中國鎳資源控股有限公司

# CHINA NICKEL RESOURCES HOLDINGS COMPANY LIMITED

*(incorporated in the Cayman Islands with limited liability)*

Stock code : 2889

# 2010 Interim Report

# Global Operations


| | | | |
|---|---|---|---|
| 1 | Zhengzhou Office | 6 | Hong Kong Office |
| 2 | Luoyang Plant | 7 | Singapore Office |
| 3 | Gongyi Plant 1 | 8 | Jakarta Office |
| 4 | Gongyi Pilot Plant 2 | 9 | Mine in South Kalimantan (exclusive off-take right) |
| 5 | New Plant in Lianyungang | 10 | Plant in South Kalimantan (to be built) |

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# Corporate Information

## BOARD OF DIRECTORS

### Executive directors

Mr. Dong Shutong
Mr. He Weiquan
Mr. Lau Hok Yuk
Mr. Song Wenzhou
Mr. Zhao Ping
Mr. Dong Chengzhe
Mr. Yang Fei#

\# Appointed on 30 August 2010

### Non-executive director

Mr. Yang Tianjun

### Independent non-executive directors

Mr. Bai Baohua
Mr. Huang Changhuai
Mr. Wong Chi Keung
Mr. Fahmi Idris^

^ Appointed on 24 August 2010

## AUDIT COMMITTEE

Mr. Wong Chi Keung
Mr. Huang Changhuai
Mr. Bai Baohua

## COMPANY SECRETARY

Mr. Lau Hok Yuk
MBA, FCPA, FCCA, ATIHK, FLMI, CFA

## AUTHORISED REPRESENTATIVES

Mr. Dong Shutong
Mr. Lau Hok Yuk

## REGISTERED OFFICE

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

## HEAD OFFICE IN PRC

No.7 Building F
Runhua Business Garden
No. 24 Jinshui Road Jinshui District
Zhengzhou City Henan Province
PRC 450012

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 917–918, 9th Floor
China Merchants Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

## AUDITORS

Ernst & Young

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman, KY1-1107
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong
Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## PRINCIPAL BANKERS

CITIC Bank International Limited
Oversea — Chinese Banking Corporation Limited
Nanyang Commercial Bank

## WEBSITE

www.cnrholdings.com

## STOCK CODE

02889

# Financial Highlights

## RESULT SUMMARY

| (Unaudited) | 2010 First Half RMB'000 | 2009 First Half RMB'000 | Change % | 2009 Second Half RMB'000 | Change % |
|---|---|---|---|---|---|
| Revenue/Turnover | **589,755** | 506,719 | 16% | 381,015 | 55% |
| Gross Profit/(Loss) | **100,751** | (89,861) | N/A | (106,314) | N/A |
| Earning/(Loss) before Interest, Tax, Depreciation and Amortization ("EBITDA/(LBITDA)") | **126,974** | (28,161) | N/A | (193,286) | N/A |
| Loss before Income Tax | **(8,492)** | (109,943) | 92% | (329,374) | 97% |
| Profit/(Loss) Attributable to Owners of the Parent | **15,283** | (79,850) | N/A | (252,295) | N/A |
| Gross Profit/(Loss) Margin | **17%** | (18%) | N/A | (28%) | N/A |
| EBITDA/(LBITDA) Margin | **22%** | (6%) | N/A | (51%) | N/A |
| Loss before Tax Margin | **(1%)** | (22%) | 21% | (86%) | 85% |
| Net Profit/(Loss) Margin | **3%** | (16%) | N/A | (66%) | N/A |

The board of directors ("the Board" or "the Directors") of China Nickel Resources Holdings Company Limited ("the Company") is pleased to announce that the unaudited consolidated turnover of the Company and its subsidiaries (hereinafter collectively referred as "the Group") for the first half of 2010 was RMB589.8 million, representing an increase of 16% as compared to that of the corresponding period in 2009. Unaudited profit attributable to owners of the parent was RMB15.3 million. Unaudited basic earnings per share for the first half of 2010 was RMB0.007. Earnings per share was based on the weighted average of 2,137.5 million shares in issue in first half of 2010. The Board are pleased to declare interim dividend of HK$0.002 per share, totalling HK$4.6 million for the six months ended 30 June 2010. The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2010 have been reviewed by the Company's Audit Committee.

As affected by the global financial crisis, the performance of the Group was unsatisfied in last year. In addition, the existing facilities and equipment were under improvement and upgrading, partially limiting the Company's production capacity. However, the management has taken effective initiatives in accelerating the construction project and facilities improvement project, while maintaining existing operating profit. Although the industry in general has been seriously hit by last year's difficult market situation, the Company managed to turn its business around in the first half of 2010. Its earnings before interest, tax, depreciation and amortization ("EBITDA") were RMB127,000,000 and its profit after tax was approximately RMB15,000,000, rebounding from a net loss of approximately RMB80,000,000 for the corresponding period last year and representing an increase of approximately RMB95,000,000. The performance of the Company's ore trading business has been satisfactory since the end of last year and a total sales volume of approximately 700,000 tonnes was recorded for the first half of 2010, exceeding the Company's sales target of 600,000 tonnes for the same period. In short, the Company has successfully completed its five-year development plan: "Two-years for preparation and then three-years for strategic adjustment". In the coming five years, the Company expects a breakthrough development.

The construction project in Lianyungang will apply the low-carbon technology to realize a cost effective operational mode. Construction of the project went smoothly as planned. The Company intends to commence trial production of tunnel kilns No. 1 & 2 in September following their successful adjustment in August 2010. Other facilities and ancillary works are expected to be put into full operation scale in the fourth quarter of 2010. Improvement of facilities and stainless steel facilities in Yongtong and Yongan has been substantially completed. With the continuous assistance from Inteco, an European leading steel consultancy company, for many years, the refinery technology of the Group has been enhanced and the quality of stainless steel and special steel products of the Group will meet the top international standard, which allows the Group to flexibly adjust output and optimise product mix based on market conditions or the Group's own requirements. Mass production is expected in the fourth quarter of 2010.

Regarding business development and capital arrangement, the Company has obtained the utmost support from business partners and banks. Because of industrial growth and the increased demand of mineral resources and steel, the Company has received more long-term ore sales orders, which facilitate the Company's capital management and financial needs in a flexible manner. The Company has been expanding its ore trading business. With more support from banks, the Company's credit line has been raised by approximately RMB405 million subsequent to the interim reporting date. Offers of financing arrangement and credit line from several banks are still under discussion and are expected to be finalised in a couple of months. With solid profit growth of the core business, smooth progress of new projects, expansion of ore trading business and finalisation of financing arrangement, the Company believes that its business and financial conditions in the second half of the year will be further improved and will be able to deliver better results to investors.

The global financial market was mired during the sovereignty debt crisis in the first half of 2010. Although the volatility was mitigated in the middle of the year, it is estimated that the impacts of the crisis on the global economy will remain for some time subject to the systemic risks of the financial systems. In view of the above, developed countries are expected to maintain quantitative easing monetary policies when adopting balanced strategies for reducing debts and stimulating economic recovery. They may also implement contraction of expenditure and gradually withdraw from their fiscal policies. Emerging markets are capable of maintaining necessary stimulus measures to guide their economies back on a recovery track, while some developing countries will tighten their monetary policies due to the rising inflation pressure. In general, the global financial market has rallied, which will facilitate the recovery of the global economy.

As the global economy has begun to revive and the demand from the international steel market has increased, the prices of ore resources and steel products have been on the rise while the prices of nickel and special steel products have substantially resumed the pre-financial-crisis level two years ago. The overall Chinese economy has maintained a steady growth as investment in fixed assets and demand from major steel-consuming industries increased. In the first half of the year, China's GDP and CPI were increased by 11.1% and 2.6% over the corresponding period last year respectively. The industrial growth of 13.7% was recorded in June 2010 over the corresponding period last year. The steady growth of the overall economy and the significant rise in corporate profitability have bolstered the demand and prices of steel and ore resources.

