中國鎳資源
CHINA NICKEL RESOURCES

# China Nickel Resources Holdings Company Limited
# 中國鎳資源控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 02889)**

## 2012 ANNUAL RESULTS ANNOUNCEMENT

**FINANCIAL HIGHLIGHTS**

| | **For the year ended 31 December 2012** *RMB'000* | 2011 *RMB'000* | Change % |
|---|---|---|---|
| Revenue | **1,467,577** | 2,587,779 | -43.3% |
| Gross Profit | **140,314** | 329,224 | -57.4% |
| Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA")# | **431,047** | 482,059 | -10.6% |
| (Loss)/Profit before Tax | **(25,478)** | 99,101 | N/A |
| (Loss)/Profit for the Year | **(226,794)** | 67,380 | N/A |
| Gross Profit Margin | **9.6%** | 12.7% | -3.1% |
| EBITDA Margin | **29.4%** | 18.6% | 10.8% |
| (Loss)/Profit before Tax Margin | **(1.7%)** | 3.8% | N/A |
| Net (Loss)/Profit Margin | **(15.5%)** | 2.6% | N/A |

# EBITDA for the year ended 31 December 2012 included a gain on disposal of Luoyang Yongan Special Steel Co., Ltd ("Yongan Special Steel"), a subsidiary of the Group in the PRC, of RMB547,526,000 (2011: Nil) and an impairment loss of items of property, plant and equipment of RMB123,147,000 (2011: Nil).

The board of directors (the "Board" or the "Directors") of China Nickel Resources Holdings Company Limited (the "Company") is pleased to announce that the audited consolidated revenue of the Company and its subsidiaries (collectively referred as to the "Group") for the year ended 31 December 2012 was approximately RMB1,467.6 million, representing a decrease of 43.3% as compared to 2011. Audited EBITDA was approximately RMB431.0 million, RMB51.1 million lower than the EBITDA of RMB482.1 million in 2011. Audited loss for the year was approximately RMB226.8 million, RMB294.2 million lower than the profit for the year of RMB67.4 million in 2011. Audited basic losses per share for 2012 was RMB0.1. Basic losses per share was calculated based on the losses attributable to the Company's shareholders of RMB225.6 million divided by the weighted average of 2,304.4 million shares in issue during 2012.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2012. The audited consolidated financial statements for the year ended 31 December 2012 have been reviewed by the Company's Audit Committee.

## CONSOLIDATED INCOME STATEMENT

*Year ended 31 December 2012*

| | *Notes* | **2012** **RMB'000** | 2011 RMB'000 |
|---|---|---|---|
| REVENUE | *4* | **1,467,577** | 2,587,779 |
| Cost of sales | | **(1,327,263)** | (2,258,555) |
| Gross profit | | **140,314** | 329,224 |
| Other income and gains | *4* | **565,087** | 159,616 |
| Selling and distribution expenses | | **(15,588)** | (43,292) |
| Administrative expenses | | **(197,057)** | (129,378) |
| Finance costs | *6* | **(289,088)** | (205,098) |
| Other expenses | | **(229,836)** | (15,485) |
| Share of profit of an associate | | **690** | 3,514 |
| (LOSS)/PROFIT BEFORE TAX | *5* | **(25,478)** | 99,101 |
| Income tax expense | *7* | **(201,316)** | (31,721) |
| (LOSS)/PROFIT FOR THE YEAR | | **(226,794)** | 67,380 |
| Attributable to: | | | |
| Owners of the parent | | **(225,647)** | 66,344 |
| Non-controlling interests | | **(1,147)** | 1,036 |
| | | **(226,794)** | 67,380 |
| (LOSSES)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| — Basic (RMB) | *9* | **(0.09792)** | 0.02880 |
| — Diluted (RMB) | *9* | **N/A** | 0.02879 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*Year ended 31 December 2012*

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| (LOSS)/PROFIT FOR THE YEAR | **(226,794)** | 67,380 |
| OTHER COMPREHENSIVE INCOME/(EXPENSE) | | |
| Exchange differences on translation of foreign operations | **3,196** | (344,690) |
| OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF TAX | **3,196** | (344,690) |
| TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR | **(223,598)** | (277,310) |
| Attributable to: | | |
| Owners of the parent | **(222,451)** | (278,346) |
| Non-controlling interests | **(1,147)** | 1,036 |
| | **(223,598)** | (277,310) |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*At 31 December 2012*

| | Notes | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **2,087,349** | 2,108,753 |
| Prepaid land lease payments | | **179,199** | 194,144 |
| Intangible asset | | **2,026,233** | 2,090,159 |
| Deferred tax assets | | **721** | 152,546 |
| Investment in an associate | | **73,499** | 22,274 |
| Other non-current assets | | **1,000** | – |
| Total non-current assets | | **4,368,001** | 4,567,876 |
| **CURRENT ASSETS** | | | |
| Inventories | | **569,236** | 573,013 |
| Trade and notes receivables | *10* | **90,157** | 148,292 |
| Prepayments, deposits and other receivables | | **826,612** | 263,011 |
| Pledged time deposits | | **376,556** | 219,601 |
| Cash and cash equivalents | | **114,824** | 114,824 |
| | | **1,977,385** | 1,318,741 |
| Assets of a disposal group classified as held for sale | | **–** | 722,731 |
| Total current assets | | **1,977,385** | 2,041,472 |
| **CURRENT LIABILITIES** | | | |
| Trade and notes payables | *11* | **665,737** | 593,455 |
| Other payables and accruals | | **496,565** | 427,141 |
| Derivative financial instruments | | **–** | 8,774 |
| Dividend payable | | **6** | 6 |
| Bank and other borrowings | | **1,262,825** | 402,690 |
| Current portion of convertible bonds | | **–** | 1,164,420 |
| Tax payable | | **52,345** | 30,720 |
| | | **2,477,478** | 2,627,206 |
| Liabilities directly associated with the assets classified as held for sale | | **–** | 314,568 |
| Total current liabilities | | **2,477,478** | 2,941,774 |
| **NET CURRENT LIABILITIES** | | **(500,093)** | (900,302) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **3,867,908** | 3,667,574 |

Continued/...

| | Notes | **2012** | 2011 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **NON-CURRENT LIABILITIES** | | | |
| Bank and other borrowings | | **384,026** | 67,776 |
| Convertible bonds | | **144,056** | – |
| Derivative financial instruments | | **82,376** | – |
| Deferred tax liabilities | | **2,213** | 2,401 |
| Other long term payables | | **6,580** | 5,280 |
| Total non-current liabilities | | **619,251** | 75,457 |
| Net assets | | **3,248,657** | 3,592,117 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | | **230,513** | 230,373 |
| Reserves | | **3,002,857** | 3,240,136 |
| | | **3,233,370** | 3,470,509 |
| **Non-controlling interests** | | **15,287** | 121,608 |
| Total equity | | **3,248,657** | 3,592,117 |

*NOTES:*

## 1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 March 2004 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company and its subsidiaries (collectively referred to as the "Group") is located at No. 7, Block F, Runhua Business Garden, No. 24, Jinshui Road, Jinshui District, Zhengzhou City, Henan Province, the People's Republic of China (the "PRC"), 450012. The principal place of business of the Company is located at Room 3501, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

The principal activities of the Company are investment holding and the trading of ore. The Group is principally engaged in the manufacture and sale of iron and steel products in the PRC and the trading of ore.

In the opinion of the directors of the Company (the "Directors"), Easyman Assets Management Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Dong Shutong, is the ultimate holding company of the Group.

## 2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards ("IASs") and Interpretations of the Standing Interpretations Committee approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

**Basis of preparation**

The consolidated financial statements have been prepared on a going concern basis notwithstanding the fact that as at 31 December 2012, the Group had net current liabilities of RMB500,093,000, which mainly included the current portion of the 39,099 10% coupon senior bonds with nominal value of HK$25,000 each issued on 12 June 2012 (the "10% Coupon Senior Bonds") of RMB396,293,000 and the remaining bank and other borrowings of RMB866,532,000.

