the Company and the Target Company are managed by their respective board of directors and Mr. Wang does not have control over the composition of the majority of the board of directors of the Target Company.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Sale of products to Chengyu Vanadium Titano during the year

For the year ended 31 December 2012, sales of vanadium-bearing iron concentrates of approximately RMB137.1 million were made to Chengyu Vanadium Titano, a connected person to the Group under the iron concentrate sale contract entered into between Huili Caitong and Chengyu Vanadium Titano on 21 October 2011, pursuant to which the Group agreed to sell, or procure another member of the Group (other than the Company) to sell, vanadium-bearing iron concentrates to Chengyu Vanadium Titano from time to time from 1 January 2012 to 31 December 2014. Chengyu Vanadium Titano is a company established in the PRC. Mr. Wang Jin, through his spouse and other parties acting in concert, together control over 80% of equity interest in Chengyu Vanadium Titano. Accordingly, Chengyu Vanadium Titano is a connected person for the purpose of the Listing Rules.

The prices of vanadium-bearing iron concentrates sold to Chengyu Vanadium Titano were determined based on arm's length negotiations, would follow the market price for a period commencing from 1 January 2012 to 31 December 2014 (such price will be subject to adjustment with reference to TFe content and quantities of other chemical elements in the vanadium-bearing iron concentrates), and is no less favourable than those independent customers of the Group in the same region.

The sale of vanadium-bearing iron concentrates constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. For detailed information on the above transaction, please refer to the Company's announcements dated 21 October 2011 and 29 November 2011 and the circular dated 11 November 2011 for further details.

The Directors had approved and the independent non-executive Directors had reviewed the continuing connected transactions and they confirmed that the transactions were entered into: (i) in the ordinary and usual course of the Group's business; (ii) on normal commercial terms; and (iii) in accordance with the terms of the relevant agreements governing such transaction on terms that were fair and reasonable and in the interests of the Shareholders of the Company as a whole.

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

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules (effective since 1 April 2012) ("New CG Code").

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures.

The audit committee currently comprises three independent non-executive Directors, Mr. Yu Haizong *(Chairman)*, Mr. Gu Peidong and Mr. Liu Yi.

During the year ended 31 December 2012, the audit committee has reviewed: (i) the audited financial statements of the Group and annual results announcement for the year ended 31 December 2011 and (ii) the reviewed financial statements of the Group and interim results announcement for the six months ended 30 June 2012. During the year ended 31 December 2012, the audit committee has reviewed the internal control of the Group. Details of the internal control of the Group is set out on page 54 of this annual report.

REMUNERATION COMMITTEE

The Company established remuneration committee with written terms of reference in compliance with the New CG Code.

The remuneration committee currently comprises two independent non-executive Directors, namely Mr. Gu Peidong *(Chairman)* and Mr. Yu Haizong and one non-executive Director, namely Mr. Wang Jin.

NOMINATION COMMITTEE

The Company established a nomination committee on 1 April 2012 with written terms of reference in compliance with the New CG Code.

The nomination committee currently comprises one executive Director, namely Mr. Jiang Zhong Ping *(Chairman)* and two independent non-executive Directors, namely Mr. Yu Haizong and Mr. Liu Yi.

PRE-EMPTIVE RIGHTS

There are no provisions relating to pre-emptive rights over Shares under the Articles of Association.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the year ended 31 December 2012.

CORPORATE GOVERNANCE

On 1 April 2012, the Former CG Code was amended and renamed as the New CG Code. The Company has adopted the code provisions as set out in the New CG Code as the code of the Company in substitution for and to the exclusion of the Former CG Code with effect from 1 April 2012. Throughout the year ended 31 December 2012, the Company has complied with all applicable code provisions in the Former CG Code and the New CG Code except for code provision A.6.7 as described in the Corporate Governance Report.

For details of the Corporate Governance Report, please refer to pages 46 to 56 of this annual report.

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

Throughout the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group in the ordinary course of business are set out in note 38 to financial statements of this annual report. In relation to the related party transaction of sale of goods to Chengyu Vanadium Titano which constituted non-exempt continuing connected transactions under the Listing Rules, the applicable requirements under the Listing Rules have been complied with.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief and at the date of this annual report, the Company has maintained sufficient public float as required under the Listing Rules.

CHANGE IN DIRECTORS' INFORMATION

Each of our executive Directors has entered into a new service contract with the Company for a term of one year commencing from 8 October 2012 and the director's fee is RMB80,000 per annum.

Each of our non-executive Directors and independent non-executive Directors has entered into a new letter of appointment with the Company for a term of one year commencing from 8 October 2012, in which Mr. Wang Jin's director's fee is HK$150,000 per annum and each of other non-executive Director's and independent non-executive Directors' director's fee is HK$120,000 per annum.

AUDITORS

The Company has appointed Ernst & Young as auditors of the Company for the year ended 31 December 2012. A resolution will be proposed for approval by the Shareholders at the 2013 AGM to re-appoint Ernst & Young as auditors of the Company.

On behalf of the Board
Jiang Zhong Ping
Chairman

28 March 2013

CORPORATE GOVERNANCE REPORT

The Company has adopted the Former CG Code (up to 31 March 2012) and the New CG Code (since 1 April 2012) as its own code of corporate governance. The Directors consider that the Company has complied with all applicable code provisions in the Former CG Code during the period from 1 January 2012 to 31 March 2012 and the New CG Code during the period from 1 April 2012 to 31 December 2012 except for code provision A.6.7 as described below.

Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders. Messrs. Wang Jin and Teo Cheng Kwee did not attend the annual general meeting held on 8 May 2012 due to other business commitment.

CORPORATE GOVERNANCE REPORT

The Directors are committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximise the interests of the Shareholders.

Set out below is the detailed discussion of the corporate governance practices adopted and observed by the Company during the year.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code for the year ended 31 December 2012.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The Board currently comprises a combination of executive Directors, non-executive Directors and independent non-executive Directors. At least one of the independent non-executive Directors possesses appropriate professional qualifications (or accounting or related financial management expertise) as required by the Listing Rules. There is a clear separation of the role of chairman and the chief executive. This will provide a healthy professional relationship between the Board and the management to shape the strategic process. The Board is also supported by other key committees to provide independent oversight of management. These key committees are the audit committee, remuneration committee and nomination committee and are mainly made up of independent non-executive Directors. As of the date of this annual report, the composition and committees of the Board is as follows:

Board Member	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors			
Mr. Jiang Zhong Ping *(Chairman)*	–	–	C
Mr. Liu Feng *(Chief executive officer)*	–	–	–
Mr. Yu Xing Yuan *(Chief investment officer)*	–	–	–
Non-executive Directors			
Mr. Wang Jin	–	M	–
Mr. Teo Cheng Kwee	–	–	–
Independent non-executive Directors			
Mr. Yu Haizong	C	M	M
Mr. Gu Peidong	M	C	–
Mr. Liu Yi	M	–	M

Note:

C: Chairman
M: Member

Biographical details of the above Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 24 to 29 of this annual report.

Each of our executive Directors has entered into a new service contract with the Company for a term of one year commencing from 8 October 2012. Each of our non-executive Directors and independent non-executive Directors has entered into a new letter of appointment with the Company for a term of one year commencing from 8 October 2012. The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

The key roles of the Board are:

- to guide the overall development, corporate strategies and directions of the Group, approve the board policies, strategies and financial objectives of the Group and monitoring the performance of management;
- to ensure effective management leadership of the highest quality and integrity;
- to approve major funding proposal and investments; and
- to provide overall insight in the proper conduct of the Group's business.

During the year, the Company held four regular Board meetings for reviewing and approving the financial and operating performance and considering the overall strategies and policies of the Group. Sufficient notice convening the Board meeting was dispatched to the Directors setting out the matters to be discussed. All Directors were given an opportunity to include matters in the agenda for the Board meeting and had access to the company secretary of the Company (the "Company Secretary") to ensure that all board procedures and all applicable rules and regulations were followed. The Board also enabled the Directors to seek independent professional advice at the Company's expense in appropriate circumstances. At the meetings, the Directors were provided with the relevant documents to be discussed and approved. The Company Secretary was responsible for keeping minutes for the Board meetings.

During the year, the Company held one general meeting on 8 May 2012. The following is the attendance record of the meetings held by the Board, audit committee and the Shareholders for the year ended 31 December 2012:

	Number of meeting attended/Number of meeting held		
Name of Director	**Board meeting**	**Audit committee meeting**	**General meeting**
Mr. Jiang Zhong Ping	4/4	–	1/1
Mr. Liu Feng	4/4	–	0/1
Mr. Yu Xing Yuan	4/4	–	0/1
Mr. Wang Jin	4/4	–	0/1
Mr. Teo Cheng Kwee	4/4	–	0/1
Mr. Yu Haizong	4/4	2/2	1/1
Mr. Gu Peidong	2/4	2/2	1/1
Mr. Liu Yi	4/4	2/2	1/1

DIRECTORS' TRAINING

According to the code provision A.6.5 of the New CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant.

All Directors have been provided with training on their duties and responsibilities as a director of a listed company and the compliance issues under the Listing Rules. The Company continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure their compliance and enhance their awareness of good corporate governance practices.

During the year, a training session was organised by the Company for Directors to update the Directors on the "Guidelines on Disclosure of Inside Information" issued by the SFC. Each of the Directors had noted and studied the above mentioned document. Directors had provided the Company with their respective training record pursuant to the New CG Code. During the year, all Directors have participated in appropriate continuous professional development by ways of attending training or reading materials relevant to the Company's business or to Directors' duties and responsibilities.

CHAIRMAN AND CHIEF EXECUTIVE

The roles of the Company's chairman and the chief executive are segregated. Mr. Jiang Zhong Ping is the chairman of the Board who is chiefly responsible for managing the Board and acting in the best interests of the Group and the Shareholders while Mr. Liu Feng is the chief executive officer of the Company who takes charge of the supervision of the execution of the policies determined by the Board. The chairman chairs the Board meetings and briefs the Board members on the issues discussed at the Board meetings. The chairman also ensures that the Board members work together with the management with the capability and authority to engage management in constructive views on various matters, including strategic issues and business planning processes.

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

According to the Articles of Association, at each annual general meeting, one-third of the Directors are subject to retirement by rotation or, if the number is not a multiple of three, then the number nearest to but not less than one-third shall retire from the office and shall be eligible for re-election. The Directors to be retired by rotation shall be those who have been longest in office since their last appointment or re-election. Every Director shall be subject to retirement at an annual general meeting at least once every three years. Any other appointment, resignation, removal or re-designation of Director will be timely disclosed to the Shareholders by announcement and shall include in such announcement, the reasons given by the Director for his resignation.

The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Company's business.

REMUNERATION COMMITTEE

The remuneration committee currently comprises two independent non-executive Directors, namely Mr. Gu Peidong *(Chairman)* and Mr. Yu Haizong and one non-executive Director, namely Mr. Wang Jin. During the year, the remuneration committee did not hold any meeting.

Remuneration committee's main functions are:

- to review and recommend to the Board in consultation with the chairman of the Board and chief executive, a framework of remuneration and to determine specific remuneration packages and terms of employment for all Directors and senior management of the Company;

- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

- to determine with delegated responsibilities, the remuneration packages of individual executive Directors or senior management, which should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

- to consider the granting of share options to Directors, chief executives, substantial Shareholders or employees of any member of the Group and any person who have contribution or will contribute to the development and growth of the Group pursuant to the share option scheme adopted by the Company;

- to ensure that no Director or any of his associates is involved in deciding his own remuneration; and

- to review and approve the interim reports, annual reports, announcements and circulars or any publication of the Company regarding information on the remuneration and service contracts of the Directors prior to approval by the Board.

The following is the summary of remuneration payable to the Directors for the year ended 31 December 2012:

Name of Director	Remuneration band RMB	Director's fee %	Salaries, allowances and benefits in kind %	Share options %	Pension scheme contributions %	Total %
Executive Directors						
Mr. Jiang Zhong Ping	4,500,001 – 5,000,000	1.7	9.3	88.6	0.4	100
Mr. Liu Feng	6,000,001 – 6,500,000	1.3	6.8	91.6	0.3	100
Mr. Yu Xing Yuan	7,500,001 – 8,000,000	1.0	7.7	91.1	0.2	100
Non-executive Directors						
Mr. Wang Jin	100,001 – 150,000	100	–	–	–	100
Mr. Teo Cheng Kwee	1 – 100,000	100	–	–	–	100
Independent non-executive Directors						
Mr. Yu Haizong	1 – 100,000	100	–	–	–	100
Mr. Gu Peidong	1 – 100,000	100	–	–	–	100
Mr. Liu Yi	1 – 100,000	100	–	–	–	100

Details of remuneration payable to members of senior management by band are set out in note 8 to the financial statements of this annual report.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the New CG Code. The audit committee currently comprises three independent non-executive Directors, Mr. Yu Haizong *(Chairman)*, Mr. Gu Peidong and Mr. Liu Yi.

Audit committee's main functions are:

- to assist the Board in providing an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group;
- to review the Group's audit plans, scope and results with the external auditors;
- to review the Group's financial reporting, internal control and risk management system with the internal auditors;
- to review and approve the interim results announcements and annual results announcements before submission to the Board;
- to review continuing connected transactions; and
- to nominate the external auditors for re-appointment and review their independence.

During the year, the audit committee has held two meetings, at which the members of audit committee have reviewed and discussed with the external auditors of the Company the Group's financial statements, who is of the opinion that such statements have complied with the applicable accounting standards and the legal disclosure requirements, and that adequate disclosures have been made.

The audit committee has also appointed KPMG Advisory (China) Limited as the internal auditors of the Group since October 2010 to perform internal audit work under a three years rotation plan based on a risk-based methodology. The internal auditors report directly to the chairman of the audit committee and submit a report on their findings to the audit committee for review and approval yearly. The audit committee has reviewed the internal audit reports and based on the controls in place, is satisfied that there are adequate internal controls in the Group.

NOMINATION COMMITTEE

The Company established a nomination committee on 1 April 2012 in compliance with the New CG Code which currently comprises one executive Director, namely Mr. Jiang Zhong Ping *(Chairman)* and two independent non-executive Directors, namely Mr. Yu Haizong and Mr. Liu Yi. During the year, the nomination committee did not hold any meeting.

Nomination committee's main functions are:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nomination for directorships;
- to assess the independence of independent non-executive Directors; and
- to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular chairman and chief executive.

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for performing the duties on corporate governance function as set out below:

- to develop and review the Company's policies and practices on corporate governance and make recommendations;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance and legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the New CG Code and disclosure in the corporate governance report.