The global economic crisis in the first half of 2008 resulted in a significant fall in the global nickel prices. Despite the shrinkage of global stainless steel output after the financial turmoil, the production of nickel in emerging markets such as Mainland China and India has increased. The upturn in the global economy this year has boosted the increase in nickel consumption. It is estimated that in 2010, the annual global nickel consumption will be increased by approximately 10% and the output of stainless steel will be increased by 18% to approximately 30 million tonnes, and will further be increased to 32 million tonnes in 2011. Based on the estimated demand of nickel for 2010 to 2012, the nickel price is expected to remain on a steady track. In the long run, the demand of stainless steel and nickel will continue to grow, and China will continue to be the largest consuming country with a market share exceeding 30%. Ferro-nickel alloy has become one of the major materials for nickel metallurgy and stainless steel production. It is estimated that there may be much room for increase in both the demand and price of ferro-nickel alloy in the future. Meanwhile, in the PRC market, under the policy of saving energy and reducing emission, the production of ferro-nickel alloy with traditional small blast furnaces has been restricted, resulting in a limited supply of ferro-nickel alloy in the PRC. This brings opportunities to the Group to produce ferro-nickel alloy without using blast furnaces.

## Production/Trading Targets

| Operating Unit | Product | 2010 1H (Original Targets) (tonnes) | 2010 1H (Actual) (tonnes) | 2010 2H (Revised Targets) (tonnes) |
|---|---|---|---|---|
| Yongtong Special Steel & Yongan Special Steel | Ni-Cr alloy steel & Ferro-nickel alloy (blast furnace technology) | 75,000 | 90,616 | 55,000 |
| | Stainless steel | – | – | 60,000 |
| East Harvest Mining | Ferro-nickel alloy (non-coke technology) | – | – | 80,000 (Ni > 6%) or 200,000 (Ni > 1.6%) |
| Ore Trading Unit | Ore trading to third parties | 600,000 | 699,475 | 600,000 |

Note: (1) There may be a few hundred tonnes of nickel metal and chromium trioxide output in Yongtong Nickel during trial production.

(2) The Group has set out a 5-year-plan for its development, intending to a production capacity of 6,000,000 tonnes of processed ore.

## Turnover and sales volume

Major products of the Group were ferro-nickel alloys and limonitic ores. The table below sets out the turnover and sales volume of our major products for the years indicated:

### Turnover

| | 2010 First Half RMB'000 | % | 2009 First Half RMB'000 | % | 2009 Second Half RMB'000 | % |
|---|---|---|---|---|---|---|
| Stainless steel base materials | **53,573** | **9%** | 453,204 | 89% | 129,101 | 34% |
| Bearing steel | **28,185** | **5%** | 2,454 | 1% | 71,393 | 19% |
| Ni-Cr alloy steel ingot | **44,433** | **8%** | 36,292 | 7% | 37,582 | 10% |
| Ni-Cr bearing steel | **2,281** | **—** | 2,784 | 1% | 1,649 | — |
| Ferro-nickel alloys and others | **206,915** | **35%** | 11,985 | 2% | 100,273 | 26% |
| Limonitic ores | **254,368** | **43%** | — | — | 41,017 | 11% |
| Total | **589,755** | **100%** | 506,719 | 100% | 381,015 | 100% |

**Sales volume**

| | 2010 First Half (tonnes) | % | 2009 First Half (tonnes) | % | 2009 Second Half (tonnes) | % |
|---|---|---|---|---|---|---|
| Stainless steel base materials | **16,488** | **2%** | 94,974 | 89% | 47,738 | 19% |
| Bearing steel | **6,632** | **1%** | 748 | 1% | 19,211 | 8% |
| Ni-Cr alloy steel ingot | **6,585** | **1%** | 4,863 | 5% | 6,237 | 2% |
| Ni-Cr bearing steel | **236** | **–** | 295 | – | 194 | – |
| Ferro-nickel alloys and others | **60,675** | **8%** | 5,207 | 5% | 32,978 | 13% |
| Limonitic ores | **699,475** | **88%** | – | – | 144,864 | 58% |
| Total | **790,091** | **100%** | 106,087 | 100% | 251,222 | 100% |

The Group's turnover in the first half of 2010 was increased by RMB83.1 million, or 16%, to approximately RMB589.8 million (2009 corresponding period: RMB506.7 million).

Major contributor to the increased turnover was the ore trading business. This represented about 43% of the Group's turnover in the first half of 2010. The Group believes the ore trading business will continuously make stable contribution to the Group.

During the first half of 2010, the average unit selling price per tonne for ferro-nickel alloys was RMB3,410 (2009 corresponding period: RMB2,302), representing an increase of 48% which was in line with the price recovery in nickel and iron. The Group will further expand the production volume of this product type when the new plant in Lianyungang port starts operate in the fourth quarter of 2010.

## Cost of sales

The cost of sales in the first half of 2010 was decreased by RMB107.6 million, or 18%, to approximately RMB489.0 million (2009 corresponding period: RMB596.6 million).

The unit cost of ferro-nickel alloys in 2010 was decreased by RMB1,018 per tonne, or 25%, to RMB3,133 per tonne (2009 corresponding period: RMB4,151 per tonne). The Group considers the unit cost of ferro-nickel alloys will further decrease when new production technology will be adopted in the new plant strategically located in Lianyungang city.

The table below shows a breakdown of our total production costs for the years indicated:

**Cost of sales**

| | 2010 First Half | | 2009 First Half | | 2009 Second Half | |
|---|---|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Raw Materials | **275,477** | **56%** | 275,202 | 46% | 218,202 | 45% |
| Fuel | **144,522** | **30%** | 222,694 | 37% | 182,851 | 38% |
| Utilities | **26,555** | **5%** | 41,611 | 7% | 38,376 | 8% |
| Depreciation | **28,331** | **6%** | 38,941 | 7% | 27,113 | 6% |
| Staff Cost | **8,418** | **2%** | 14,829 | 2% | 12,136 | 2% |
| Repair | **1,217** | **—** | 220 | — | 1,875 | — |
| Others | **4,484** | **1%** | 3,083 | 1% | 6,776 | 1% |
| | **489,004** | **100%** | 596,580 | 100% | 487,329 | 100% |

### Gross profit/(loss)

The gross profit for limonitic ores in the first half of 2010 was RMB100 per tonne (2009 corresponding period: nil), representing a gross profit margin of 38%. The gross profit for ferro-nickel alloys in the first half of 2010 was RMB277 per tonne (2009 corresponding period: gross loss RMB1,849 per tonne), representing a gross profit margin of 8%.

As a result, the Group's gross profit in the first half of 2010 was RMB100.8 million (2009 corresponding period: gross loss RMB89.9 million). The Group's gross profit margin in the first half of 2010 was 17% (2009 corresponding period: gross loss margin 18%).

### Other income and gains

Other income in the first half of 2010 was decreased by RMB73.0 million, or 77%, to RMB21.2 million (2009 corresponding period: RMB94.2 million). The major component for high other income in 2009 corresponding period was the gain on repurchase and redemption of convertible bonds. There was no such repurchase happened in the first half of 2010.

### Selling and distribution costs

Selling and distribution costs in the first half of 2010 were decreased by RMB1.9 million, or 15%, to RMB10.6 million (2009 corresponding period: RMB12.5 million), representing 2% of turnover (2009 corresponding period: 3%).

### Administrative expenses

Administrative expenses in the first half of 2010 were increased by RMB5.8 million, or 11%, to RMB59.6 million (2009 corresponding period: RMB53.8 million), representing 10% of turnover (2009 corresponding period: 11%).

### Finance costs

Finance costs in the first half of 2010 were increased by RMB42.7 million, or 1.3 times, to RMB75.4 million (2009 corresponding period: RMB32.7 million). This was mainly due to the accrual of consent consideration for convertible bond holders who have agreed to enter into an agreement with the Company to the effect that such convertible bond holders will not exercise their right to require the Company to redeem the convertible bonds held by them.

The total financial charges for convertible bonds based on effective interest method amounted to RMB45.0 million in the first half of 2010 (2009 corresponding period: RMB49.2 million).

### Loss before income tax

As a result of the factors discussed above, the loss before income tax in the first half of 2010 was RMB8.5 million (2009 corresponding period: loss before income tax RMB109.9 million).

In the first half of 2010, the Group's loss before tax margin was 1% (2009 corresponding period: loss before tax margin 22%). The earnings before interest, tax, depreciation and amortization (EBITDA) margin was 22% (2009 corresponding period: loss before interest, tax, depreciation and amortization (LBITDA) margin 6%).

### Income tax expenses

The applicable Hong Kong corporate income rate for the Company which operates in Hong Kong is 16.5% based on existing legislation. The entities within the Group which operate in Mainland China are subject to corporate income tax rate of 25% for the period ended 30 June 2010.

## Profit/(Loss) attributable to owners of the parent

As a result of the factors discussed above, the profit attributable to owners of the parent in the first half of 2010 was RMB15.3 million (2009 corresponding period: loss attributable to owners of the parent RMB79.9 million).

The Group's net profit margin in the first half of 2010 was 3% (2009 corresponding period: net loss margin 16%).