On 21 January 2013, the Group entered into a framework agreement with Beijing Wincapital Management Co., Ltd. in relation to the disposal of 30% equity interest in S.E.A. Mineral Limited ("S.E.A.M"), a wholly-owned subsidiary of the Group. The Company announced the transaction on 24 January 2013. The Directors believe that the disposal can significantly strengthen the cash flow position of the Group as a whole in the near future.

In addition, the Group has been actively negotiating with PRC banks for the renewal of PRC bank borrowings when those borrowings fall due in 2013. In previous years, the Group did not encounter any significant difficulties in renewing the PRC bank borrowings.

Taking into account the above measures, the Directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the foreseeable future, and are of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any future liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in the financial statements.

**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.

Total comprehensive income within a subsidiary is attributable to the non-controlling interests even if it results in a deficit balance.

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

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

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following 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.

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 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 | *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 Int 20 | *Stripping Costs in the Production Phase of a Surface Mine*[2] |
| Annual Improvements to IFRSs 2009–2011 Cycle | Amendments to a number of IFRSs issue 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

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.

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

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 standard 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.

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

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-Int 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 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 (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). 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.

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

The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" 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.

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:

(a) 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.

(b) IAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

## 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group has one reportable operating segment: the trading of ore and the manufacturing and sale of iron and steel products. Management monitors the operating results of its business units as a whole for the purpose of making decisions about resources allocation and performance assessment.

### Geographical information

*(a) Revenue from external customers*

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Mainland China | **979,264** | 2,285,651 |
| Singapore | **277,192** | 186,715 |
| Hong Kong | **152,510** | 71,325 |
| Others | **58,611** | 44,088 |
| | **1,467,577** | 2,587,779 |

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

*(b) Non-current assets*

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Mainland China | **2,224,494** | 2,260,659 |
| Indonesia | **2,104,143** | 2,116,988 |
| Others | **38,643** | 37,683 |
| | **4,367,280** | 4,415,330 |

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets.

### Information about major customers

Revenue of approximately RMB734,248,000 (2011: RMB1,449,183,000) was derived from sales to three (2011: two) major customers.

## 4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of value-added tax.

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

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Sale of goods: | | |
| Stainless steel base materials | **307,371** | 928,527 |
| Ni-Cr alloy steel ingot | **113,775** | 309,081 |
| Ferro-nickel alloys and others | **131,930** | 81,052 |
| Limonitic ores | **914,501** | 1,269,119 |
| Total revenue | **1,467,577** | 2,587,779 |
| **Other income** | | |
| Interest income | **16,659** | 9,776 |
| Others | **768** | 1,119 |
| | **17,427** | 10,895 |
| **Gains** | | |
| Gain on fair value adjustment of derivative financial instruments | **–** | 123,043 |
| Write-down of long ageing payables | **–** | 20,818 |
| Government grants* | **61** | 290 |
| Gain on disposal of items of property, plant and equipment, net | **57** | 3,304 |
| Gain on disposal of a subsidiary *(note 12)* | **547,526** | – |
| Others | **16** | 1,266 |
| | **547,660** | 148,721 |
| Total other income and gains | **565,087** | 159,616 |

* There are no unfulfilled conditions or contingencies relating to the government grants.

## 5. (LOSS)/PROFIT BEFORE TAX

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

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Staff costs (including Directors' remuneration)[#]: | | |
| Salaries and other staff costs | **88,318** | 87,408 |
| Retirement benefit scheme contributions | **7,046** | 4,137 |
| Equity-settled share-based expense | **3,657** | 883 |
| Total staff costs | **99,021** | 92,428 |
| Cost of inventories sold | **1,262,954** | 2,200,057 |
| Research expenses | **27,058** | 238 |
| Auditors' remuneration | **3,933** | 5,467 |
| Depreciation | **98,937** | 110,910 |
| Impairment of items of property, plant and equipment* | **123,147** | – |
| Amortisation of exclusive offtake right** | **64,309** | 58,498 |
| Amortisation of prepaid land lease payments | **4,191** | 8,452 |
| Gain on disposal of items of property, plant and equipment, net | **(57)** | (3,304) |
| Provision of impairment of trade receivables* | **1,318** | 2,832 |
| Reversal of provision of impairment of trade receivables* | **(2,367)** | – |
| Provision for inventories* | **15,468** | 3,741 |
| Loss on restructure of convertible bonds, net* | **287** | – |
| Interest income | **(16,659)** | (9,776) |
| Gain on fair value adjustment of derivative financial instruments | **–** | (123,043) |
| Loss on fair value adjustment of derivative financial instruments* | **17,597** | – |
| Foreign exchange gains, net | **–** | (1,019) |
| Foreign exchange losses, net* | **1,329** | – |
| Gain on disposal of a subsidiary[#] | **(547,526)** | – |
| Loss on cancellation of warrants* | **63,106** | – |
| Minimum lease payments under operating leases in respect of buildings and other assets | **5,176** | 4,808 |
| Write-down of long ageing payables | **–** | (20,818) |

* These items are included in "other expenses" in the consolidated income statement.

** The amortisation of the exclusive offtake right is included in "cost of sales" in the consolidated income statement.

[#] Termination benefits for staff of the disposed subsidiary are included in "gain on disposal of a subsidiary".

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest on bank loans and other borrowings wholly repayable within five years | **165,061** | 133,474 |
| Interest on convertible bonds | **206,032** | 325,691 |
| Total interest expenses | **371,093** | 459,165 |
| Less: Interest capitalised | **(82,005)** | (254,067) |
| | **289,088** | 205,098 |

## 7. INCOME TAX

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

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

The applicable Hong Kong profits tax rate of the Company, Infonics International Limited, Group Rise Trading Limited and S.E.A.M, which operate in Hong Kong, is 16.5% (2011: 16.5%) based on existing legislation. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the entity operates, based on existing legislation, interpretations and practices in respect thereof.

The applicable income tax rate of the Singaporean subsidiaries is 17% in 2012 (eight months ended 31 August 2011: 5%; four months ended 31 December 2011: 17%). Previously, CNR Group Holdings Pte. Ltd. ("CNR Group Holdings") was entitled to a five-year tax concessionary rate of 5% as it was awarded Global Trader Programme ("GTP") status by International Enterprise Singapore ("IE Singapore") for the five years ending 31 December 2013, and it had written to IE Singapore to withdraw its GTP incentive with effect from 1 September 2011.

The subsidiaries of the Company incorporated in Indonesia are subject to an income tax rate of 25% (2011: 25%).

According to the PRC Corporate Income Tax Law, the applicable income tax rate of the PRC subsidiaries of the Company is 25% for the year (2011: 25%).

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current — Mainland China | **9,514** | (23,537) |
| Current — Singapore | **40,165** | 27,593 |
| Current — Hong Kong and others | **–** | 1,543 |
| Deferred | **151,637** | 26,122 |
| Total income tax expense for the year | **201,316** | 31,721 |

A reconciliation of the income tax expense applicable to (loss)/profit before tax at the statutory rate to the income tax expense at the effective tax rate is as follows:

| | 2012 | 2011 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| (Loss)/profit before tax | **(25,478)** | 99,101 |
| Tax at entities' applicable statutory tax rates | **25,898** | (15,773) |
| Tax effect of: | | |
| Profit attributable to an associate | **(113)** | (580) |
| Income not subject to tax | **(6,113)** | (23,514) |
| Expenses not deductible for tax | **122,375** | 54,104 |
| Tax losses not recognised | **59,269** | 17,484 |
| Tax expense at the Group's effective rate | **201,316** | 31,721 |

## 8. DIVIDENDS

| | 2012 | 2011 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Interim — HK1 cent (2011: Nil) per ordinary share, paid | **18,785** | – |

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: Nil).