During the year ended 31 December 2012, the Board has developed and reviewed the Company's corporate governance practices, including the revised terms of reference for the remuneration committee and the audit committee and the newly established terms of reference for the nomination committee.

AUDITORS' REMUNERATION

For the year ended 31 December 2012, the Group's external auditors, Ernst & Young, provided interim review and annual audit services. For the year ended 31 December 2012, the total fee paid/payable in respect of services provided by the Group's external auditors is set out below:

	RMB'000
Annual audit services	2,400
Interim review services	1,100

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Company deploys appropriate and sufficient resources to prepare audited accounts. Senior management is required to present and explain the financial reporting and matters that materially affect or may have material impact on the financial performance and operations of the Group to the audit committee and the Board and respond to the queries and concerns raised by the audit committee and the Board to their satisfaction. The consolidated financial statements have been prepared in accordance with the IFRSs and the disclosure requirements of the Companies Ordinance. The reporting responsibility of the external auditors of the Company on the financial statements of the Group is set out in the independent auditors' report on pages 57 to 58 of this annual report.

INTERNAL CONTROL

The internal control system has been designed to safeguard the assets of the Group, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations.

The Board is responsible for implementing the internal control system and reviewing its effectiveness. To facilitate the effectiveness and efficiency of operations and to ensure compliance with relevant laws and regulations, the Group emphasises on the importance of a sound internal control system which is also indispensable for mitigating the Group's risk exposures. The Group's internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfilment of the business objectives. The internal control system is reviewed on an ongoing basis by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of material assets and identification of business risks. The Board has considered the effectiveness of its internal control system and is of the view that the internal control system adopted for the year ended 31 December 2012 was effective and the Company has complied with the Former CG Code and the New CG Code.

COMPANY SECRETARY

Mr. Kong Chi Mo, Roy was appointed as the Company Secretary on 4 September 2009. According to Rule 3.29 of the Listing Rules, an issuer's company secretary must take no less than 15 hours of relevant professional training in each financial year while Mr. Kong has taken more than 50 hours of relevant professional training in 2012. Mr. Kong received bronze certificates of merit in continuing professional development in both 2010 and 2011 from the HKIoD.

SHAREHOLDERS' RIGHTS

Procedures for convening of an extraordinary general meeting and putting forward proposals at shareholders' meeting

Pursuant to Article 58 of the Articles of Association of the Company, Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company (the "Requisitionist(s)") may, by written requisition (the "Requisition") to the Board or the Company Secretary, to require an extraordinary general meeting ("EGM") to be called by the Board for the transaction of any business specified in the Requisition. The Requisition shall be deposited at the principal place of business of the Company in Hong Kong. The EGM shall be held within two months after the deposit of the Requisition. In the event that the Board fails to proceed to convene the EGM within twenty-one days of the deposit of the Requisition, the Requisitionist(s) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company.

Procedures for shareholders to put enquiries to the Board

Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. In respect of other enquiries, Shareholders may put forward enquiries to the Board through the Company's principal place of business in Hong Kong which will direct the enquiries to the Board for handling.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

In 2012, the Company continued to communicate with Shareholders, investors and analysts in an active and honest manner through various channels such as results announcement conference, non-deal roadshow and teleconference. Communications with capital market have been enhanced and necessary data for valuation purpose have been fully provided so as to help capital market to understand the investment value of the Company. The main communication channels with the Shareholders include:

Investors' meetings

Group and one-on-one meetings will be held with investors in respect of its annual results and interim results. In addition, the Group's senior executives and Head of Investor Relations will hold regular meetings with investors and they will be provided with the latest information on the development of the Group which has been publicly disclosed, in compliance with applicable laws and regulations.

Annual general meetings

The annual general meeting is an important discussion platform for Shareholders to participate in, facilitating the communications between the management of the Company and the Shareholders. The annual general meeting is held once a year, being accessible to all Shareholders. The Directors answer any questions Shareholders have at the meeting, being attended by the external auditors and the Company Secretary. All matters proposed to Shareholders for approval shall be submitted in separate resolutions and resolved by way of poll at the annual general meeting. The procedures of conducting a poll will be explained in details to Shareholders and the voting results will be set out on the Stock Exchange's website (www.hkexnews.hk) and the Company's website.

Annual reports, interim reports, announcements and circulars

The Company issues its annual reports and interim reports after publishing the annual results and the interim results in March and August every year, respectively, so as to periodically review the development of the Group as well as to update its Shareholders with its latest business information and market trends. In addition, the Company will inform the Shareholders through announcements regarding any major event or price-sensitive information on a timely manner. For any matter requires the approval of the Shareholders, the Company will hold an EGM according to the requirements of the Stock Exchange and issue a circular prior to the specific date of the meeting, allowing the Shareholders to have sufficient time to learn more about the matters for making voting decisions. All annual reports, interim reports, announcements and circulars will be uploaded to the Stock Exchange's website (www.hkexnews.hk) and the Company's website.

The Company's website

The Company's website offers timely access to the Group's press releases and other business information. Through its website, the Company provides Shareholders with the electronic version of the financial reports, the latest slide presentations, as well as up-to-date news about the Group's business, announcements and general information, etc. To make contributions to environmental protection and maintain effective communication with Shareholders, the Group encourages all Shareholders to browse the Company's corporate communication files on the Company's website.

Investor contacts and enquiries

The Group has a dedicated team to maintain contact with investors and handles Shareholders' enquiries. Since 1 January 2012, the Company has also engaged a Head of Investor Relations to strengthen our communications with investors and analysts and to bring more effective information to the market. Should investors have any enquiries, please contact the Company's Investor Relations Department via email at ir@chinavtmmining.com.

The Company will ensure that the information of the work on investor relations is disclosed in a timely and accurate manner, and to react to the capital market effectively and smoothly. This can keep helping the capital market to understand its development strategies and operating conditions.

INDEPENDENT AUDITORS' REPORT

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To the shareholders of
CHINA VANADIUM TITANO-MAGNETITE MINING COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Vanadium Titano-Magnetite Mining Company Limited and its subsidiaries set out on pages 59 to 133, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

28 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	4	**1,533,732**	1,712,978
Cost of sales		**(840,550)**	(886,407)
Gross profit		**693,182**	826,571
Other income and gains	5	**64,360**	109,742
Selling and distribution expenses		**(45,921)**	(46,473)
Administrative expenses		**(118,138)**	(102,219)
Other expenses		**(20,576)**	(19,035)
Finance costs	6	**(42,599)**	(21,120)
Share of profits and losses of jointly-controlled entities	16	**517**	34
PROFIT BEFORE TAX	7	**530,825**	747,500
Income tax expense	9	**(120,223)**	(134,775)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**410,602**	612,725
Attributable to:			
Owners of the Company	10	**403,042**	605,892
Non-controlling interests		**7,560**	6,833
		410,602	612,725
Earnings per Share attributable to ordinary equity holders of the Company:			
Basic and diluted	11	**RMB0.19**	RMB0.29

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**1,778,789**	1,726,804
Intangible assets	13	**566,302**	576,901
Prepaid land lease payments	14	**49,451**	50,678
Investments in jointly-controlled entities	16	**12,031**	584
Financial assets at fair value through profit or loss	17	**239,272**	207,942
Prepayments and deposits	18	**203,585**	231,180
Payments in advance	19	**202,095**	165,712
Goodwill	20	**15,318**	15,318
Deferred tax assets	21	**18,597**	3,986
Total non-current assets		**3,085,440**	2,979,105
CURRENT ASSETS			
Inventories	22	**180,024**	137,333
Trade and bills receivables	23	**109,053**	134,418
Prepayments, deposits and other receivables	18	**122,788**	148,139
Due from related parties	24	**733**	600
Pledged time deposits	25	**268,783**	111,993
Cash and cash equivalents	25	**1,649,146**	946,830
Total current assets		**2,330,527**	1,479,313
CURRENT LIABILITIES			
Trade and bills payables	26	**816,558**	341,192
Other payables and accruals	27	**345,754**	278,779
Commercial paper liabilities	28	**150,000**	–
Interest-bearing bank and other loans	29	**317,283**	321,514
Due to related parties	24	**33,735**	85,681
Tax payable		**112,425**	89,655
Dividend payable		**1,801**	1,801
Total current liabilities		**1,777,556**	1,118,622
NET CURRENT ASSETS		**552,971**	360,691
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,638,411**	3,339,796
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	29	**79,000**	101,200
Provision for rehabilitation	30	**8,188**	7,664
Deferred income	31	**4,000**	9,574
Other payables	27	**750**	500
Total non-current liabilities		**91,938**	118,938
Net assets		**3,546,473**	3,220,858

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	32	**182,787**	182,787
Reserves	34	**3,334,249**	2,893,769
Proposed final dividend	35	**–**	122,425
		3,517,036	3,198,981
Non-controlling interests		**29,437**	21,877
Total equity		**3,546,473**	3,220,858

Jiang Zhong Ping
Director

Liu Feng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Attributable to owners of the Company												
	Issued capital	Share premium account	Statutory reserves	Safety fund surplus reserve	Contributed surplus	Share option reserve	Difference arising from acquisition of non-controlling interests	Capital reserve	Retained earnings	Proposed final dividend	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	RMB'000	RMB'000
	note 32	note 34(a)	note 34(b)	note 34(d)	note 34(c)	note 33				note 35			
At 1 January 2011	182,787	1,998,721	111,421	–	167,454	19,136	(814,398)	–	1,034,129	107,756	2,807,006	30,236	2,837,242
Total comprehensive income for the year	–	–	–	–	–	–	–	–	605,892	–	605,892	6,833	612,725
Equity-settled share option arrangement	–	–	–	–	–	28,647	–	–	–	–	28,647	–	28,647
Transfer from/(to) reserves	–	–	49,182	–	–	–	–	–	(49,182)	–	–	–	–
Business combination under common control	–	–	–	–	(100,800)	–	–	–	–	–	(100,800)	–	(100,800)
Acquisition of non-controlling interests	–	–	–	–	–	–	(34,008)	–	–	–	(34,008)	(15,192)	(49,200)
Proposed final 2011 dividend	–	(122,425)	–	–	–	–	–	–	–	122,425	–	–	–
Final 2010 dividend declared	–	–	–	–	–	–	–	–	–	(107,756)	–	–	(107,756)
At 31 December 2011 and 1 January 2012	182,787	1,876,296*	160,603*	–	66,654*	47,783*	(848,406)*	–	1,590,839*	122,425	3,198,981	21,877	3,220,858
Total comprehensive income for the year	–	–	–	–	–	–	–	–	403,042	–	403,042	7,560	410,602
Equity-settled share option arrangement	–	–	–	–	–	28,307	–	–	–	–	28,307	–	28,307
Establishment for safety fund surplus reserve	–	–	–	48,388	–	–	–	–	(48,388)	–	–	–	–
Utilisation of safety fund surplus reserve	–	–	–	(3,817)	–	–	–	–	3,817	–	–	–	–
Transfer from/(to) reserves	–	–	43,048	–	–	–	–	–	(43,048)	–	–	–	–
Consideration adjustment in respect of business combination under common control (note 38 (a) (iii))	–	–	–	–	6,136	–	2,995	–	–	–	9,131	–	9,131
Capital injection to a subsidiary by way of transfer from retained earnings	–	–	–	–	–	–	–	186,200	(186,200)	–	–	–	–
Final 2011 dividend declared	–	–	–	–	–	–	–	–	–	(122,425)	(122,425)	–	(122,425)
At 31 December 2012	182,787	1,876,296*	203,651*	44,571*	72,790*	76,090*	(845,411)*	186,200*	1,720,062*	–	3,517,036	29,437	3,546,473

* These reserve accounts comprise the consolidated reserves of RMB3,334,249,000 (2011: RMB2,893,769,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**530,825**	747,500
Adjustments for:			
Finance costs	6	**41,145**	21,895
Unrealised foreign exchange gain		**(232)**	(236)
Bank interest income	5	**(28,910)**	(12,221)
Equity-settled share option expense	33	**28,307**	28,647
Fair value gains on financial assets at fair value through profit or loss	17	**(31,330)**	(14,423)
Share of profits and losses of jointly-controlled entities	16	**(517)**	(34)
Loss on disposal of items of property, plant and equipment	7	**–**	5
Reversal of write-down of inventories to net realisable value	7	**(24)**	(2,547)
Depreciation	12	**117,773**	100,936
Impairment of items of property, plant and equipment	12	**11,253**	–
Prepaid technical fee released to profit or loss	18(b)	**4,133**	4,133
Amortisation of intangible assets	13	**16,382**	20,930
Amortisation of prepaid land lease payments	14	**1,227**	1,113
		690,032	895,698
Decrease in trade and bills receivables		**25,365**	73,180
Increase in inventories		**(42,667)**	(64,255)
Decrease/(increase) in prepayments, deposits, and other receivables		**50,019**	(113,419)
Increase in trade and bills payables		**475,366**	80,305
Increase/(decrease) in other payables and accruals		**51,144**	(20,031)
Increase in amounts due from related parties		**(133)**	–
Decrease in amounts due to related parties		**(34,586)**	(19,191)
Cash generated from operations		**1,214,540**	832,287
Interest paid		**(40,299)**	(22,941)
Interest received		**28,236**	2,856
Income tax paid		**(112,064)**	(123,985)
Net cash flows from operating activities		**1,090,413**	688,217

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CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Net cash flows from operating activities		**1,090,413**	688,217
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(135,780)**	(243,630)
Proceeds from disposal of items of property, plant and equipment		**–**	110
Increase in long-term deposits		**(532)**	(1,571)
Increase in time deposits with maturity of over three months		**(523,800)**	(320,000)
Investment in a jointly-controlled entity	16	**(10,500)**	(550)
Investments in financial assets at fair value through profit or loss		**–**	(193,519)
Purchase of intangible assets		**(25,896)**	(36,067)
Prepayment for the acquisition of a subsidiary	19	**(50,000)**	(150,000)
Increase in pledged bank balances		**(156,790)**	(111,993)
Receipts of government grant	31	**1,600**	11,200
Net cash flows used in investing activities		**(901,698)**	(1,046,020)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of commercial papers	28	**150,000**	–
Transaction fee on the issuance of commercial papers	6	**(706)**	–
Proceeds from bank loans		**180,000**	265,714
Repayment of bank loans		**(207,000)**	(175,000)
Proceeds from other loans		**2,800**	–
Repayment of other loans		**(2,000)**	–
Acquisition of a business combination under common control	38(a)(iii)	**(10,869)**	(100,000)
Purchase of non-controlling interests		**–**	(404)
Dividends paid	35(b)	**(122,425)**	(107,756)
Net cash flows used in financing activities		**(10,200)**	(117,446)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**178,515**	(475,249)
Cash and cash equivalents at beginning of year		**196,830**	671,843
Effect of foreign exchange rate changes, net		**1**	236
CASH AND CASH EQUIVALENTS AT END OF YEAR		**375,346**	196,830
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**375,346**	108,823
Non-pledged time deposits		**1,273,800**	838,007
Cash and cash equivalents as stated in the consolidated statement of financial position	25	**1,649,146**	946,830
Time deposits with original maturity more than three months		**(1,273,800)**	(750,000)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**375,346**	196,830

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Office equipment		**63**	77
Investments in subsidiaries	15	**1,835,626**	1,882,374
Total non-current assets		**1,835,689**	1,882,451
CURRENT ASSETS			
Dividend receivable		**17,157**	17,157
Due from subsidiaries	15	**139,635**	222,425
Prepayments, deposits and other receivables	18	**264**	373
Due from a related party	24	**343**	314
Cash and cash equivalents	25	**1,451**	8,359
Total current assets		**158,850**	248,628
CURRENT LIABILITIES			
Due to a subsidiary	15	**22,429**	20,934
Other payables and accruals	27	**5,186**	3,341
Interest-bearing bank loan	29(a)	**94,283**	94,514
Total current liabilities		**121,898**	118,789
NET CURRENT ASSETS		**36,952**	129,839
Net assets		**1,872,641**	2,012,290
EQUITY			
Issued capital	32	**182,787**	182,787
Reserves	34	**1,689,854**	1,707,078
Proposed final dividend	35	**–**	122,425
Total equity		**1,872,641**	2,012,290

Jiang Zhong Ping
Director

Liu Feng
Director

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 28 April 2008 under the Companies Law. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Room 2201, 22/F, Wheelock House, 20 Pedder Street, Central, Hong Kong.