## Key financial ratios

| | Note | Six months ended 30 June 2010 | Year ended 31 December 2009 |
|---|---|---|---|
| Current ratio | 1 | **65%** | 71% |
| Inventories turnover days | 2 | **282 days** | 296 days |
| Debtor turnover days | 3 | **35 days** | 20 days |
| Creditor turnover days | 4 | **171 days** | 195 days |
| Interest cover | 5 | **0.89 times** | N/A |
| Interest-bearing gearing ratio | 6 | **50%** | 49% |
| Debt to EBITDA/(LBITDA) ratio | 7 | **15.0 times** | (8.2) times |
| Net debt/Capital and net debt ratio | 8 | **36%** | 35% |

Note:

1. $\frac{\text{Current asset}}{\text{Current liabilities}}$ X 100%
2. $\frac{\text{Inventories}}{\text{Cost of sales}}$ X 182 days or 365 days
3. $\frac{\text{Trade and notes receivables}}{\text{Turnover}}$ X 182 days or 365 days
4. $\frac{\text{Trade and notes payables}}{\text{Cost of sales}}$ X 182 days or 365 days
5. $\frac{\text{Profit before interest and tax}}{\text{Net interest expense}}$
6. $\frac{\text{Interest-bearing bank and other borrowings + Convertible bonds}}{\text{Equity attributable to owners of the parent}}$ X 100%
7. $\frac{\text{Interest-bearing bank and other borrowings + Convertible bonds}}{\text{EBITDA/(LBITDA)}}$
8. $\frac{\text{Net debt}}{\text{Capital and net debt}}$ X 100%

### Investment in an associate

The Group invested in an associate, Full Harvest Development Limited ("FHD"), in October 2009. FHD's principal activities are investment holding and trading related to coal resources. Since coal will be the major fuel for the new plant of the Group in Lianyungang, investment in FHD will secure the stability in price and supply of coal to the Group.

### Cash and cash equivalents and pledged time deposit

The decrease in cash and cash equivalents and pledged time deposit by approximately RMB304.9 million, or 45%, to RMB374.9 million as at 30 June 2010, as compared to that as at 31 December 2009, was mainly due to the net cash outflow for operation by approximately RMB94.4 million, the acquisition of property, plant and equipment, construction in progress, and other long-term assets by approximately RMB183.6 million, decrease in pledged time deposits of RMB153.7 million and interest payment of RMB10.4 million.

### Trade and notes receivables

The debtor turnover days were increased from 20 days in 2009 to 35 days for the six months ended 30 June 2010. As at 30 June 2010, trade and notes receivables balance was increased by RMB62.7 million to RMB112.5 million. This was mainly due to the gradual increase in sales volume since the second quarter of 2010.

### Inventories

The inventory turnover days were decreased from 296 days in 2009 to 282 days for the six months ended 30 June 2010. As at 30 June 2010, the inventory balance was decreased by RMB121.5 million to RMB757.7 million. This was mainly due to the management's great effort paid for better control over the inventories.

### Prepayments, deposits and other receivables

As at 30 June 2010, prepayment, deposit and other receivables balance was decreased by RMB10.5 million, or 4% to RMB277.1 million. This was mainly due to the increase of prepayment to suppliers by RMB9 million and the decrease of value-added tax receivable by RMB16.1 million.

### Trade and notes payables

As at 30 June 2010, trade and notes payables balance was decreased by RMB119.7 million to RMB459.6 million, mainly due to part of the notes payable repaid during the first half of 2010. Accordingly, the creditor turnover days were decreased from 195 days in 2009 to 171 days for the six months ended 30 June 2010.

### Interest-bearing bank and other borrowings

As at 30 June 2010, the total interesting-bearing bank and other borrowings were increased by RMB37.8 million to RMB537.4 million. The gearing ratio was increased from 49% as at 31 December 2009 to 50% as at 30 June 2010.

### Use of proceeds

In December 2007, the net proceeds from the issue of the Zero Coupon Convertible Bond were approximately HK$1,950 million.

As at 30 June 2010, the planned usage of net proceeds was as follows:

| Use of proceeds | Usage as disclosed in prospectus HK$' million | Utilised HK$' million |
|---|---|---|
| Capital expenditures of steel mill expansion in the PRC and Indonesia | 1,462.5 | 944.4 |
| General working capital | 487.5 | 487.5 |

The Group has repurchased certain Zero Coupon Convertible Bonds with a total principal amount of HK$595 million for consideration of approximately HK$268.0 million. The utilized amount of Convertible Bonds includes the consideration paid for respective repurchase of Convertible Bonds. The unutilized balance was placed in short term bank deposits.

### Liquidity and source of capital

Our working capital has been principally sourced from cash generated from operations and from long-term and short term debts. We also made prepayments to our suppliers which amounted to RMB122.3 million as at 30 June 2010.

As at 30 June 2010, the Group had current liabilities of RMB2,348.9 million, of which RMB361.1 million were interest-bearing bank and other borrowings repayable within one year, and RMB459.6 million were trade and notes payables in respect of purchase of raw materials.

In April 2010, the Company has invited existing holders of convertible bonds to enter into an agreement to the effect that such holders will not exercise their rights of redemption to put in the consideration of a consent fee on the payment date. The aggregate principal amount of convertible bonds in respect of which holders have delivered (and not revoked) valid instructions to participate in the proposal prior to the expiration time and in respect of which convertible bonds the Company has agreed to enter into the agreement with each such holder is HK$210,700,000, representing approximately 15% of the convertible bonds currently outstanding. The Company considered that will reduce the short term liability and further improve the Company's financial position.

The Group will also hold discussion with major banks and come up with proper financing plan to ensure that the Group's liquidity is sufficient for its capital requirement and further development for the year in order to create more satisfactory returns for investors.

### Foreign currency risk

Since July 2004, the Group has begun the purchase of imported iron ore from overseas suppliers. Since the contracts are in United States dollars ("US$") and the RMB is in a favorable trend now, no hedging is considered necessary at the moment. However, the Group will closely monitor the foreign currency risk and use necessary financial instruments for hedging purposes. As at 30 June 2010, all bank loans are in RMB.

Besides, the Group does not enter into any hedging transactions to manage the potential fluctuation in foreign currency as the directors consider the Group having no significant foreign currency risk.

### Security

As at 30 June 2010, the Group had following assets pledged: 1) time deposits of RMB233.4 million (31 December 2009: RMB304.4 million) and notes receivables of RMB30.0 million were secured for notes payables of RMB259.5 million (31 December 2009: RMB344.4 million); 2) bank balance of RMB3.8 million was secured for issuance of banker's guarantee; and 3) certain parcels of the Group's leasehold lands situated in the PRC with the carrying amounts of RMB86.7 million were secured for a bank loan granted to the Group of RMB77.6 million.

### Capital commitment

As at 30 June 2010, the Group had capital commitments of approximately RMB421.1 million for remaining parts of equipment refinement project.

## EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2010, the Group had approximately 4,000 employees, of whom 27 were management personnel.

The Group implemented remuneration distribution policy of linkage between duties and efficiency. The remuneration of an employee consists of a basic salary and a performance-based bonus. During the period, the staff costs of the Group amounted to RMB41.1 million (2009 corresponding period: RMB25.6 million).

# Interim Consolidated Income Statement

*Six months ended 30 June 2010*

| | Notes | Six months ended 30 June 2010 RMB'000 (Unaudited) | 2009 RMB'000 (Unaudited) |
|---|---|---|---|
| **REVENUE** | 4 | **589,755** | 506,719 |
| Cost of sales | | **(489,004)** | (596,580) |
| Gross profit/(loss) | | **100,751** | (89,861) |
| Other income and gains | 4 | **21,237** | 94,157 |
| Selling and distribution costs | | **(10,638)** | (12,464) |
| Administrative expenses | | **(59,647)** | (53,849) |
| Other expenses | | **(7,430)** | (15,248) |
| Share of profits of an associate | | **22,650** | — |
| Finance costs | 5 | **(75,415)** | (32,678) |
| **LOSS BEFORE TAX** | 6 | **(8,492)** | (109,943) |
| Income tax credit | 7 | **24,101** | 31,092 |
| **PROFIT/(LOSS) FOR THE PERIOD** | | **15,609** | (78,851) |
| **ATTRIBUTABLE TO:** | | | |
| Owners of the parent | | **15,283** | (79,850) |
| Non-controlling interests | | **326** | 999 |
| | | **15,609** | (78,851) |
| **EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | 8 | | |
| Basic (RMB) | | **0.0071** | (0.0381) |
| Diluted (RMB) | | **0.0067** | N/A |

Details of the dividends proposed for the period are disclosed in note 9 to the interim condensed consolidated financial statements.