## 9. (LOSSES)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

### Basic

The calculation of the basic losses (2011: earnings) per share amounts is based on the loss (2011: profit) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,304,394,577 (2011: 2,304,031,807) in issue during the year.

### Diluted

Diluted losses per share for the year ended 31 December 2012 has not been disclosed, as the share options and convertible bonds outstanding had an anti-dilutive effect on the basic losses per share for the year.

The calculation of the diluted earnings per share amounts for the year ended 31 December 2011 is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the Zero Coupon Convertible Bonds, the 10% Coupon Convertible Bonds and the Term Loan with Warrants, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the weighted average number of the ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculation of diluted earnings per share for the year ended 31 December 2011 is based on:

| | 2011 |
|---|---|
| | *RMB'000* |
| **Earnings** | |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | 66,344 |
| Interest on the Zero Coupon Convertible Bonds | 1,085* |
| Interest on the 10% Coupon Convertible Bonds | 93,149* |
| Interest on the Term Loan with Warrants | 83,515* |
| Less: Gain on fair value adjustment of the derivative component of the 10% Coupon Convertible Bonds | (61,373*) |
| Gain on fair value adjustment of the Warrants | (61,670*) |
| | 121,050 |

| **Shares** | Number of shares 2011 |
|---|---|
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | 2,304,031,807 |
| Effect of dilution — weighted average number of ordinary shares: | |
| — Share options | 240,568 |
| — The Zero Coupon Convertible Bonds | 1,525,130* |
| — The 10% Coupon Convertible Bonds | 915,011,655* |
| — The Term Loan with Warrants | 232,188,211* |
| | 3,452,997,371 |

**2011**

| | **Earnings** | **Number of shares** |
|---|---|---|
| | *RMB'000* | |
| | 121,050 | 3,452,997,371 |
| Less the impact of: | | |
| — The Zero Coupon Convertible Bonds* | (1,085) | (1,525,130) |
| — The 10% Coupon Convertible Bonds* | (31,776) | (915,011,655) |
| — The Term Loan with Warrants* | (21,845) | (232,188,211) |
| Amount adjusted and used in the diluted earnings per share calculation | 66,344 | 2,304,272,375 |

* Since the impact of the dilution of the Zero Coupon Convertible Bonds, the 10% Coupon Convertible Bonds and the Term Loan with Warrants for the year 2011 was anti-dilutive, the amount presented for the diluted earnings per share for the year 2011 was the same as the basic earnings per share amount.

## 10. TRADE AND NOTES RECEIVABLES

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **83,174** | 110,722 |
| Notes receivable | **12,310** | 43,946 |
| Less: Provision for impairment of trade receivables | **(5,327)** | (6,376) |
| | **90,157** | 148,292 |

The Group's trading terms with its customers are mainly on credit, except for new customers and customers of limonitic ores, where payment in advance is normally required. The credit period is generally one to two months. During the year, the Group generated its revenue from sales of ore and special steel products to other steel producers, thereby exposing the Group to the concentration of credit risk in the steel industry. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing. The carrying amounts of trade and notes receivables approximate to their fair values.

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

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 90 days | **53,951** | 113,793 |
| 91 to 180 days | **25,131** | 18,251 |
| 181 to 365 days | **6,265** | 15,288 |
| Over 1 year | **10,137** | 7,336 |
| | **95,484** | 154,668 |
| Less: Provision for impairment of trade receivables | **(5,327)** | (6,376) |
| | **90,157** | 148,292 |

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

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **6,376** | 3,544 |
| Impairment losses recognised *(note 5)* | **1,318** | 2,832 |
| Impairment losses reversed *(note 5)* | **(2,367)** | – |
| At 31 December | **5,327** | 6,376 |

At 31 December 2012, included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB5,327,000 (2011: RMB6,376,000) with a carrying amount before provision of RMB5,327,000 (2011: RMB6,376,000). The individually impaired trade receivables relate to customers that were in financial difficulties.

The ageing analysis of trade and notes receivables that are neither individually nor collectively considered to be impaired is as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Neither past due nor impaired | **79,083** | 147,332 |
| Less than 90 days past due | **–** | – |
| 91 to 180 days past due | **–** | – |
| 181 to 365 days past due | **–** | – |
| Past due over 1 year | **11,074** | 960 |
| | **90,157** | 148,292 |

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

Receivables that were past due but not impaired relate to an independent customer that has a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of the balance as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

## 11. TRADE AND NOTES PAYABLES

| | | **2012** | 2011 |
|---|---|---|---|
| | *Note* | ***RMB'000*** | *RMB'000* |
| Trade payables | | **142,668** | 192,347 |
| Notes payable | *(a)* | **523,069** | 401,108 |
| | | **665,737** | 593,455 |

*Note:*

(a) At 31 December 2012, notes payable of RMB523,069,000 (2011: RMB401,108,000) were secured by a parcel of leasehold land in Mainland China with net carrying amounts of RMB3,548,000 (2011: RMB3,548,000) and time deposits amounting to RMB283,202,000 (2011: RMB216,135,000).

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

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 90 days | **261,312** | 310,563 |
| 91 to 180 days | **352,171** | 259,953 |
| 181 to 365 days | **22,837** | 12,462 |
| 1 to 2 years | **24,458** | 9,406 |
| 2 to 3 years | **4,538** | 18 |
| Over 3 years | **421** | 1,053 |
| | **665,737** | 593,455 |

The trade payables are unsecured, interest-free and are normally settled on terms of 60 to 180 days.

The carrying amounts of trade payables approximate to their fair values at the end of the reporting period.

## 12. DISPOSAL OF A SUBSIDIARY

On 19 December 2011, the Group entered into a relocation agreement with the Government of Luoyang City (the "Relocation Agreement") in relation to the relocation of Yongan Special Steel. On 20 February 2012, in order to implement the Relocation Agreement, the Group and the non-controlling shareholder of Yongan Special Steel entered into an equity transfer agreement with Luoyang Anhui Trading Services Center (Limited Liabilities Partnership) (洛陽安匯貿易服務中心(有限合夥)) ("Anhui Center"), a limited liability partnership nominated by the Government of Luoyang City, to dispose of the Group's entire shareholding of a 51% equity interest in Yongan Special Steel for a total consideration of RMB1 billion. In accordance with IFRS 5, as at 31 December 2011, the Group reclassified the assets and liabilities of Yongan Special Steel to a disposal group classified as held for sale in the Group's consolidated statement of financial position.

On 26 April 2012, the disposal of the 51% equity interest in Yongan Special Steel was completed. Therefore, as at 31 December 2012, the Group has no assets or liabilities of a disposal group classified as held for sale in the consolidated statement of financial position.

An analysis of the Group's gain on disposal of a subsidiary for the year ended 31 December 2012 is as follows:

| | 2012<br>*RMB'000* |
|---|---|
| Net assets disposed of: | |
| Property, plant and equipment | **245,624** |
| Prepaid land lease payments | **184,329** |
| Deferred tax assets | **78,073** |
| Inventories | **48,596** |
| Trade and notes receivables | **37** |
| Prepayments, deposits and other receivables | **10,267** |
| Cash and cash equivalents | **43** |
| Goodwill | **58,394** |
| Other non-current assets | **20,076** |
| Trade and notes payables | **(68,373)** |
| Other payables and accruals | **(56,358)** |
| Interest-bearing bank and other borrowings | **(142,569)** |
| Deferred tax liabilities | **(21,467)** |
| Other long term payables | **(6,480)** |
| Non-controlling interest | **(111,333)** |
| | **238,859** |
| Liabilities assumed by the Group in relation to relocation of Yongan Special Steel | **213,615** |
| Gain on disposal of a subsidiary | **547,526** |
| | **1,000,000** |
| Satisfied by: | |
| Cash | **380,000** |
| Other receivables | **620,000** |

| | |
|---|---|
| An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows: | |
| Cash consideration | **380,000** |
| Cash paid for settlement of liabilities in relation to relocation of Yongan Special Steel | **(133,999)** |
| Cash and bank balances disposed of | **(43)** |
| Net inflow of cash and cash equivalents included in cash flows from investing activities | **245,958** |

## 13. CONTINGENT LIABILITIES

At the end of the reporting period, certain subsidiaries are parties to various legal claims in their ordinary course of business. In the opinion of the Directors, the ultimate resolutions of these claims would not have a significant impact on the Group's results and financial position.

