



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

2008
Interim Report



Global Operations



- 1 Zhenzhou Office
- 2 Luoyang Plant
- 3 Gongyi Plant 1
- 4 Gongyi Plant 2 (under construction)
- 5 Hong Kong Office

- 6 Singapore Office
- 7 Jakarta Office
- 8 Mine in South Kalimantan (exclusive off-take right)
- 9 Plant in South Kalimantan (to be built)

China Nickel Resources
Holdings Company Limited

2008

Interim Report

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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

Non-executive directors

Mr. Yang Tianjun

Independent non-executive directors

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

Audit Committee

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

Company Secretary and Qualified Accountant

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

Authorised Representatives

Mr. Dong Shutong
Mr. Lau Hok Yuk

Registered Office

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Cayman Islands

Head Office in PRC

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Zhengzhou City, Henan Province
PRC 450012

Principal Place of Business in Hong Kong

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China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Auditors

Ernst & Young

Principal Share Registrar and Transfer Office

Butterfield Bank (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong
Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

CITIC Ka Wah Bank Limited
Deutsche Bank AG, Hong Kong Branch
Oversea — Chinese Banking
Corporation Limited
Nanyang Commercial Bank

Website

www.cnrholdings.com

Stock Code

2889

Financial Highlights

Result Summary

| (Unaudited) | 2008 | 2007 | Change % | 2007 | Change % |
|--|-----------------------|-----------------------|-------------|------------------------|-------------|
| | First Half RMB'000 | First Half RMB'000 | | Second Half RMB'000 | |
| Turnover | 1,012,738 | 1,262,069 | (20)% | 612,522 | 65% |
| Gross Profit | 203,633 | 418,161 | (51)% | 167,938 | 21% |
| Earning Before Interest, Tax, Depreciation and Amortization ("EBITDA") | 252,253 | 423,316 | (40)% | 199,010 | 27% |
| Profit before Income Tax | 114,521 | 351,466 | (67)% | 119,281 | (4)% |
| Profit Attributable to Shareholders | 97,343 | 274,350 | (65)% | 84,941 | 15% |
| Gross Profit Margin | 20% | 33% | (13)% | 27% | (7)% |
| EBITDA Margin | 25% | 34% | (9)% | 32% | (7)% |
| Profit Before Tax Margin | 11% | 28% | (17)% | 19% | (8)% |
| Net Profit Margin | 10% | 22% | (12)% | 14% | (4)% |

The board of directors ("the Board") 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 2008 was RMB1,012.7 million. Unaudited profit attributable to shareholders of the Company was RMB97.3 million. Unaudited basic earnings per share for the first half of 2008 was RMB0.047. Earnings per share was based on the weighted average of 2,093.0 million shares in issue in first half of 2008, as compared to the weighted average of 904.4 million shares in first half of 2007. The Board are pleased to declare interim dividend of HK\$0.017 per share, totalling HK\$35.6 million. The unaudited consolidated interim financial statements for the six months ended 30 June 2008 have been reviewed by the Company's Audit Committee.

Business Review

In the first half of 2008, prices of raw materials and fuels in the market continued to rise and the shipping cost was fluctuating with oil price. On the other hand, the US subprime mortgage crisis had not subsided and the global economic growth saw a slight decline. Nickel price, after reaching record high in May last year, was retracing and still fluctuating. Nevertheless, the demand in the steel product market remained strong with rising costs and continuously surging steel product prices. After successively surmounting the threats posed by enormous natural disasters such as snowstorms and earthquakes, the PRC's GDP still recorded a growth of 10.4% year-on-year in the first six months, representing a decline of 1.8 percentage-points over the corresponding period of the previous year.

In the first half of 2008, the Company endeavoured to overcome the above unfavourable circumstances. Through various measures such as adjusting product strategy and optimizing production management, the Company further improved operation performance and achieved its output target for the first half 2008. By further leveraging on the Company's offtake right on mineral resources and shipping arrangement at low fixed cost, the price risk exposure on both raw material and products and their impact on the profitability of the industry were reduced significantly. Even though the industry was experiencing a correction since the middle of 2007, the Company still recorded sales volume of 128,069 tonnes (first half of 2007: 155,241 tonnes; second half of 2007: 82,833 tonnes) and net profit of RMB97.3 million (first half of 2007: RMB274.4 million; second half of 2007: RMB84.9 million) in the first half of 2008.

The Company is pleased to report the following achievements and business development in the first half of 2008:

Progress of Business Expansion

After the fund raising activities were successfully completed in 2007, together with the cash flow generated internally, the Group has sufficient fund to kick off the planned expansion projects.

In October 2007, CNR Group Holdings Pte. Ltd. was incorporated in Singapore. This wholly owned subsidiary of the Group shall be an investment holding company and trading centre to manage the investment in Indonesia and trading activities for raw material and output from the Indonesia plant.

Progress of Business Expansion (continued)

In January 2008, PT Mandan Steel was incorporated in Indonesia. A new plant shall be constructed near the location of the mine of which the Group has an exclusive off-take right to procure ore. The Group is now finalizing all necessary compliance and preparation works for construction and the Group plans to complete the construction work of the initial stage in 2010.

In January 2008, the Group kicked off the expansion project in China by acquiring an existing steel company in Gongyi city, the same city in which the Group's existing steel plant located. Through this acquired steel company, the registration of a nickel refinery project has been accepted by the province government in January. In June, the city government also granted the permission for the total pollution load to the projects submitted by this acquired company and the environmental assessment works have also been completed in September. The Group plans to complete construction work of the initial stage in 2009.

Extension of Contract Period of the Exclusive Off-take Agreement

To support long term development strategy and fully apply its internal resources and advantages, the supplier of the exclusive off-take agreement PT Yiwang Mining ("Yiwang") has applied for extension of the term of its mining authorisations ("Mining Authorizations") pursuant to the request of the Group, and Yiwang has obtained approval from the relevant authority in Indonesia in connection with such extension of the Mining Authorizations from 15 to 30 years up to 24 January 2036 (the "Extended Rights"). In order to benefit from the Extended Rights of Yiwang, the Group has also amended the relevant agreements to extend the original term up to 24 January 2036 ("Amended Term") to coincide with the expiry term of the extended term of the Mining Authorizations. The terms of the exclusive off-take agreement therefore has been extended from approximately 14 years to approximately 29 years. No consideration is charged on the Group for such amendment and extended term.

Management Discussion and Analysis

Turnover and Sales Volume

Major products of the Group were stainless steel base material, bearing steel and Ni-Cr alloy steel ingot. The tables below set out the sales volume and turnover of our major products for the periods indicated:

Sales Volume

| | 2008 | | 2007 | | 2007 | |
|-----------------------------------|----------------|-------------|------------|------|-------------|------|
| | First Half | | First Half | | Second Half | |
| | (tonnes) | % | (tonnes) | % | (tonnes) | % |
| Stainless Steel | | | | | | |
| Base Material | 104,619 | 82% | 100,674 | 65% | 81,837 | 99% |
| Bearing Steel (note) | 12,748 | 10% | 46,204 | 30% | 164 | — |
| Ni-Cr alloy steel ingot | 9,875 | 8% | — | — | — | — |
| Ni-Cr bearing steel | 307 | — | — | — | — | — |
| Spring Steel | — | — | 1,205 | 1% | — | — |
| Carbon Structure Steel & Other | | | | | | |
| Steel (note) | 520 | — | 7,158 | 4% | 832 | 1% |
| Total | 128,069 | 100% | 155,241 | 100% | 82,833 | 100% |

Turnover and Sales Volume (continued)

Turnover

| | 2008 First Half | | 2007 First Half (Restated) | | 2007 Second Half | |
|----------------------|--------------------|-------------|----------------------------------|------|---------------------|------|
| | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Stainless Steel | | | | | | |
| Base Material | 851,077 | 84% | 1,083,167 | 85% | 604,360 | 99% |
| Bearing Steel (note) | 89,182 | 9% | 158,707 | 13% | 504 | — |
| Ni-Cr alloy | | | | | | |
| steel ingot | 65,333 | 6% | — | — | — | — |
| Ni-Cr bearing steel | 4,327 | 1% | — | — | — | — |
| Spring Steel | — | — | 3,877 | 1% | — | — |
| Carbon Structure | | | | | | |
| Steel & Other | | | | | | |
| Steel (note) | 2,819 | — | 16,318 | 1% | 7,658 | 1% |
| Total | 1,012,738 | 100% | 1,262,069 | 100% | 612,522 | 100% |

Note: The sales volume and turnover of both Bearing Steel and Carbon Structure Steel & Other Steel for 2007 first half has been reclassified for better comparison.