# Interim Consolidated Statement of Comprehensive Income

*Six Months Ended 30 June 2010*

| | Six months ended 30 June 2010 RMB'000 (Unaudited) | 2009 RMB'000 (Unaudited) |
|---|---|---|
| **PROFIT/(LOSS) FOR THE PERIOD** | **15,609** | (78,851) |
| OTHER COMPREHENSIVE INCOME/ (EXPENSE) | | |
| Exchange differences on translation of foreign operations | **8,873** | (781) |
| OTHER COMPREHENSIVE INCOME/ (EXPENSE) FOR THE PERIOD, NET OF TAX | **8,873** | (781) |
| TOTAL COMPREHENSIVE INCOME/ (EXPENSE) FOR THE PERIOD | **24,482** | (79,632) |
| **ATTRIBUTABLE TO:** | | |
| Owners of the parent | **24,156** | (80,631) |
| Non-controlling interests | **326** | 999 |
| | **24,482** | (79,632) |

# Interim Consolidated Statement of Financial Position

*30 June 2010*

| | Notes | 30 June 2010 RMB'000 (Unaudited) | 31 December 2009 RMB'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 10 | **1,686,889** | 1,446,993 |
| Prepaid land lease payments | | **388,212** | 391,865 |
| Goodwill | | **58,394** | 58,394 |
| Intangible asset | 11 | **2,628,239** | 2,640,288 |
| Deferred tax assets | | **249,522** | 226,530 |
| Investment in an associate | | **22,700** | 50 |
| Other non-current assets | | **97,393** | 38,351 |
| Total non-current assets | | **5,131,349** | 4,802,471 |
| **CURRENT ASSETS** | | | |
| Inventories | 12 | **757,747** | 879,278 |
| Trade and notes receivables | 13 | **112,531** | 49,826 |
| Prepayments, deposits and other receivables | | **277,066** | 287,543 |
| Pledged time deposits | 14 | **233,394** | 387,055 |
| Cash and cash equivalents | 14 | **141,472** | 292,745 |
| Total current assets | | **1,522,210** | 1,896,447 |
| **TOTAL ASSETS** | | **6,653,559** | 6,698,918 |
| **CURRENT LIABILITIES** | | | |
| Trade and notes payables | 15 | **459,562** | 579,294 |
| Tax payable | | **13,545** | 7,417 |
| Other payables and accruals | | **351,473** | 376,369 |
| Interest-bearing bank and other borrowings | 16 | **361,051** | 401,089 |
| Current portion of convertible bonds | 17 | **1,163,306** | 1,336,076 |
| Total current liabilities | | **2,348,937** | 2,700,245 |

*30 June 2010*

| | Notes | 30 June 2010 RMB'000 (Unaudited) | 31 December 2009 RMB'000 (Audited) |
|---|---|---|---|
| **NET CURRENT LIABILITIES** | | **(826,727)** | (803,798) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **4,304,622** | 3,998,673 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | 16 | **176,314** | 98,439 |
| Convertible bonds | 17 | **205,232** | — |
| Deferred tax liabilities | | **24,269** | 27,917 |
| Total non-current liabilities | | **405,815** | 126,356 |
| **NET ASSETS** | | **3,898,807** | 3,872,317 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 18 | **227,990** | 210,006 |
| Equity component of convertible bonds | 17 | **45,920** | 45,920 |
| Reserves | | **3,499,373** | 3,495,165 |
| Proposed interim dividend | 9 | **3,972** | — |
| | | **3,777,255** | 3,751,091 |
| **Non-controlling interests** | | **121,552** | 121,226 |
| **TOTAL EQUITY** | | **3,898,807** | 3,872,317 |

# Interim Consolidated Statement of Changes In Equity

*Six Months Ended 30 June 2010*

| | Attributable to owners of the parent | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital RMB'000 | Share premium account RMB'000 | Contributed surplus RMB'000 | Capital reserves RMB'000 | Share option reserves RMB'000 | Equity component of convertible bonds RMB'000 | Statutory surplus reserves and statutory reserve fund RMB'000 | Exchange fluctuation reserve RMB'000 | Retained profits RMB'000 | Proposed interim dividend RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **At 1 January 2010 (Audited)** | **210,006** | **2,661,351** | **51,599** | **433,282** | **22,459** | **45,920** | **75,546** | **(16,446)** | **267,374** | **–** | **3,751,091** | **121,226** | **3,872,317** |
| Total comprehensive income for the period | – | – | – | – | – | – | – | 8,873 | 15,283 | – | 24,156 | 326 | 24,482 |
| Equity-settled share option arrangements | – | – | – | – | 2,008 | – | – | – | – | – | 2,008 | – | 2,008 |
| Conversion of convertible notes | 17,984 | 293,151 | – | (311,135) | – | – | – | – | – | – | – | – | – |
| Proposed 2010 Interim dividend (Note 9) | – | – | – | – | – | – | – | – | (3,972) | 3,972 | – | – | – |
| **At 30 June 2010 (Unaudited)** | **227,990** | **2,954,502** | **51,599** | **122,147** | **24,467** | **45,920** | **75,546** | **(7,573)** | **278,685** | **3,972** | **3,777,255** | **121,552** | **3,898,807** |

# Interim Consolidated Statement of Changes In Equity (Continued)

*Six Months Ended 30 June 2009*

| | Attributable to owners of the parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital RMB'000 | Share premium account RMB'000 | Contributed surplus RMB'000 | Capital reserves RMB'000 | Share option reserves RMB'000 | Equity component of convertible bonds RMB'000 | Statutory surplus reserves and statutory reserve fund RMB'000 | Exchange fluctuation reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **At 1 January 2009 (Audited)** | 209,961 | 2,660,771 | 51,599 | 417,963 | 16,300 | 54,043 | 75,250 | (31,841) | 601,117 | 4,055,163 | 55,004 | 4,110,167 |
| Total comprehensive (expense)/income for the period | – | – | – | – | – | – | – | (781) | (79,850) | (80,631) | 999 | (79,632) |
| Equity-settled share option arrangements | – | – | – | – | 3,797 | – | – | – | – | 3,797 | – | 3,797 |
| Repurchase and redemption of convertible bonds | – | – | – | – | – | (8,123) | – | – | (1,302) | (9,425) | – | (9,425) |
| **At 30 June 2009 (Unaudited)** | 209,961 | 2,660,771 | 51,599 | 417,963 | 20,097 | 45,920 | 75,250 | (32,622) | 519,965 | 3,968,904 | 56,003 | 4,024,907 |

| | Six months ended 30 June 2010 RMB'000 (Unaudited) | 2009 RMB'000 (Unaudited) |
|---|---|---|
| NET CASH OUTFLOW FROM OPERATING ACTIVITIES | **(94,382)** | (47,658) |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES | **(24,963)** | (59,217) |
| NET CASH OUTFLOW FROM FINANCING ACTIVITIES | **(25,121)** | (174,231) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | **(144,466)** | (281,106) |
| Cash and cash equivalents at beginning of period | **292,745** | 917,763 |
| Effect of foreign exchange rate changes, net | **(6,807)** | (24,067) |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | **141,472** | 612,590 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | **124,927** | 283,109 |
| Unrestricted time deposits with original maturity of less than three months | **16,545** | 329,481 |
| | **141,472** | 612,590 |

## 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, British West Indies. The principal place of business of the Group is located at No. 24, Jinshui Road, Zhengzhou, Henan Province, the People's Republic of China (the "PRC"). The principal place of business of the Company is Rooms 917 and 918, 9th Floor, 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 special 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 ("Easyman"), a company incorporated in the British Virgin Islands and wholly owned by Mr. Dong Shutong, is the ultimate holding company of the Group.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting and the disclosure requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2009. The interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand, except when otherwise indicated.