## 14. EVENTS AFTER THE REPORTING PERIOD

(a) On 21 January 2013, the Group signed a framework agreement on the disposal of its 30% equity interest in S.E.A.M to Beijing Wincapital Management Co., Ltd. (the "Investor") at a total consideration approximating to US$150 million (the "Framework Agreement").

Pursuant to the Framework Agreement, the Investor agreed to invest in S.E.A.M, through a limited partnership to be established with the Investor being the general partner and China Fortune International Trust Co., Ltd. ("China Fortune Trust") being the limited partner. The consideration will be paid by the Investor to the Group in three tranches. The Group has undertaken to the Investor that the Investor's annualised return in S.E.A.M will not be lower than 10%. In the event that the total annualised return falls below 10%, the Investor will be compensated in cash.

On the same date, China Fortune Trust provided a secured financing agreement in an amount of RMB200 million for a term of two years to the Group. According to the agreement, China Fortune Trust is entitled to a guaranteed financing return of 10% per annum.

Under the Framework Agreement, the first tranche investment will be paid by way of setting off the financing provided by China Fortune Trust or such other means as agreed between the parties to the Framework Agreement.

(b) In January, February and March 2013, the 6% Coupon Convertible Bonds with an aggregate principal of HK$136,750,000 (approximate to RMB110,728,000 aggregately) were converted to 235,755,830 ordinary shares of the Company at the conversion price of HK$0.58.

(c) Pursuant to a resolution passed in a Board meeting on 28 March 2013, the presentation currency of the financial statements of the Company for the year ending 31 December 2013 will be changed into Hong Kong dollar.

## MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING ENVIRONMENT ANALYSIS

Impacted by the debt crisis in the Euro Zone and the United States as well as the domestic macroeconomic policies, demand for the iron and steel in China in 2012 was sluggish. Prices of steel products dropped significantly and the falling rate was higher than that of raw materials and fuels. Besides, the commodity prices of iron ores experienced great fluctuation in 2012 due to the high uncertainty in the global economy and the potential slowdown of China's economy. Since July 2012, the commodity price of iron ore has experienced a substantial downfall of almost 30%. The price was stablised in November 2012. Close to the end of 2012, in a hope of new stimulus policies to be launched by the new leadership of China, the market became less pessimistic and both the commodity prices of iron ore and the prices of steel products rebounded.

We expect the global economy will begin to stablise in 2013 and the economy of China will continue its healthy growth trend under the new leadership of China. We also expect that the commodity prices of iron ores and prices of steel products will be more stable in 2013 that our ore trading and steel making businesses will have a better environment to flourish.

According to the "Twelfth Five-Year Plan", the development of China's steel industry will focus on efficiency, which includes low energy consumption, low carbon, low emission, high recycle rate and high value-added product outputs. Domestic markets will become quality-oriented, which will impose higher requirements on products in terms of environmental-friendliness, safe and durability, sustainability and recycling. It is expected that quantitative demand for high quality steel products will increase significantly, and product development will incline to the high-end market. To capture these business opportunities, our Group has shifted to the production of high quality iron and steel products through the application of more environmental-friendly production method. The Directors believe that the Group is progressing in the right direction and the demand and market shares of our special steel, alloy steel and stainless steel products will increase in the future.

## BUSINESS REVIEW

### Project Progress

In China, Lianyungang City East Harvest Mining Company Limited ("East Harvest Mining"), a subsidiary of the Company, commenced the construction of a new production plant in 2009. The first production line of Lianyungang project started small scale commercial production in the second half year of 2012. The plant produces nickel fine powder. This product can be treated as finished product for direct sales; alternatively, it can be treated in a blast furnace and possessed into nickel-iron alloy fluid, which becomes a high-quality raw material for the production of stainless steel. The Lianyungang project applies low carbon metallurgical technology developed by the Group. Ordinary coal, rather than coke used in traditional process, is used in the reduction purification process, under which the consumption of carbon may decrease by up to 40%. In addition, the plant can utilise low grade nickel ore for production, the cost of which is much lower than that used in traditional production process. The project is highly recognised by the local government. Moreover, the plant is situated at the Lianyungang port and benefits from geographical advantages. Ores and other raw materials from overseas can be conveniently transported to the plant, largely reducing the inland transportation costs and logistics pressure. This project will play an important role in the Group's development of an operating mode with high efficiency and low costs.

In Indonesia, PT. Mandan Steel, our wholly owned subsidiary incorporated in Indonesia, is our future processing and manufacturing arm in overseas. PT. Mandan Steel is also recognized as a key iron and steel mill construction project of Indonesia with strong support from the Indonesian central government, and offers manufacturing capability that is valuable considering the new mining regulations in Indonesia. PT. Mandan Steel has signed a shareholders agreement with a local business partner in connection with the subscription of existing shares of PT. Batulicin Steel (a limited liability company in Indonesia held as to 61% by PT. Mandan Steel and 39% by the local partner) for the development of the iron and steel mill, whose ground breaking was hosted in July 2012. Given there is strong demand for steel products in Indonesia, PT. Batulicin Steel will produce steel bar for concrete reinforcement to capture the market opportunities in Indonesia. This processing facility can save shipping fee, loading and unloading charges and inland port charges. PT. Batulicin Steel is to be constructed in three stages. The Stage 1 development is facilitated and based on the overall relocation of the equipment from Luoyang Yongan Special Steel Company Limited ("Yongan Special Steel"), a former wholly owned subsidiary of the Company. To ensure high quality, environmental protection, energy efficiency and low production cost, new equipment will be added to existing equipment and some existing facilities will be modified. The goal is to complete the Stage I development by 2014. The existing facility of Yongan Special Steel is capable of producing 360,000 tonnes of hot molten iron, 360,000 tonnes of steel and hot steel rolling capacity of 700,000 tonnes. For Stage 1 development, the expected capital expenditure is approximately US$150 million and of which approximately US$90 million will be contributed by the Group by way of cash and Yongan Special Steel's equipment.

**Business Development**

The Group purchases ore from Indonesia through exclusive offtake agreement at fixed price for self-use or sales, and has started selling ore to third parties since the end of 2009. The ore trading business had a remarkable growth in the past few years due to continuous strong demand from the PRC customers.