During the year ended 31 December 2012, the Group were principally engaged in the business of mining, ore processing, iron pelletising, sale of vanadium-bearing iron concentrates, ordinary iron concentrates, iron pellets and titanium concentrates and management of strategic investments. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the Directors, Trisonic International, a company incorporated in Hong Kong, is the parent and ultimate holding company of the Company.

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by International Accounting Standards Board (the "IASB") and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

The proportionate share of total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) *– Investment entities*[3]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*[2]
IAS 27 (Revised)	*Separate Financial Statements*[2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group expects to adopt the amendments from 1 January 2013.

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

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standards including all phases is issued.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and SIC 12 *Consolidation – Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC 12. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

IFRS 11 replaces IAS 31 *Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

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

In June 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or SIC 12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

The amendments to IFRS 10 issued in October 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (Revised). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised), IAS 28 (Revised), and the subsequent amendments to these standards issued in June and October 2012 from 1 January 2013.

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

The IAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified. The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

IFRIC 20 addresses the recognition of waste removal costs that are incurred in surface mining activity during the production phase of a mine as an asset, as well as the initial measurement and subsequent measurement of the stripping activity asset. To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the costs incurred are accounted for in accordance with IAS 2 *Inventories*. To the extent that the benefit is improved access to ore and when criteria set out in the interpretation are met, the waste removal costs are recognised as a stripping activity asset under non-current assets. The Group expects to adopt the interpretation from 1 January 2013. The management has not yet been able to estimate the impact of the IFRIC 20.

The Annual *Improvements to IFRSs 2009-2011 Cycle* issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

- IAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

  In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

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

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

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entity

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

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the profit or loss and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entity is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's investment in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred. The adjustment is taken (i) in profit or loss against either the investor's profit or the share of the jointly-controlled entity's profit, according to whether the investor or the jointly-controlled entity recorded the profit on the transaction, respectively; and (ii) in the consolidated statement of financial position against the asset which was the subject of the transaction if it is held by the investor or against the carrying amount for the jointly-controlled entity if the asset is held by the jointly-controlled entity. Goodwill arising from the acquisition of a jointly-controlled entity is included as part of the Group's investments in the jointly-controlled entities.

Business combinations and goodwill

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

Where goodwill has been allocated to a part of a cash-generating unit (or group of cash-generating units) and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Merger accounting for business combination under common control

The combining entities or businesses over which the common control exists are consolidated from the date when the combining entities or businesses first came under the control of the controlling parties.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

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

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation of items of property, plant and equipment, other than mining infrastructure, is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	7-35 years
Plant and machinery	7-18 years
Office equipment	5-7 years
Motor vehicles	5-10 years

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation of mining infrastructure is calculated using the units of production ("UOP") method to depreciate the cost of the assets in proportion to the extraction of the proved and probable mineral reserves. The estimated useful lives of the mining infrastructure ranging from 5.5 years to 22.7 years are determined in accordance with the production plans of the entities concerned and the proved and probable reserves of mines using the UOP method.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of these assets.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

Intangible assets (other than goodwill)

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

Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses. Mining rights include the cost of acquiring mining licences, exploration and evaluation costs transferred from exploration rights and assets upon determination that an exploration property is capable of commercial production, and the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights are amortised over the estimated useful lives of the mines, in accordance with the production plans of the entities concerned and the proved and probable reserves of the mines using the UOP method. Mining rights are written off to profit or loss if the mining property is abandoned.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Exploration rights and assets

Exploration rights are stated at cost less accumulated amortisation and any impairment losses and exploration assets are stated at cost less any impairment losses. Exploration rights and assets include the cost of acquiring exploration rights, topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and deferred amortisation and depreciation charges in respect of assets consumed during the exploration activities.

Exploration rights are amortised over the term of rights. Equipment used in exploration is depreciated over its useful life, or, if dedicated to a particular exploration project, over the life of the project on the straight-line basis, whichever is shorter. Amortisation and depreciation are included, in the first instance, in exploration rights and assets and are transferred to mining rights when it can be reasonably ascertained that an exploration property is capable of commercial production.

Exploration and evaluation costs include expenditure incurred to secure further mineralisation in existing ore bodies as well as in new areas of interest. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred.

Exploration and evaluation assets shall be assessed for impairment when facts and circumstances indicate that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. An impairment test is performed if any of the following indicators are present:

(a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

(b) substantial expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

(c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or

(d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Exploration rights and assets (continued)

When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to either mining infrastructure or mining rights and reserves and depreciated/amortised using the UOP method based on the proved and probable mineral reserves. Exploration and evaluation assets are written off to profit or loss if the exploration property is abandoned.

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash-generating units of production fields that are located in the same geographical region.

Deferred stripping costs

The Group defers and capitalises advanced stripping costs incurred during the production stage of its operations and allocates those costs to the production derived in the subsequent year. The Group adopted the specific identification approach where the deferred stripping costs are allocated to the quantity of mineral ore that becomes accessible. The deferred stripping costs are capitalised as "Advanced stripping fees" under "Prepayments, deposits and other receivables" in the consolidated statement of financial position and amortised when the related mineral ore is extracted.

Operating leases

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent financial assets designated upon initial recognition as at fair value through profit or loss.

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

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

Loans and receivables

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 represent loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other payables, amounts due to related parties and interest-bearing bank and other loans.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

After initial recognition, interest-bearing bank loans and other loans are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of fixed and variable overhead costs, including depreciation and amortisation incurred in converting materials into finished goods, based on the normal production capacity. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

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

Provisions

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

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

Provisions for the Group's obligations for rehabilitation are based on estimates of required expenditure at the mines in accordance with the rules and regulations of the PRC. The obligation generally arises when the asset is installed or the ground environment is disturbed at the production location. The Group estimates its liabilities for final rehabilitation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. When the liability is initially recognised, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining infrastructure.

Over time, the discounted liability is increased for the change in the present value based on the appropriate discount rate. The periodic unwinding of the discount is recognised within finance costs in profit or loss. The asset is depreciated using the UOP method over its expected life and the liability is accreted to the projected expenditure date. Additional disturbances or changes in estimates (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities) will be recognised as additions or charges to the corresponding assets and rehabilitation liabilities when they occur at the appropriate discount rate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

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

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

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

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

Borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the Directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 33 to the financial statements.

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employees' benefits

Pension schemes

The employees of the subsidiaries in Mainland China are required to participate in a central defined pension scheme managed by the local municipal government of the areas in Mainland China in which they are operate. These subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the central pension scheme. The Group has no obligation for the payment of retirement benefits beyond the annual contributions. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

In addition to the above, the Group also participates in a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the MPF Scheme for its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independent administered fund.

Housing fund

Contributions to a defined contribution housing fund administered by the Public Accumulation Funds Administration Centre in Mainland China are charged to profit or loss as incurred.

Foreign currencies

These financial statements are presented in RMB, which is the functional and presentation currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these significant assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and liabilities affected in the future.

Estimation uncertainty

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

(a) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was RMB15,318,000 (2011: RMB15,318,000). Further details are given in note 20.

(b) Impairment of receivables

Impairment of receivables is estimated based on an assessment of the recoverability of receivables. The assessment of impairment of receivables involves the use of estimates and judgements. An estimate for doubtful debts is made when collection of the full amount under the invoice is no longer probable, as supported by objective evidence using available contemporary and historical information to evaluate the exposure. Bad debts are written off as incurred. Where the actual outcome or expectation in the future is different from the original estimates, such differences will affect the carrying amount of receivables and thus the impairment loss in the period in which such estimate is changed. There was no impairment provision for receivables during the two years ended 31 December 2012.

(c) PRC corporate income tax ("PRC CIT")

The Group's operating subsidiaries in Mainland China are subject to PRC CIT. As a result of the fact that certain matters relating to PRC CIT have not been confirmed by the relevant local tax authorities, objective estimates based on currently enacted tax laws, regulations and other related policies are required in determining the provision of PRC CIT to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the income tax expense and tax provision in the period in which the differences realise. The carrying amount of PRC CIT payable as at 31 December 2012 was RMB112,425,000 (2011: RMB89,655,000).

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

(d) Useful lives of property, plant and equipment

The Group estimates useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and actions of its competitors. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will record an impairment provision for technically obsolete assets that have been abandoned. The carrying amount of property, plant and equipment as at 31 December 2012 was RMB1,778,789,000 (2011: RMB1,726,804,000).

(e) Mine reserves

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated at regular intervals taking into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mine reserves also changes. This change is considered a change in estimates for accounting purposes and is reflected on a prospective basis in both depreciation and amortisation rates calculated on the UOP method and the time period for discounting the rehabilitation provision. Changes in the estimate of mine reserves are also taken into account in impairment assessments of non-current assets.

(f) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in downstream industries that consume the Group's products. Management reassesses these estimates at the end of each reporting period. The carrying amount of inventories as at 31 December 2012 was RMB180,024,000 (2011: RMB137,333,000).

(g) Provision for rehabilitation

Provision for rehabilitation is based on estimates of future expenditures incurred by management to undertake rehabilitation and restoration work which are discounted at a rate of 6.84% as at 31 December 2012 (2011: 6.84%) reflecting the term and nature of the obligations to their present values. Significant estimates and assumptions are made in determining the provision for rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in the discount rate. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the consolidated statement of financial position by adjusting the rehabilitation asset and liability. The carrying amount of provision for rehabilitation as at 31 December 2012 was RMB8,188,000 (2011: RMB7,664,000).

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

(h) Deferred stripping costs

The Group defers and capitalises advanced stripping fees incurred during the production stage of its operations and allocates those costs to the production derived in the subsequent years. This calculation requires the use of judgements and estimates such as estimates of tonnes of waste to be removed and allocated to the quantity of mineral ore that become accessible. Changes in an estimated useful life and the design of a mine will result in changes of the expected stripping ratio (waste to mineral reserves ratio). These changes are accounted for prospectively. The carrying amount of advanced stripping fees as at 31 December 2012 was RMB206,737,000 (2011: RMB241,417,000).

(i) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax strategies. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the end of the reporting period could be impacted. The carrying amount of deferred tax assets recognised as at 31 December 2012 was RMB18,597,000 (2011: RMB3,986,000). Further details are contained in note 21.

Additionally, future changes in tax laws and regulations in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions on taxable income in future periods.

(j) Valuation of financial assets at fair value through profit or loss

The Group's exchangeable notes are designated upon initial recognition as at fair value through profit or loss and re-measured to fair value through profit or loss in subsequent reporting periods. The Group engaged an independent professional valuer to assist in determining the fair value of these exchangeable notes. The fair value of the exchangeable notes was estimated by the independent professional valuer using the Binomial Lattice Model and the estimation included some assumptions not supported by observable market prices or rates such as the discount rate, volatility, credit risk, and expected future cash flows, and hence they are subject to uncertainty. Favourable or unfavourable changes to these assumptions would result in significant changes in the fair value of the exchangeable notes and the corresponding adjustments to the amount of gain or loss reported in profit or loss. The fair value of the exchangeable notes at 31 December 2012 was RMB239,272,000 (2011: RMB207,942,000). Further details are contained in note 17.

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

(k) Impairment of non-current assets (other than goodwill)

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

4. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of various types of government surcharges.

The Group's revenue and contribution to profit are mainly derived from its sale of vanadium-bearing iron concentrates, ordinary iron concentrates, iron pellets, medium-grade titanium concentrates and high-grade titanium concentrates, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for purposes of resource allocation and performance assessment. In addition, the principal non-current assets employed by the Group are located in Sichuan Province, the PRC. Accordingly, no segment analysis is presented other than entity-wide disclosures.

Entity-wide disclosures

Information about products

The following table sets forth the total revenue from external customers by product and the percentage of total revenue by product during the year:

	2012		2011	
	RMB'000	**%**	RMB'000	%
Vanadium-bearing iron concentrates	**872,719**	**56.9**	960,203	56.1
Ordinary iron concentrates	**69,535**	**4.5**	32,556	1.9
Iron pellets	**417,307**	**27.2**	593,496	34.6
Medium-grade titanium concentrates	**476**	**0.1**	12,478	0.7
High-grade titanium concentrates	**173,695**	**11.3**	114,245	6.7
	1,533,732	**100.0**	1,712,978	100.0

4. REVENUE AND OPERATING SEGMENT INFORMATION (continued)

Entity-wide disclosures (continued)

Geographical information

All external revenue of the Group during each of the two years ended 31 December 2012 was attributable to customers located in the PRC, the place of domicile of the Group's operating entities. The Group's non-current assets are all located in the PRC.

Information about major customers

Revenue from each of the major customers, which amounted to 10% or more of the total revenue, is set out below:

	2012 RMB'000	2011 RMB'000
Customer A	329,597	*
Customer B	255,163	229,492
Customer C	234,717	298,284
Customer D	233,035	278,782
Customer E	182,223	257,867
Customer F	*	271,685

* Less than 10% of total revenue

5. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	2012 RMB'000	2011 RMB'000
Bank interest income	28,910	12,221
Sale of raw materials	3,885	18,134
Government grants*	6	55,000
Compensation from a local government	–	9,320
Fair value gains on financial assets at fair value through profit or loss (note 17)	31,330	14,423
Miscellaneous	229	644
Total other income and gains	64,360	109,742

* There were no unfulfilled conditions or contingencies relating to these grants.