Management Discussion and Analysis

Turnover and Sales Volume (continued)

Since the beginning of 2007, the Group has been modifying its products mix and production facilities to respond to the market opportunities and economic changes.

After the modification of products mix, in the first half of 2008, the Group's sales in stainless steel base material was 104,619 tonnes (2007 first half: 100,674 tonnes; second half: 81,837 tonnes), representing 82% of total sales volume and sales in bearing steel was 12,748 tonnes (2007 first half (restated): 46,204 tonnes; second half: 164 tonnes).

During the first half of 2008, the average unit selling price per tonne for stainless steel base material was RMB8,135 (2007 first half: RMB10,759; second half: RMB7,385) while the average unit selling price per tonne for bearing steel was RMB6,996 (2007 first half (restated): RMB3,435; second half: RMB3,078).

Although the average selling price of stainless steel base material was not as high as that in the first half 2007, it was higher than that in the second half 2007. In addition to the contribution of increasing price in bearing steel, the Group's turnover in the first half of 2008 was RMB1,012.7 million (2007 first half: RMB1,262.1 million; second half: RMB612.5 million).

Cost of Sales

The cost of sales in the first half of 2008 was approximately RMB809.1 million (2007 first half: RMB843.9 million; second half: RMB444.6 million).

The unit cost of sales for stainless steel base material was RMB6,295 per tonne in the first half of 2008 (2007 first half: RMB6,914; second half: RMB5,373). The unit cost of sales for bearing steel in the first half of 2008 was RMB6,226 per tonne (2007 first half (restated): RMB2,668 per tonne; second half: RMB2,242 per tonne).

Cost of Sales (continued)

The cost of iron ore and shipping costs are the major components in the raw materials cost. Although these costs continued to rise in the market, the Group has overcome these unfavourable factors with its own exclusive off-take right on mineral resources and shipping arrangement at low fixed cost. Therefore the percentages of raw material in the first half 2008 was reduced to 49% of the cost of sales (2007 first half: 59%; second half: 54%). Similar to other steel makers, the Group was exposed to the price risk of fuel but the Group has controlled it at a level similar to that of 2007 second half (2008 first half: 35%; 2007 first half: 21%; 2007 second half: 34%).

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

Cost of Sales

| | 2008 | | 2007 | | 2007 | |
|---------------|----------------|-------------|----------------|-------------|----------------|-------------|
| | First Half | | First Half | | Second Half | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Raw Materials | 396,035 | 49% | 503,953 | 59% | 239,888 | 54% |
| Fuel | 279,924 | 35% | 180,083 | 21% | 149,190 | 34% |
| Utilities | 63,015 | 8% | 85,030 | 10% | 30,167 | 7% |
| Depreciation | 34,360 | 4% | 45,268 | 5% | 11,922 | 3% |
| Staff Cost | 22,329 | 3% | 21,261 | 3% | 10,824 | 2% |
| Repair | 6,206 | — | 6,471 | 1% | 813 | — |
| Others | 7,236 | 1% | 1,842 | 1% | 1,781 | — |
| | 809,105 | 100% | 843,908 | 100% | 444,585 | 100% |

Management Discussion and Analysis

Gross Profit

The unit gross profit for stainless steel base material in the first half of 2007 was RMB1,840 per tonne (2007 first half: RMB3,845 per tonne; second half: RMB2,012 per tonne), representing a gross profit margin of 23%. The unit gross profit for bearing steel in the first half of 2008 was RMB770 per tonne (2007 first half (restated): RMB767 per tonne; second half: RMB836), representing a gross profit margin of 11%.

As a result, the Group's gross profits in the first half of 2008 was RMB203.6 million (2007 first half: RMB418.2 million; second half: RMB167.9 million). The Group's gross profit margin in the first half of 2008 was 20% (2007 first half: 33%; second half: 27%).

Other Income

Other income in the first half of 2008 was RMB84.4 million (2007 first half: RMB21.7 million; second half: RMB51.3 million).

Selling and Distribution Costs

Selling and distribution costs in the first half of 2008 was RMB15.2 million (2007 first half: RMB30.7 million; second half: RMB13.3 million), representing 1.5% of turnover (2007 first half: 2.4%; second half: 2.2%).

Administrative Costs

Administrative costs in the first half of 2008 was RMB62.7 million (2007 first half: RMB34.0 million; second half: RMB41.4 million), representing 6.2% of turnover (2007 first half: 2.7%; second half: 6.8%). This is in line with the increase in the business development activities associated with the expansion projects of the Group.

Finance Costs

The Company issued the 3% coupon convertible bonds due 2012 in May 2007 and the zero coupon convertible bonds due 2012 in December 2007. Interest paid and accrued in the form of coupon payment amounted to RMB4.9 million in the first half of 2008 (2007 first half: RMB2.2 million; second half: RMB7.2 million). According to relevant IFRSs, estimated future cash flow for convertible bonds were discounted at effective interest rates. Therefore, the deemed effective interest included both coupon payment and financial charges accrued for redemption or conversion in the future. The total financial charges for convertible bonds based on effective interest method amounted to RMB71.9 million in the first half of 2008 (2007 first half: RMB7.0 million; second half: RMB28.9 million).

Finance costs in the first half of 2008 was RMB88.0 million (2007 first half: RMB23.2 million; second half: RMB44.9 million). This is mainly due to the increase in interest expenses for the 3% convertible bonds due 2012 and the zero coupon convertible bonds due 2012 as capital expenditure to finance steel mill expansion in the PRC and Indonesia.

Profit before Income Tax

As a result of the factors discussed above, the profit before income tax in the first half of 2008 was RMB114.5 million (2007 first half: RMB351.5 million; second half: RMB119.2 million).

In the first half of 2008, the Group's profit before tax margin was 11%. The earning before interest, tax, depreciation and amortization (EBITDA) margin was 25%.

Management Discussion and Analysis

Income Tax Expense

The applicable Hong Kong corporate income rate of the Company which operates in Hong Kong is 16.5% based on existing legislation. Yongtong Special Steel is entitled to a 50% reduction in income of PRC for the year ended 31 December 2006 & 31 December 2007 and year ending 31 December 2008. In accordance with relevant tax laws and regulations in the PRC and pursuant to approval from the relevant local tax authority dated 6 September 2002, Yongtong Special Steel is also fully exempted from the 3% attributable to local municipal income tax. Accordingly, Yongtong Special Steel was subject to PRC corporate income tax at an applicable income tax rate of 15% for the year ending 31 December 2008. The applicable income tax rate of Luoyang Yongan Special Steel Co., Ltd. is 25% for the year ending 31 December 2008.

Profit Attributable to Shareholders

As a result of the factors discussed above, the profit attributable to shareholders in the first half of 2008 was RMB97.3 million (2007 first half: RMB274.4 million; second half: RMB84.9 million).

The Group's net profit margin in the first half of 2008 was 10%.

Key Financial Ratios

| | Notes | Six months ended 30 June 2008 | Year ended 31 December 2007 |
|-------------------------------------|-------|-------------------------------------|-----------------------------------|
| Current ratio | 1 | 235% | 328% |
| Inventories turnover days | 2 | 204 days | 225 days |
| Debtor turnover days | 3 | 56 days | 41 days |
| Creditor turnover days | 4 | 138 days | 159 days |
| Interest cover** | 5 | 2 times | 8 times |
| Gearing ratio | 6 | 57% | 58% |
| Debt to EBITDA ratio* | 7 | 9.4 times | 1.4 times |
| Net debt/Capital and net debt ratio | 8 | 21% | 17% |

Notes:

| | | | | | |
|----|--|------------------------|----|---|--------|
| 1. | $\frac{\text{Current assets}}{\text{Current liabilities}}$ | X 100% | 5. | $\frac{\text{Profit before interest and tax}}{\text{Net interest expense}}$ | |
| 2. | $\frac{\text{Inventories}}{\text{Cost of sales}}$ | X 182 days or 365 days | 6. | $\frac{\text{Interest-bearing loans and other borrowings}}{\text{Equity attributable to the shareholders}}$ | X 100% |
| 3. | $\frac{\text{Trade and notes receivables}}{\text{Turnover}}$ | X 182 days or 365 days | 7. | $\frac{\text{Interest-bearing loans and other borrowings}}{\text{EBITDA}}$ | |
| 4. | $\frac{\text{Trade and notes payables}}{\text{Cost of sales}}$ | X 182 days or 365 days | 8. | $\frac{\text{Net debt}}{\text{Capital and net debt}}$ | |

Management Discussion and Analysis

Key Financial Ratios (continued)

- * Since the Group has issued a convertible bond of HK\$2 billion on 12 December 2007, for better comparison, weighted average debt balances on monthly basis was used in calculating the debt to EBITDA ratios.
- ** Interest expenses for convertible bonds included both coupon payment and financial charges accrued for redemption or conversion in the future. If financial charges accrued for redemption or conversion are excluded in the ratio computation, the Interest cover will be 15 times for the six months ended 30 June 2008 (Year ended 31 December 2007: 17 times).