During the year ended 31 December 2012, the Group's ore trading business faced two unexpected obstacles. Firstly, on 7 May 2012, the Minister of Trade of the Republic of Indonesia ("Indonesia") promulgated the Regulations Concerning Provisions of Mining Product Export No. 29/M-DAG/PER/5/2012 ("Regulation No. 29"), pursuant to which all mine owners in Indonesia are required to obtain certain approvals from the relevant Indonesian governmental authorities before they can continue to export ores. Pursuant to Regulations No. 574.K/30/DJB/2012 dated 11 May 2012 promulgated by the Directorate General of Mineral and Coal ("Regulation No. 574") regarding the procedures and regulations on recommendation for ores export, all mine owners in Indonesia need to obtain the ore exporter status (the "Status Approval") and an ore export approval (the "Export Approval") in respect of the ores being exported. Accordingly, the export of iron-nickel ores from Yiwan Mining, our major ore supplier, had been temporarily suspended since 7 May 2012. Yiwan Mining obtained the Status Approval and the Export Approval on 13 June 2012 and 27 June 2012, respectively. The export of the iron-nickel ores from Yiwan Mining to the Company was resumed on 6 July 2012. However, according to the recommendation letter issued by the Minister of Mineral and

Coal on 25 June 2012 to the Minister of Commerce which granted the Export Approval to Yiwan Mining, the export price of iron-nickel ores to be sold by Yiwan Mining to the Group shall be US$23.5 per tonne (excluding the Export Tax (as defined below)) (the "New Export Price") instead of the original price of US$16 per tonne. In addition, on 16 May 2012 the Ministry of Finance of Indonesia (the "MOF") also promulgated the Regulations Concerning Determination of Goods Subject to Export Tax and Tariff of the Export Tax No. 75/PMK.011/2012, pursuant to which a 20% export tax (the "Export Tax") would be imposed on 65 types of mineral exporting from Indonesia, including the iron-nickel ores exported from Yiwan Mining to the Group. The Export Tax is calculated based on the base price published by the MOF periodically. In addition, from July to October of 2012, the commodity prices of iron ore dropped significantly due to investors were worry about the potential slowdown in China's economy and the overstock issue of China ore traders. During these months, the commodity prices of iron ore had fallen around 30% that the Group had temporarily halt the ore trading. Due to the above factors, both the revenue and quantity of our ore trading business fell short of our original expectation.

For 2013, the Directors are cautiously optimistic about our ore trading business as the commodity price of iron ore has been rebound significantly since November 2012 and the market sentiment of steel making industry in China has improved since the year end of 2012. The Group will continue to develop relationship with up and down-stream trading partners to expand the resources trading business in order to bring a steady growth of revenue.

For the steel making operations of the Group, both the sales volume and profit margins of stainless steel base materials and Ni-Cr alloy steel ingot shrunk significantly during the year as a result of the weak demand and intense competition in China. While we expect the keen competition in China will continue in 2013, the demand for steel products will gradually pick up. The Group is actively developing new high value-added steel products and identifying overseas markets with growth potentials to strengthen our product portfolio and reduce market concentration risk.

**Disposal of equity interests in Yongan Special Steel**

In accordance with the policy of relocating iron and steel enterprises out from the urban areas under the "Twelfth Five Year Plan" of China and as part of Luoyang City's development planning policy, the Government of Luoyang City has arranged the relocation of Yongan Special Steel ("Relocation Plan"). Pursuant to the Relocation Plan, the Government of Luoyang City will pay various fees in an aggregate amount of RMB1 billion (the "Consideration") to Yongtong Special Steel for its equity interests in Yongan Special Steel. The equity interests of Yongan Special Steel had been transferred to a company designated by the Government of Luoyang City and the relocation of Yongan Special Steel was completed in 2012.

The Group's gain on disposal of equity interests in Yongan Special Steel before income tax was amounted to RMB547.5 million and have been reflected in the consolidated income statement for the year ended 31 December 2012. As of the date of this announcement, the Group has received RMB430 million from the Government of Luoyang City. The Directors expect that the remaining amount of the Consideration will be received in 2013.

**Financing Arrangement**

On 8 May 2012, the Company made available to eligible holders of the 10% Coupon Convertible Bonds due 2012 ("10% Convertible Bonds") an exchange offer (the "Exchange Offer"). The Company invited the eligible holders of the 10% Convertible Bonds to tender their 10% Convertible Bonds (subject to a minimum of HK$100,000 or an integral multiple of HK$100,000 in excess thereof) for exchange by the Company for the New Senior Bonds and New Convertible Bonds ("New Bonds"). For each HK$100,000 in principal amount of 10% Convertible Bonds validly tendered in the Exchange Offer and accepted for exchange by the Company, the Company would deliver to eligible holders:

— New Senior Bonds in a principal amount of HK$75,000 ("New Senior Bonds") for each 10% Convertible Bond of principal amount HK$100,000 to be delivered on the settlement date; and

— New Convertible Bonds in a principal amount of HK$25,000 ("6% Convertible Bonds") for each 10% Convertible Bond of principal amount HK$100,000 to be delivered on the settlement date.

The Company have completed the Exchange Offer to the bondholders and the 10% Convertible Bonds in the amount of HK$1,303,300,000 (representing approximately 97.87% of the aggregate outstanding principal amount of the Existing Bonds) were tendered and accepted for exchange by the Company pursuant to the Exchange Offer and were exchanged for the New Bonds comprising the New Senior Bonds in the principal amount of HK$977,475,000 and the New Convertible Bonds in the principal amount of HK$325,825,000 and the New Bonds were issued by the Company on 12 June 2012. The 10% Convertible Bonds in the amount of HK$28,400,000 which were not tendered for exchange pursuant to the Exchange Offer remained outstanding subject to the terms and conditions as amended pursuant to the Extraordinary Resolution of the holders of the 10% Convertible Bonds approved on 31 May 2012.

Besides, on 2 December 2010, the Company and Asia Equity Value Limited ("Asia Equity") entered into an agreement in connection with a USD loan facility in an amount equivalent to RMB330 million (equivalent to approximately HK$384 million) and the issue of warrants to the lender (the "Term Loan with Warrants"). The term of the facility is two years. The Term Loan with Warrants was fully settled in December 2012.

In addition, the Group has been actively negotiating with PRC and overseas banks and institutional investors for new borrowings and the renewal of existing borrowings when those borrowings fall due. During the year, the Group has successfully obtained short-term bank borrowings of RMB550 million from a PRC bank and a new credit facilities of RMB63 million from an overseas bank. Based on our management's past experience, the Group did not encounter any significant difficulties in renewing the borrowings.

Last but not least, on 21 January 2013, the Group has also entered into a framework agreement with a potential investor for the disposal of 30% equity interests of S.E.A. Mineral Limited, a wholly-owned subsidiary of the Group, for an aggregate consideration of US$150 million. The transaction is expected to be competed in 2013.

The Group believes that the above financing arrangements can improve the financial position of the Group and lay a solid foundation for our business expansion.

**Turnover and sales volume**

Major products of the Group were stainless steel base materials, Ni-Cr alloy steel ingot, ferro-nickel alloys and limonitic ores. The table below sets out the turnover and sales volume of our products for the years indicated:

*Turnover*

| | **For the year ended 31 December 2012** | | For the year ended 31 December 2011 | |
|---|---|---|---|---|
| | ***RMB'000*** | **%** | *RMB'000* | % |
| Stainless steel base materials | **307,371** | **21%** | 928,527 | 36% |
| Ni-Cr alloy steel ingot | **113,775** | **8%** | 309,081 | 12% |
| Ferro-nickel alloys and others | **131,930** | **9%** | 81,052 | 3% |
| Limonitic ores | **914,501** | **62%** | 1,269,119 | 49% |
| Total | **1,467,577** | **100%** | 2,587,779 | 100% |

*Sales volume*

| | **For the year ended 31 December 2012** | | For the year ended 31 December 2011 | |
|---|---|---|---|---|
| | ***(tonnes)*** | **%** | *(tonnes)* | % |
| Stainless steel base materials | **46,328** | **2%** | 108,603 | 3% |
| Ni-Cr alloy steel ingot | **13,469** | **1%** | 39,419 | 1% |
| Ferro-nickel alloys and others | **29,296** | **1%** | 20,869 | 1% |
| Limonitic ores | **2,443,447** | **96%** | 3,518,582 | 95% |
| Total | **2,532,540** | **100%** | 3,687,473 | 100% |

The Group's turnover in 2012 decreased by RMB1,120.2 million, or 43.3%, to approximately RMB1,467.6 million (2011: RMB2,587.8 million). The decrease was primarily due to the decrease in trading of limonitic ores and sales of stainless steel base materials and Ni-Cr alloy steel ingot.