6. FINANCE COSTS

	Notes	2012 RMB'000	2011 RMB'000
Interest on bank and other loans wholly repayable within five years		**25,104**	22,941
Interest on short term commercial paper		**290**	–
Interest on discounted bills receivable		**15,195**	–
Unwinding of discount on provision	30	**524**	491
		41,113	23,432
Less: interest capitalised to property, plant and equipment	12(a)	**(674)**	(1,537)
		40,439	21,895
Transaction fee on issuance of commercial paper		**706**	–
Foreign exchange loss/(gain), net		**694**	(775)
Others		**760**	–
		42,599	21,120
Capitalisation rate of borrowing costs		**7.04% to 7.59%**	5.4% to 7.59%

7. PROFIT BEFORE TAX

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

	Notes	2012 RMB'000	2011 RMB'000
Cost of inventories sold		**840,550**	886,407
Staff costs (including Directors' remuneration (note 8)):			
Wages and salaries		**71,805**	58,739
Welfare and other benefits		**18,540**	13,890
Equity-settled share option expense	33	**28,307**	28,647
Pension scheme contributions			
– Defined contribution fund		**10,150**	8,303
Housing fund			
– Defined contribution fund		**526**	465
Total staff costs		**129,328**	105,145
Depreciation	12	**117,773**	100,936
Amortisation of intangible assets	13	**16,382**	20,930
Amortisation of prepaid land lease payments	14	**1,227**	1,113
Depreciation and amortisation expenses		**135,382**	122,979
Minimum lease payments under operating leases:			
– Land		**108**	108
– Office		**1,298**	1,057
Auditors' remuneration		**3,500**	4,000
Prepaid technical fee released to profit or loss	18(b)	**4,133**	4,133
Loss on disposal of items of property, plant and equipment		**–**	5
Impairment of property, plant and equipment	12(d)	**11,253**	–
Reversal of write-down of inventories to net realisable value	22	**(24)**	(2,547)

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

	2012 RMB'000	2011 RMB'000
Fees	**754**	784
Other emoluments:		
Salaries, allowances and benefits in kind	**1,450**	1,206
Equity-settled share option expense	**16,905**	17,878
Pension scheme contributions		
– Defined contribution fund	**51**	52
	18,406	19,136
	19,160	19,920

During the prior years, certain Directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 33 to the financial statements. The fair values of such share options which have been recognised in profit or loss over the vesting period were determined as at dates of grant and amounts included in the financial statements for the current and prior years are included in the above Directors' remuneration disclosures.

(a) Independent non-executive Directors

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

	2012 RMB'000	2011 RMB'000
Mr. Yu Haizong	**98**	99
Mr. Gu Peidong	**98**	99
Mr. Liu Yi	**98**	99
	294	297

There were no other emoluments payable to the independent non-executive Directors during the year (2011: Nil).

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive Directors and non-executive Directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity–settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2012					
Executive Directors					
Mr. Jiang Zhong Ping	80	436	4,160	17	4,693
Mr. Liu Feng	80	408	5,524	17	6,029
Mr. Yu Xing Yuan	80	606	7,221	17	7,924
	240	1,450	16,905	51	18,646
Non-executive Directors					
Mr. Wang Jin	122	–	–	–	122
Mr. Teo Cheng Kwee	98	–	–	–	98
	220	–	–	–	220
	460	1,450	16,905	51	18,866

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity–settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2011					
Executive Directors					
Mr. Jiang Zhong Ping	88	415	3,937	16	4,456
Mr. Liu Feng	88	423	5,830	18	6,359
Mr. Yu Xing Yuan	88	368	8,111	18	8,585
	264	1,206	17,878	52	19,400
Non-executive Directors					
Mr. Wang Jin	124	–	–	–	124
Mr. Teo Cheng Kwee	99	–	–	–	99
	223	–	–	–	223
	487	1,206	17,878	52	19,623

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(c) There was no arrangement under which a Director waived or agreed to waive any remuneration during the year (2011: Nil).

(d) The five highest paid employees during the year included three (2011: three) Directors, details of whose remuneration are set out above. Details of the remuneration for the year of the remaining two (2011: two) non-director, highest paid employees, are as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**1,560**	1,433
Equity-settled share option expense	**6,737**	6,149
Pension scheme contributions	**86**	80
	8,383	7,662

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2012	2011
HK$3,500,001 to HK$4,000,000	**–**	1
HK$4,000,001 to HK$4,500,000	**1**	–
HK$5,500,001 to HK$6,000,000*	**1**	1
	2	2

* The remuneration of this senior management member who is a non-director and highest paid employee fell in this band.

During the prior years, share options were granted to non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 33 to the financial statements. The fair values of such share options, which are being recognised in profit or loss over the vesting period, were determined as at dates of grant and amounts included in the financial statements for the current and prior years are included in the above non-director, highest paid employees' remuneration disclosures.

9. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group was not subject to any income tax in the Cayman Islands and the BVI during the two years ended 31 December 2012.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the two years ended 31 December 2012.

The provision for PRC CIT is based on the respective PRC CIT rates applicable to the subsidiaries located in Mainland China as determined in accordance with the relevant income tax rules and regulations of Mainland China for the year. Except for certain PRC subsidiaries (see note (a) below) that are entitled to a preferential income tax rate, PRC subsidiaries are subject to the PRC CIT rate of 25% during the two years ended 31 December 2012.

The major components of income tax expense are as follows:

	2012 RMB'000	2011 RMB'000
Current – the PRC		
Charge for the year	**134,834**	122,260
Deferred (note 21)	**(14,611)**	12,515
Income tax expenses for the year	**120,223**	134,775

A reconciliation of the tax expense applicable to profit before tax at the applicable tax rate for companies within the Group to the tax expense at the effective tax rate is as follows:

	Notes	**2012 RMB'000**	2011 RMB'000
Profit before tax		**530,825**	747,500
Tax at applicable tax rate of 25%		**132,706**	186,875
Lower tax rate for certain subsidiaries	(a)	**(20,479)**	(79,178)
Withholding income tax of 10% on interest paid by PRC subsidiary to HK subsidiary	(b)	**(755)**	3,971
Profits attributable to jointly-controlled entities		**(129)**	(9)
Expenses not deductible for tax	(c)	**16,878**	26,716
Income not subject to tax		**(7,998)**	(3,600)
Tax expenses at the Group's effective tax rate		**120,223**	134,775

9. INCOME TAX (continued)

Notes:

(a) Pursuant to the respective approval documents issued by the Tax Bureau of Wenchuan County on 6 August 2012 and the Tax Bureau of Huili County on 4 September 2012, Aba Mining and Xiushuihe Mining are entitled to a preferential tax rate of 15% (2011: 25%) according to the "Western Development Policy" as they are engaged in the encouraged industries listed in the catalogue of encouraged industries in the western China and revenue from such activities during the year accounted for over 70% of their respective total revenue.

Pursuant to the relevant tax rules and regulations of the PRC applicable to foreign investment enterprises ("FIEs"), Huili Caitong was approved to enjoy its tax holiday from 2007 and hence, was not liable to PRC CIT in 2007 and 2008 and was entitled to a 50% tax reduction for the subsequent three years (2009 to 2011). The applicable tax rate for Huili Caitong during the year was 25% (2011: 12.5%).

(b) Pursuant to the resolution of board of directors of First China Limited ("First China") dated 22 May 2012, interest expense of RMB40,779,000 for the year ended 31 December 2011 on the shareholder's loan granted by First China to Huili Caitong was waived by First China. The related withholding tax was reversed during the current year accordingly.

(c) Expenses not deductible for tax mainly consist of unrealised foreign exchange losses, equity-settled share option expense and administrative expenses incurred by offshore companies. These expenses are not expected to be deductible for tax.

(d) The share of tax attributable to jointly-controlled entities amounting to RMB447,000 (2011: Nil) is included in "Share of profits and losses of jointly-controlled entities" in the profit or loss.

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2012 includes a total loss of RMB45,531,000 (2011: RMB120,260,000) which has been dealt with in the financial statements of the Company (note 34).

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per Share is based on the profit for the year attributable to ordinary equity holders of the Company, and the number of Shares of 2,075,000,000 (2011: 2,075,000,000) in issue during the year ended 31 December 2012.

No adjustment has been made to the basic earnings per Share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the exercise prices of the Company's outstanding share options were higher than the average market price for the Company's Shares during the current and prior years.

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress ("CIP") RMB'000	Total RMB'000
31 December 2012							
Cost:							
At 1 January 2012	1,128,071	504,547	2,473	10,343	87,413	275,189	2,008,036
Additions	13,122	19,259	1,432	224	10,012	144,136	188,185
Transferred from CIP	192,939	61,630	1,192	–	23,291	(279,052)	–
Offset against government grants received (note 31)	(5,476)	(1,698)	–	–	–	–	(7,174)
Impairment	–	(11,253)	–	–	–	–	(11,253)
At 31 December 2012	1,328,656	572,485	5,097	10,567	120,716	140,273	2,177,794
Accumulated depreciation:							
At 1 January 2012	126,348	134,104	1,038	4,214	15,528	–	281,232
Provided for the year	58,816	46,720	700	1,474	10,063	–	117,773
At 31 December 2012	185,164	180,824	1,738	5,688	25,591	–	399,005
Net carrying amount:							
At 1 January 2012	1,001,723	370,443	1,435	6,129	71,885	275,189	1,726,804
At 31 December 2012	1,143,492	391,661	3,313	4,879	95,125	140,273	1,778,789

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	CIP RMB'000	Total RMB'000
31 December 2011							
Cost:							
At 1 January 2011	894,351	400,463	1,392	8,767	75,268	339,975	1,720,216
Additions	911	8,031	556	1,590	–	285,184	296,272
Transferred from CIP	241,180	96,120	525	–	12,145	(349,970)	–
Offset against government grants received (note 31)	(8,226)	–	–	–	–	–	(8,226)
Disposals	(145)	(67)	–	(14)	–	–	(226)
At 31 December 2011	1,128,071	504,547	2,473	10,343	87,413	275,189	2,008,036
Accumulated depreciation:							
At 1 January 2011	75,648	92,272	636	3,095	8,756	–	180,407
Provided for the year	50,741	41,888	402	1,133	6,772	–	100,936
Disposals	(41)	(56)	–	(14)	–	–	(111)
At 31 December 2011	126,348	134,104	1,038	4,214	15,528	–	281,232
Net carrying amount:							
At 1 January 2011	818,703	308,191	756	5,672	66,512	339,975	1,539,809
At 31 December 2011	1,001,723	370,443	1,435	6,129	71,885	275,189	1,726,804

(a) Additions to CIP during the year included interest capitalised in respect of bank loans amounting to RMB674,000 (2011: RMB1,537,000) (note 6).

(b) As at 31 December 2012, the Group was in the process of obtaining the relevant building ownership certificates ("BOCs") for certain buildings with an aggregate net carrying amount of RMB5,736,000 (2011: RMB6,044,000). The Group's buildings can only be sold, transferred or mortgaged when the relevant BOCs have been obtained.

(c) As at 31 December 2012, the Group's buildings with a carrying amount of approximately RMB28,545,000 (2011: RMB51,052,000) were erected on the land of which the Group was still in the process of applying for the land use rights certificate.

(d) An impairment loss of RMB11,253,000 (2011: Nil) was recognised during the year to write down the carrying amounts of production machinery in the Old Iron Pelletising Plant to their recoverable amounts. The recoverable amounts were determined with reference to the best information available to reflect the amount that the Group could obtain from the disposal of the production machinery in the Old Iron Pelletising Plant in an arm's length transaction between knowledgeable, willing parties.

13. INTANGIBLE ASSETS

Group

	Mining rights RMB'000	Exploration rights and assets RMB'000	Total RMB'000
31 December 2012			
Cost:			
At 1 January 2012	**397,520**	**243,731**	**641,251**
Additions	**–**	**5,783**	**5,783**
At 31 December 2012	**397,520**	**249,514**	**647,034**
Accumulated amortisation:			
At 1 January 2012	**64,350**	**–**	**64,350**
Provided for the year	**16,382**	**–**	**16,382**
At 31 December 2012	**80,732**	**–**	**80,732**
Net carrying amount:			
At 1 January 2012	**333,170**	**243,731**	**576,901**
At 31 December 2012	**316,788**	**249,514**	**566,302**

	Mining rights RMB'000	Exploration rights and assets RMB'000	Total RMB'000
31 December 2011			
Cost:			
At 1 January 2011	388,385	203,476	591,861
Additions	9,135	40,255	49,390
At 31 December 2011	397,520	243,731	641,251
Accumulated amortisation:			
At 1 January 2011	43,420	–	43,420
Provided for the year	20,930	–	20,930
At 31 December 2011	64,350	–	64,350
Net carrying amount:			
At 1 January 2011	344,965	203,476	548,441
At 31 December 2011	333,170	243,731	576,901

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2012	2011
	RMB'000	RMB'000
Carrying amount at 1 January	**50,678**	51,791
Amortised during the year	**(1,227)**	(1,113)
Carrying amount at 31 December	**49,451**	50,678

(a) Prepaid land lease payments represented costs of land use rights in respect of the Group's leasehold land situated in Sichuan Province, the PRC, and held under medium lease terms.

(b) As at 31 December 2012, the legal title of the land use rights with a net carrying amount of approximately RMB3,783,000 (2011: RMB3,849,000) has not been transferred to the Group and the application of the relevant title transfer is still in process. The Directors do not foresee any major obstacles to complete the transfer of the legal title of the above-mentioned land use rights to the Group.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB'000	RMB'000
Unlisted investments, at cost		
Powerside Holdings Limited ("Powerside")	**1**	1
First China	**618,699**	618,699
Loans to a subsidiary^	**1,216,926**	1,263,674
	1,835,626	1,882,374

^ In the opinion of Directors, these loans to a subsidiary are considered as quasi-equity loans to this subsidiary.

The amounts due from/to subsidiaries as at the end of the reporting period included in the Company's current assets and current liabilities were unsecured, interest-free and were repayable on demand or within one year.

As at 31 December 2012, amounts due from subsidiaries (including the above quasi-equity loans) denominated in HK$ and US$ amounted to RMB1,232,664,000 (2011: RMB1,362,048,000) and RMB123,824,000 (2011: RMB124,128,000), respectively. As at 31 December 2012, the amount due to a subsidiary was denominated in RMB.