**Basis of presentation**

As at 30 June 2010, the Group had net current liabilities of RMB826,726,860, which included bank and other borrowings of RMB361,050,800 and the current portion of "HK$2,000,000,000 zero coupon convertible bonds due 2012" issued on 12 December 2007 ("Zero Coupon Convertible Bonds") of RMB1,163,305,979. The Zero Coupon Convertible Bonds are redeemable by their holders on 12 December 2010, at their option, based on the outstanding principal amount of Zero Coupon Convertible Bonds of HK$1,194,300,000 multiplied by 117.68%.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

### 2.1 Basis of Preparation (Continued)

**Basis of presentation** (Continued)

In October 2009, the Group acquired Lianyungang City East Harvest Mining Company Limited in Lianyungang, the PRC (the Group's major port in the PRC for importing iron ores under the exclusive offtake right) to enhance its expansion plan due to its favourable location that could save huge domestic transportation and storage costs. Immediate following the acquisition, the Group commenced constructing several production projects at Lianyungang City East Harvest Mining Company Limited to produce ferro-nickel using the Group's internally developed new technology "Non-coke Reduction Refinery Technology". By using thermal coal of the new technology, instead of coking coal, the production costs for the ferro-nickel products will be significantly lower. The construction of these production projects progressed smoothly as planned during the first six months of 2010. The Group intends to commence trial production of tunnel kilns No.1 & 2 in September 2010 following the preparation and modulation in August 2010. Other facilities and ancillary works of these projects are expected to commence full operation in the fourth quarter of 2010 upon completion.

Management believes that the aforesaid production of the Group could significantly improve the profitability, sustain long term growth and strengthen the cash flow position of the Group as a whole in the near future.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

### 2.1 Basis of Preparation (Continued)

**Basis of presentation** (Continued)

In order to strengthen the working capital of the Group and to improve the Group's financial position and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have taken the following measures:

(a) The Group has been actively discussing with PRC banks for the renewal of PRC bank borrowings when those borrowings fall due in 2010. The company is also in the progress to discuss with banks on additional bank facilities and financing solutions. Subsequent to the interim statement of financial position date, additional bank loan and trade facilities amounting to approximately RMB405 million have been concluded.

(b) On 29 December 2009, the Company obtained two standby facilities, provided by Easyman and a shareholder, totaling to HK$130 million with 24 months' effective period from 30 December 2009 onwards. Up to the approval date of the interim condensed consolidated financial statements, the Group had not drawn down any of these facilities.

(c) On 16 April 2010, the Company signed an agreement with a bank which indicates its willingness to arrange a financing of approximately US$200 million that is subject to conditions set out therein the agreement including, amongst others, the bank's internal approval and signing of the formal documentation relating to the financing. The detail works are still in progress and the Company considers the arrangement can be finalised before October 2010.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

### 2.1 Basis of Preparation (Continued)

**Basis of presentation** (Continued)

(d) The Company is expanding its mineral resources trading business. It is in the progress to conclude more longer-term sales contracts with customers. The Company considers this would further improve the cash flow to the Group.

On the basis that the Group would obtain the financing from the bank, 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 interim condensed consolidated 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 interim condensed consolidated financial statements.

### 2.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of new standards and interpretations effective for the period beginning on or after 1 January 2010, as set out below:

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

### 2.2 Significant accounting policies (Continued)

| | |
|---|---|
| IFRS 1 (Revised) | *First-time Adoption of IFRS* |
| IFRS 1 Amendments | Amendments to IFRS 1 *First-time Adoption of IFRS — Additional Exemptions for First-time Adopter* |
| IFRS 2 Amendments | Amendments to IFRS 2 *Share-based Payment — Group Cash-settled share based payment Transactions* |
| IFRS 3 (Revised) | *Business Combinations* |
| IAS 27 (Revised) | *Consolidated and Separate Financial Statements* |
| IAS 39 Amendments | Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items* |
| IFRIC 17 | *Distributions of Non-cash Assets to Owners* |
| Amendments to IFRS 5 included in Improvements to IFRSs issued in October 2008 | Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary* |

The principal effects of adopting these new and revised IFRSs, which give rise to changes in accounting policies, are as follows:

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

### 2.2 Significant accounting policies (Continued)

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rate, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures.

The changes introduced by IFRS 3 (Revised) and IAS 27 (Revised) were applied prospectively and will affect future acquisitions, loss of control and transactions with non-controlling interests.

Except as stated above, the adoption of the above new and revised IFRSs is unlikely to have a significant impact on the Group's interim condensed consolidated financial statements.

## 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating activities are attributable to a single operating segment, focusing on the manufacture and sale of special steel products in the PRC and the trading of ore. Therefore, no analysis by operating segment is presented.

## 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:

| | Six months ended 30 June | |
|---|---|---|
| | 2010 RMB'000 (Unaudited) | 2009 RMB'000 (Unaudited) |
| **Revenue** | | |
| Sale of goods: | | |
| Stainless steel base materials | **53,573** | 453,204 |
| Bearing steel | **28,185** | 2,454 |
| Ni-Cr alloy steel ingot | **44,433** | 36,292 |
| Ni-Cr bearing steel | **2,281** | 2,784 |
| Ferro-nickel alloys and others | **206,915** | 11,985 |
| Limonitic ores | **254,368** | — |
| Total revenue | **589,755** | 506,719 |
| **Other income** | | |
| Bank interest income | **5,007** | 10,756 |
| Sale of scrap materials and others | **14,744** | 2,000 |
| | **19,751** | 12,756 |
| **Gains** | | |
| Gain on repurchase and redemption of convertible bonds | **—** | 79,513 |
| Government grant* | **1,037** | 1,867 |
| Exchange gain, net | **449** | 21 |
| | **1,486** | 81,401 |
| Total other income and gains | **21,237** | 94,157 |

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

## 5. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Interest on bank loans and other borrowings | **13,682** | 11,577 |
| Interest on convertible bonds | **44,960** | 49,175 |
| Consent fee on convertible bonds | ***36,000** | — |
| Total interest expenses | **94,642** | 60,752 |
| Less: Interest capitalised | **(19,227)** | (28,074) |
| Total finance costs | **75,415** | 32,678 |

* On 22 April 2010, the Bonds holders with the aggregate principal amount of HK$210,700,000, agreed to lapse their redemption options on 12 December 2010 at the principal amounts multiplied by 117.68%, for a return of cash payments of HK$20,000 per HK$100,000 in principal amount of the Bonds on 12 November 2010.

## 6. LOSS BEFORE TAX

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

| | Notes | Six months ended 30 June 2010 RMB'000 (Unaudited) | 2009 RMB'000 (Unaudited) |
|---|---|---|---|
| Staff costs (including Directors' remuneration): | | | |
| Salaries and other staff costs | | **15,793** | 25,521 |
| Retirement benefit scheme contributions | | **3,029** | 3,097 |
| Equity-settled share-based expense | | **2,010** | 3,797 |
| Total staff costs | | **20,832** | 32,415 |
| Amortisation of intangible asset | 11 | **12,049** | — |
| Cost of inventories sold | | **489,004** | 596,580 |
| Research costs | | **803** | 160 |
| Auditors' remuneration | | **1,683** | 1,721 |
| Depreciation | 10 | **43,627** | 46,405 |
| Provision of impairment for items of property, plant and equipment* | | **2,748** | — |
| Amortisation of prepaid land lease payments | | **4,073** | 2,217 |
| Amortisation of other non-current assets | | **3,130** | — |
| Bank interest income | | **(5,007)** | (10,756) |
| Gain on repurchase and redemption of convertible bonds | | **—** | (79,626) |
| Exchange gain, net | | **(449)** | (21) |
| Minimum lease payments under operating leases in respect of buildings and equipment | | **2,150** | 1,761 |

* This item is included in "Other expenses" on the face of the interim consolidated income statement.

## 7. INCOME TAX

The applicable Hong Kong profits tax rate of the Company, Infonics International Limited ("Infonics"), Group Rise Trading Limited ("Group Rise") and S.E.A. Mineral Limited ("S.E.A.M") which operates in Hong Kong is 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 Group operates, based on existing legislation, interpretations and practices in respect thereof.

The applicable income tax rate of CNR Group Holdings Pte Limited ("CNR Group Holdings"), a subsidiary of the Company incorporated in Singapore, was 5% for the period ended 30 June 2010 (six months ended 30 June 2009: 5%). CNR Group Holdings was entitled to a five-year tax concessionary rate of 5% as it was awarded the Global Trader Programme status by International Enterprise Singapore, for the five years ending 31 December 2013, on the condition that it meets a certain amount of revenue within this five years.

PT Mandan, a subsidiary of the Company incorporated in Indonesia, was subject to a single income tax rate of 28% for fiscal year 2009 and 25% for fiscal years 2010 onwards.

According to the PRC Corporate Income Tax Law (the "New CIT Law") which became effective on 1 January 2008, the applicable income tax rate of Yongtong Special Steel, Yongtong Alloy Metals, Yongan Special Steel, Xiangtong Electricity, Yongtong Nickel, East Harvest Minerals and East Harvest Mining, subsidiaries of the Company, was 25% for the year.