During the year, the Group's ore trading business experienced unexpected significant fluctuation due to:

— In the first four months of 2012, the ore trading business showed a promising growth in trading volume and selling price when compared to the same period in 2011 due to the hike in commodity price of iron ore as a result of strong demand in China;

— On 7 May 2012, the Minister of Trade of the Republic of Indonesia ("Indonesia") promulgated the Regulation No. 29, pursuant to which all mine owners in Indonesia are required to obtain certain approvals from the relevant Indonesian governmental authorities before they can continue to export ores. Pursuant to Regulations No. 574, all mine owners in Indonesia need to obtain the Status Approval and the Export Approval in respect of the ores being exported. Accordingly, the export of iron-nickel ores from Yiwan Mining, our major ore supplier, had been temporarily suspended since 7 May 2012. Yiwan Mining obtained the Status Approval and the Export Approval on 13 June 2012 and 27 June 2012, respectively. The export of the iron-nickel ores from Yiwan Mining to the Company was resumed on 6 July 2012. However, according to the recommendation letter issued by the Minister of Mineral and Coal on 25 June 2012 to the Minister of Commerce which granted the Export Approval to Yiwan Mining, the export price of iron-nickel ores to be sold by Yiwan Mining to the Company shall be the New Export Price instead of the original price of US$16 per tonne. In addition, the Export Tax of 20% would be imposed on the iron-nickel ores exported from Yiwan Mining to the Group. The Export Tax is calculated based on the base price published by the MOF periodically. Due to adoption of the Export Tax and New Export Price since July 2012 and the drop in commodity price of iron ore in the second half of 2012, the profit margin of ore trading shrunk significantly;

— From July to October of 2012, the global commodity market worsen due to investors were worry about the potential slowdown in China's economy and the overstock issue of China ore traders. During these months, the commodity prices of iron ore had fallen by around 30% that the Group had temporarily halt the ore trading;

— In November and December 2012, the global commodity market had been stablised due to market's expectation on further stimulus policies to be launched by the new China leadership. The commodity price rebound significantly since November 2012.

Due to the significant changes in market environment in 2012, both the revenue and quantity of our ore trading business fell short of our original expectation.

In addition, as a result of the weak demand and intense market competition in China, both the sales volume and profit margins of stainless steel base materials and Ni-Cr alloy steel ingot shrunk significantly during the year.

The Group's sales volume of stainless steel base materials and Ni- Cr alloy steel ingot in 2012 decreased by approximately 62,275 tonnes and 25,950 tonnes, or 57.3% and 65.8%, to approximately 46,328 tonnes and 13,469 tonnes respectively (2011: 108,603 tonnes and 39,419 tonnes). The Group's sales volume of limonitic ores in 2012 decreased by approximately 1.1 million tonnes, or 30.6% to approximately 2.4 million tonnes (2011: 3.5 million tonnes). During 2012, the Group's average selling price per tonne for stainless steel base materials and Ni-Cr alloy steel ingot were RMB6,635 (2011: RMB8,550) and RMB8,447 (2011: RMB7,841) respectively while the average unit selling price per tonne for limonitic ores was RMB374 (2011: RMB361).

**Cost of sales**

The cost of sales in 2012 decreased by RMB931.3 million, or 41.2%, to approximately RMB1,327.3 million (2011: RMB2,258.6 million). The decrease in cost of sales is in line with the decrease in turnover of 43.3%.

The unit cost of sales for stainless steel base materials and Ni-Cr alloy steel ingot were RMB7,345 and RMB9,709 per tonne respectively in 2012 (2011: RMB8,561 and RMB7,245 per tonne respectively). The unit cost of limonitic ores in 2012 increased by RMB33 per tonne, or 12.7%, to RMB293 per tonne (2011: RMB260 per tonne).

The table below shows a breakdown of our costs of sales for the year:

| | **For the year ended 31 December 2012** | | For the year ended 31 December 2011 | |
|---|---|---|---|---|
| | ***RMB'000*** | *%* | *RMB'000* | *%* |
| Raw materials | **987,388** | **74%** | 1,587,097 | 70% |
| Fuel | **153,940** | **12%** | 407,997 | 18% |
| Utilities | **56,148** | **4%** | 110,238 | 5% |
| Depreciation | **80,961** | **6%** | 91,080 | 4% |
| Staff costs | **34,461** | **3%** | 38,519 | 2% |
| Others | **14,365** | **1%** | 23,624 | 1% |
| Total | **1,327,263** | **100%** | 2,258,555 | 100% |

## Gross profit

The unit gross (losses)/profits for stainless steel base materials and Ni-Cr alloy steel ingot in 2012 were RMB(710) and RMB(1,262) per tonne respectively (2011: unit gross loss of RMB11 and gross profit of RMB596 per tonne respectively). The unit gross loss margin of these products was mainly due to decrease in selling price as a result of weak steel demand in China. The unit gross profit for limonitic ores in 2012 was RMB81 per tonne (2011: unit gross profit of RMB101 per tonne). Decrease in the unit gross profit for limonitic ores in 2012 was primarily due to adoption of Export Tax and New Export Price since July 2012.

As a result of the factors discussed above, the Group's gross profit decreased from RMB329.2 million in 2011 to RMB140.3 million in 2012.

## Other income and gains

Other income and gains in 2012 increased by RMB405.5 million to RMB565.1 million (2011: RMB159.6 million). Such increase was mainly attributable to the gain on disposal of Yongan Special Steel amounted to RMB547.5 million. In 2011, there was a decrease in fair value of financial liabilities of RMB123.0 million which was absent in 2012.

## Selling and distribution expenses

Selling and distribution expenses in 2012 decreased by RMB27.7 million to RMB15.6 million (2011: RMB43.3 million), representing 1.1% of turnover (2011: 1.7%). Decrease in selling and distribution expenses was in line with decrease in sales of steel products during the year.

**Administrative expenses**

Administrative expenses in 2012 increased by RMB67.7 million, or 52.3%, to RMB197.1 million (2011: RMB129.4 million), representing 13.4% of turnover (2011: 5.0%). The increase in administrative expenses was mainly due to increase in the costs of testing our new production lines in Lianyungang.

**Finance costs**

According to relevant International Financial Reporting Standards ("IFRS"), estimated future cash flow for the convertible bonds and Term Loan with Warrants were discounted at effective interest rates. Therefore, the deemed effective interest included both coupon payment and financial charges accrued for redemption in the future. The total financial charges for convertible bonds, New Senior Bonds and Term Loan with Warrants based on effective interest method amounted to RMB312.1 million in 2012 (2011: RMB409.2 million), of which RMB77.2 million was capitalised as part of the cost of construction in progress. Finance costs charged to the consolidated income statement in 2012 was RMB289.1 million (2011: RMB205.1 million).

Increase in finance costs charged to the consolidated income statement in 2012 was mainly due to the cessation of capitalization of finance costs for our Lianyungang project in the second quarter of 2012 as the construction of the project was nearly completed.

**Other expenses**

Other expenses in 2012 increased by RMB214.3 million, or 1,384.2%, to RMB229.8 million (2011: RMB15.5 million). The significant increase in other expenses was mainly due to the loss on cancellation of warrants issued to Asia Equity of RMB63.1 million and the impairment of certain property, plant and equipment in our PRC production plants of RMB123.1 million.

**(Loss)/profit before tax**

As a result of the factors discussed above, the loss before tax for the year ended 31 December 2012 was RMB25.5 million (2011: profit of RMB99.1 million).

The Group's loss before tax margin was 1.7% (2011: profit before tax margin 3.8%). The earnings before interest, tax, depreciation and amortisation (EBITDA) margin was 29.4% (2011: 18.6%).

**Income tax expense**

The applicable Hong Kong corporate income tax rate of the Company and its subsidiaries which operate in Hong Kong is 16.5% based on existing legislation. The entities within the Group which operate in China, Singapore and Indonesia are subject to corporate income tax at a rate of 17% to 25% for the year ended 31 December 2012.

**(Loss)/profit for the year and (loss)/profit attributable to shareholders**

As a result of the factors discussed above, the Group's 2012 loss for the year was RMB226.8 million (2011: profit of RMB67.4 million) and the 2012 loss attributable to shareholders was RMB225.6 million (2011: profit of RMB66.3 million).