Construction in Progress

The construction in progress as at 1 January 2008 and 30 June 2008 were RMB168.3 million and RMB258.6 million, respectively, which increased by RMB90.3 million. This was mainly due to the increase in construction in progress related to the expansion project in China and the addition of facilities to cope with the increase in production capacity in the second half 2008.

Cash and Bank Balances

The decrease in cash and bank balances by approximately RMB228.6 million to RMB2,009 million as at 30 June 2008 compared to that as at 31 December 2007 due to the start of the expansion projects in 2008.

Trade and Notes Receivables

The debtor turnover days increased from 41 days in 2007 to 56 days for the six months period ended 30 June 2008. As at 30 June 2008, trade and notes receivables balance increased by RMB100.9 million to RMB310.3 million. This was mainly due to most of the goods delivery to customers were rescheduled to the second quarter of 2008 after the snow storm and earthquake subsided in the first half 2008.

Inventories

The inventories turnover days decreased from 225 days in 2007 to 204 days for the six months period ended 30 June 2008. As at 30 June 2008, inventories balance increased by RMB113.4 million to RMB909.1 million to cope with the increase in planned production in the second half 2008.

Trade and Notes Payables

As at 30 June 2008, trade and notes payables balance increased by RMB53.1 million to RMB613.6 million. However, the creditor turnover days decreased from 159 days in 2007 to 138 days for the six months ended 30 June 2008. This was mainly due to early repayment of trust receipt loans related to import of raw materials.

Interest-bearing Loans and Other Borrowings

As at 30 June 2008, the total interest-bearing loans and other borrowings decreased by RMB21 million to RMB2,353.9 million. Since the Group's equity has also increased in May 2007, the gearing ratio decreased from 58% as at 31 December 2007 to 57% as at 30 June 2008.

Management Discussion and Analysis

Use of Proceeds

The net proceeds from the Share Subscription and the Convertible Bond Subscription in May 2007 were approximately HK\$700 million.

As at 30 June 2008, net proceeds were utilized in the following manner:

| | Usage as disclosed in prospectus HK\$'million | Utilised HK\$'million |
|--|--|--------------------------|
| Business expansion, capital expenditures, and general working capital related to new processing facility in the PRC for the ores | 700.0 | 700.0 |

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

As at 30 June 2008, the planned usage of net proceeds was as follows:

| | Usage as disclosed in prospectus HK\$'million | Utilised HK\$'million |
|--|--|--------------------------|
| Capital expenditures of steel mill expansion in the PRC and Indonesia | 1,462.5 | 183.1 |
| General working capital | 487.5 | 23.4 |

The unutilized balance was placed in short term bank deposits.

Liquidity and Capital Resources

Our working capital has been principally sourced from cash generated from operations and from long-term and short term debt. We also make prepayments to our suppliers which amounted to RMB20.1 million as at 30 June 2008.

As at 30 June 2008, the Group had current liabilities of RMB1,431.5 million, of which RMB181.6 million were interest-bearing loans and other borrowings repayable within one year, RMB613.6 million were trade and notes payables in respect of purchase of raw materials, and RMB328.5 million were current portion of convertible bonds.

Foreign Currency Exposure

Since July 2004, the Group has begun the purchase of iron ore from overseas suppliers. All these contracts are in US\$ and therefore lead the Group to foreign exchange exposure. As the US\$ and RMB exchange rate is quite stable and the RMB is in a favourable 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. All bank loans are in RMB.

Since part of the proceeds from the convertible bonds issued in December 2007 will be used to build a steel plant in Indonesia through an investment holding subsidiary of the Group which is incorporated in Singapore, and Singapore dollar (“SG\$”) is highly correlated with RMB, about 60% of the proceeds in HK\$ from the convertible bonds has been converted into SG\$ in January of 2008. Besides, the Group does not enter any hedging transactions to manage the potential fluctuation in foreign currency as the directors consider the Group has no significant foreign currency risk.

Management Discussion and Analysis

Security

As at 30 June 2008, the Group had a short term bank loans approximately RMB83 million which were secured by pledged deposit of SG\$8.7 million and EUR4 million (total approximately RMB87 million).

Capital Commitment and Contingent Liabilities

As at 30 June 2008, the Group had capital commitments of approximately RMB140.7 million for remaining parts of equipment refinement project.

Employee and Remuneration Policy

As at 30 June 2008, the Group had approximately 3,300 employees, of whom 21 were management personnel. As at the same date, about 98% of our workforce had completed technical school or higher education.

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 RMB38.2 million (2007 corresponding period: RMB35.3 million).

Prospects

Modification of Product Mix and Increase in Planned Production

Facing changes in the raw material market and the domestic and overseas economies, the Company began to adjust its product mix since June 2008. Supported by its scalable iron making facilities, the Company reduced the output proportion of high nickel content products and increased that of nickel-chromium alloy steel and low nickel pig iron and ordinary bearing steel products. In order to meet strong market demand and by fully utilizing the excess production capacity of its refinery furnaces and steel rolling system, the Company's planned annual output of steel products for 2008 has been revised from approximately 250,000 tonnes to maximum 400,000 tonnes (the actual production capacity will depend on the product types and nickel content based on customers' final specifications) to meet strong market demand for the year ending 31 December 2008.

The Company has also amended the pricing formula to incorporate composite value of both nickel, iron and chromium with its major customers of stainless steel base material recently. This will further stabilize the selling price and margin of this product.

In addition to the current products type, the Group will further develop new special steel product line related to oil plant and petroleum machine. The Group has also appointed specialists as consultants to take charge the new products development.

Application of the Research & Development Results in the New Projects

Since we have announced the project plans in China and Indonesia at the end of last year, we have continuously put effort in improving our proprietary technology in ore separation and refinery process and encouraging results have been achieved. We shall design and set up the facilities in the two new plants to allow flexibility to output semi-finished or finished products of iron, nickel and cobalt based on the benefit-effectiveness under different economic situation. Based on the current cost-benefit data, the new plant may achieve a stable and high gross margin.

Prospects

Application of the Research & Development Results in the New Projects (continued)

With the non-coke steel making technology and the Group's cost advantage on iron ore, the major products such as anti-quake steel and weathering steel to be manufactured in the Indonesia plant will generate a very high profit margin.

Award of Tax Incentive

We are also glad to share with the market that in September 2008, CNR Group Holdings Pte Ltd ("CNR Singapore"), being an indirect wholly-owned subsidiary of the Company incorporated in Singapore, has been awarded the Global Trader Programme ("GTP") status by International Enterprise Singapore ("IES", the lead agency under the Singapore's Ministry of Trade and Industry spearheading the development of Singapore's external economic wing) for a period of 5 years from 1 January 2009. With the GTP status, CNR Singapore is entitled to a 5-year tax concessionary rate of 5% subject to, amongst others, CNR Singapore achieving certain minimum cumulative physical turnover, incurring certain minimum cumulative local attributable business spending in Singapore, employing a number of international trading professionals and so on. The incentive status is also renewable at the end of such 5-year tax concessionary period.

Development of Overseas Business

With the award of the GTP status, we shall position CNR Singapore as one of the major trading centres of the Group for procuring raw material and trading finished/semi-finished products in overseas. We believe this incentive status may help the Group significantly lower the Group's effective tax rate in the future. The Group shall gradually explore the international market and procurement through the platforms in Hong Kong and Singapore.