15. INVESTMENTS IN SUBSIDIARIES (continued)

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

Company name	Place and date of incorporation/ registration	Nominal value of issued share/ paid-up capital	Percentage of equity interests attributable to the Company %	Principal activities
Directly held:				
Powerside	BVI 8 January 2008	USD1	100.0	Investment holding
First China	Hong Kong 5 March 2008	HK$1	100.0	Investment holding
Sure Prime Limited	BVI 12 April 2011	USD1	100.0	Investment holding
Indirectly held:				
Simply Rise Holdings Limited	Hong Kong 2 January 2008	HK$1	100.0	Investment holding
Huili Caitong*	PRC 7 July 1998	RMB610,520,000	100.0	Iron ore mining, iron ore beneficiation and sale of self-produced products
Lingyu**	PRC 9 June 2010	HK$770,000,000	100.0	Products trading and investment holding
Yanbian County Caitong Iron and Titanium Co., Ltd.	PRC 26 January 2010	RMB1,000,000	100.0	Sale and process of mining products
Xiushuihe Mining	PRC 21 March 2000	RMB200,000,000	95.0	Iron ore mining, iron ore beneficiation and sale of self–produced products
Aba Mining	PRC 27 April 2004	RMB20,000,000	100.0	Iron ore mining, iron ore beneficiation and sale of self-produced products
Huili Caitong Trading Co., Ltd.	PRC 13 June 2012	RMB20,000,000	100.0	Iron ore beneficiation and sale of iron pellets

* Huili Caitong was converted from a domestic limited company to a FIE on 22 September 2006.

** Lingyu is registered as a wholly-foreign-owned enterprise under the PRC law.

16. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2012	2011
	RMB'000	RMB'000
Unlisted investments, at cost:		
– Sichuan Xinglian Mining and Technology Construction Co., Ltd. ("Sichuan Xinglian")	**550**	550
– Weichuan Mining	**10,500**	–
	11,050	550
Share of profits and losses		
– Sichuan Xinglian*	**1,342**	34
– Weichuan Mining	**(361)**	–
	981	34
Share of net assets	**12,031**	584

* Included in the share of profits of Sichuan Xinglian was unrealised profit attributable to the Group of RMB430,000 arising from the mining consultancy services rendered to Aba Mining and Xiushuihe Mining by Sichuan Xinglian during the current year (2011: Nil).

Particulars of the Company's jointly-controlled entities ("JCEs") are as follows:

Name	Paid-up capital	Place of incorporation	Percentage of ownership interest
Sichuan Xinglian	RMB1,000,000	PRC	55%
Weichuan Mining	RMB20,500,000	PRC	51%

All of the above JCEs are indirectly held by the Company.

In the opinion of the Directors, according to the articles of association of the above JCEs, neither the Group nor the other investors has the power to control the financial and operating policies of these JCEs so as to obtain benefits from their activities. Accordingly, investments in these JCEs are accounted for as investments in jointly-controlled entities.

16. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2012 RMB'000	2011 RMB'000
Share of the JCEs' assets and liabilities:		
Current assets	**14,573**	639
Non-current assets	**1,262**	–
Current liabilities	**(3,850)**	(55)
Net assets	**11,985**	584
Share of the JCEs' results:		
Revenue	**8,795**	156
Cost of sales	**(4,865)**	(84)
Total expenses	**(2,536)**	(38)
Tax	**(447)**	–
Profit after tax	**947**	34

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The balance represented Exchangeable Notes of USD20,000,000 and USD10,000,000 subscribed by the Group on 2 May 2011 and 18 November 2011, respectively and designated by the Group as financial assets at fair value through profit or loss upon initial recognition. The maturity dates of the Exchangeable Notes are 3 years after the date of issue. The Exchangeable Notes were issued by a non-listed company incorporated in the BVI.

The movements in the fair value of the Exchangeable Notes during the years ended 31 December 2012 and 31 December 2011 are as follows:

	2012 RMB'000	2011 RMB'000
Carrying amount at 1 January	**207,942**	–
Costs of financial assets acquired	**–**	193,519
Fair value gains on financial assets at fair value through profit or loss recognised during the year*	**31,330**	14,423
Carrying amount at 31 December	**239,272**	207,942

* Included in the fair value gains on financial assets at fair value through profit or loss recognised during the year was the amortisation of day one profit of RMB3,241,000 (2011: RMB448,000) during the year.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The fair value of the Exchangeable Notes was estimated by an independent professional valuer by using the Binomial Lattice Model. The following table lists the key inputs to the model used:

	At 31 December 2012	At 31 December 2011
Valuation of liability component		
Risk-free interest rate (Indonesia) (% per annum)	**1.57**	2.80
Credit spread (%)	**21.09**	22.39
Valuation of embedded derivatives		
Current market capitalisation (USD in millions)	**469**	510
Coupon rate (% per annum)	**–**	–
Dividend yield (% per annum)	**–**	–
Equity return volatility (% per annum)	**34.58**	45.62
Probability of Initial Public Offering (% per month for each Lattice step)	**6**	2
Maturity date	**25 November 2014**	25 November 2014
Lattice step	**12**	30
Non-marketability (%)	**20**	20

In respect of the financial assets at fair value through profit or loss, the Group uses the valuation technique of the Binomial Lattice Model to determine the fair value of financial instruments that are not traded in an active market. Differences may arise between the fair value at initial recognition (which, in accordance with IAS 39, is generally the transaction price) and the amount determined at initial recognition using this valuation technique. Such differences are not recognised on their initial recognition but are amortised over the lives of the financial instruments using the straight-line method and the amortisation was included in the change in fair value of financial assets through profit or loss.

Such differences yet to be recognised in profit or loss are as follows:

	2012 RMB'000	2011 RMB'000
Carrying amount at 1 January	**9,237**	–
Income not recognised on initial recognition date	**–**	9,685
Amortised to profit or loss during the year	**(3,241)**	(448)
Carrying amount at 31 December	**5,996**	9,237

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group	
	Notes	**2012 RMB'000**	2011 RMB'000
Current portion:			
Prepayments consisting of:			
Advanced stripping fees	(a)	**53,987**	64,708
Prepaid technical service fee	(b)	**4,133**	4,133
Purchase of raw materials		**3,016**	1,669
Utilities		**6,764**	1,300
Prepayment for the use right of a road	(c)	**35**	35
Other prepayments		**2,286**	2,176
Bidding deposit		**27,000**	30,000
Government grant receivable		**–**	30,000
Interest income receivable		**10,039**	9,365
Other receivables from third party independent processing contractors		**9,467**	–
Compensation receivable		**2,452**	2,452
Other receivables		**3,609**	2,301
		122,788	148,139
Non-current portion:			
Advanced stripping fees	(a)	**152,750**	176,709
Prepaid technical service fee	(b)	**45,467**	49,600
Prepayment for the use right of a road	(c)	**919**	954
Long-term environmental rehabilitation deposits	(d)	**4,449**	3,917
		203,585	231,180
		326,373	379,319

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Notes:

(a) The balances represented advanced stripping fees paid by the Group to an independent third party processing contractor for stripping activities of Baicao Mine and Xiushuihe Mine, which will be recognised as part of the production costs once the raw iron ore is extracted.

(b) The balance represented a technical service support fee for a period of 15 years ending on 31 December 2024 prepaid to Sichuan Nanjiang Mining Co., Ltd. ("Nanjiang"), an independent third party, by Xiushuihe Mining. The prepaid technical support fee is released to profit or loss according to the straight-line method based on the terms of technical service to be provided by Nanjiang with a yearly technical service fee of appropriately RMB4.1 million.

During the year, the prepaid technical service fee released to profit or loss amounted to RMB4,133,000 (2011: RMB4,133,000).

(c) The balance represented payment made to Xinqiao Mining Co., Ltd. for the right to use a pavement road connecting to Maoling Mine for 30 years ending 22 August 2040 at a consideration of approximately RMB1,035,000. The prepayment for the right of using the road recorded as the current portion represented the amount to be released to profit or loss in the next 12 months from 31 December 2012.

(d) The long-term deposits represented environmental deposits made to the government in respect of the Group's rehabilitation obligations for the closure of mines and are not expected to be refunded within 12 months from 31 December 2012.

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

Company

As at 31 December 2012 and 2011, prepayments, deposit and other receivables of the Company mainly represented prepayments and deposits for the rent of office building.

19. PAYMENTS IN ADVANCE

	Group	
	2012	2011
	RMB'000	RMB'000
In respect of:		
Purchase of machinery and equipment	**2,095**	15,712
Acquisition of a subsidiary (note 37(a))	**200,000**	150,000
	202,095	165,712

20. GOODWILL

	Group 2012 RMB'000	2011 RMB'000
At cost	**15,318**	15,318

Goodwill, which arose from the acquisition of Xiushuihe Mining by the Group, represented the excess of the cost of the business combination over the Company's interest in the fair value of Xiushuihe Mining's identifiable assets and liabilities as at the date of the acquisition.

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the Xiushuihe Mine's cash-generating unit for impairment testing.

The recoverable amount of the Xiushuihe Mining's cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15.65% (2011: 15.5%) and cash flows beyond the five-year period were assumed to be stable.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margin achieved in the year immediately before the budget year, increased for expected market development.

Production volumes – Estimated production volumes are based on the detailed life of mine plans and take into account development plans for the mine agreed by management as part of the long-term planning process.

Discount rate – The discount rate used is after tax and reflects specific risks relating to the relevant unit.

The values assigned to key assumptions are consistent with external information sources.

21. DEFERRED TAX

Group

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

Deferred tax assets

	Losses available for offsetting against future taxable profits	Excess tax depreciation over book value of property, plant and equipment	Provision for rehabilitation	Unrealised profit from intra-group transactions	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	4,999	7,575	1,651	438	1,838	16,501
Deferred tax credited/ (charged) to profit or loss during the year (note 9)	(1,679)	(1,058)	129	1,488	(1,565)	(2,685)
Gross deferred tax assets at 31 December 2011 and 1 January 2012	3,320	6,517	1,780	1,926	273	13,816
Deferred tax credited/ (charged) to profit or loss during the year (note 9)	(3,320)	8,027	25	1,288	159	6,179
Gross deferred tax assets at 31 December 2012	–	14,544	1,805	3,214	432	19,995

Deferred tax liabilities

	Government grants receivable	Compensation due from a local government	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2011, 31 December 2011 and 1 January 2012	7,500	2,330	9,830
Deferred tax credited to profit or loss during the year (note 9)	(7,500)	(932)	(8,432)
Gross deferred tax liabilities at 31 December 2012	–	1,398	1,398

21. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2012 RMB'000	2011 RMB'000
Gross deferred tax assets at 31 December	19,995	13,816
Less: Gross deferred tax liabilities at 31 December	(1,398)	(9,830)
Net deferred tax assets 31 December	18,597	3,986

Notes:

(a) In accordance with IAS 12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Therefore, except for Aba Mining and Xiushuihe Mining, a tax rate of 25% is applied in the calculation of deferred taxes which are expected to be realised or settled after 1 January 2013. Regarding the tax rates applicable to Aba Mining and Xiushuihe Mining, deferred tax assets and deferred tax liabilities are calculated using the tax rates that are expected to apply to the period when the assets is realised or the liability is settled (i.e., 15% for the temporary differences that will be realised or settled prior to 31 December 2020, and 25% thereafter).

The basis for determining the PRC CIT rate is set out in note 9 to the financial statements.

(b) Pursuant to the income tax rules and regulations of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement has been effective from 1 January 2008 and applied to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The withholding tax rate for the Group is 10%.

According to the articles of association of Huili Caitong, the board of directors of Huili Caitong has the ultimate power to decide Huili Caitong's dividend policy. Pursuant to the resolutions of the board of directors of Huili Caitong on 5 January 2013, the net profit of Huili Caitong for the year ended 31 December 2012, after appropriations to the statuary reserve fund, would be used for business development of Huili Caitong and would not be distributed to its shareholders. As a result, no deferred tax liabilities relating to withholding tax on the distributable profits of Huili Caitong for the year ended 31 December 2012 have been recognised.

22. INVENTORIES

	Group	
	2012	2011
	RMB'000	RMB'000
At cost:		
Raw materials	**84,065**	97,098
Spare parts and consumables	**32,354**	31,863
Finished goods	**63,605**	5,321
	180,024	134,282
At net realisable value:		
Finished goods	**–**	3,051
At the lower of cost and net realisable value	**180,024**	137,333

During the year ended 31 December 2012, a reversal of provision for write-down of finished goods to net realisable value of RMB24,000 (2011: RMB2,547,000) was made in respect of goods sold during the year.

23. TRADE AND BILLS RECEIVABLES

	Group	
	2012	2011
	RMB'000	RMB'000
Trade receivables	**109,053**	99,348
Bills receivable	**–**	35,070
	109,053	134,418

The Group's trading terms with its customers are mainly on credit, except for customers of titanium products, where full payment in advance of delivery is required. The credit period is generally 30 days. In view of the fact that the Group sells most of its products to a small number of customers, there is a high level of concentration of credit risk. The Group maintains strict control over the settlements of its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management. The Group does not hold any collateral or other credit enhancements over trade receivables. Trade receivables are non-interest-bearing and unsecured.

Based on the invoice date, all trade receivables of the Group at the end of the reporting period were aged within one month and were neither past due nor impaired.

23. TRADE AND BILLS RECEIVABLES (continued)

As at 31 December 2012, the Group endorsed certain bills receivable accepted by banks in the PRC to certain of its suppliers in order to settle the trade payables to these suppliers with a carrying amount in aggregate of RMB346,797,000; furthermore, as at 31 December 2012 the Group discounted certain bills receivable accepted by banks in the PRC, with a carrying amount in aggregate of RMB245,666,000 (collectively referred to as the "Derecognised Bills"). The Derecognised Bills have a maturity from three to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year, the Group has recognised interest expense of RMB15,195,000 (note 6) on discounted bills receivable. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively. The endorsement and discount have been made evenly throughout the year.