*Key financial ratios*

| | | For the year ended 31 December | |
|---|---|---|---|
| | *Notes* | **2012** | 2011 |
| Current ratio | *1* | **80%** | 69% |
| Inventory turnover days | *2* | **157 days** | 93 days |
| Debtor turnover days | *3* | **22 days** | 21 days |
| Creditor turnover days | *4* | **183 days** | 96 days |
| Interest cover | *5* | **0.9 times** | 1.5 times |
| Interest-bearing gearing ratio | *6* | **55%** | 47% |
| Debt to EBITDA ratio | *7* | **4.2 times** | 3.4 times |
| Net debt/Capital and net debt ratio | *8* | **43%** | 40% |

*Notes:*

1. current asset/current liabilities x 100%

2. $\dfrac{\text{Inventories}}{\text{Cost of sales}} \times 365 \text{ days}$

3. $\dfrac{\text{Trade and notes receivables}}{\text{Turnover}} \times 365 \text{ days}$

4. $\dfrac{\text{Trade and notes payables}}{\text{Cost of sales}} \times 365 \text{ days}$

5. $\dfrac{\text{Profit before interest and tax}}{\text{Net interest expense}}$

6. $\dfrac{\text{Interest-bearing loans and other borrowings (including convertible bonds)}}{\text{Equity attributable to the owners of the parent}} \times 100\%$

7. $\dfrac{\text{Interest-bearing loans and other borrowings (including convertible bonds)}}{\text{EBITDA}}$

8. $\dfrac{\text{Net debt}}{\text{Capital and net debt}} \times 100\%$

**Property, plant and equipment**

Property, plant and equipment as at 31 December 2012 mainly comprised plant and machinery, buildings and construction in progress. The decrease in balance to RMB2,087.3 million (2011: RMB2,108.8 million) was mainly due to the depreciation charges for the year and impairment of plant and equipment of RMB123.1 million offset by the purchase costs and finance costs for the addition of new production facilities in the production plant of East Harvest Mining during the year.

**Intangible asset**

The intangible asset solely represents the unamortised amount of the exclusive offtake right from Yiwan Mining secured by the Group in May 2007. The decrease in the balance during the year was due to amortisation for the year based on the unit of purchase method and the exchange realignment.

**Inventories**

The inventory turnover days increased from 93 days in 2011 to 157 days in 2012. As at 31 December 2012, inventories balance decreased by RMB3.8 million, or 0.7%, to RMB569.2 million (2011: RMB573.0 million). These was no significant change in inventory level.

**Trade and notes receivables**

The debtor turnover days increased from 21 days in 2011 to 22 days in 2012. As at 31 December 2012, trade and notes receivables balance decreased by RMB58.1 million, or 39.2%, to RMB90.2 million (2011: RMB148.3 million). The decrease in trade and notes receivables was in line with decrease in sales.

**Cash and cash equivalents and pledged time deposits**

The cash and bank balances increased by approximately RMB157.0 million, or 46.9%, to approximately RMB491.4 million as at 31 December 2012 when compared to that as at 31 December 2011. It was mainly due to the net cash inflow generated from operating activities of approximately RMB222.8 million and net increase in bank and other borrowings of RMB149.1 million, offset by the interest payment of RMB188.3 million.

**Trade and notes payables**

The creditor turnover days increased from 96 days in 2011 to 183 days in 2012. As at 31 December 2012, trade and notes payables balance increased by RMB72.2 million, or 12.2%, to RMB665.7 million (2011: RMB593.5 million). This was mainly due to management used more bank bills for settlement of purchases. These bank bills were generally on terms of 90 to 180 days.

**Convertible bonds**

The Company have completed the Exchange Offer to the bondholders and the Existing Bonds in the amount of HK$1,303,300,000 (representing approximately 97.87% of the aggregate outstanding principal amount of the Existing Bonds) were tendered and accepted for exchange by the Company pursuant to the Exchange Offer and were exchanged for the New Bonds comprising the New Senior Bonds in the principal amount of HK$977,475,000 and the New Convertible Bonds in the principal amount of HK$325,825,000 and the New Bonds were issued by the Company on 12 June 2012. The Existing Bonds in the amount of HK$28,400,000 which were not tendered for exchange pursuant to the Exchange Offer remained outstanding subject to the terms and conditions as amended pursuant to the Extraordinary Resolution of the holders of the Existing Bonds approved on 31 May 2012.

Decrease in the convertible bonds balance was mainly attributable to the Existing Bonds in the principal amount of HK$977,475,000 were exchanged into New Senior Bonds pursuant to the Exchange Offer.

**Bank and other borrowings**

As at 31 December 2012, total bank and other borrowings balance increased by RMB1,176.4 million, or 250.0%, to RMB1,646.9 million (2011: RMB470.5 million) was mainly attributable to the Existing Bonds in the principal amount of HK$977,475,000 were exchanged into New Senior Bonds pursuant to the Exchange Offer. As at 31 December 2012, the amortised cost of the outstanding New Senior Bonds was RMB766.5 million. The gearing ratio increased from 47% in 2011 to 55% in 2012.

**Non-current assets/liabilities held for sale**

As at 31 December 2011, the non-current assets/liabilities held for sale represent the assets and liabilities of Yongan Special Steel reclassified from various financial statements line items in compliance with the relevant IFRSs. Since the disposal was completed in 2012, these assets and liabilities were included as part of the costs of disposal.

**Liquidity and capital resources**

Our working capital has been principally sourced from cash generated from operations and from long-term and short-term borrowings. We also utilise advances received from our customers to finance part of our working capital requirements. As at 31 December 2012, the advances from customers amounted to RMB265.2 million.

As at 31 December 2012, we had current liabilities of RMB2,477.5 million, of which RMB1,262.8 million were bank and other borrowings repayable within one year and RMB665.7 million were trade and notes payables in respect of purchase of raw materials.

**Foreign currency risk**

Since 2004, the Group has begun the purchase of iron ore from overseas suppliers. The Group's purchase and sales contracts of ore trading business are principally denominated in USD and purchase and sales of iron and steel products are mainly denominated in RMB. As at 31 December 2012, apart from the convertible bonds, the New Senior Bonds and intangible asset which are denominated in HKD, HKD and USD, respectively, other assets and liabilities of the Group are mainly denominated in RMB. Since RMB against USD and HKD is in a favourable trend in recent years, no hedging of foreign currency risk is considered necessary at the moment. However, the Group will closely monitor the foreign currency risk and consider to use necessary financial instruments for hedging purposes.

As at 31 December 2012, the Group did not enter into any hedging transactions to manage the potential fluctuation in foreign currency as the Directors considered the Group had no significant foreign currency risk.

**Security**

As at 31 December 2012, the Group had following assets being pledged: (1) certain parcels of the Group's leasehold lands situated in the PRC with the carrying amounts of RMB125.8 million and building and plant and machinery with net carry amounts of RMB47.2 million were secured for bank loans granted to certain of the Group's subsidiaries of RMB100.0 million (2011: RMB130.0 million); and (2) the Exclusive Offtake Agreement with Yiwan Mining and USD bank deposits of RMB93.4 million were secured for the New Bonds issued by the Company in June 2012.

**Capital commitment**

As at 31 December 2012, the Group had capital commitments in the amount of approximately RMB237.9 million.

## CONCLUSION AND PROSPECTS

2012 was a year full of unpredictability and challenges for the Group. Both our ore trading business and steel making business were hindered by some unexpected unfavorable factors. However, with the combined efforts of all our employees, the Group sailed through the storms.

During the year, the Group has completed the relocation of Yongan Special Steel smoothly. The cash received from the disposal of Yongan Special Steel's equity interests has significantly improved the Group's working capital and financial position. Although the ore trading business of the Group had been troubled by a couple of unexpected unfavourable factors, it still made a significant contribution to our Group's profitability and cash flows.