## 7. INCOME TAX (Continued)

| | Six months ended 30 June 2010 RMB'000 (Unaudited) | 2009 RMB'000 (Unaudited) |
|---|---|---|
| Provision for income tax in respect of profit for the period: | | |
| Current — PRC | **154** | 748 |
| Current — Hong Kong and others | **2,385** | — |
| Deferred | **(26,640)** | (31,840) |
| Total tax credit for the period | **(24,101)** | (31,092) |

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

### Basic

The calculation of basic earnings/(loss) per share amounts for the period is based on the profit/(loss) attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 2,137,541,936 (six months ended 30 June 2009: 2,093,120,385) in issue during the period, as adjusted to reflect the rights issue during the period.

### Diluted

The calculation of diluted earnings per share amounts for the period is based on the profit attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds, 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 period, 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.

## 8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

**Diluted** (Continued)

No adjustment has been made to the basic loss per share amounts presented for the period ended 30 June 2009 in respect of a dilution as the impact of the share options, convertible notes and convertible bonds outstanding had an anti-dilutive effect on the basic loss per share amount presented.

The calculation of diluted earnings per share for the period is based on:

| Earnings | Six months ended 30 June 2010 RMB'000 (Unaudited) |
|---|---|
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | 15,283 |
| Interest on convertible bonds (Zero Coupon Convertible Bonds) | * 26,164 |
| Profit attributable to ordinary equity holders of the parent before interest on convertible bonds | 41,447 |

## 8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

**Diluted** (Continued)

| Shares | Number of shares for the six months ended 30 June 2010 '000 |
|---|---|
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation | 2,137,542 |
| Effect of dilution — weighted average number of ordinary shares: | |
| — Share options | 5,982 |
| — Convertible notes | 138,313 |
| — Convertible bonds (Zero Coupon Convertible Bonds) | * 243,501 |
| | 2,525,338 |

* Because the diluted earnings per share amount for the six months ended 30 June 2010 is increased when taking convertible bonds (Zero Coupon Convertible Bonds) into account, the convertible bonds had an anti-dilutive effect on the basic earnings per share for the period and were ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share amounts for the six months ended 30 June 2010 are based on the profit for the period attributable to ordinary equity holders of the parent of RMB15,283,000 and the weighted average of 2,281,836,844 ordinary shares in issue during the period.

## 9. DIVIDEND

Pursuant to the Directors' resolution of the Company dated 24 August 2010, the Directors proposed an interim dividend of HK$0.002 per share (for the six months ended 30 June 2009: nil).

## 10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group acquired items of property, plant and equipment with a cost of RMB286,271,000 (six months ended 30 June 2009: RMB162,399,000). Depreciation for items of property, plant and equipment is RMB43,627,000 (six months ended 30 June 2009: RMB46,405,000) during the period.

## 11. INTANGIBLE ASSET

| | Exclusive offtake right RMB'000 (Unaudited) |
|---|---|
| Net carrying amount: | |
| At 1 January 2010 | 2,640,288 |
| Amortisation provided during the period | (12,049) |
| At 30 June 2010 | 2,628,239 |
| At 30 June 2010 | |
| Cost | 2,698,285 |
| Accumulated amortization | (70,046) |
| Net carrying amount | 2,628,239 |

## 12. INVENTORIES

| | 30 June 2010 RMB'000 (Unaudited) | 31 December 2009 RMB'000 (Audited) |
|---|---|---|
| Raw materials | **363,260** | 339,673 |
| Work in progress | **47,285** | 36,079 |
| Finished goods | **314,393** | 477,768 |
| Spare parts and consumables | **32,809** | 25,758 |
| | **757,747** | 879,278 |

## 13. TRADE AND NOTES RECEIVABLES

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

| | 30 June 2010 RMB'000 (Unaudited) | 31 December 2009 RMB'000 (Audited) |
|---|---|---|
| Outstanding balances aged: | | |
| Within 90 days | **94,175** | 38,543 |
| 91 to 180 days | **10,947** | 3,944 |
| 181 to 365 days | **570** | — |
| Over 1 year | **10,383** | 10,883 |
| | **116,075** | 53,370 |
| Less: Provision for impairment of trade receivables | **(3,544)** | (3,544) |
| | **112,531** | 49,826 |

As at 30 June 2010, the notes receivables of RMB30,000,000 were pledged for issuing notes payables.

## 14. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITES

| | 30 June 2010 RMB'000 (Unaudited) | 31 December 2009 RMB'000 (Audited) |
|---|---|---|
| Cash and bank balances | **124,927** | 260,488 |
| Time deposits on demand | **249,939** | 419,312 |
| | **374,866** | 679,800 |
| Less: Pledged time deposits for a bank loan | **–** | (82,652) |
| Less: Pledged time deposits for issuing notes payables (Note 15) | **(233,394)** | (304,403) |
| | **(233,394)** | (387,055) |
| Cash and cash equivalents | **141,472** | 292,745 |

## 15. TRADE AND NOTES PAYABLES

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

| | 30 June 2010 RMB'000 (Unaudited) | 31 December 2009 RMB'000 (Audited) |
|---|---|---|
| Within 90 days | **263,184** | 354,290 |
| 91 to 180 days | **109,527** | 118,430 |
| 181 to 365 days | **33,829** | 36,082 |
| 1 to 2 years | **18,988** | 31,543 |
| 2 to 3 years | **8,543** | 8,325 |
| Over 3 years | **25,491** | 30,624 |
| | **459,562** | 579,294 |

As at 30 June 2010, the notes payables of RMB259,453,000 (31 December 2009: RMB344,403,000) were secured by time deposits amounting to RMB233,394,000 (31 December 2009: RMB304,403,000) and notes receivables amounting to RMB30,000,000 (31 December 2009: nil).

## 16. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | Notes | 30 June 2010 Effective interest rate (%) | 30 June 2010 Maturity | 30 June 2010 RMB'000 (Unaudited) | 31 December 2009 Effective interest rate (%) | 31 December 2009 Maturity | 31 December 2009 RMB'000 (Audited) |
|---|---|---|---|---|---|---|---|
| **Current** | | | | | | | |
| Bank loans — unsecured | | **5.3–6.4** | **2011** | **255,000** | 5.3–8.6 | 2010 | 303,000 |
| Bank loans — secured | (a) | **3.0–6.6** | **2011** | **77,559** | 4.8–6.6 | 2010 | 85,000 |
| Other borrowings — unsecured | (b) | **0–8.0** | **2011** | **28,492** | 0–7.5 | 2010 | 13,089 |
| | | | | **361,051** | | | 401,089 |
| **Non-current** | | | | | | | |
| Bank loans — unsecured | | **5.0–6.2** | **2012–2013** | **93,000** | – | – | – |
| Other borrowings — unsecured | (c) | **6.9** | **2012** | **83,314** | 6.9–8.0 | 2011–2012 | 98,439 |
| | | | | **176,314** | | | 98,439 |
| | | | | **537,365** | | | 499,528 |
| Bank loans repayable: | | | | | | | |
| Within one year | | | | **332,559** | | | 388,000 |
| In the second year | | | | **43,000** | | | – |
| In the third to fifth years, inclusive | | | | **50,000** | | | – |
| | | | | **425,559** | | | 388,000 |
| Other borrowings repayable: | | | | | | | |
| Within one year | | | | **28,492** | | | 13,089 |
| In the second year | | | | **83,314** | | | 17,060 |
| In the third to fifth years, inclusive | | | | **–** | | | 81,379 |
| | | | | **111,806** | | | 111,528 |
| | | | | **537,365** | | | 499,528 |

## 16. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

(a) As at 30 June 2010, the secured bank loans was comprised of: a bank loan of RMB77,560,000 (31 December 2009: RMB15,000,000) secured by a leasehold land in the PRC with the carrying amount of RMB86,663,000 (31 December 2009: RMB13,447,000).

(b) As at 30 June 2010, the unsecured other borrowings included: (i) a renewed interest-free loan of RMB10,000,000 (31 December 2009: RMB10,000,000) from Luoyang Municipal Ministry of Finance; (ii) a loan of RMB1,589,000 (31 December 2009: RMB3,089,000) from Xianghe Group Shangjie Power Engineering Co., Ltd., which bore interest at a floating rate from 5.4% to 7.5% per annum; and (iii) a loan from a shareholder of the Company of US$2,500,000 (equivalent to RMB16,903,000) (31 December 2009: RMB17,060,000), which bore interest at a rate of 8% per annum.