24. BALANCES WITH RELATED PARTIES

		Group	
		2012	2011
	Notes	**RMB'000**	RMB'000
Due from related parties:			
Non-trade in nature			
– Yanyuan Xiwei	(a)	**286**	286
– Trisonic International	(b)	**314**	314
– Sichuan Xinglian	(c)	**133**	–
		733	600

24. BALANCES WITH RELATED PARTIES (continued)

		Group	
	Notes	2012 RMB'000	2011 RMB'000
Due to related parties:			
Trade in nature			
– Chengyu Vanadium Titano	(d)	–	28,807
Non-trade in nature			
– Chengyu Vanadium Titano	(d)	60	–
– Sichuan Huiyuan Gang Jian Technology Co., Ltd. ("Sichuan Huiyuan")	(e)	412	6,294
– Longwei Hotel Management Co., Ltd. ("Longwei Hotel")	(f)	519	460
– Xichang Vanadium Titanium Products Co., Ltd.		–	24
– Sichuan Xinglian	(c)	2,640	85
– Chuan Wei	(g)	30,104	50,011
		33,735	56,874
		33,735	85,681

Notes:

(a) Yanyuan Xiwei is a company controlled by Chuan Wei and was a subsidiary of Aba Mining, Mining, an indirect subsidiary of the Company, before it was disposed of by Aba Mining in September 2010. The balance represented certain payments made by Aba Mining on behalf of Yanyuan Xiwei when Yanyuan Xiwei was a subsidiary of Aba Mining.

(b) The balance due from Trisonic International represented the overpayment of listing fees made by the Company to settle the listing expenses paid by Trisonic International on behalf of the Company in 2009.

(c) Sichuan Xinglian is a jointly-controlled entity of the Group. The balances represented mining service fee prepaid and payable by the respective subsidiaries of the Group to Sichuan Xinglian.

(d) Chengyu Vanadium Titano is controlled by Prime Empire Limited. Prime Empire Limited and Trisonic International are ultimately controlled by the same beneficial owners.

The balance due to Chengyu Vanadium Titano as at 31 December 2012 represented miscellaneous expenses prepaid by Chengyu Vanadium Titano on behalf of the Group. The balance due to Chengyu Vanadium Titano as at 31 December 2011 represented payments in advance received from Chengyu Vanadium Titano for the purchase of vanadium-bearing iron concentrates from the Group.

24. BALANCES WITH RELATED PARTIES (continued)

(e) Sichuan Huiyuan is a company controlled by Chuan Wei. The balance due to Sichuan Huiyuan represented design fee payable for the provision of construction services to the Group by Sichuan Huiyuan.

(f) Longwei Hotel and Trisonic International are ultimately controlled by the same beneficial owners. The balance due to Longwei Hotel represented rental payable to Longwei Hotel for the operating lease of office premises by the Group.

(g) Chuan Wei and Trisonic International are ultimately controlled by the same beneficial owners. The balance due to Chuan Wei as at the end of the reporting period can be further analysed as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Payable in respect of acquisition of Aba Mining	**30,000**	50,000
Others	**104**	11
	30,104	50,011

	Company	
	2012	2011
	RMB'000	RMB'000
Due from a related party:		
Trisonic International – Non-trade in nature	**343**	314

25. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group	
	2012	2011
	RMB'000	RMB'000
Cash and bank balances	**375,346**	108,823
Time deposits with original maturity of		
– less than three months	**68,000**	200,000
– over three months	**1,474,583**	750,000
	1,917,929	1,058,823
Less: pledged time deposits *	**(268,783)**	(111,993)
Cash and cash equivalents	**1,649,146**	946,830

* As at 31 December 2012, time deposits of RMB100,000,000 and RMB168,783,000 were pledged to secure a short-term bank loan granted to the Group and the Company (note 29 (a)) and the issuance of bills payable (note 26), respectively.

The Group's cash and bank balances are denominated in RMB at the end of each reporting period, except for the following:

	2012	2011
	RMB'000	RMB'000
Cash and bank balances denominated in:		
HK$	**1,451**	10,245
USD	**53**	1,286

The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between three months and one year, and earn interest at the respective deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

Company

All cash and cash equivalents of the Company represented the cash and bank balances as at 31 December 2012 and 31 December 2011 of which RMB1,398,000 and RMB51,000 were denominated in HK$ and USD, respectively.

26. TRADE AND BILLS PAYABLES

	Group 2012 RMB'000	2011 RMB'000
Trade payables	**423,283**	318,753
Bills payable	**393,275**	22,439
	816,558	341,192

An aged analysis of the trade and bills payables of the Group as at the end of the reporting period, based on the invoice date or issuance date, where appropriate, is as follows:

	Group 2012 RMB'000	2011 RMB'000
Within 180 days	**666,244**	284,673
181 to 365 days	**76,114**	41,173
1 to 2 years	**64,616**	14,235
2 to 3 years	**9,059**	665
Over 3 years	**525**	446
	816,558	341,192

Trade payables of the Group are non-interest-bearing and are normally settled within 180 days and the bills payable were with a maturity period of 180 days.

As at 31 December 2012, the Group's bills payable of RMB393,275,000 (2011: RMB22,439,000) were secured by pledged bank balances (note 25).

27. OTHER PAYABLES AND ACCRUALS

	Notes	Group 2012 RMB'000	2011 RMB'000
Current portion:			
Advances from customers		**62,926**	6,883
Payables related to:			
Construction in progress		**140,515**	117,915
Taxes other than income tax		**14,898**	58,297
Payroll and welfare payable		**34,563**	14,338
Mining cost and exploration right and assets		**4,034**	26,357
Huili County Hailong Mining Development Co., Ltd. ("Huili Hailong")	(a)	**27,000**	27,000
Yanbian County Hongyuan Mining Co., Ltd.	(b)	**26,977**	14,500
Consultancy and professional fees		**5,020**	3,681
Deposits received		**1,649**	1,586
Land occupation compensation payables		**9,396**	2,370
Accrued government surcharges		**12,091**	–
Accrued price adjustment fund		**3,502**	3,502
Other payables		**3,183**	2,350
		345,754	278,779
Non-current portion:			
Other payables		**750**	500
		346,504	279,279

Notes:

(a) The balance represented the remaining balance of the consideration payable in respect of the acquisition of the exploration right of Cizhuqing Mine and the production facilities together with the land use right and the right to use a road from Huili Hailong.

(b) The balance as at 31 December 2012 comprised of (i) compensation for occupying land at Baicao Mine for the construction of tailing storage facilities and electricity expense, aggregating to RMB12.5 million (2011: Nil), which were prepaid by Yanbian County Hongyuan Mining Co., Ltd., an independent third party, on behalf of the Group; (ii) the remaining consideration payable of RMB14.5 million (2011: RMB14.5 million) in respect of the acquisition of a production line of iron concentrates and high-grade titanium concentrates with an annual production capacity of 800 Kt and 120 Kt (together with a tailing storage facility), respectively, and the related land use rights, machinery and equipment located at Heigutianshe, Xinjiu Town, Yanbian County, Sichuan.

Company

As at 31 December 2012 and 2011, other payables and accruals of the Company mainly represented legal and audit fees payable.

All other payables of the Group and the Company are non-interest-bearing and unsecured.

28. COMMERCIAL PAPER LIABILITIES

On 7 December 2012, Huili Caitong obtained the approval from the National Association of Financial Market Institutional Investors for the issuance of short-term commercial paper. The registered cap for issuance by Huili Caitong is RMB700 million over a two year period from the date of approval. On 19 December 2012, Huili Caitong issued the first tranche of one-year commercial paper for a total of RMB150 million, maturing on 19 December 2013. The commercial paper bears interest at the rate of 5.8% per annum, repayable at the maturity date. Particulars are included in the Company's announcement dated 27 December 2012.

29. INTEREST-BEARING BANK AND OTHER LOANS

		Group	
		2012	2011
	Notes	**RMB'000**	RMB'000
Bank loans:			
Secured	(a)	**94,283**	94,514
Unsecured	(b)	**250,000**	275,000
Guaranteed	(c)	**48,000**	50,000
Other loans, unsecured	(d)	**4,000**	3,200
		396,283	422,714
Bank loans repayable:			
Within one year or on demand		**317,283**	319,514
In the second year		**25,000**	25,000
In the third to fifth years, inclusive		**50,000**	75,000
		392,283	419,514
Unsecured other loans repayable:			
Within one year or on demand		**–**	2,000
In the second year		**3,200**	–
In the third to fifth years, inclusive		**800**	1,200
		4,000	3,200
Total bank and other loans		**396,283**	422,714
Balances classified as current liabilities		**(317,283)**	(321,514)
Balances classified as non-current liabilities		**79,000**	101,200

29. INTEREST-BEARING BANK AND OTHER LOANS (continued)

Notes:

(a) As at 31 December 2012, the bank loan of the Group and the Company was secured by the pledge of time deposits of RMB100,000,000 (2011: RMB100,000,000) by Huili Caitong and bore interest at the rate of 2% per annum over the prevailing LIBOR (2011: 3% per annum over the LIBOR).

(b) As at 31 December 2012, Huili Caitong had unsecured interest-bearing bank loans from CCB Xichang branch bearing interest at fixed rates ranging from 5.81% to 7.05% (2011: 5.81% to 7.59%) per annum. In accordance with the bank loan agreements entered into between Huili Caitong and CCB Xichang branch, Huili Caitong agreed not to mortgage or pledge Huili Caitong's mining rights of Baicao Mine and the vanadium-bearing iron concentrates production line with an annual production capacity of 500 Kt to any other parties, and CCB Xichang branch will be entitled to a pre-emption right in the event of such mortgage or pledge.

(c) As at 31 December 2012, Aba Mining had long-term interest-bearing bank loans from CCB Aba branch of RMB48,000,000 (2011: RMB50,000,000), bearing interest at the fixed rates ranging from 5.76% to 7.59% (2011: 5.4% to 6.64%) per annum which were due for repayment within one year. These long-term bank loans from CCB Aba branch were jointly guaranteed by Chengyu Vanadium Titano and Chuan Wei for nil consideration.

(d) Other loans represented interest-bearing loans granted by Wenchuan County State Assets Investment Co., Ltd. to Aba Mining for the reconstruction of production plants affected by the earthquake in May 2008. Other loans are unsecured and bear interest at the fixed interest rate of 5.76% (2011: 5.76%) per annum, of which RMB3,200,000 and RMB800,000 are due for repayment in 2014 and 2015, respectively.

30. PROVISION FOR REHABILITATION

	Group	
	2012	2011
	RMB'000	RMB'000
At the beginning of year	**7,664**	7,173
Unwinding of discount (note 6)	**524**	491
At the end of year	**8,188**	7,664

A provision for rehabilitation is mainly recognised for the present value of estimated costs to be incurred for the restoration of tailing ponds and the removal of the processing plants in complying with the Group's obligations for the closure and environmental restoration and clean-up on completion of the Group's mining activities. These costs are expected to be incurred on mine closure, based on the current terms of mining rights for Maoling Mine, Baicao Mine and Xiushuihe Mine, and are discounted at a discount rate of 6.84% (2011: 6.84%). Changes in assumptions could significantly affect these estimates.

Subsequently, the provision for rehabilitation will be increased each year by the accretion of interest due to the passage of time which is recognised as finance costs.

31. DEFERRED INCOME

	Group	
	2012	2011
	RMB'000	RMB'000
At the beginning of year	**9,574**	6,600
Received during the year	**1,600**	11,200
Off-set against property, plant and equipment (note 12)	**(7,174)**	(8,226)
At the end of year	**4,000**	9,574

Deferred income represented government grants received by the Group in respect of the construction of processing plants. Such deferred income will be deducted from the carrying amount of the assets when the construction of the relevant assets was completed and released to profit or loss by way of a reduced depreciation charge.

32. SHARE CAPITAL

Shares

	2012	2011
	RMB'000	RMB'000
Authorised:		
10,000,000,000 (2011: 10,000,000,000) ordinary shares of HK$0.1 each	**880,890**	880,890
Issued and fully paid:		
2,075,000,000 (2010: 2,075,000,000) ordinary shares of HK$0.1 each	**182,787**	182,787

There was no change in the authorised and issued capital of the Company during the two years ended 31 December 2012.

33. SHARE OPTION SCHEMES

On 4 September 2009, the Company adopted the Old Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Old Option Scheme include the Company's Directors including non-executive Directors, and other employees of the Group.

On 15 April 2010, the Company adopted the New Option Scheme, and simultaneously terminated the operation of the Old Option Scheme (such that, no further options shall thereafter be offered under the Old Option Scheme but in all other respects the provisions of the Old Option Scheme shall remain in force and effect). Eligible participants of the New Option Scheme include Directors, chief executives, substantial Shareholders or employees (whether full time or part time) of any member of the Group and any persons whom the Directors considers, in its sole discretion, have contributed or will contribute to the development and growth of the Group. The New Option Scheme will remain in force for 10 years from that date, unless otherwise cancelled or amended.

The maximum numbers of the Company's Shares in respect of which options may be granted under the New Option Scheme and any other schemes of the Company shall not, in aggregate, exceed 207,500,000 shares, being 10% of the total number of Shares of the Company in issue on the adoption date of the New Option Scheme. The maximum number of Shares issued and which may fall to be issued upon exercise of the options granted and to be granted under the New Option Scheme to each eligible participant in the New Option Scheme within any 12-month period is limited to 1% of the Shares of the Company in issue as of the date of grant. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share options granted to Directors, chief executives, substantial Shareholders or any of their respective associates are subject to approval by the independent non-executive Directors (excluding the independent non-executive Directors who are the grantees of the options). In addition, for any grant of share options to substantial Shareholders or independent non-executive Directors or to any of their respective associates, in excess of 0.1% of the Shares of the Company in issue on the date of offer and with an aggregate value (based on the closing price of the Company's Shares quoted on the Stock Exchange at the date of grant) in excess of HK$5 million, such grant made within any 12-month period from the date of grant (inclusive) would be subject to Shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors that no option may be exercised more than 10 years from the date of grant.

The exercise price of share options is determinable by the board of Directors, but may not be less than the highest of (i) the nominal value of Shares of the Company; (ii) the average closing price of the Company's Shares as stated on the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the share options; and (iii) the closing price of the Company's Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the share options.

33. SHARE OPTION SCHEMES (continued)

The exercise price and exercise period of the share options outstanding as at 31 December 2012 and 31 December 2011 are as follows:

Number of options	Exercise price per Share	Exercise period
'000	HK$	
10,100	5.05	29 June 2012 to 28 December 2019
10,100	5.05	29 December 2014 to 28 December 2019
4,700	4.99	1 October 2012 to 31 March 2020
4,700	4.99	1 April 2015 to 31 March 2020
27,300	3.60	23 May 2013 to 22 May 2021
56,900		

The Group has 14,800,000 share options exercisable as at 31 December 2012 (2011: Nil), and the weighted average exercise price was HK$5.03 per Share (2011: Not applicable).

The Group recognised a share option expense of HK$32,953,000 (equivalent to approximately RMB28,307,000) during the year ended 31 December 2012 (2011: HK$33,023,000, equivalent to approximately RMB28,647,000).