Interim Condensed Consolidated Income Statement

For the six months ended 30 June 2008

| | | For the six months ended 30 June | |
|--|-------|-------------------------------------|------------------------|
| | | 2008 | 2007 |
| | Notes | (Unaudited) RMB'000 | (Unaudited) RMB'000 |
| Revenue | 4 | 1,012,738 | 1,262,069 |
| Cost of sales | | (809,105) | (843,908) |
| Gross profit | | 203,633 | 418,161 |
| Other income and gains | 4 | 84,388 | 21,679 |
| Selling and distribution costs | | (15,176) | (30,736) |
| Administrative expenses | | (62,734) | (34,038) |
| Other expenses | | (7,590) | (408) |
| Finance costs | 5 | (88,000) | (23,192) |
| Profit before income tax | 6 | 114,521 | 351,466 |
| Income tax expenses | 7 | (16,494) | (77,084) |
| Profit for the period | | 98,027 | 274,382 |
| Attributable to: | | | |
| Equity holders of the Company | | 97,343 | 274,350 |
| Minority interests | | 684 | 32 |
| | | 98,027 | 274,382 |
| Dividends | 9 | 31,284 | 91,793 |
| Earnings per share attributable to ordinary equity holders of the Company | 8 | | |
| Basic | | RMB0.047 | RMB0.303 |
| Diluted | | RMB0.043 | RMB0.274 |

Interim Condensed Consolidated Balance Sheet

30 June 2008

| | | 30 June 2008 (Unaudited) RMB'000 | 31 December 2007 (Audited) RMB'000 |
|---|-------|---|---|
| | Notes | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 10 | 906,846 | 930,838 |
| Construction in progress | | 258,562 | 168,294 |
| Prepaid land lease payments | | 201,321 | 201,485 |
| Goodwill | 11 | 58,394 | 65,052 |
| Intangible assets | 12 | 2,665,680 | 2,682,095 |
| Deferred tax assets | | 39,608 | 24,290 |
| Prepayments | | 22,160 | 34,991 |
| Total non-current assets | | 4,152,571 | 4,107,045 |
| CURRENT ASSETS | | | |
| Inventories | | 909,089 | 795,693 |
| Trade and notes receivables | 13 | 310,264 | 209,369 |
| Prepayments, deposits and other receivables | | 133,023 | 52,335 |
| Pledged time deposits | 14 | 426,522 | 327,642 |
| Cash and cash equivalents | 14 | 1,582,456 | 1,909,959 |
| Total current assets | | 3,361,354 | 3,294,998 |
| TOTAL ASSETS | | 7,513,925 | 7,402,043 |
| CURRENT LIABILITIES | | | |
| Trade and notes payables | 15 | 613,580 | 560,517 |
| Accrued liabilities and other payables | | 232,842 | 231,662 |
| Interest-bearing loans and other borrowings | 16 | 181,589 | 140,659 |
| Current portion of convertible bonds | 17 | 328,456 | — |
| Tax payable | | 75,035 | 70,851 |
| Total current liabilities | | 1,431,502 | 1,003,689 |
| NET CURRENT ASSETS | | 1,929,852 | 2,291,309 |

Interim Condensed Consolidated Balance Sheet

30 June 2008

| | Notes | 30 June 2008 (Unaudited) RMB'000 | 31 December 2007 (Audited) RMB'000 |
|---|-------|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 6,082,423 | 6,398,354 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing loans and other borrowings | 16 | 123,014 | 120,370 |
| Convertible bonds | 17 | 1,720,817 | 2,113,871 |
| Deferred tax liabilities | | 26,404 | 26,886 |
| Total non-current liabilities | | 1,870,235 | 2,261,127 |
| NET ASSETS | | 4,212,188 | 4,137,227 |
| EQUITY | | | |
| Equity attributable to equity holders of the Company | | | |
| Issued capital | 18 | 209,961 | 209,938 |
| Equity component of convertible bonds | 17 | 73,198 | 73,198 |
| Other reserves | | 3,874,154 | 3,775,501 |
| Proposed final dividend | | — | 24,399 |
| | | 4,157,313 | 4,083,036 |
| Minority interests | | 54,875 | 54,191 |
| TOTAL EQUITY | | 4,212,188 | 4,137,227 |

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008

| | Attributable to equity holders of the parent | | | | | | | | | | | | |
|---|--|---|---|---|---|---|--|--|--|---|---------------------------------|--|--|
| | Issued capital (Unaudited) RMB'000 | Share premium account (Unaudited) RMB'000 | Contributed surplus (Unaudited) RMB'000 | Capital reserve (Unaudited) RMB'000 | Share option reserves (Unaudited) RMB'000 | Equity component of convertible bonds (Unaudited) RMB'000 | Statutory surplus of reserves and statutory reserve fund (Unaudited) RMB'000 | Exchange fluctuation reserve (Unaudited) RMB'000 | Retained profits (Unaudited) RMB'000 | Proposed final dividend (Unaudited) RMB'000 | Total (Unaudited) RMB'000 | Minority interests (Unaudited) RMB'000 | Total equity (Unaudited) RMB'000 |
| | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| At 1 January 2008 | 209,938 | 2,691,523 | 51,599 | 417,963 | 7,936 | 73,198 | 75,117 | (12,971) | 544,334 | 24,399 | 4,083,036 | 54,191 | 4,137,227 |
| Total income and expense recognised directly in equity-exchange realignment | — | — | — | — | — | — | — | (2,588) | — | — | (2,588) | — | (2,588) |
| Profit for the period | — | — | — | — | — | — | — | — | 97,343 | — | 97,343 | 684 | 98,027 |
| Total income and expense for the period | — | — | — | — | — | — | — | (2,588) | 97,343 | — | 94,755 | 684 | 95,439 |
| Exercise of share options | 23 | 568 | — | — | (154) | — | — | — | — | — | 437 | — | 437 |
| Equity-settled share option arrangements | — | — | — | — | 3,484 | — | — | — | — | — | 3,484 | — | 3,484 |
| Transferred from retained profits | — | — | — | — | — | — | 5,599 | — | (5,599) | — | — | — | — |
| Adjustment on proposed final 2007 dividend for new shares issued | — | — | — | — | — | — | — | — | — | 3 | 3 | — | 3 |
| Final 2007 dividend declared | — | — | — | — | — | — | — | — | — | (24,402) | (24,402) | — | (24,402) |
| At 30 June 2008 | 209,961 | 2,692,091 | 51,599 | 417,963 | 11,266 | 73,198 | 80,716 | (15,559) | 636,078 | — | 4,157,313 | 54,875 | 4,212,188 |

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008

| | Attributable to equity holders of the parent | | | | | | | | | | | | Total equity (Unaudited) RMB'000 |
|---|--|---|---|---|---|---|---|--|--|---|---------------------------------|--|--|
| | Issued capital (Unaudited) RMB'000 | Share premium account (Unaudited) RMB'000 | Contributed surplus (Unaudited) RMB'000 | Capital reserve (Unaudited) RMB'000 | Share option reserves (Unaudited) RMB'000 | Equity component of convertible bonds (Unaudited) RMB'000 | Statutory surplus reserves and statutory reserve fund (Unaudited) RMB'000 | Exchange fluctuation reserve (Unaudited) RMB'000 | Retained profits (Unaudited) RMB'000 | Proposed final dividend (Unaudited) RMB'000 | Total (Unaudited) RMB'000 | Minority interests (Unaudited) RMB'000 | |
| | | | | | | | | | | | | | |
| At 1 January 2007 | 61,119 | 326,217 | 51,599 | 122,147 | 3,565 | — | 47,949 | (2,176) | 212,211 | 17,153 | 839,784 | 7 | 839,791 |
| Total income and expense recognised directly in equity-exchange realignment | — | — | — | — | — | — | — | 1,779 | — | — | 1,779 | — | 1,779 |
| Profit for the period | — | — | — | — | — | — | — | — | 274,350 | — | 274,350 | 32 | 274,382 |
| Total income and expense for the period | — | — | — | — | — | — | — | 1,779 | 274,350 | — | 276,129 | 32 | 276,161 |
| Issue of ordinary shares | 137,399 | 2,239,598 | — | — | — | — | — | — | — | — | 2,376,997 | — | 2,376,997 |
| Share issue expenses | — | (2,964) | — | — | — | — | — | — | — | — | (2,964) | — | (2,964) |
| Issue of convertible notes | — | — | — | 311,135 | — | — | — | — | — | — | 311,135 | — | 311,135 |
| Equity-settled share option arrangements | — | — | — | — | 2,106 | — | — | — | — | — | 2,106 | — | 2,106 |
| Issue of convertible bonds, net of transaction costs | — | — | — | — | — | 13,559 | — | — | — | — | 13,559 | — | 13,559 |
| Transferred from retained profits | — | — | — | — | — | — | 18,585 | — | (18,585) | — | — | — | — |
| Acquisition of a subsidiary | — | — | — | — | — | — | — | — | — | — | — | 31,379 | 31,379 |
| Final 2006 dividend declared | — | — | — | — | — | — | — | — | — | (17,153) | (17,153) | — | (17,153) |
| At 30 June 2007 | 198,518 | 2,562,851 | 51,599 | 433,282 | 5,671 | 13,559 | 66,534 | (397) | 467,976 | — | 3,799,593 | 31,418 | 3,831,011 |