(c) As at 30 June 2010, the unsecured other borrowings included: (i) a loan of RMB83,314,000 (2009: RMB81,379,000) from Anyang Steel Group Company Limited, which bore interest at rate of 6.93% (2009: 6.93%) per annum.

The carrying amounts of the Group's borrowings approximate to their fair values.

## 17. CONVERTIBLE BONDS

| | Notes | 30 June 2010 RMB'000 (Unaudited) | 31 December 2009 RMB'000 (Audited) |
|---|---|---|---|
| Liability components: | | | |
| Zero Coupon Convertible Bonds | (i) | **1,368,538** | 1,336,076 |
| Less: Current portion | | **(1,163,306)** | (1,336,076) |
| Non-current portion of liability components of convertible bonds | (ii) | **205,232** | — |
| Equity components: | | | |
| Zero Coupon Convertible Bonds | | **45,920** | 45,920 |
| | | **45,920** | 45,920 |

## 17. CONVERTIBLE BONDS (Continued)

The movements of the liability component and equity component of HK$2,000 million zero coupon convertible bonds due 2012 (the "Zero Coupon Convertible Bonds") for the six months ended 30 June 2010 are as follows:

| | Liability component of convertible bonds RMB'000 (Unaudited) | Equity component of convertible bonds RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|---|---|---|---|
| At 1 January 2010 | 1,336,076 | 45,920 | 1,381,996 |
| Interest expenses | 44,960 | — | 44,960 |
| Exchange realignment | (12,498) | — | (12,498) |
| At 30 June 2010 | 1,368,538 | 45,920 | 1,414,458 |

(i) Pursuant to the key terms of Zero Coupon Convertible Bonds, the Bonds are redeemable at the option of their holders on 12 December 2010 at the principal amount multiplied by 117.68%.

(ii) On 22 April 2010, the Bonds holders with the aggregate principal amount of HK$210,700,000, agreed to lapse their redemption options on 12 December 2010 at the principal amounts multiplied by 117.68%, for a return of cash payments of HK$20,000 per HK$100,000 in principal amount of the Bonds on 12 November 2010.

## 18. SHARE CAPITAL

| | 30 June 2010 | | 31 December 2009 | |
|---|---|---|---|---|
| | Number of ordinary shares | RMB'000 (Unaudited) | Number of ordinary shares | RMB'000 (Audited) |
| Authorised (HK$0.1 each): | | | | |
| At beginning of period/year | **5,000,000,000** | **479,200** | 5,000,000,000 | 479,200 |
| Increase during period/year | **—** | **—** | — | — |
| At end of period/year | **5,000,000,000** | **479,200** | 5,000,000,000 | 479,200 |
| Issued and fully paid (HK$0.1 each): | | | | |
| At beginning of period/year | **2,093,630,385** | **210,006** | 2,093,120,385 | 209,961 |
| Conversion of convertible notes | **182,734,104** | **17,984** | — | — |
| Exercise of share options | **—** | **—** | 510,000 | 45 |
| At end of period/year | **2,276,364,489** | **227,990** | 2,093,630,385 | 210,006 |

## 19. RELATED PARTY TRANSACTIONS

(i) In addition to the transactions detailed elsewhere in the interim condensed consolidated financial statements, the Group had the following material transactions with related parties:

| | | Six months ended 30 June | |
|---|---|---|---|
| Names of related parties | Nature of transactions | 2010 RMB'000 (Unaudited) | 2009 RMB'000 (Unaudited) |
| Yiwan Mining (Note a) | Purchase of iron ores (Note b) | **63,315** | 8,495 |
| Dong Shutong | On-behalf payment (Note c) | **27,316** | — |

## 19. RELATED PARTY TRANSACTIONS (Continued)

(i) (Continued)

Notes:

(a) Easyman is a company wholly owned by Mr. Dong Shutong, an executive Director and a substantial shareholder of the Company. The Directors consider that Mr. Dong Shutong through Easyman, as a lender of Yiwan Mining, has an indirect economic interest in Yiwan Mining.

(b) The transactions were carried out based on the terms agreed by the parties under an exclusive offtake agreement signed between Yiwan Mining and the Group in March 2007.

(c) The on-behalf payment from Mr. Dong Shutong is unsecured, interest-free and no fixed terms of repayment.

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

| | Six months ended 30 June | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Fees | **399** | 396 |
| Salary, allowances and benefits | **1,492** | 1,790 |
| Employee share option benefits | **420** | — |
| Pension scheme contributions | **17** | 17 |
| | **2,328** | 2,203 |

## 20. CONTINGENT LIABILITIES

(a) CNR Group Holdings, a wholly-owned subsidiary of the Company, assigned its carrier to ship a cargo of 41,900 ton iron ores from Indonesia to the PRC in November 2009. The vessel was stranded in November 2009 and salvors were engaged to salve both the vessel and the cargo on board pursuant to the terms of the salvage contract entered into with the owner of the vessel. Subsequent to the salvage operation, the salvors claimed against both the owner of the vessel and CNR Group Holdings, as owner of the cargo on board, for remuneration and salvage expenses. The salvors also exercised a lien against the cargo on board for their salvage expenses. CNR Group Holdings was requested to put up security to the salvors in the sum of US$550,000. Therefore, CNR Group Holdings arranged for and put up a letter of guarantee issued by its bank in December 2009 in this amount and procured its carrier to put up security in the sum of US$50,000, both as salvage security to the salvors.

In addition to the salvage claims, general average was initiated as a result of the same marine casualty incident. CNR Group Holdings was also required to put up general average deposit as security for the general average claims in sum of US$12,500. In January 2010, CNR Group Holdings gave an average bond and procured its carrier to pay the general average deposit to an average adjustor.

## 20. CONTINGENT LIABILITIES (Continued)

(a) (Continued)

While the Group received the cargo of iron ores in January 2010 without quality or quantity damage, no arbitration has been initiated by the salvors up to the approval date of the interim condensed consolidated financial statements, and therefore the awards to the salvors have not been determined and are subject to arbitrators' further adjustment of portions among CNR Group Holdings, its carrier and the owner of the vessel and no provision for the Group's share of the salvage expenses was made as at 30 June 2010.

The Directors believe the Group's share of the salvage expenses would not exceed the salvage security requested by the salvors and would not have significant impact on the financial position of the Group.

(b) On 3 February 2010, the Company was brought into a legal proceeding by two companies in the Supreme Court of Queensland (the "Court") in Australia mainly seeking the following:

(i) the injunction restraining the Company from asserting its security rights in relation to an aircraft during the operational life of the aircraft;

(ii) in the alternative, equitable damages in lieu of the claimed injunction; and

(iii) in the further alternative, damages for breach of contract in respect of the certain agreements between them and the Company (collectively referred to as the "Claims").

## 20. CONTINGENT LIABILITIES (Continued)

(b) (Continued)

The aforesaid agreements were entered into between the Company and the two companies in March 2008 in respect of a nickel ores project. To facilitate the transportation for such project, the Company advanced US$3.2 million to one of the two companies to purchase the aforesaid aircraft and the advance is secured, amongst others, by the aircraft which is included in the Company's property, plant and equipment as at 31 December 2009. The aforesaid agreements were subsequently terminated in July 2008 and the Company, on 10 February 2009, requested for repayment of the advance on 12 February 2010.

On 25 and 31 March 2010, the interim application was heard by the Court and the Company was successful in the interim hearing. The decision of the Court meant that the Company was able to take steps to enforce its rights to the aircraft. No comments were made about the strength of the damages claim in the interim hearing.

The aforesaid decision of the Court is an interim result only. These two companies could appeal the interim decision and be still seeking the abovementioned Claims.

Based on the available evidence and subject to discoveries, the Directors of the Company considered that there were valid defenses to the Claims and the Company had a good chance of success in the final hearing.

## 21. COMMITMENTS

### Capital commitments

| | 30 June 2010 RMB'000 (Unaudited) | 31 December 2009 RMB'000 (Audited) |
|---|---|---|
| Contracted, but not provided for: | | |
| Property, plant and equipment | **421,085** | 403,552 |

### Operating lease commitments

The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 30 June 2010 RMB'000 (Unaudited) | 31 December 2009 RMB'000 (Audited) |
|---|---|---|
| Within one year | **2,246** | 2,078 |
| In the second to fifth years, inclusive | **2,053** | 2,530 |
| | **4,299** | 4,608 |

## 22. APPROVAL OF THE INTERIM FINANCIAL REPORT

The interim condensed consolidated financial statements for the six months ended 30 June 2010 were approved and authorised for issue by the board of directors on 24 August 2010.