The fair values of equity-settled share options granted were estimated and valued by independent professional valuers as at the dates of grant, using the Binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the major inputs to the model used:

	Equity-settled share options granted on		
	23 May 2011	1 April 2010	29 December 2009
Dividend yield (%)	**2.07**	1.36	1.41
Expected volatility (%)	**62.40**	66.40	68.56
Risk-free interest rate (%)	**2.430**	2.788	2.652

At 31 December 2012, the Company had 29,600,000 share options outstanding under the Old Option Scheme and 27,300,000 share options outstanding under the New Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 56,900,000 additional Shares of the Company and additional share capital of HK$5,690,000 and share premium of HK$241,506,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 56,900,000 share options outstanding, which represented approximately 2.74% of the Company's Shares in issue as at that date.

34. RESERVES

Group

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

(a) Share premium account

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the constitutional documents and the Companies Law of the Cayman Islands, the share premium is distributable as dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

(b) Statutory reserve funds

In accordance with the Company Law of the PRC and the respective articles of association of subsidiaries domiciled in the PRC (the "PRC Subsidiaries"), each of the PRC Subsidiaries other than Huili Caitong and Lingyu is required to allocate 10% of its profits after tax, as determined in accordance with the PRC Generally Accepted Accounting Principles (the "PRC GAAP"), to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of its registered capital.

As Huili Caitong is a FIE, allocation to SSR is not required. According to Huili Caitong's articles of association, Huili Caitong is required to allocate 10% of its profit after tax in accordance with the PRC GAAP to the statutory reserve fund (the "SRF").

As Lingyu is a wholly-foreign-owned enterprise, allocation to SSR is not required. According to the Rules for the Implementation of Foreign-funded Enterprise Law of the PRC and articles of association of Lingyu, Lingyu is required to allocate 10% of its profit after tax in accordance with PRC GAAP to the SRF until such reserve reaches 50% of its registered capital.

SSR and SRF are non-distributable except in the event of liquidation and subject to certain restrictions set out in the relevant PRC regulations. They can be used to offset accumulated losses or capitalised as paid-up capital.

(c) Contributed surplus

The contributed surplus represented the difference between the nominal value of the Company's Shares issued in exchange of or consideration paid for subsidiaries acquired and the aggregate amount of the nominal value of the paid-up capital of these subsidiaries attributable to the owners of the Company for business combinations under common control.

(d) Safety fund surplus reserve

Pursuant to a Notice regarding Safety Production Expenditure jointly issued by the Ministry of Finance and the State Administration of Work Safety of the PRC in February 2012, the Group is required to establish a safety fund surplus reserve based on volume of mineral ore extracted. The safety fund can only be transferred to retained earnings to offset safety related expenses as and when they are incurred, including expenses related to safety protection facilities and equipment improvement and maintenance as well as safety production inspection, appraisal, consultation and training.

34. RESERVES (continued)

Group (continued)

(e) Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained earnings should the related options expire or be forfeited.

Company

The movements of the Company's reserves for the current and prior years are as follows:

	Share premium account	Share option reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	1,998,721	19,136	(96,741)	1,921,116
Total loss for the year (note 10)	–	–	(120,260)	(120,260)
Proposed final 2011 dividend (note 35)	(122,425)	–	–	(122,425)
Equity-settled share option arrangements (note 33)	–	28,647	–	28,647
At 31 December 2011 and 1 January 2012	1,876,296	47,783	(217,001)	1,707,078
Total loss for the year (note 10)	–	–	(45,531)	(45,531)
Equity-settled share option arrangements (note 33)	–	28,307	–	28,307
At 31 December 2012	1,876,296	76,090	(262,532)	1,689,854

35. DIVIDENDS

(a) Dividends attributable to the year

At a meeting of the Directors held on 28 March 2013, the Directors do not recommend a final dividend for the year ended 31 December 2012.

(b) Dividends attributable to the previous financial year, declared and paid during the year

	RMB'000
Final dividend in respect of the financial year ended 31 December 2011 of RMB0.059 per Share	
Declared during the year	122,425
Paid during the year	(122,425)
	–

36. OPERATING LEASE ARRANGEMENTS – THE GROUP AS LESSEE

The Group entered into commercial leases on certain office buildings based on the reason that it is not in the best interest of the Group to purchase these assets. These leases have average lives of one to five years.

At the end of each reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Within one year	**1,809**	768	**1,444**	608
In the second to fifth years, inclusive	**2,509**	182	**2,162**	–
	4,318	950	**3,606**	608

37. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

		Group	
	Notes	**2012 RMB'000**	2011 RMB'000
Contracted, but not provided for:			
– Acquisition of a subsidiary	(a)	**400,000**	450,000
– Investment in a jointly-controlled entity	(b)	**40,500**	–
– Plant and machinery		**18,220**	39,529
– Exploration rights and assets		**12,110**	16,910
		470,830	506,439
Authorised, but not contracted for:			
– Plant and machinery		**32,774**	61,331
– Exploration rights and assets		**83,684**	87,977
		116,458	149,308
		587,288	655,747

Notes:

(a) On 28 December 2011, Lingyu, an indirect wholly-owned subsidiary of the Company, entered into an equity purchase agreement to acquire the entire equity interests in Panzhihua Yixingda from independent third parties at a consideration of at least RMB600,000,000 (subject to increase depending on the volume of mineral resources and reserves of iron ore), of which RMB150,000,000 and RMB50,000,000 was paid in December 2011 and January 2012, respectively (note 19).

Panzhihua Yixingda is a limited liability company established in the PRC, which currently holds an exploration permit of Haibaodang Mine (the "Target Mine") located in Panzhihua City, Sichuan, with a legal exploration term runs from 14 November 2011 to 31 December 2013.

Pursuant to the equity purchase agreement, the major condition precedent to the completion of acquisition is the issuance of a mineral resources and reserves report of the Target Mine by an independent geological agent before 30 March 2013 showing that the Target Mine has a minimum of 100 million tonnes of mineral resources and reserves with a minimum average iron content (Type 333 or above) of 15% or above. In the event the acquisition does not proceed to completion, Lingyu will be entitled to full reimbursement of all its prepayments made to the vendor of the transaction.

(b) In January 2012, Lingyu and two third parties, Pingchuan Iron Mining Company ("Pingchuan") and Sichuan Nanyu Information Technology Company Limited ("Nanyu"), established a Sino-foreign joint venture, Weichuan Mining, for the development of Dashanshu Section of the Pingchuan Mine. Pursuant to the investment agreement, the registered capital of Weichuan Mining is RMB100 million and Lingyu, Pingchuan and Nanyu hold equity interests of 51%, 34% and 15%, respectively, in Weichuan Mining. Lingyu settled the first tranche of RMB10,500,000 during the year and the remaining RMB40,500,000 should be settled before 1 March 2014.

38. RELATED PARTY TRANSACTIONS

(a) During the year ended 31 December 2012, the Group had the following material transactions with related parties:

		Group	
Name of related parties	Notes	**2012 RMB'000**	2011 RMB'000
Recurring transactions			
Sales of goods			
Chengyu Vanadium Titano	(i)	**137,131**	271,685
Office rental			
Longwei Hotel	(ii)	**159**	150
Non-recurring transactions			
Acquisition of Aba Mining			
Chuan Wei	(iii)	**(9,131)**	150,000
Bank loans jointly guaranteed by			
Chengyu Vanadium Titano and Chuan Wei	(iv)	**48,000**	50,000
Construction of property, plant and equipment			
Sichuan Huiyuan	(v)	**1,408**	45,995
Mineral exploration and evaluation services			
Sichuan Xinglian	(vi)	**4,422**	–

Notes:

(i) The Directors consider that sales to Chengyu Vanadium Titano were undertaken on commercial terms similar to those offered to unrelated customers in the ordinary course of business.

(ii) The Directors consider that the office rental expenses paid by the Group to Longwei Hotel as determined under the tenancy agreement are based on market rates for similar premises in similar locations.

38. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes: (continued)

(iii) The consideration for the acquisition of the entire equity interests in Aba Mining during the year ended 31 December 2011 was determined based on negotiations between the Group and Chuan Wei, with reference to the valuation of the entire equity interests in Aba Mining as shown in a valuation report of an independent valuer.

On 19 May 2012, the Group and Chuan Wei entered into a supplemental agreement, pursuant to which the consideration for acquisition of Aba Mining has been reduced from RMB150,000,000 to RMB140,869,000 ("Final Purchase Consideration") as the average iron content of the ore at the Yanglongshan Mine is below that warranted by Chuan Wei, and the reduction in the purchase consideration of RMB9,131,000 has been accounted for in equity during the year.

The Final Purchase Consideration was partially settled by the Group in two separate payments in 2011 and 2012 amounting to RMB100,000,000 and RMB10,869,000, respectively.

(iv) The bank loans were jointly guaranteed by related parties for nil consideration.

(v) The Directors consider that the amount paid for the construction services from a related company was determined based on prices similarly available to the related party's third party customers.

(vi) The mineral exploration and evaluation services rendered by Sichuan Xinglian to the Group were made according to the published prices and conditions offered by the jointly-controlled entity to third party major customers.

(b) Outstanding balances with related parties

Details of the Group and Company's balances with its related parties as at the end of the reporting period are disclosed in note 24 to the financial statements. Balances with the related parties are interest-free, unsecured and have no fixed terms of repayment.

(c) Compensation of key management personnel of the Group:

	2012	2011
	RMB'000	RMB'000
Fees	**754**	784
Basic salaries and other benefits	**2,563**	3,423
Equity-settled share option expense	**20,579**	26,370
Pension scheme contributions	**107**	132
Total compensation paid to key management personnel	**24,003**	30,709

Further details of Directors' emoluments are included in note 8 to the financial statements.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The financial assets of the Group mainly include cash and bank balances, pledged time deposits, trade and bills receivables, financial assets at fair value through profit or loss, other receivables and amounts due from related parties, which arise directly from its operations. Financial liabilities of the Group mainly include other payables and accruals, trade and bills payables, amounts due to related parties, dividend payable, commercial papers and interest-bearing bank and other loans.

Risk management is carried out by the finance department which is led by the Group's executive Directors. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units. The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, credit risk and foreign currency risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders. The Directors regularly reviews these risks and they are summarised below.

Liquidity risk

The Group monitors its exposure to a shortage of funds by considering the maturity of both its financial liabilities and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank loans and its own funding sources.

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

	2012				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank and other loans	18,000	153,500	156,607	97,473	425,580
Commercial paper liabilities	–	–	158,700	–	158,700
Trade and bills payables	150,314	557,025	109,219	–	816,558
Other payables and accruals	62,768	205,162	–	–	267,930
Dividend payable	1,801	–	–	–	1,801
Due to related parties	33,735	–	–	–	33,735
	266,618	915,687	424,526	97,473	1,704,304

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	2011				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank and other loans	20,000	150,444	155,881	117,963	444,288
Trade and bills payables	56,519	284,673	–	–	341,192
Other payables and accruals	41,500	170,730	–	–	212,230
Dividend payable	1,801	–	–	–	1,801
Due to related parties	85,681	–	–	–	85,681
	205,501	605,847	155,881	117,963	1,085,192

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's bank deposits, interest-bearing bank loans and other loans, commercial paper liabilities and zero-coupon exchangeable notes (which are subject to fair value interest rate risk). The interest rates and terms of repayment of interest-bearing bank loans are disclosed in note 29 to the financial statements.

The Group manages its cash flow interest rate risk exposure arising from all of its interest-bearing loans through the use of a mix of floating and fixed rates. The Group also holds certain borrowings at floating interest rate so as to manage part of fair value interest rate risk. In addition, the Group has not used any interest rate swaps to hedge against interest rate risk.

Credit risk

Substantial amounts of the Group's cash and cash equivalents and time deposits are held in major reputable financial institutions located in Mainland China and Hong Kong, which management believes are of high credit quality. The credit risk of the Group's other financial assets, which comprise trade and bills receivables, other receivables and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group has no other financial assets which carry significant exposure to credit risk.

As disclosed in note 4, the Group sells most of the products to a small number of customers. As a result, it faces a high level of concentration of credit risk. The Group manages this risk by offering standardised credit terms to its customers of iron ore products for an approved credit period of 30 days. For the sale of titanium products, the Group generally requires full payment prior to delivery. The Group maintains strict control over its outstanding receivables and senior management regularly reviews the overdue balances. In addition, the Group's exposure to credit risk is also influenced by the individual characteristics of each customer and default risk of the industry in which customers operate. During the year, the Group generated its revenue from the sales of iron ore products to the producers of steel and distributors that purchase the Group's products and resell them to steel producers. In addition, the Group also generated revenue from sales of titanium products to other customers. In this regards, the Group is exposed to the concentration of credit risk in the steel and titanium industries.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB, except for certain items of cash and cash equivalents, financial assets at fair value through profit and loss and bank loans that are denominated in HK$ and USD.

The Group does not enter into any hedging transactions to manage the potential fluctuation in foreign currencies. The Group does not consider that it has any significant exposure to the risk of fluctuation in the exchange rate between HK$/USD and RMB as a reasonable possible change of 5% in RMB against HK$/USD would have no significant financial impact to the Group's profit.

Fair values

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair value and carrying amount of financial assets at fair value through profit or loss have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the Directors to make estimates about the expected future cash flows including expected future proceeds from repayment of liabilities and on subsequent disposal of the shares of the underlying assets.

The carrying amounts of the Group's long term interest-bearing bank and other loans approximate to their fair values based on the prevailing borrowing rates available for loans with similar terms and maturities during the reporting period.

The carrying amounts of the Group's other financial instruments approximated to their fair values due to the short-term maturity at the end of the reporting period.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or raise new capital from its investors.

No changes were made in the objectives, policies or processes for managing financial risk during the year.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group is currently funding its capital expenditure through internal generated funds from its operations and new bank borrowings. The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Group's policy is to keep the gearing ratio between 20% and 50% over the long term. Net debt is defined as interest-bearing bank loans, net of cash and bank balances and it excludes liabilities incurred for working capital purposes. Equity includes equity attributable to the owners of the Company and non-controlling interests.

As at 31 December 2012 and 2011, the Group's cash and bank balances exceeded the total interest-bearing bank and other loans and commercial papers. As such, no gearing ratio as at 31 December 2012 or 31 December 2011 is presented.

40. SIGNIFICANT EVENT

In November 2012, the Board received a letter from Trisonic International, in which Trisonic International informed the Board that it is interested in pursuing a proposal for the privatisation of the Company by Keen Talent, a wholly-owned subsidiary of Trisonic International, with an indicative offer price of HK$1.72 per share in cash.