We expect the global economy will begin to stablise in 2013 and the economy of China will continue its healthy growth trend under the new leadership of China. We also expect that the commodity prices of iron ores and prices of steel products will be more stable in 2013 that our ore trading and steel making businesses will have a better environment to flourish.

In a longer term, China will continue its modernization and urbanization that the demand of high quality steel products for public infrastructure and equipment manufacturing will increase steadily. This definitely will bring enormous business opportunities for our Group.

According to the plan of management, the 2013 sales targets of the Group are as follows:

*Sales targets*

| | **2013 Product Weight** *(tonnes)* |
|---|---|
| Iron and steel products | 200,000 |
| Trading of ores | 5,000,000 |

In the next five years, the Group will try our best to achieve the following three goals:

1. Complete the technology industrialisation and commence commercial production of Lianyungang East Harvest Mining to achieve an annual production capacity of 20,000 tonnes nickel products.

2. Complete the facility upgrade of Yongtong Special Steel to achieve an annual production capacity of 500,000 tonnes special steel products.

3. Complete the construction of the first and second phrases of our Indonesia steel mill to achieve an annual production capacity of 1.5 million tonnes steel products.

We believe that after the technology industrialization and commercial production of our Lianyungang plant, facility upgrade of Yongtong Special Steel and the completion of our Indonesia steel mill, the Group will have a stronger competitive advantage in the industry. With greater flexibility and effective execution, we are confident to continue to be a major player in this highly competitive market.

## EMPLOYEES REMUNERATION POLICY

As at 31 December 2012, the Group had approximately 3,500 employees, of whom 30 were management personnel.

The remuneration policy of the Group to reward its employees and Executive Directors is based on their performance, qualifications, competence displayed, market comparables and the performance of the Group. Remuneration packages typically comprise salary, housing allowances, discretionary bonus, other fringe benefits and the Group's contribution to retirement benefits schemes. The remuneration of Executive Directors/senior management are determined by the Remuneration Committee which will review them regularly. The Company has adopted a share option scheme to provide incentive to the relevant participants, including the Directors and eligible employees.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

## EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT

The auditor of the Company included a section of "Emphasis of Matters" in their independent auditor's report, the details of which are set out as follows:

Without qualifying our opinion, we draw attention to note 2.1 to the financial statements which indicates that as of 31 December 2012, the Group's and the Company's current liabilities exceeded its current assets by RMB500,093,000 and RMB296,950,000, respectively. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the Group's and the Company's ability to complete the disposal of 30% equity interest in S.E.A. Mineral Limited timely, extend its short-term borrowings upon maturity, obtain long-term financing facilities to re-finance its short-term liabilities, and derive adequate operating cash flows from its existing operations in order for the Group and the Company to meet its financial obligations as and when they fall due and to finance its future working capital and financial requirements. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE ("CG CODE")

The Directors recognise the importance of good corporate governance in the management of the Group. During the three months ended 31 March 2012, the Company complied with the code provisions of the Code on Corporate Governance Practices as set out in the then Appendix 14 to the Listing Rules and during the nine months from 1 April 2012 to 31 December 2012, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, except for the following deviations:

### (1) Code Provision A.1.1

During the year, the Board convened a total of thirteen meetings (two of which were regular meetings), performing its duties in considering, inter alia, continuing connected transactions and financial and other matters under the provisions of the articles of association of the Company. Only two regular board meetings were held as the Company is not required under the Listing Rules to announce its results quarterly.

### (2) Code Provision A.2.1

The Executive Director, Mr. Dong Shutong, served as the Chairman and Chief Executive Officer of the Company. The Chairman is responsible for overseeing the Company's operations in respect of compliance with both internal rules and statutory requirements, and promoting the corporate governance of the Company. The Company did not appoint another individual to act as the Chief Executive Officer for the year ended 31 December 2012 and up to the date of this report. This constitutes a deviation from code provision A.2.1. The Board believes that it is in the best interests of the Company and the shareholders as a whole since Mr. Dong Shutong is knowledgeable in the business of the Group and possesses the essential leadership skills to guide discussions of the Board.

Important decision-making and the day-to-day management of the Company are carried out by all of the Executive Directors. Although the roles of the Chairman and the Chief Executive Officer of the Company are not segregated, the functions of the chief executive were carried out by all of the Executive Directors collectively.

The Board considered that the Group's prevailing structures and systems met the code provisions in the CG Code. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

**(3) Code Provision A.4.1**

Under code provision A.4.1, Non-executive Directors should be appointed for a specific term. Except for Mr. Fahmi Idris, Independent Non-executive Director, who was appointed for a term of three years, Mr. Yang Tianjun, Non-executive Director and the remaining Independent Non-executive Directors including Mr. Bai Baohua, Mr. Huang Changhuai and Mr. Wong Chi Keung were not appointed for a specific term. This constitutes a deviation from code provision A.4.1. However, according to the articles of association of the Company, one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting and the Directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practice in this respect is in line with that provided in the CG Code.

**(4) Code Provision A.6.7**

Under code provision A.6.7, Independent Non-executive Directors and other Non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. One Non-executive Director and one member of the Independent Non-executive Directors of the Company were unable to attend the annual general meeting of the Company held on 22 June 2012 (the "2012 AGM").

**(5) Code Provision E.1.2**

Under code provision E.1.2, the Chairman of the Board should invite the Chairman of the Audit Committee, the Remuneration Committee and the Nomination Committee to attend and answer questions at the annual general meeting. The Chairman of the Remuneration Committee was unable to attend the 2012 AGM.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code for securities transactions by Directors. Having made specific enquiries, the Company has confirmed that all Directors have compiled with the requirements set out in the Model Code.

## BOARD COMMITTEES

The Board has established Audit Committee, Remuneration Committee and Nomination Committee (collectively "Board Committees") with defined terms of reference. The terms of reference of the Board Committees are posted on the websites of the Company and the Stock Exchange of Hong Kong Limited ("Stock Exchange").

The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

## AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors, and Mr. Wong Chi Keung serves as the chairman of the Audit Committee.

The Audit Committee has reviewed the auditing performance, the internal controls and the audited financial statements of the Company for the year ended 31 December 2012.

## REMUNERATION COMMITTEE

The Remuneration Committee of the Company was established on 10 April 2006 and comprises one Executive Director and three Independent Non-executive Directors. The members of the Remuneration Committee are: Mr. Dong Shutong, Mr. Bai Baohua, Mr. Huang Changhuai and Mr. Wong Chi Keung. Mr. Huang Changhuai serves as the chairman of the Remuneration Committee.

## NOMINATION COMMITTEE

The Nomination Committee was established on 30 December 2011 and is chaired by Mr. Dong Shutong, an Executive Director. Other members of the Nomination Committee are Mr. Bai Baohua, Mr. Huang Changhuai and Mr. Wong Chi Keung, who are Independent Non-executive Directors.

## PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This announcement will be published on the Company's website (ir.cnrholdings.com) and Stock Exchange's website (www.hkexnews.hk). The full Annual Report for the year ended 31 December 2012 containing all the information required by the Listing Rules will be published on the websites of the Company and the Stock Exchange and despatched to the shareholders of the Company in due course.

By order of the Board
**China Nickel Resources Holdings Company Limited**
**Dong Shutong**
*Chairman*

Hong Kong, 28 March 2013

*At the date of this announcement, the executive directors of the Company are Mr. Dong Shutong (Chairman), Ms. Ng See Wai Rowena, Mr. Chiang Shyh-yi, Mr. Song Wenzhou, Mr. Dong Chengzhe and Mr. Yang Fei; the non-executive director of the Company is Mr. Yang Tianjun; and the independent non-executive directors of the Company are Mr. Bai Baohua, Mr. Huang Changhuai, Mr. Wong Chi Keung and Mr. Fahmi Idris.*