## CLOSURE OF REGISTER OF MEMBERS

The book close dates of the Group's interim dividend payment of HK$0.002 per share for the six months ended 30 June 2010 were set in the period from Monday, 20 September 2010 to Wednesday, 22 September 2010. The dividend will be distributed on Monday, 18 October 2010 to the shareholders whose names appear on the Company's Register of Members on Wednesday, 22 September 2010. The Register of Members of the Company will be closed from Monday, 20 September 2010 to Wednesday, 22 September 2010 (both dates inclusive) during which period no transfers of shares will be registered. In order to qualify for the entitlement to the interim dividend for the six months ended 30 June 2010, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 17 September 2010.

## DISCLOSURE OF INTERESTS

### a) Disclosure of interests by the directors

As at 30 June 2010, the interests and short positions of the directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are 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 for

Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(i) *Long positions in the underlying shares of the Company*

| Name of director | Capacity in which interests are held | Number of shares | Approximate percentage to the issued share capital of the Company |
|---|---|---|---|
| Mr. Dong Shutong | Beneficial owner | 1,502,204,705 (Note 1) | 65.99% |

(ii) *Long positions in the underlying shares of the Company attached to the share options granted by the Company*

| Name of director | Options to subscribe for Shares (note 2) | Capacity in which interests are held | Approximate percentage to the issued share capital of the Company |
|---|---|---|---|
| Mr. Dong Shutong | 5,000,000 | Beneficial owner | 0.22% |
| Mr. He Weiquan | 4,250,000 | Beneficial owner | 0.19% |
| Mr. Lau Hok Yuk | 3,000,000 | Beneficial owner | 0.13% |
| Mr. Song Wenzhou | 1,020,000 | Beneficial owner | 0.04% |
| Mr. Zhao Ping | 4,250,000 | Beneficial owner | 0.19% |
| Mr. Dong Chengzhe | 1,275,000 | Beneficial owner | 0.06% |

Notes:

1. 1,481,074,705 shares and 21,130,000 shares are held directly by Easyman Assets Management Limited ("Easyman") and Sino Regent Worldwide Limited ("Sino Regent") respectively. These two companies are wholly-owned by Mr. Dong Shutong ("Mr. Dong"). By virtue of the SFO, Mr. Dong is deemed to have beneficial interests in the above shares.

2. The above share options are unlisted equity-settled options granted pursuant to the Company's share option scheme adopted on 2 May 2005. Upon exercise of the options in accordance with such share option scheme, the Company's shares of HK$0.10 each are issuable to the Director(s) who exercise(s) the rights.

## b) Particulars of directors' service contracts

As at 30 June 2010, no director had a service contract with any member of the Group which is not determinable by the Company within one year without the payment other than statutory compensation.

## c) Save as disclosed above, as at 30 June 2010 :

(i) none of the directors and chief executive hold any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of the SFO) notifiable to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange;

(ii) none of the directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries; and

(iii) none of the directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this report and which is significant in relation to the business of the Group.

### d) Directors' interests in competing businesses

As at 30 June 2010, no director has an interest in the businesses (other than those businesses where the directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2010, according to the register kept by the Company under Section 336 of the SFO, the following persons and companies (other than the directors or chief executive of the Company) were interested in 5% or more in the Shares or underlying Shares which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO; or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

### (i) Long positions in the Shares as at 30 June 2010:

| Name of shareholder | Capacity in which interests are held | Number of shares/ underlying shares held | | Approximate percentage to the issued share capital of the Company | |
|---|---|---|---|---|---|
| | | Long positions | Short positions | Long positions | Short positions |
| Easyman Assets Management Limited (Note 1) | Beneficial owner | 1,481,074,705 | Nil | 65.06% | Nil |

Notes:

1. Easyman Assets Management Limited is wholly owned by Mr. Dong Shutong, chairman of the Company.

Save as disclosed above, so far as was known to the directors, there was no other person (other than the directors or chief executive of the Company) who, as at 30 June 2010, had an interest or short position in the Company's shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, beneficially interested in 5% or more of the issued share capital of the Company; or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Save as disclosed herein, none of the directors is a director or employee of a company which has an interest in the Company's shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## Share option scheme

Pursuant to an ordinary resolution passed on 2 May 2005, the Company adopted a share option scheme for the purpose of enabling the Company to recruit and retain high-calibre employees and attract resources that are valuable to the Group and to provide the Company with a means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to such persons who contribute or may bring benefit to the Group. The scheme will remain in force for a period of 10 years from adoption of such scheme and will expire on 2 May 2015.

As at June 30, 2010, the interest of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (SFO), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code contained in the Listing Rules ("Model Code") were as follows:

| | No. of share options | | | | | | |
|---|---|---|---|---|---|---|---|
| | At 1 January 2010 | Granted during the period | Exercised during the period | Lapsed during the period | At 30 June 2010 | Exercise price of share options* HK$ | Price of Company's share at exercise date of options HK$ |
| **Name of director** | | | | | | | |
| Mr. Dong Shutong | 5,000,000 | – | – | – | 5,000,000 | 1.07 | – |
| Mr. He Weiquan | 4,250,000 | – | – | – | 4,250,000 | 1.07 | – |
| Mr. Lau Hok Yuk | 3,000,000 | – | – | – | 3,000,000 | 1.91 | – |
| Mr. Song Wenzhou | 1,020,000 | – | – | – | 1,020,000 | 1.07 | – |
| Mr. Zhao Ping | 4,250,000 | – | – | – | 4,250,000 | 1.91 | – |
| Mr. Dong Chengzhe | 1,275,000 | – | – | – | 1,275,000 | 1.91 | – |
| Sub-total for number of share options to directors | 18,795,000 | – | – | – | 18,795,000 | | |
| **Other employees** | | | | | | | |
| | 7,650,000 | – | – | – | 7,650,000 | 1.07 | – |
| | 1,275,000 | – | – | – | 1,275,000 | 1.91 | – |
| | 3,000,000 | – | – | – | 3,000,000 | 2.37 | – |
| | 14,215,000 | – | – | – | 14,215,000 | 2.45 | – |
| Sub-total for number of share options to employees | 26,140,000 | – | – | – | 26,140,000 | | |
| Total | 44,935,000 | – | – | – | 44,935,000 | | |

Notes:

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

The Options will have a vesting schedule of 5 years whereby only 20% of the Options shall be exercisable 12 months after the Offer Date and an additional 20% may be exercised by the Grantee in each subsequent year until 5 years from the Offer Date when 100% of the Options may be exercised.

As of the date of this report, no share option has been exercised by the above directors and senior managers to subscribe for shares in the Company.

Except as disclosed above, as at the date of this report, no other share option has been granted by the Company pursuant to the Company's share option scheme.

Save as disclosed above, at no time during the Relevant Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company listed securities during the six months ended 30 June 2010.

## AUDIT COMMITTEE

The Audit Committee is comprised of three independent non-executive directors, namely Mr. Wong Chi Keung, Mr. Bai Baohua and Mr. Huang Changhuai and Mr. Wong Chi Keung is the chairman of the audit committee. The primary duties of the audit committee are to review the financial reporting process and internal control procedures of the Group.

## CHANGES IN DIRECTOR'S INFORMATION

Mr. Wong Chi Keung, independent non-executive director, has been appointed as an independent non-executive director of Ngai Lik Industrial Holdings Limited with effect from 19 January 2010 and has ceased to be an independent non-executive director of Great Wall Motor Company Limited with effect from 5 June 2009, both of which are listed on The Stock Exchange of Hong Kong Limited.

Save as disclosed above, no other changes in biographical details in respect of Mr. Wong Chi Keung.

## CORPORATE GOVERNANCE

### (a) Compliance with the Code on Corporate Governance Practices

In the opinion of the directors, save as disclosed below, the Company has complied with the code provisions (the "Code Provisions") set out in the Code of Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules for the six months ended 30 June 2010.

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, whereas the Company did not appoint another individual to act as a chief executive for the period ended 30 June 2010 and up to the date of the report. This constitutes a deviation from code provision A.2.1. The Board believes that it is in the best interest of the Company and the shareholders as a whole for 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 is 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.

Under the Code Provisions A.4.1 and A.4.2, non-executive directors should be appointed for a specific term. The existing non-executive directors of the Company 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 practices are similar to those provided in the Code.

**(b) Compliance with the Model Code**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, all directors have complied with the required standard set out in the Model Code for the six months ended 30 June 2010.

On behalf of the Board
**Mr. Dong Shutong**
*Chairman*

Hong Kong, 24 August 2010