On 21 December 2012, Trisonic International, Keen Talent and the Company made a joint announcement regarding the proposed privatisation of the Company by way of a scheme of arrangement and proposed withdrawal of listing. In the proposal, the offer price is further raised to HK$1.93 per share in cash. In addition, Keen Talent will make an offer to cancel all the outstanding share options upon the scheme of arrangement becoming effective. The amount of the cash offer to cancel an option will be calculated by deducting the exercise price per share payable on exercise of an option from the consideration of HK$1.93 for every ordinary share cancelled (i.e., the "see-through" price). As all the outstanding share options are out-of-money i.e., the exercise price of all outstanding options is above the offer price of HK$1.93, the "see-through" price is zero and the offer price under the option offer will be a nominal value of HK$0.001 for each option. All the option holders have given an irrevocable undertaking to Keen Talent and the Company to not exercise any of his/her outstanding share options during the offer period.

Particulars of the proposed privatisation were set out in the Company's announcements dated 5 November 2012, 5 December 2012 and 21 December 2012, respectively.

41. EVENTS AFTER THE REPORTING PERIOD

As at the date of approval of the financial statements, the Group has no events after the reporting period that needs to be disclosed.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by Directors on 28 March 2013.

GLOSSARY

"12th Five-Year Plan"	the Twelfth Five-Year Plan for the National Economic and Social Development of the PRC
"2010 AGM"	the Shareholders' annual general meeting held on 15 April 2010
"2013 AGM"	the Shareholders' annual general meeting to be held on 14 May 2013
"Aba Mining"	Aba Mining Co., Ltd.* (阿壩礦業有限公司), a limited liability company established in the PRC on 27 February 2004 and an indirect wholly-owned subsidiary of the Company
"Aba Mining Acquisition Agreement"	the equity interest transfer agreement dated 15 November 2010 entered into between Lingyu (as transferee) and Chuan Wei (as transferor) under which the entire interest in Aba Mining is being transferred
"Aba Prefecture"	阿壩藏族羌族自治州, Aba Tibetan and Qiang Autonomous Prefecture
"Articles of Association" or "Articles"	the articles of association of our Company, adopted on 4 September 2009 and as amended from time to time
"associates"	has the meaning ascribed thereto in the Listing Rules
"Baicao Mine"	白草鐵礦, the vanadium-bearing titano-magnetite mine located in Xiaoheiqing Townlet, Huili County, Sichuan and operated by Huili Caitong, with a mining area of 1.88 sq.km.
"Baicao Processing Plant"	the ore processing plant located at the Baicao Mine and operated by Huili Caitong
"beneficiation"	a process to upgrade the mineralised content of an ore or of ore concentrates typically through flotation, gravity or magnetic separation
"Board"	the board of Directors
"Chengyu Vanadium Titano"	Chengyu Vanadium Titano Technology Ltd.* (成渝釩鈦科技有限公司), formerly known as Weiyuan Steel Co., Ltd.* (威遠鋼鐵有限公司), a sino-foreign equity joint venture established in the PRC on 3 April 2001 and a connected person to the Group
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"China VTM Mining", "Company", "our Company", "we" or "us"	China Vanadium Titano-Magnetite Mining Company Limited (中國釩鈦磁鐵礦業有限公司), a limited liability company incorporated in the Cayman Islands on 28 April 2008
"Chongqing"	a major city in Southwest China

"Chuan Wei"	Sichuan Chuanwei Group Co., Ltd.*（四川省川威集團有限公司）, a limited liability company established in the PRC on 29 March 1998 and a connected person to the Group
"Cizhuqing Mine"	茨竹箐鐵礦, the vanadium-bearing titano-magnetite mine located in Xiaoheiqing Townlet, Huili County, Sichuan, with an exploration area of 2.30 sq.km.
"Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended and supplemented from time to time
"concentrate(s)"	the product(s) of ore processing plants that contain higher concentrations of the minerals and are suitable for smelting
"connected person(s)"	has the meaning ascribed thereto in the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed thereto in the Listing Rules and in the context of this report, refers to Trisonic International, Kingston Grand, Messrs. Wang Jin, Shi Yinjun, Yang Xianlu, Wu Wendong, Zhang Yuangui and Li Hesheng
"Dashanshu Section"	the Dashanshu section*(大杉樹礦段) of the Pingchuan Mine which has an exploration area of approximately 5 sq.km. within the exploration area set out in the exploration permit of the Pingchuan Mine
"Director(s)"	director(s) of the Company or any one of them
"Eurozone"	a geographic and economic region that comprises all of the European Union countries that have fully incorporated the euro as their national currency
"Exchangeable Note(s)"	the exchangeable note(s) in the principal amount due in 2014 issued by the Issuer in accordance with the Secured Exchangeable Note Purchase Agreement with its terms and conditions set out in the Note Certificate
"Former CG Code"	the Code on Corporate Governance Practice as set out in Appendix 14 to the Listing Rules (effective until 31 March 2012)
"grade"	the concentration, commonly expressed as percentage or grams per tonne, of useful elements, minerals or their components in any ore or concentrate
"Group"	the Company and its subsidiaries
"Haibaodang Mine"	海保凼鈦鐵礦, the vanadium-bearing titano-magnetite mine located in Renhe District, Panzhihua City, Sichuan, currently under exploration with an exploration area of 20.37 sq.km.

GLOSSARY

"Hailong Processing Plant"	the ore processing plant located at Huili County and operated by Huili Caitong
"Heigutian Processing Plant"	the ore processing plant located at Yanbian County and operated by Yanbian Caitong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Huili Caitong"	Huili County Caitong Iron and Titanium Co., Ltd.*（會理縣財通鐵鈦有限責任公司）, established in the PRC on 7 July 1998 and is a foreign equity joint venture in the PRC since 29 December 2010, an indirect wholly-owned subsidiary of the Company
"IBC"	the independent committee of the Board formed for the purpose of advising the Independent Shareholders as to what action they should take in relation to the privatisation proposal and it comprises all the independent non-executive Directors
"IFRSs"	International Financial Reporting Standards, which comprise standards and interpretations approved by the International Accounting Standards Board and the International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect
"Independent Shareholders"	the Shareholders (other than Mr. Wang Jin, Trisonic International, Sapphire and any other persons acting in concert with Keen Talent)
"Indicated Resources"	part of the iron ore resources for which tonnage, densities, shape, physical characteristics, quality and mineral content can be estimated with a reasonable level of confidence as defined by the JORC Code
"Inferred Resources"	part of the iron ore resources for which tonnage, quality and mineral content can be estimated with a low level of confidence as defined by the JORC Code
"IPO"	the initial public offering and listing of Shares of the Company on the Main Board on 8 October 2009
"iron"	a silvery-white, lustrous, malleable, ductile, magnetic or magnetisable, metallic element occurring abundantly in combined forms, notably in hematite, limonite, magnetite, and taconite, and alloyed for use in a wide range of important structural materials
"iron concentrate(s)"	concentrate(s) whose main mineral content (by value) is iron
"iron ore"	compounds of iron and oxygen (iron oxides) mixed with impurities (gangue); it is a mineral which when heated in the presence of a reductant will yield metallic iron

"iron pellet(s)"	a round hardened clump of iron-rich material suitable for application in blast furnaces
"Issuer"	Rui Tong Limited, a private company incorporated in the British Virgin Islands with limited liability, being the issuer of the Exchangeable Note under the Secured Exchangeable Note Purchase Agreement and a third party independent of the Company and its connected persons
"JORC Code"	the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition), as published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy and used to determine resources and reserves, as amended from time to time
"Keen Talent"	Keen Talent Holdings Limited (創鑫控股有限公司), a company incorporated in Hong Kong on 20 August 2012, a wholly-owned subsidiary of Trisonic International
"Kingston Grand"	Kingston Grand Limited, a company incorporated in the British Virgin Islands on 20 February 2007, holder of 40% of the issued share capital of Trisonic International
"km"	kilometre(s), a metric unit measure of distance
"Kt"	thousand tonnes
"Ktpa"	thousand tonnes per annum
"LIBOR"	The London Inter Bank Offered Rate, as determined by the bank for interest periods of up to 12 months or such other interest periods at may be agreed by the bank
"Lingyu"	Sichuan Lingyu Investment Co., Ltd.* (四川省凌御投資有限公司), a limited liability company established in the PRC on 9 June 2010 and an indirect wholly-owned subsidiary of the Company
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	the Main Board of the Stock Exchange
"Maoling Extended Exploration Area"	formerly an independent exploration region with an area of 2.83 sq.km. covered under the extended exploration permit of the Maoling Mine (covering 1.9 sq.km. of the mining area of the Maoling Mine), has been consolidated with the Yanglongshan Mine since September 2012 to form the Maoling-Yanglongshan Mine
"Maoling Mine"	毛嶺鐵礦, an ordinary magnetite mine owned by Aba Mining and located in Wenchuan County, Sichuan, with a mining area of 1.9 sq.km.

GLOSSARY

"Maoling Processing Plant"	the ore processing plant located at the Maoling Mine and operated by Aba Mining
"Maoling-Yanglongshan Mine"	an exploration region with an area of 11.6 sq.km. covered under the exploration permit of the Maoling-Yanglongshan Mine (the mining area covered is owned by the Maoling Mine), formed from the combination of the original Maoling Extended Exploration Area and the Yanglongshan Mine since September 2012
"Measured Resources"	mineral resources that have been intersected and tested by drill holes or sampling procedures at locations close enough to confirm continuity
"mining right(s)"	the right(s) to mine mineral resources and obtain mineral products in areas where mining activities are licensed
"Model Code"	Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 of the Listing Rules
"Mt"	million tonnes
"Net Profit Margin"	a ratio of profitability calculated as the profit and total comprehensive income attributable to owners of the Company divided by revenue
"New Iron Pelletising Plant"	the plant that produces iron pellets and is located in Ailang Townlet, Huili County, Sichuan, which is approximately 5.5 km from the Xiushuihe Mine
"Note Certificate"	the note certificate of the Exchangeable Note with the terms and conditions of the Exchangeable Note set out therein
"OCBC"	Oversea-Chinese Banking Corporation Limited
"Old Iron Pelletising Plant"	the plant that produces iron pellets and is located approximately 36 km from the Xiushuihe Mine
"ore processing"	the process which in general refers to the extraction of usable portions of ores by using physical and chemical extraction methods
"Panxi Region"	a region in Sichuan located at southwest of Chengdu reaching from Panzhihua to Xichang
"Panzhihua Yixingda"	Panzhihua Yixingda Industrial Trading Co., Ltd.*(攀枝花易興達工貿有限責任公司), a limited liability company registered in the PRC on 9 July 2009
"pelletising"	a process to compress the iron ore into the shape of a pellet
"Pingchuan Mine"	the Pingchuan iron mine which is located in Yanyuan County, Liangshan Prefecture, Sichuan, which has an exploration area of 69.09 sq.km. as set out in the exploration permit
"Proved and probable reserves"	reserves that have been based after application of mining recovery and dilution facts, on an in-situ identified resources which have been categorised as "indicated" and "measured" under the JORC Code

"Renminbi" or "RMB"	the lawful currency of the PRC
"reserve(s)"	the part of a measured and/or indicated resource(s) which could be mined and from which valuable or useful minerals could be recovered economically under conditions reasonably assumed at the time of estimation
"resource(s)"	a concentration or occurrence of iron ore of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction
"Scheme"	a scheme of arrangement under Section 86 of the Companies Law for the implementation of the privatisation proposal
"Scheme Share"	the Share held by the Scheme Shareholder
"Scheme Shareholder(s)"	the Shareholder(s) other than Trisonic International
"Secured Exchangeable Note Purchase Agreement"	the secured exchangeable note purchase agreement dated 2 May 2011 entered into between the Group and the Issuer pursuant to which the Issuer has conditionally agreed to issue and the Group has conditionally agreed to subscribe the Exchangeable Note on the terms and subject to the conditions set out therein
"SFC"	Securities and Futures Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the share capital of the Company, with a nominal value of HK$0.1 each
"Shareholder(s)"	holder(s) of the Share(s)
"Sichuan"	the Sichuan Province of the PRC
"sq.km."	square kilometres
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Target Company"	Oriental Mining and Mineral Resources Co., Ltd., a company incorporated in the Cayman Islands on 8 April 2011 and a third party independent of the Company and its connected persons
"TFe"	the symbol for denoting total iron
"TiO_2"	the chemical symbol for titanium dioxide
"titanium"	a light, strong, lustrous, corrosion-resistant transition metal with a white-silvery-metallic colour

GLOSSARY

"titanium concentrate(s)"	concentrate(s) whose main content (by value) is titanium dioxide
"Trisonic International"	Trisonic International Limited(合創國際有限公司), a company incorporated in Hong Kong on 19 July 2006 and a Controlling Shareholder
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US dollars" or "US$"	the lawful currency of the United States
"V_2O_5"	the chemical symbol for vanadium pentoxide
"Weichuan Mining"	Liangshan Prefecture Weichuan Mining Co., Ltd.*(涼山州威川礦業有限公司), a limited liability company established on 2 May 2012 and is a sino-foreign equity joint venture enterprise in the PRC that Lingyu owns its 51% equity interest
"Weixi Guangfa"	Weixi Guangfa Iron Ore Development Company Limited*(維西廣發鐵礦開發有限公司), a limited liability company established in the PRC on 10 June 2005
"Xiushuihe Mine"	秀水河鐵礦, the vanadium-bearing titano-magnetite mine located in Ailang Townlet, Huili County, Sichuan and operated by Xiushuihe Mining, with a mining area of 0.52 sq.km.
"Xiushuihe Mining"	Huili County Xiushuihe Mining Co., Ltd.*(會理縣秀水河礦業有限公司), a limited liability company established in the PRC on 26 June 2007, an indirect subsidiary of the Company that owns 95.0% equity interest
"Xiushuihe Processing Plant"	the ore processing plant located at the Xiushuihe Mine and operated by Xiushuihe Mining
"Yanglongshan Mine"	羊龍山鐵礦, the iron mine located at Yanglongshan in Wenchuan County, Sichuan, formerly an independent exploration region with an area of 8.79 sq.km. covered under the exploration permit of the Yanglongshan Mine, and has been consolidated as the Maoling-Yanglongshan Mine with the original Maoling Extended Exploration Area since September 2012
"Yangqueqing Mine"	陽雀箐鐵礦, the vanadium-bearing titano-magnetite mine located in Huili County, Sichuan, with a mining area of 0.25 sq.km.
"Yangqueqing Mine's Expansion"	the area between the Yangqueqing Mine and the Baicao Mine
"Yanyuan Xiwei"	Yanyuan County Xiwei Mining Company Limited*(鹽源縣西威礦業有限責任公司), a limited liability company established in the PRC on 7 December 2007

* For identification purpose only

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