Interim Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

| | For the six months ended 30 June | |
|--|-------------------------------------|-------------|
| | 2008 | 2007 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES | (19,087) | 485,356 |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES | (238,146) | (343,749) |
| NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES | (3,806) | 551,214 |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (261,039) | 692,821 |
| Cash and cash equivalents at beginning of period | 1,909,959 | 80,777 |
| Effect of foreign exchange rate changes, net | (66,464) | (4,380) |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 1,582,456 | 769,218 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS: | | |
| Cash and bank balances | 674,920 | 520,489 |
| Unrestricted time deposits with original maturity of less than three months | 907,536 | 248,729 |
| | 1,582,456 | 769,218 |

Notes to Interim Condensed Consolidated Financial Information

30 June 2008

I. Corporation Information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 March 2003 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 4 Third Street, Jinshui District, 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 ores. The Group is principally engaged in the manufacture and sale of special steel products in the PRC.

In the opinion of 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.I Basis of Preparation

The unaudited interim condensed consolidated financial information, which comprise the condensed consolidated balance sheet of the Group as at 30 June 2008 and the related condensed consolidated statements of income, changes in equity and cash flow for the six months ended 30 June 2008, have been prepared in accordance with the International Accounting Standard ("IAS") 34 Interim Financial Reporting issued by the International Accounting Standards Board.

The unaudited interim condensed consolidated financial information does 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 2007.

Notes to Interim Condensed Consolidated Financial Information

30 June 2008

2.2 Summary of Significant Accounting Policies

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial information are the same as those used in the annual financial statements for the year ended 31 December 2007, except for the adoption of certain new and revised International Financial Reporting Standards (“IFRSs”, which also include IASs and Interpretations), as set out in notes 2.3 and 2.4, respectively.

2.3 Adoption of New and Revised IFRSs

During the six months ended 30 June 2008, the following new and revised IFRSs came into effect:

| | |
|----------|---|
| IFRIC 11 | IFRS 2 Group and Treasury Share Transactions |
| IFRIC 12 | Service Concession Arrangements |
| IFRIC 14 | IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

The adoption of these new and revised IFRSs did not have any material impact on the Group’s results of operations or financial position in the interim condensed consolidated financial information.

2.4 Impact of Issued but Not Yet Effective IFRSs

The Group has not applied the following new and revised IFRSs which have been issued but are not yet effective, in the interim condensed consolidated financial information:

| | |
|-------------------------------|--|
| IAS 1 (Revised) | Presentation of Financial Statements ³ |
| IAS 23 (Revised) | Borrowing Costs ³ |
| IAS 27 (Revised) | Consolidated and Separate Financial Statements ¹ |
| IAS 28 (Revised) | Investments in Associates ¹ |
| IAS 31 (Revised) | Interests in Joint Ventures ¹ |
| IAS 32 & IAS 1 Amendments | Puttable Financial Instruments and Obligations Arising on Liquidation ³ |
| IAS 39 Amendments | Financial Instruments: Recognition and Measurement ³ |
| IFRS 1 & IAS 27 Amendments | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ³ |
| IFRS 2 Amendments | Vesting Conditions and Cancellations ³ |
| IFRS 3 (Revised) | Business Combinations ¹ |
| IFRS 8 | Operating Segments ³ |
| IFRIC 13 | Customer Loyalty Programmes ² |
| IFRIC 15 | Agreements for the Construction of Real Estate ³ |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation ⁴ |

¹ Effective for financial years beginning on or after 1 July 2009

² Effective for financial years beginning on or after 1 July 2008

³ Effective for financial years beginning on or after 1 January 2009

⁴ Effective for financial years beginning on or after 1 October 2008

2.4 Impact of Issued but Not Yet Effective IFRSs (continued)

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. IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary 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 amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3 (Revised) and IAS 27 (Revised) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

Except as stated above, the Group expects that the adoption of the above new and revised IFRSs will not have any significant impact on the Group's financial statements in the period of initial application.

3. Segment Information

The principal activities of the Group are the manufacture and sale of special steel products to customers in the PRC. The principal assets employed by the Group are located in the PRC. Accordingly, no segmental analysis by business or geographical segment is provided.

4. Revenue and Other Income and Gains

Revenue represents the net invoiced value of goods sold, net of value-added tax, after allowances for returns, trade discounts and various types of government surcharges, where applicable.

| | For the six months ended 30 June | |
|--|-------------------------------------|------------------|
| | 2008 | 2007 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Revenue | | |
| Sale of goods: | | |
| Stainless steel base material | 851,077 | 1,083,167 |
| Bearing steel | 89,182 | 158,707 |
| Ni-Cr alloy steel ingot | 65,333 | — |
| Ni-Cr bearing steel | 4,327 | — |
| Spring steel | — | 3,877 |
| Carbon structure steel and other steel | 2,819 | 16,318 |
| Total revenue | 1,012,738 | 1,262,069 |
| Other income and gains | | |
| Interest income | 12,915 | 4,026 |
| Amounts waived by creditors | 201 | 13,157 |
| Exchange gain, net | 64,583 | 3,898 |
| Government grant | 150 | — |
| Gain from disposal of property, plant and equipment | 6,487 | — |
| Sale of scrap materials and others | 52 | 598 |
| Total other income and gains | 84,388 | 21,679 |

Notes to Interim Condensed Consolidated Financial Information

30 June 2008

5. Finance Costs

| | For the six months ended 30 June | |
|--|-------------------------------------|-------------|
| | 2008 | 2007 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Interest on bank loans and other borrowings | 17,000 | 16,143 |
| Interest on convertible bonds | 71,927 | 7,049 |
| Total interest expenses | 88,927 | 23,192 |
| Less: Interest capitalised | (927) | — |
| Total finance costs | 88,000 | 23,192 |

6. Profit before Income Tax

The Group's profit before income tax is arrived at after charging:

| | For the six months ended 30 June | |
|--|---|--------------------|
| | 2008 | 2007 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Amortisation of intangible asset: | | |
| Accumulated amortisation of exclusive offtake right | 16,415 | 3,847 |
| Less: Capitalised as cost of inventories | (12,200) | (3,847) |
| | 4,215 | — |
| Cost of inventories sold | 809,105 | 843,908 |
| Depreciation of property, plant and equipment | 43,320 | 46,483 |
| Amortisation of prepaid land lease payments | 2,197 | 2,175 |
| Minimum lease payments under operating leases in respect of land and buildings | 877 | 767 |

Notes to Interim Condensed Consolidated Financial Information

30 June 2008

7. Income Tax Expenses

Major components of income tax expenses are as follows:

| | For the six months ended 30 June | |
|--|-------------------------------------|-------------|
| | 2008 | 2007 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Provision for income tax in respect of profit for the period: | | |
| Current — PRC (note a) | 4,783 | 36,728 |
| Current — Hong Kong | 27,511 | 5,461 |
| Deferred | (15,800) | 34,895 |
| Tax expense | 16,494 | 77,084 |

Note a: inclusive of tax effect on unutilised tax losses of Luoyang Yongan Special Steel Company Limited ("Yongan Special Steel"), an indirect subsidiary of the Company, of approximately RMB10,966,000. The unutilised tax losses were not recognised as identifiable assets upon acquisition of Yongan Special Steel by the Group during January 2007 as the tax losses did not approved by the local tax bureau. In current period, the National Tax Bureau of Luoyang Municipal City approved the above tax losses after conducted special tax investigation on the losses claimed by Yongan Special Steel. The recognition of the above losses reduced current income tax expenses and goodwill arising from acquisition of Yongan Special Steel by RMB10,966,000 and RMB6,658,000, respectively.

8. Earnings per Share Attributable to Ordinary Equity Holders of the Company

Basic

The calculation of basic earnings per share for the current period is based on the profit attributable to the equity holders of the parent of RMB97,343,000 (six months ended 30 June 2007: RMB274,350,000), and the weighted average of 2,092,959,000 (six months ended 30 June 2007: 904,372,000) ordinary shares in issue during the period.

Diluted

The calculation of diluted earnings per share is based on the profit for the six months ended 30 June 2008 attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds (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 current 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 of all dilutive potential ordinary shares into ordinary shares.

Notes to Interim Condensed Consolidated Financial Information

30 June 2008

8. Earnings per Share Attributable to Ordinary Equity Holders of the Company (continued)

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

| | For the six months ended 30 June | |
|---|-------------------------------------|--------------------------------|
| | 2008 (Unaudited) RMB'000 | 2007 (Unaudited) RMB'000 |
| Profit attributable to ordinary equity holders of the Company | 97,343 | 274,350 |
| Interest on convertible bonds (CB May 2007) (note 17(i)) | 15,548* | 7,049 |
| Interest on convertible bonds (CB December 2007) (note 17(ii)) | 56,379* | — |
| Profit attributable to ordinary equity holders before interest on convertible bonds | 169,270 | 281,399 |

8. Earnings per Share Attributable to Ordinary Equity Holders of the Company (continued)

| | Number of shares for the six months ended 30 June | |
|--|--|--------------|
| | 2008 '000 | 2007 '000 |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation | 2,092,959 | 904,372 |
| Effect of dilution — weighted average number of ordinary shares: | | |
| — Share options | 13,381 | 13,551 |
| — Convertible bonds (CB May 2007) | 160,444* | 64,815 |
| — Convertible bonds (CB December 2007) | 346,620* | — |
| — Convertible notes | 182,734 | 42,638 |
| Weighted average number of ordinary shares used in the diluted earnings per share calculation | 2,796,138 | 1,025,376 |

* Because the diluted earnings per share amount will increase when taking CB May 2007 and CB December 2007 into account, the CB May 2007 and CB December 2007 are determined to have an anti-dilutive effects on the basic earnings per share for the six months ended 30 June 2008, and are ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amount of the period is based on the profit for the six months ended 30 June 2008 of RMB97,343,000, and the weighted average of 2,289,074,000 ordinary shares in issue during the period.

Notes to Interim Condensed Consolidated Financial Information

30 June 2008

9. Dividends

- (a) Interim dividend attributable to the interim period

Subsequent to the balance sheet date, pursuant to the Directors' resolution of the Company dated 24 September 2008, the Directors declared an interim dividend of HK\$0.017 per share (for the six months ended 30 June 2007: HK\$0.048 per share).

- (b) Final dividend attributable to the previous financial year, declared and paid during the interim period

| | For the six months ended 30 June | |
|--|-------------------------------------|-------------|
| | 2008 | 2007 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Final dividend in respect of financial year ended 31 December 2007 of HK\$0.013 per ordinary share (2006: HK\$0.03 per ordinary share): | | |
| — Proposed final dividend | 24,399 | 17,153 |
| — Adjustment on proposed final 2007 dividend for new shares issued | 3 | — |
| | 24,402 | 17,153 |

10. Property, Plant and Equipment

| | (Unaudited) RMB'000 |
|---|--------------------------------------|
| Carrying value at 1 January 2008 | 930,838 |
| Additions | 52,992 |
| Transferred from construction in progress | 1,316 |
| Disposals | (34,980) |
| Depreciation charge for the period | (43,320) |
| Carrying value at 30 June 2008 | 906,846 |

11. Goodwill

| | (Unaudited) RMB'000 |
|--|--------------------------------------|
| Carrying value at 1 January 2008 | 65,052 |
| Reduce for recognition of unutilised tax losses (note 7) | (6,658) |
| Carrying value at 30 June 2008 | 58,394 |

Notes to Interim Condensed Consolidated Financial Information

30 June 2008

12. Intangible Assets

| | Exclusive offtake right (Unaudited) RMB'000 |
|---|--|
| Net carrying amount: | |
| At 1 January 2008 | 2,682,095 |
| Amortisation provided during the period | (16,415) |
| At 30 June 2008 | 2,665,680 |
| At 30 June 2008: | |
| Cost | 2,698,285 |
| Accumulated amortisation | (32,605) |
| Net carrying amount | 2,665,680 |

13. Trade and Notes Receivables

An aged analysis of the trade receivables and notes receivables as at the balance sheet date, based on the due date and net of impairment, is as follows:

| | 30 June 2008 (Unaudited) RMB'000 | 31 December 2007 (Audited) RMB'000 |
|--|---|---|
| Outstanding balances aged: | | |
| Within 90 days | 305,392 | 199,040 |
| 91 to 180 days | 2,957 | 3,956 |
| 181 to 365 days | 215 | 4,455 |
| Over 1 year | 3,705 | 2,846 |
| | 312,269 | 210,297 |
| Less: Provision for impairment of trade receivables | (2,005) | (928) |
| | 310,264 | 209,369 |

The balances of the above trade and notes receivables are unsecured, interest-free and generally have credit terms of 30 to 60 days.

Notes to Interim Condensed Consolidated Financial Information

30 June 2008

14. Cash and Cash Equivalents, Pledged Time Deposits

As at 30 June 2008, cash and cash equivalents and pledged time deposits balances included HK\$8,258,000 (equivalent to RMB7,261,000), US\$21,832,000 (equivalent to RMB151,016,000), EUR4,023,000 (equivalent to RMB43,458,000) and SGD188,182,000 (equivalent to RMB947,500,000).

15. Trade and Notes Payables

An aged analysis of the trade payables and notes payables as at the balance sheet date, based on the due date, is as follows:

| | 30 June 2008 (Unaudited) RMB'000 | 31 December 2007 (Audited) RMB'000 |
|----------------------------|---|---|
| Outstanding balances aged: | | |
| Within 90 days | 394,598 | 304,147 |
| 91 to 180 days | 170,473 | 189,881 |
| 181 to 365 days | 8,212 | 8,623 |
| 1 to 2 years | 4,800 | 52,673 |
| 2 to 3 years | 30,326 | 2,241 |
| Over 3 years | 5,171 | 2,952 |
| | 613,580 | 560,517 |

15. Trade and Notes Payables (continued)

Trade payables are unsecured, interest-free and generally have credit terms of 30 to 90 days.

As at 30 June 2008, notes payable of RMB368,757,000 (31 December 2007: RMB383,831,000) have secured by time deposits amounting to RMB339,474,000 (31 December 2007: RMB327,642,000).

16. Interest-Bearing Loans and Other Borrowings

| | | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|-----------------------------|-----|---|---|
| Bank loans: | (1) | | |
| Secured | | 83,000 | — |
| Unsecured | | 133,000 | 170,089 |
| | | 216,000 | 170,089 |
| Other borrowings, unsecured | (2) | 88,603 | 90,940 |
| Total | | 304,603 | 261,029 |

Notes to Interim Condensed Consolidated Financial Information

30 June 2008

16. Interest-Bearing Loans and Other Borrowings (continued)

| | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| Repayable: | | |
| Within one year | 181,589 | 140,659 |
| In the second year | 5,000 | 5,000 |
| In the third to fifth years, inclusive | 118,014 | 115,370 |
| | 304,603 | 261,029 |
| Portion classified as current liabilities | (181,589) | (140,659) |
| Long-term portion | 123,014 | 120,370 |

Note:

| | 30 June 2008 (Unaudited) | 31 December 2007 (Audited) |
|--|---|---|
| (1) Bank loans | | |
| The bank loans bear interest at rates per annum in the range of | 6.723% to 7.425% | 6.93% to 7.29% |
| (2) Other borrowings | | |
| The other borrowings bear interest at rates per annum in the range of | 7.56% to 7.83% | 6.93% to 7.47% |

As at 30 June 2008, a bank loan of the Group of RMB83,000,000 (31 December 2007: Nil) was secured by time deposits amounting to RMB87,048,000 (31 December 2007: Nil).

17. Convertible Bonds

| | | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|--|--------------|---|---|
| | Notes | | |
| Liability components: | | | |
| CB May 2007 | (i) | 328,456 | 341,087 |
| CB December 2007 | (ii) | 1,720,817 | 1,772,784 |
| | | 2,049,273 | 2,113,871 |
| Less: current portion | (i) | (328,456) | — |
| Non-current portion of liability components of convertible bonds | | 1,720,817 | 2,113,871 |
| Equity components: | | | |
| CB May 2007 | (i) | 7,833 | 7,833 |
| CB December 2007 | (ii) | 65,365 | 65,365 |
| | | 73,198 | 73,198 |

- (i) HK\$625 million 3% convertible bonds due 2012 (the “CB May 2007”)

On 18 May 2007, the Company issued 625 3% convertible bonds due 2012 at HK\$1,000,000 each with an aggregate nominal value of HK\$625,000,000 to Deutsche Bank AG.

On 24 September 2007 and 4 October 2007, CB May 2007 with principal amounts of HK\$108 million and HK\$156 million were converted into 48,000,000 and 69,333,333 new ordinary shares of the Company.

Notes to Interim Condensed Consolidated Financial Information

30 June 2008

17. Convertible Bonds (continued)

- (i) HK\$625 million 3% convertible bonds due 2012 (the “CB May 2007”) (continued)

The movements of the liability component and equity component of the CB May 2007 for the six months ended 30 June 2008 are as follows:

| | Liability component of convertible bonds RMB'000 | Equity component of convertible bonds RMB'000 | Total RMB'000 |
|---|---|--|--------------------------|
| At 1 January 2008 | 341,087 | 7,833 | 348,920 |
| Interest expenses | 15,548 | — | 15,548 |
| Interest paid | (7,552) | — | (7,552) |
| Foreign exchange realignment to reserve | (20,627) | — | (20,627) |
| At 30 June 2008 | 328,456 | 7,833 | 336,289 |

According to certain terms of CB May 2007, CB May 2007 is redeemable at the option of the bond holder after 18 May 2009 and prior to 18 May 2012. Therefore, the liability component of CB May 2007 is classified as a current liability.

17. Convertible Bonds (continued)

- (ii) HK\$2,000 million zero coupon convertible bonds due 2012 (the “CB December 2007”)

On 12 December 2007, the Company issued 20,000 zero coupon convertible bonds due 2012 at HK\$100,000 each with an aggregated nominal value of HK\$2,000,000,000, which were subsequently listed on the Hong Kong Stock Exchange.

The movements of the liability component and equity component of the CB December 2007 for the six months ended 30 June 2008 are as follows:

| | Liability component of convertible bonds RMB'000 | Equity component of convertible bonds RMB'000 | Total RMB'000 |
|---|---|--|--------------------------|
| At 1 January 2008 | 1,772,784 | 65,365 | 1,838,149 |
| Interest expenses | 56,379 | — | 56,379 |
| Foreign exchange realignment to reserve | (108,346) | — | (108,346) |
| At 30 June 2008 | 1,720,817 | 65,365 | 1,786,182 |

Notes to Interim Condensed Consolidated Financial Information

30 June 2008

18. Issued Capital

| | 30 June 2008 | | 31 December 2007 | |
|--|---------------------------|------------------------|---------------------------|----------------------|
| | Number of ordinary shares | RMB'000 (Unaudited) | Number of ordinary shares | RMB'000 (Audited) |
| Authorised: | | | | |
| At beginning of period/year | 3,000,000,000 | 302,420 | 1,000,000,000 | 106,000 |
| Increase during period/year | 2,000,000,000 | 176,780 | 2,000,000,000 | 196,420 |
| At end of period/year | 5,000,000,000 | 479,200 | 3,000,000,000 | 302,420 |
| Issued and fully paid: | | | | |
| At beginning of period/year | 2,092,865,385 | 209,938 | 578,600,000 | 61,119 |
| For the acquisition of the exclusive offtake right | — | — | 1,340,067,052 | 131,889 |
| New placement | — | — | 56,100,000 | 5,510 |
| Exercise of share options | 255,000 | 23 | 765,000 | 74 |
| Conversion of convertible bonds | — | — | 117,333,333 | 11,346 |
| At end of period/year | 2,093,120,385 | 209,961 | 2,092,865,385 | 209,938 |

19. Share Option Scheme

In March 2008, 15,000,000 share options were granted to certain employees under the share option scheme (the “Share Option Scheme”) approved by the Company on 2 May 2005. The exercise price of the options is HK\$2.45, being the average closing price of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant of these options. These options granted during the six months ended 30 June 2008 have a vesting schedule of five years whereby only 20% of the option shall be exercisable 12 months after the grant date, i.e. 20 March 2008, and an additional 20% may be exercised by the grantee in each subsequent year until five years later when 100% of the option may be exercised.

The fair value of the options granted is estimated at the date of grant using a binomial pricing model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is ten years. There are no cash settlement options. The fair value of options granted during the six months ended 30 June 2008 was estimated on the date of grant using the following assumptions:

| | |
|-------------------------------------|-------|
| Dividend yield (%) | 2.82 |
| Expected volatility (%) | 67.82 |
| Historical volatility (%) | 67.82 |
| Risk-free interest rate (%) | 2.31 |
| Expected life of options (years) | 10 |
| Weighted average share price (HK\$) | 2.16 |

Notes to Interim Condensed Consolidated Financial Information

30 June 2008

19. Share Option Scheme (continued)

The 255,000 share options exercised during the period resulted in the issue of 255,000 ordinary shares of the Company and new share capital of HK\$26,000 (equivalent to RMB23,000) and share premium of HK\$633,000 (equivalent to RMB568,000), including the amount transferred from share option reserve of HK\$172,000 (equivalent to RMB154,000).

In April 2008, 1,020,000 share options lapsed due to the resignation of a director.

20. Related Party Transactions

- (l) In addition to the transactions and balances detailed elsewhere in these interim condensed consolidated financial information, the Group had the following material transactions with related parties:

| Name of related party | Nature of transactions | For the six months ended 30 June | |
|----------------------------|--|----------------------------------|--------------------------------|
| | | 2008 (Unaudited) RMB'000 | 2007 (Unaudited) RMB'000 |
| Easyman (note a) | Purchase of the exclusive offtake right (note b) | — | 2,686,866 |
| PT Yiwun Mining (note c) | Purchase of raw materials (note d) | 62,178 | 11,344 |
| PT Yiwun Shipping (note e) | Sales of property, plant and equipment (note f) | 45,509 | — |

20. Related Party Transactions (continued)

- (l) In addition to the transactions and balances detailed elsewhere in these interim condensed consolidated financial information, the Group had the following material transactions with related parties: (continued)
- (a) Easyman is a company wholly owned by Mr. Dong, an executive director and a substantial shareholder of the Company.
 - (b) In May 2007, the Group, through the acquisition of S.E.A Mineral Limited (“S.E.A.M”) from Easyman and other vendors, acquired an exclusive offtake right from PT Yiwang Mining (“Yiwang Mining”), a limited company incorporated in Indonesia, whereby Yiwang Mining agreed to exclusively sell the iron ores produced by Yiwang Mining at a fixed price of US\$16 per dry tonne for a period of approximately 14 years expiring on 24 January 2021. The term of the exclusive offtake right was subsequently extended to 29 years expiring on 24 January 2036 on 12 September 2008. The exclusive offtake right was valued at RMB2,686,866,000 upon acquisition.
 - (c) Mr. Dong, an executive Director and a substantial shareholder of the Company, is the substantial lender of Yiwang Mining.
 - (d) The transaction was carried out based on terms agreed by the parties under the exclusive offtake agreement signed between Yiwang Mining and S.E.A.M in March 2007.
 - (e) PT Yiwang Shipping is a wholly-owned subsidiary of Yiwang Mining.
 - (f) The transactions were carried out based on normal commercial terms agreed by the parties with reference to market price.

Notes to Interim Condensed Consolidated Financial Information

30 June 2008

20. Related Party Transactions (continued)

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

| | For the six months ended 30 June | |
|--|-------------------------------------|-------------|
| | 2008 | 2007 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Fees | 352 | 396 |
| Salaries, allowances and benefits | 1,613 | 1,730 |
| Employee share option benefits | 896 | 2,106 |
| Pension scheme contributions | 14 | 16 |
| Total compensation paid to key management personnel | 2,875 | 4,248 |

In the opinion of the Directors, key management personnel of the Group consist of all the Directors of the Company.

21. Commitments

Capital Commitments

| | 30 June 2008 (Unaudited) RMB'000 | 31 December 2007 (Audited) RMB'000 |
|--|---|---|
| Capital commitments in respect of property, plant and equipment, contracted but not provided for | 140,652 | 62,796 |

Operating Lease Commitments

At the balance sheet date, the Group had future minimum lease payments under non-cancellable operating leases in respect of equipment and land and buildings falling due as follows:

| | 30 June 2008 (Unaudited) RMB'000 | 31 December 2007 (Audited) RMB'000 |
|---|---|---|
| Within one year | 1,355 | 1,149 |
| In the second to fifth years, inclusive | 1,038 | 542 |
| | 2,393 | 1,691 |

22. Subsequent Events

The following significant events took place subsequent to 30 June 2008:

(a) Repurchase of CB December 2007

On 19 August 2008 and 20 August 2008, the Company repurchased and cancelled certain CB December 2007 with principal amounts of HK\$60 million and HK\$40 million respectively. The total consideration paid for the repurchase of CB December 2007 amounted to HK\$70 million.

(b) Extension of the Exclusive Offtake Right

Pursuant to an amending agreement between S.E.A.M and Yiwang Mining on 12 September 2008, the exclusive offtake right was extended from 14 years ending 24 January 2021 to 29 years ending 24 January 2036 for no consideration.

(c) Declare of Interim Dividend

Pursuant to the Directors' resolution of the Company dated 24 September 2008, the Directors declared an interim dividend of HK\$0.017 per share.

23. Approval of the Interim Condensed Consolidated Financial Information

The interim condensed consolidated financial information was approved and authorised for issue by the board of Directors on 24 September 2008.

Other Information

Closure of Register of Members

The book close dates of the Group's interim dividend payment of HK\$0.017 per share for the six months ended 30 June 2008 was set in the period from Thursday, 9 October 2008 to Friday, 10 October 2008. The dividend will be paid on Monday, 20 October 2008 to the shareholders whose names appear on the Company's Register of Members on Friday, 10 October 2008.

The Register of Members of the Company will be closed from Thursday, 9 October 2008 to Friday, 10 October 2008 (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 2008, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with Computershare Hong Kong Investor Services Limited, the Company's Branch Share Registrars and Transfer Office in Hong Kong, at shops 1712–1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 8 October 2008.

Other Information

Disclosure of Interests

a) Disclosure of Interests by the Directors and Chief Executives

As at 30 June 2008, the interests and short positions of the directors and chief executives 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 | 1,485,146,705 (note 1) | 70.95% |

Disclosure of Interests (continued)

a) Disclosure of Interests by the Directors and Chief Executives (continued)

(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 | 0.24% |
| Mr. He Weiquan | 4,250,000 | Beneficial owner | 0.20% |
| Mr. Lau Hok Yuk | 3,000,000 | Beneficial owner | 0.14% |
| Mr. Song Wenzhou | 1,020,000 | Beneficial owner | 0.05% |
| Mr. Zhao Ping | 4,250,000 | Beneficial owner | 0.20% |
| Mr. Dong Chengzhe | 1,275,000 | Beneficial owner | 0.06% |

Notes:

- 1,481,074,705 shares and 4,072,000 shares are held directly by Easyman Assets Management Limited ("Easyman") and Sino Regent Worldwide Limited ("Sino Regent") respectively, which 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.
- The above share options are unlisted cash 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.

Other Information

Disclosure of Interests (continued)

b) Particulars of Directors' Service Contracts

As at 30 June 2008, 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 2008:

(i) None of the directors and chief executives had an 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 was 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

During the six months ended 30 June 2008, no director had any 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 2008, 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 executives of the Company) were interested in 5% or more in the Shares or underlying Shares or securities of the Company 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 5% 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 2008:

| 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 | 70.76% | Nil |
| Deutsche Bank Aktiengesellschaft | Beneficial owner | 148,111,984 | 72,000 | 7.08% | 0.00% |

Note:

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

Other Information

Substantial Shareholders (continued)

(ii) Long Positions in the Underlying Shares of the 2012 3% Convertible Bonds of the Company as at 30 June 2008:

| Name of the holder of the 2012 3% convertible bonds | Amount of the 2012 3% convertible bonds HK\$ | Number of underlying shares held | Approximate percentage to the issued share capital of the Company |
|--|---|---|--|
| Deutsche Bank Aktiengesellschaft (Note 1) | 205,000,000 | 91,111,111 | 4.35% |

Note:

1. As at 30 June 2008, Deutsche Bank Aktiengesellschaft was the holder of a convertible bond in the principal amount of HK\$205 million which could be converted upon exercise, into shares of the Company at HK\$2.25 per share, by no later than the close of business on 15 days before 18 May 2012. This constituted a long position in physically settled equity derivatives under the SFO.

Substantial Shareholders (continued)

(iii) Long Positions in the Underlying Shares of the 2010 Convertible Notes of the Company as at 30 June 2008:

| Name of the holder of the 2010 convertible notes | Amount of the 2010 convertible notes HK\$ | Number of underlying shares held | Approximate percentage to the issued share capital of the Company |
|--|--|---|--|
| Mr. Soen Bin Kuan (also known as Tju Bin Kuan) (Note 1) | 316,130,000 | 182,736,416 | 8.73% |

Note:

1. As at 30 June 2008, Mr. Soen Bin Kuan was the holder of a convertible notes in the principal amount of HK\$316.13 million which is obliged to convert the principal outstanding amount of convertible notes into shares of the Company at the conversion price of HK\$1.73 per share, upon maturity on 18 May 2010. This constituted a long position in physically settled equity derivatives under the SFO.

Other Information

Substantial Shareholders (continued)

Save as disclosed above, so far as was known to the directors, there was no other person (other than the directors or chief executives of the Company) who, as at 30 June 2008, had an interest or short position in the Company's shares and underlying shares and securities of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, 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 5% 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.

Substantial Shareholders (continued)

Share Option Scheme (continued)

As at June 30 2008, 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:

| Name of director | No. of share options | | | | At 30 June 2008 | Exercise price of share options** HK\$ | Price of Company's share at exercise date of options*** HK\$ |
|--|-------------------------|---------------------------------|-----------------------------------|--------------------------------|-----------------------|--|--|
| | At 1 January 2008 | Granted during the period | Exercised during the period | Lapsed during the period | | | |
| 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 | — |
| Ms. Zhang Ming* | 1,275,000 | — | (255,000) | (1,020,000) | — | 1.91 | 2.40 |
| 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 | 20,070,000 | — | (255,000) | (1,020,000) | 18,795,000 | | |
| Other employees | | | | | | | |
| | 8,415,000 | — | — | — | 8,415,000 | 1.07 | — |
| | 1,275,000 | — | — | — | 1,275,000 | 1.91 | — |
| | 3,000,000 | — | — | — | 3,000,000 | 2.37 | — |
| | — | 15,000,000 | — | — | 15,000,000 | 2.45 | — |
| Sub-total for number of share options to employees | 12,690,000 | 15,000,000 | — | — | 27,690,000 | | |
| Total | 32,760,000 | 15,000,000 | (255,000) | (1,020,000) | 46,485,000 | | |

Other Information

Substantial Shareholders (continued)

Share Option Scheme (continued)

Notes:

- * Ms. Zhang Ming resigned as a Director of the Company on 1 April 2008.
- ** 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 price of the shares of the Company as at the date of exercise of the share options is the Stock Exchange's closing price on the trading date immediately prior to the date on which the share options were exercised.

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 six months ended 30 June 2008 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 2008.

Substantial Shareholders (continued)

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.

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 2008.

The executive director, 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 internal rules, and compliance with 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 2008 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, who is knowledgeable in the business of the Group and possesses the essential leadership skills to guide discussions of the Board. The significant decision-making and the day-to-day management of the Company is carried out by all of the executive directors. Therefore, the roles of the Chairman and the chief executive of the Company are not segregated in the sense that two different individuals took up these roles. The role of the Chairman and chief executive are not exercised by the same individual.

Other Information

Substantial Shareholders (continued)

Corporate Governance (continued)

(a) *Compliance with the Code on Corporate Governance Practices (continued)*

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, 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 2008.

On behalf of the Board
Mr. Dong Shutong
Chairman

Hong Kong, 24 September 2008